

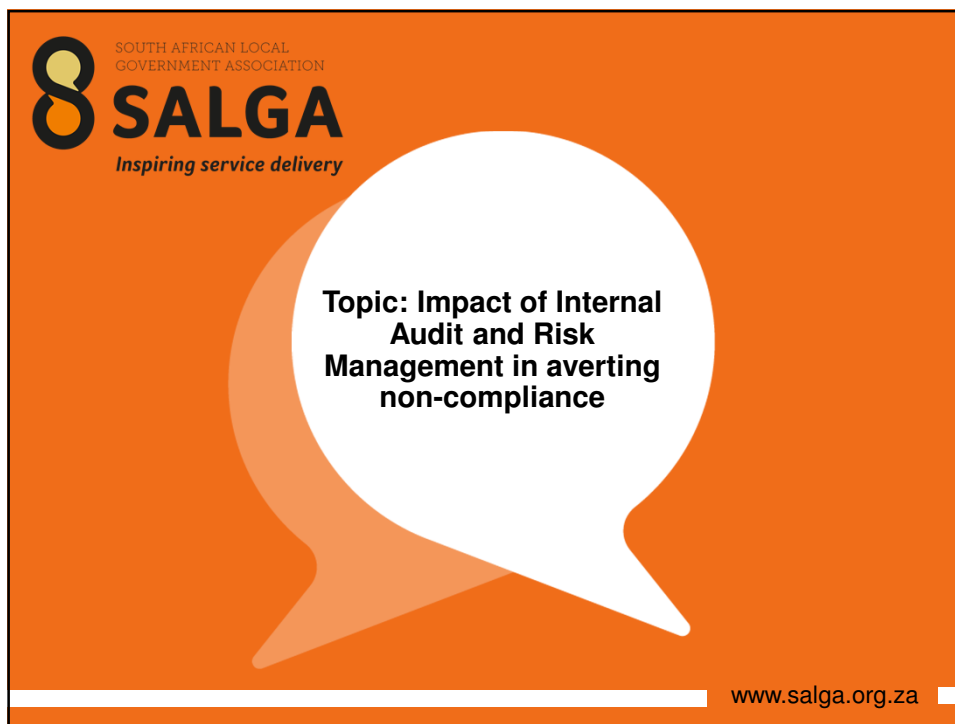


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**Topic: Impact of Internal  
Audit and Risk  
Management in averting  
non-compliance**

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## OVERVIEW:


1) **BACK TO BASICS:**

- Risk Management process.
- Internal Audit process.
- Controls.

2) **Averting non-compliance.**

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## RISK MANAGEMENT MANDATE

- **Section 51 (1)(a)(i) of the PFMA (Act 1 of 1999) states that the accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial, risk management and internal control.**

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## Defining Enterprise Risk Management (ERM)



- *“... a **process**, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite as well as to provide reasonable assurance regarding the achievement of entity objectives.”*
- Source: COSO Enterprise Risk Management – Integrated Framework. 2004.COSO

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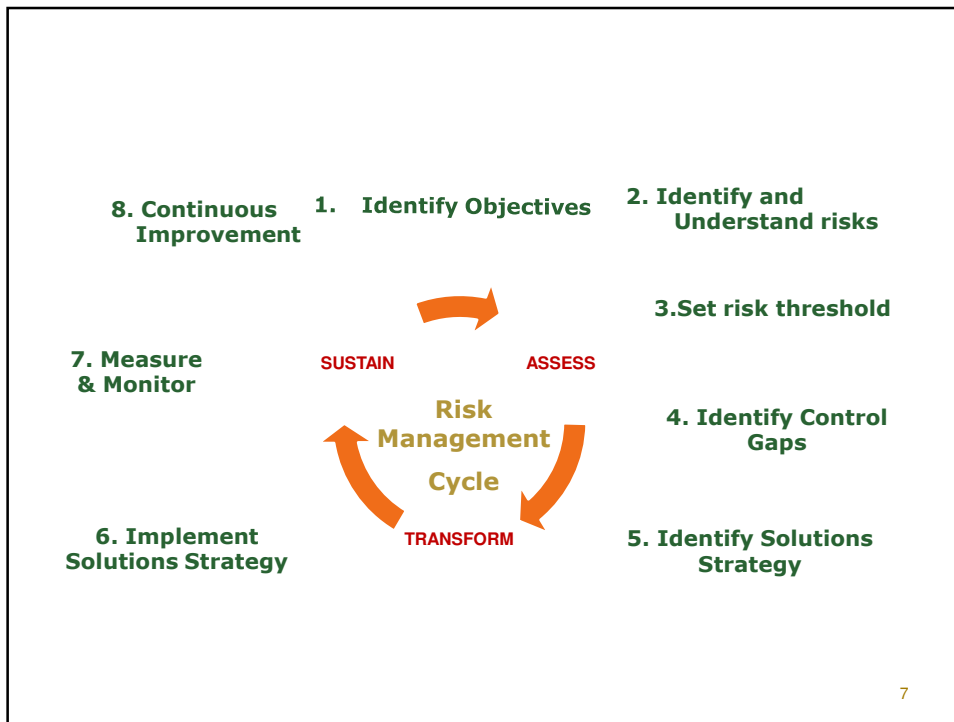
## RISK MANAGEMENT RESPONSIBILITY



- Key responsibility of management.
- Board and Audit Committee:
  - oversight role (appropriate, adequate effective risk management processes and
- Internal auditors :
  - Utilize Strategic Risk Register.
  - assist management by examining, evaluating, reporting and recommending improvements on the adequacy and effectiveness of risk management processes.
- Internal audit / Risk Management function cannot manage any of the risks.

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## INTERNAL AUDIT MANDATE

- **PFMA Section 51(1)(a)- requires that the Accounting Authority for a public entity must ensure that the public entity has and maintains:**
- **(i) effective, efficient and transparent systems of financial and risk management and internal control.**
- **(ii) a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of Sections 76 & 77.**

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## DEFINITION OF INTERNAL AUDITING



### Internal Auditing:

- Is an independent, objective assurance and consulting activity designed to add value and improve the operations of the organization.
- It helps an organization in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control and governance processes.

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## THE SCOPE OF THE WORK OF INTERNAL AUDIT




### Treasury Regulation 27.2.7 requires Internal Audit to prepare–

- A three year rolling strategic internal audit plan based on risk assessment to ensure that audit activities effectively focus on high risk areas.
- An annual internal audit plan for the first year of the rolling plan indicating the scope of each audit .
- Every Quarter the Internal Audit reports on performance against this plan to the Audit Committee.
- The scope of internal audit activity is defined by the Internal Audit Charter that serves as the statement of purpose, authority and responsibility. The charter has been approved by the Audit Committee.
- The charter also provides the Internal Audit Activity unrestricted access to records, personnel and physical properties relevant to the performance of the audit engagements.

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## DIFFERENT TYPES OF AUDITS




- **Compliance Audit** (compliance with the policies, procedures, legislation, etc)
- **Risk based Audit**
- **Performance Audit** (Economic, Efficient and effectiveness of the resources)
- **Computer/IT Audit**
- **Forensic Audit**

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## BENEFITS OF INTERNAL AUDIT




- **Provides greater assurance to the Board, Audit Committee and Management that controls are adequate and effective.**
- **Enhances the quality of management processes.**
- **Improves the quality of management's understanding of internal control and risk management.**
- **Strengthens the financial discipline and control environment within the organisation.**
- **Improves organisational performance when management timely implement corrective actions based on audit evaluations and recommendations.**
- **Enhances fraud prevention, detection and investigation, thus minimizing fraud and error.**

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**CONTROL**




- **Control is defined as any action that is taken by the organisation's board and management to enhance the likelihood that the set organisational objectives and goals will be achieved.**
- **Controls are therefore the processes and/or functions that the Executive Management has put in place.**
- **Implementation and/or management of controls is therefore management's responsibility and not that of assurance providers.**

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**CONTROL PROCESSES**



- **The purpose of control processes is to support employees in the organisation with the management of risks and achievement of the set objectives.**
- **Control processes are expected to ensure that:**
  - ❖ **The integrity and reliability of financial and operational information.**
  - ❖ **Efficient and effective use of resources.**
  - ❖ **Safeguarding of assets.**
  - ❖ **Compliance with laws and regulations when taking actions and decisions on behalf of the organisation.**

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**MEANS OF AVERTING  
NON-COMPLIANCE**

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**CONSISTENT IMPLEMENTATION OF CONTROLS**




- **For internal controls to function effectively, all the means of control should be adhered to at all times.**
- **Non-adherence to a means of control employed by the organisation leads to a break in the controls which ultimately results in the objectives of the organisation not attained.**
- **To enhance effectiveness, the implementation of controls in the organisation should be consistent for all employees irrespective of their level in the organisation and stakeholders irrespective of the benefits the organisation derives from them.**
- **For example: the same treatment should be given to employees in an organisation and a policy should not be mended to suit certain individuals. All set criteria should be met by all employees no matter what.**

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**EVALUATION OF CONTROL PROCESSES**




- **The Chief Audit Executive (CAE) should develop an internal audit coverage plan that will produce sufficient information to evaluate the effectiveness of the control processes.**
- **Co-ordination with internal (i.e. Risk Management Unit) and external (external auditors) assurance providers is necessary to avoid duplication of efforts.**
- **Three considerations when evaluating controls are:**
  - ❖ **Where there significant weaknesses determined based on audit work performed.**
  - ❖ **If there are, were improvements to controls made, are those controls adequate and effective?**
  - ❖ **Do the identified weaknesses lead to an unacceptable level of risk faced by the organisation.**

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**DEVELOPING ACTION PLAN**



**The process of developing options and actions to enhance opportunities and to reduce threats to the project objectives should be as follows:**

- **Proactive, not reactive**
- **Appropriate to significance of risk**
- **Cost effective**
- **Timely**
- **Realistic within project context**
- **Agreed upon by all parties involved**
- **Assigned to / owned by a responsible person**

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## RISK MANAGEMENT AVERTING NON-COMPLIANCE



- Compliance risk identification.
- Compliance risk management plan development and implementation.
- Developing and maintaining a monitoring plan and methods of monitoring.
- Developing a Compliance register which is monitored quarterly.
- Reporting on non-compliance at relevant meetings.
- Escalating non-compliance issues to the appropriate bodies.
- Maintaining an independent fraud hotline.
- Applying consequence management for non-compliance.
- Coordinating work with other assurance providers as per the Combined Assurance model to avoid duplication of efforts.
- Encouraging all employees to submit annual disclosures and note any potential conflict of interest.
- Monitoring risks faced by the organization.
- Determine that the resources appropriately mitigate the risks.
- Encourage Executive Management to set the tone at the top by complying as this will encourage compliance throughout the organisation.

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## INTERNAL AUDIT AVERTING NON-COMPLIANCE



Internal Audit should perform the following to avert non-compliance:

- Review the compliance function on an annual basis and provide an opinion on whether or not the compliance function is functioning properly.
- Performs periodic audits on the compliance function, adherence to the compliance framework and applicable legislation.
- Provides feedback through an audit report indicating non-compliance with specific legislation, obtains management action plans and target dates to correct the areas.
- Communicates the results of these audits to the client management, the risk committee and the audit committee.
- Where a non-compliance issue is of significant concern, this is escalated to the appropriate oversight board committee for consideration.
- Actions to resolve identified audit issues is reported at the risk and/or audit committee until such an issue is fully resolved.
- The Internal audit function cannot perform compliance monitoring. It provides assurance, over a specified period, on whether the compliance process is functioning effectively or not.
- Compliance monitoring should be a continuous process for implementation thereof to be effective .

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## INTERNAL AUDIT AVERTING NON-COMPLIANCE... CONTINUED



- A periodic review of adherence to procedures to reduce malpractice risks.
- Testing of potential irregularities to minimize the fraud risks that may include for example, review of transactions just below approval thresholds, etc.
- Review the policies and procedures to determine that they are clear as complexity in the law contributes to noncompliance due to the need for extensive guidance or interpretations.
- With changes or updates to regulation, Internal Audit should concentrate on risks that are of most importance to the Organisation and advice management on how much time and effort to spend per risk.
- Internal auditors to exercise role as trusted advisor by increasing focus not only on risk or operations, but also on other areas of the business that are essential to enterprise success and compliance to regulations.
- The internal auditors should communicate honestly and timely with stakeholders, and to constantly examine and update processes to remain effective, efficient and fully compliant with the law.
- Internal Audit to verify that reporting to parliament and stakeholders as required is done timely.

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## QUESTIONS?



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**THE END**



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