



# Internal Auditing

## Topic 1: Introduction to Internal Auditing

BBA III – Semester I, 2024/2025

16<sup>th</sup> August 2024



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Frank Kabuye, Stephen Korutaro Nkundabanyanga, Julius Opiso, Zulaika Nakabuye ▾

Managerial Auditing Journal

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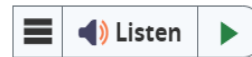
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Research Article

# The influence of tone at the top management level and internal audit quality on the effectiveness of risk management practices in the financial services sector

Frank Kabuye , Nicholas Bugambiro, Irene Akugizibwe, Sharon Nuwasiima & Sharon Naigaga | Collins G. Ntim (Reviewing editor)

Article: 1704609 | Received 18 Sep 2019, Accepted 09 Dec 2019, Published online: 30 Dec 2019

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Frank Kabuye

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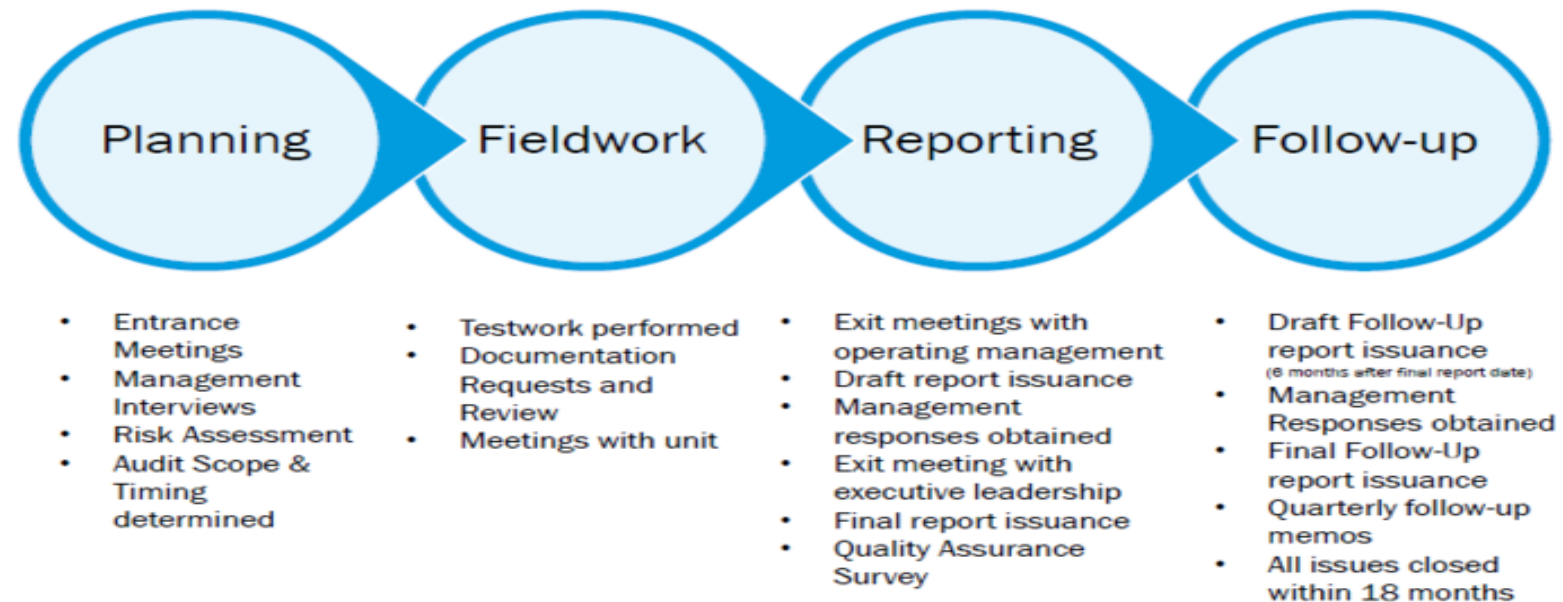
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# Who is Frank Kabuye in the internal audit space?

# Meaning & phases of Internal Auditing

- Internal auditing is an **independent, objective assurance** and **consulting** activity designed to add value and improve an organisation's operations.
- It helps an organisation accomplish its objectives by bringing a **systematic, disciplined approach** to evaluate and improve the effectiveness of risk management, control, and governance processes.

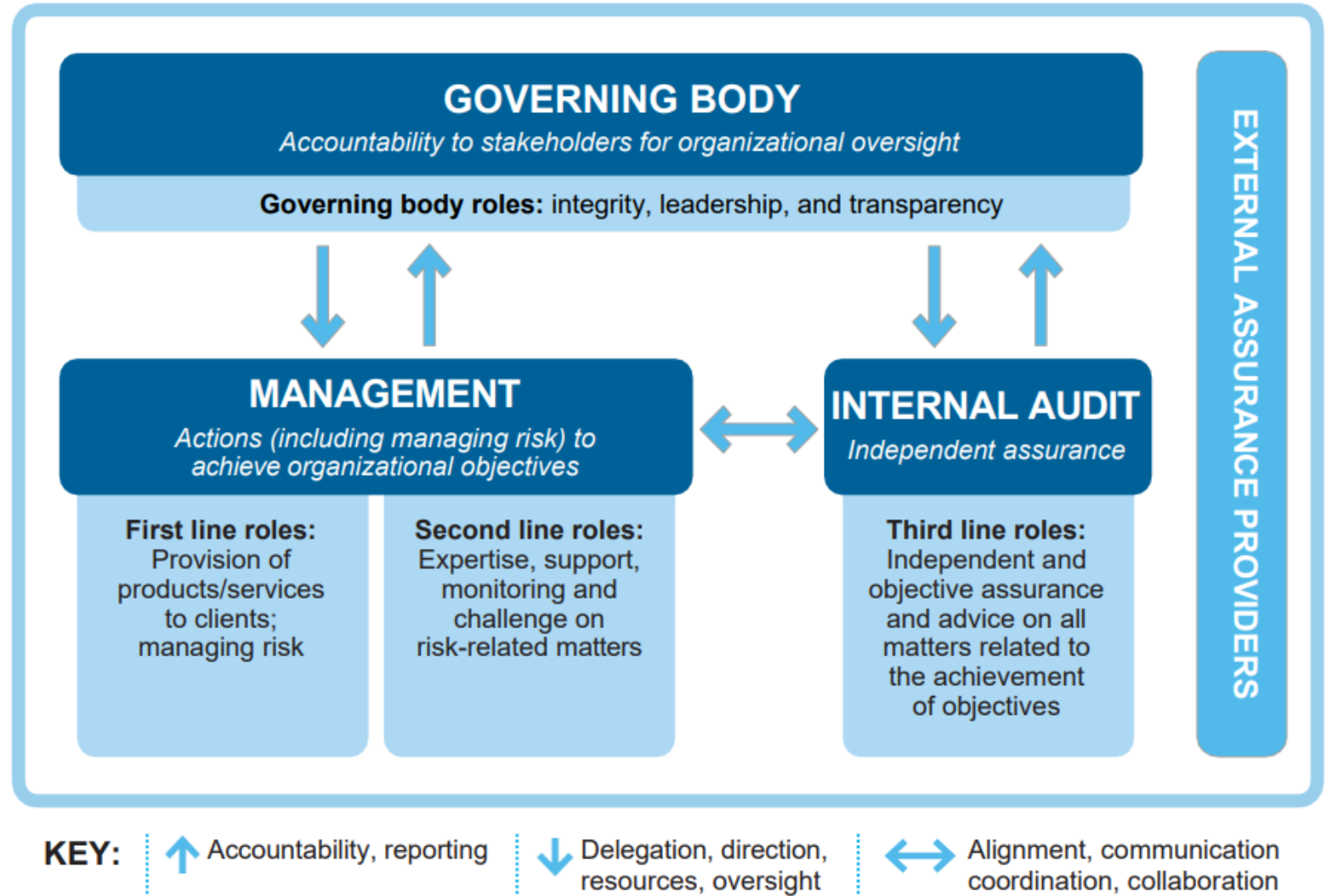
## Typical Phases of an Internal Audit



# Career in Internal Audit



# The three lines model





The Institute of  
**Internal  
Auditors**

## The core Principles of Internal Audit

- Principles as issued by the Institute of Internal Auditors (IIA) define tangible internal audit effectiveness.
- When all Principles are present and operating cohesively, internal audit function achieves **maximum efficiency**.
- Though the way every internal auditor approaches these Core Principles may vary from organization to organization, there's no denying that a failure to achieve any of the Principles would signal an internal audit activity that's not performing at its absolute best.





# The core Principles of Internal Audit

- Demonstrates integrity. Integrity is everything in the world of internal auditing.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organization.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organizational improvement.

**The purpose statement** is intended to assist internal auditors and internal audit stakeholders in understanding and articulating the value of internal auditing.

## **Purpose Statement**

- Internal auditing strengthens the organization's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

## **Internal auditing enhances the organization's:**

1. Successful achievement of its objectives.
2. Governance, risk management, and control processes.
3. Decision-making and oversight.
4. Reputation and credibility with its stakeholders.
5. Ability to serve the public interest.

# **Purpose of**





# Effectiveness of internal audit Function

## Internal auditing is most effective when:

- ❖ It is performed by competent professionals in conformance with the Global Internal Audit Standards, which are set in the public interest.
- ❖ The internal audit function is independently positioned with direct accountability to the board.
- ❖ Internal auditors are free from undue influence and committed to making objective assessments.



# Factors in assessing the need for internal audit

- The **cost** of setting up an internal audit department compared to its benefits.
- The **size and complexity** of the entity – the larger and more complex the entity is, the greater the need. Usually no need in small owner managed entities as owners exercise more direct control over operations.
- The **role** that would be played by the internal audit department such as internal control reviews.
- Whether there are **existing managers** or employees who could perform these tasks and therefore reducing the need to establish a separate internal audit department.
- The **risk of fraud** – the higher the risk of fraud, the greater the need so as to as both a deterrent and also to possibly undertake fraud investigations.
- The **pressure** from external stakeholders to have internal audit.



# Responsibility of internal auditors

- The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives.



# Responsibility of internal auditors

- Evaluating **risk exposure** relating to achievement of the organization's strategic objectives.
- Evaluating the **reliability** and **integrity** of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure **compliance** with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of **safeguarding** assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which **resources** are employed.



# Responsibility of internal auditors

- ❑ Evaluating **operations** or **programs** to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- ❑ Monitoring and evaluating **governance** processes.
- ❑ Monitoring and evaluating the effectiveness of the organization's **risk management** processes.
- ❑ Evaluating the **quality of performance of external auditors** and the degree of coordination with internal audit.



# Responsibility of internal auditors

- Performing **consulting** and **advisory** services related to governance, risk management and control as appropriate for the organization.
- Reporting **periodically** on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Reporting **significant risk** exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating **specific operations** at the request of the Board or management, as appropriate.





# Regulation of internal auditors

- Global internal audit standards
- Accountants act 2013
- Companies Act 2012
- Public Finance and Management Act 2015
- Local Government Act
- Internal audit manuals and policies



# Internal audit activities

- **Value for money audit** on behalf of management to assess economy, efficiency and effectiveness of an entity's operations. **Economy** means using resources (inputs) at the lowest cost. **Efficiency** is a measure of the relationship between goods and services produced (outputs) and the resources used to produce them (inputs). **Effectiveness** is how well an activity is achieving its policy objectives or other intended effects.
- **Financial audits** by carrying out substantive procedures of transactions and balances to ensure fair presentation of financial statements and management reports.
- **Operational audits** that are audits of the operational processes of an entity. They are also known as management, or efficiency audits. Their main objective is monitoring of management's performance, ensuring entity policies are adequate and work effectively e.g. adherence to procurement procedures.
- Testing **internal controls** and making recommendations on how to improve them e.g. performs tests of controls on sales, purchases, cash, payroll, inventory and capital transactions.

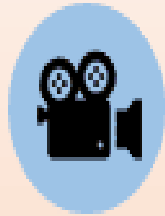


# Internal audit activities

- **Information technology audits** e.g. system development, access control, database management.
- **Compliance audits** – review compliance with laws and regulations.
- **Entity risk management:** Monitors the company's overall risk management policy to ensure it operates effectively. Monitors the strategies implemented to ensure that they continue to operate effectively.
- **Fraud investigations** – review and test controls to prevent or detect fraud, investigate any suspected fraud and make reports recommending improvements.
- **Customer service reviews** – internal auditors may be asked to assess the level of customer service. They may could do this by phoning in or visiting stores/outlets and pretending to be customers. Alternatively they could review and analyse the results of customer surveys.

# Internal audit activities

# Internal Audit



**Monitoring of Internal Control**



**Examination of Financial & Operating Information**



**Risk Management**



**Review of Compliance with Laws & Regulation**



**Governance**



**Review of Operating Activities**

# Limitations of the internal audit function



- Scope Limitations
- Objectivity Concerns
- Resource Limitations
- Reliance on Internal Information
- Potential for Over-Familiarity
- Focus on Past Performance
- Risk of Management Override
- Implementation of Recommendations
- Dynamic Risk Environment



	<b>External audit</b>	<b>Internal audit</b>
Objective	To enable auditors to express an opinion on the financial statements	To improve an entity's operations by reviewing the efficiency and effectiveness of its activities.
Scope	Relates to financial statements and financial records that underlie them.	Relates to an entity's operations including value for money audit.
Relationship to the entity	External auditors are independent of the entity and its management. In a company, they are appointed by the shareholders.	Internal auditors are often employees of the entity, although sometimes the internal audit function is outsourced.
Reporting	External auditor reports to shareholders in case of a company, to Parliament in case of government or an equivalent body.	Internal audit reports to the board of directors and the Audit committee.
Fraud	External auditors have no responsibility to detect fraud within a client.	Helps management to fulfil its responsibility for preventing and detecting fraud.

# Conclusion

