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Auditing Strategic Objectives

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Strategy

“Without a Strategy, the organization is like a ship without a rudder, going round in circles.” (Joel Ross and Michael Kami).

Outline:

- Internal Audit Mission as articulated by the IPPF
- Definition of Strategy and Strategic Planning
- Strategic Planning Steps
- Strategic Objectives
- Auditing Strategic Objectives

Internal Audit Mission

- The Internal Audit Mission as articulated by the IPPF is to enhance and protect the organizational value by providing risk based objective assurance advice and insight.
- Internal Audit review of strategic objectives contributes to fulfillment of the Internal Audit Mission.

Definition of Strategy

- Strategy is the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets and to fulfill stakeholder expectations. (Johnson and Scholes).

Levels of Strategy

There are 3 levels of strategy:

- Corporate Strategy
- Business Strategy
- Functional Strategy

Corporate Strategy

- This defines the overall purpose and scope of the organization.
- It defines value addition to the different parts of the organization.
- In developing the internal audit department strategy this should be aligned to the organizational strategy and the defined strategic objectives and strategic risks. This will ensure that the audit work is focused on the organizational risks and is in tandem with the organizational goals.

Business Strategy

- Strategy at this level focuses on the strategic business unit.
- Strategic business unit is that part of the business for which there is a distinct market for goods and services.
- Distinct markets require different strategies.

Functional / (Operational) Strategy

- Strategy at this level focuses on how the various functional areas contribute to achieving business and corporate strategy through their organizational processes.
- The principal focus is organizational processes and efficiency (how to do things right).

Definition of Strategic Planning

Systematic and formalized effort of a company to establish company purposes, objectives, policies and strategies. (Steiner, 1979).

Strategic Planning steps :

- Define the Vision of the organization
- Define the Mission of the organization
- SWOT Analysis
- Establish the Strategic Objectives
- Develop and Implement the strategy
- Monitoring and Evaluation

Define the vision of the organization

This should:

- Clearly indicate a standard of performance
- Standard of performance should be the very best attainable (department's ideal future).
- Clarifies the direction the organization wants to move.

Define the Mission of the organization

This should:

- Focus on the present
- Articulate what the organization will do to meet its vision.

SWOT Analysis

Consider SWOT analysis

- Internal Strengths and Weaknesses
- External Opportunities and Threats

Example:

Strength: We have adequate resources e.g. technology.

Weakness: We lack adequate staff with ICT skills.

Opportunity: We have a growing market for our products and we currently have 20% of the market share.

Threat: New competitors are entering the market.

Strategic Objectives

In establishing the organizational objectives, in order to achieve competitive advantage strategic objectives can be established in the following areas which are some of the key strategic objectives that audit needs to review:

- Productivity e.g. Units / Employee
- Profitability
- Competitive Position e.g. based on total sales or market share
- Employee development e.g. in 3 years , 100% of employees should have attended at least 1 long term course

Strategic Objectives

- Technological development
- Public Social Responsibility e.g. after 3 years have 2 social activities for community / year.
- Quality e.g. product quality after 2 years not more than 5% defective products in total output.
- Customer service satisfaction e.g. after 2 years to have not more than 5 customer complaints.
- It should be noted that the strategic objectives established will depend on the sector of the organization. Those highlighted above are cross cutting.

Characteristics of good strategic objectives

- Measurable
- Acceptable to those responsible for implementation
- Flexible
- Motivating to those responsible for implementation
- Achievable
- Capable of being developed into strategies and actions
- In harmony with the mission and vision of the organization
- Relate to factors discovered in SWOT analysis

Internal Audit should align to the organizational strategic objectives and be able to clearly articulate the audit role in relation to realization of the strategic objectives in relation to the risk based audits performed.

Strategy Implementation, evaluation and control

- Strategy implementation is involved with establishing relevant policies and frameworks that will assist in translating chosen strategies into actionable forms.
- Evaluation involves assessing if the strategies have been achieved. This can be done periodically during the strategic plan period based on identified performance indicators. The Head of Internal Audit can assess the identified performance indicators for the department and the organization with a view to providing value addition to achievement of the organization strategies through provision of trend analysis and recommendations.
- Control is the mechanism used by the organization to address the achievement or failure to achieve established strategies. The Head of Internal Audit in performing risk based audits can provide useful insight and foresight for the organization in order for it to move forward in a cohesive way.

Strategic Risks

- In performing the risk assessment for the risk based audits, review should be done of the strategic risks as identified by the organization.
- Review will also need to be done for the following in relation to the strategic risks:
 - Key performance indicators and performance relative to the established performance target e.g. Revenue generation targets.
 - Effectiveness of Risk mitigation measures e.g. Marketing strategies to increase revenue.

Detailed Testing Illustration

- **Example:**

Strategic Objective: To develop a Capital Development Plan

Strategy	Activity	Output	Performance Indicator	Time Frame	Responsibility	Budget
Develop Capital Development Plan (CDP)	Develop CDP and have it approved for implementation	CDP developed and approved	Approved CDP ready for implementation	2017 financial year	CEO/ AD/F&A	Kshs 1 million

(Adapted, KSL Strategic Plan, 2015 – 2018)

Audit Review Tests for Strategic Objective on Capital Development Plan

- Verify that CDP developed and approved for implementation within defined time frame.
- Verify that actual expenditure was within budget
- Verify that components of CDP have budgetary allocation

Detailed Testing Illustration

Strategic Objective on Productivity

- Determine the key performance indicators for the review period
- Determine the performance Targets for the review period
- Perform an analytical review to establish if they have been achieved and document the findings.
- Review documentation on measures put in place for deviations and assess their effectiveness.

Detailed Testing Illustration

- **Strategic Objective on Profitability**
- From the budget determine the budgeted revenue and expenditure
- Perform an analytical review to determine if budgeted revenue and expenditure has been achieved.
- Review documentation on measures put in place for deviations and assess their effectiveness.
- Perform standard detailed testing on revenue and expenditure to determine their validity.

Illustration of Strategic Objectives and Annual Audit Review of Strategic Objectives:

Strategic Objective	Annual Target	Quarter One Target	Achievements	Deviations and Reasons
1. Enhance Automation and Technological development	i. Perform Risk based audit of ICT Systems in Banks Operations.	i. Audit Finance ICT System.	i. Audited Finance ICT System.	Audit done and recommendations provided.
	i. Perform Risk Based Audits of ATM transactions and system controls.	i. Review ATMS at following branches: X, Y and Z.	i. Reviewed ATMs at branch X and Y.	Did not review ATM at branch Z due to lack of adequate staff.

Illustration of Strategic Objectives and Annual Audit Review of Strategic Objectives:

Strategic Objective	Annual Target	Quarter Two Target	Achievements	Deviations and Reasons
2. Increased Profitability.	<p>a) Perform risk based audit of Banks Investment Portfolio.</p> <p>ii) Audit Banks Profit and Loss Account to ascertain the achievement of banks set profit on a half yearly basis.</p>	<p>i) Audit Investments and Investment Income.</p> <p>ii) Audit Income Accounts.</p>	<p>i) Audited Investments and Investment income.</p> <p>ii) Audited Income Accounts.</p>	<p>Audit done, recommendations provided.</p> <p>Audit of Expenditure accounts scheduled for next month.</p>

Interactive:

Case Study

- Discuss in pairs one strategic objective of your respective organization and state one key performance indicator for review for the identified strategic objective.
- Share your discussions.
- Q and A.

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Thank you