

CHAPTER FIVE

ISSUES AND CHALLENGES IN ADOPTING THE RBA APPROACH

5.1 Pertinent Issues and Challenges Arising From The Adoption of the Risk-Based Auditing Approach at ABC Bank

Basically, there are 4 cornerstones that the internal audit department of ABC Bank has to consider to ensure successful implementation of the RBA approach. These are illustrated in Figure 5.

Methodology	Technology
Knowledge	People

Figure 5 : Four Cornerstones In The Implementation of The RBA Approach

5.2 Methodology

There is a need for a formalized procedures or processes in the implementation of the RBA approach that serve as a standard to be complied and adhered by all internal auditors of the bank. These procedures/processes should aid in producing quality risk assessment and objective evaluation on the adequacy of controls for each risk location. The methodology serves a common platform and source of reference among internal auditors in relation to the RBA approach.

5.3 Technology

Appropriate technological software is required to support and facilitate the documentation of the RBA approach e.g in the risk assessment process, evaluation of the controls. This is because without the proper technology, audit field work duration would be lengthy. With the software, hard copy versions of the working papers can be minimized and storage of data and information for audit planning purposes can be provided.

5.4 **Knowledge**

All audit staff should possess the relevant knowledge and understanding of the RBA approach. This can be achieved through formal training as well as on-the-job training. Any questions or issues related to the RBA methodology should be handled by a technical team that would continuously upgrade and enhance the methodology.

5.5 **People**

The internal audit department should be supported by the appropriate organization structure. Auditors must have the right frame of mind as the auditing profession will be more demanding in time to come and they have to be equipped with specialized knowledge to provide value added service to the organization.

Other issues and challenges in order to ensure successful implementation of the RBA approach are:

5.6 **Bridging the expectation gap between auditors and its auditees**

There is a need to brief the auditee/audit customers on the RBA methodology and the expected deliverables. Otherwise, the auditees may expect something which may not be part of the internal audit department's objectives or goals. The fear is that the auditees may have a different perception and expectations from the internal auditors and as a result the auditees may not view the audit as adding value to the organization. To eliminate such expectation gap, there is a need for the internal audit department to conduct a road show to brief and explain to senior management the new RBA methodology. In this way, senior management would have a better understanding on the internal audit department's new auditing approach and this would promote and encourage more participation in their auditing relationship with the internal audit team.

Among the more important elements under the RBA approach is the discussion with management to further understand the business objectives as well as the risks that would impact the achievement of the business objectives. From the road show, the risk inventory may be introduced to strike a common understanding of risks within the organization.

5.7 **Changing The Mindset And Attitudes Of The Internal Audit Staff**

The RBA approach may result in variations to the work normally performed by the internal auditors. Hence, there may be some form of resistance existing in the internal auditors at the initial stages of implementation. This resistance will need to be properly managed in order to garner stronger teamwork among the personnel in the internal audit department. Should these negative vibes and resistance remained uncontrolled, it could hinder the gradual transformation from the existing audit approach to the RBA approach. Here, strong commitment and initiative shown by top management of the internal audit department is imperative in order to ensure a successful RBA implementation. By their show of example and leadership, the RBA approach will be more well-accepted by the field auditors.

5.8 **Performance Measurement**

Performance measurement is a powerful management tool for any organization to inspire and motivate positive behaviour or attitude among its staff. In fact, a well-known expert in management theory once said that "what doesn't get measured, doesn't get done." Performance measurements such as key performance indicators or ratios, scorecards, benchmarking are used as a yardstick or criteria to help keep track and monitor the desired work performance among staff. Therefore, in order to ensure successful implementation of the RBA approach, the goals and its corresponding performance measurements of the overall audit staff need

to be revamped to suit the RBA approach objectives. For example, a smaller weightage need to be given on the time required to complete a particular audit. Instead, more weightage need to be given for quality audit as well as the internal auditor's contribution in promoting and optimizing the RBA methodology in the course of his work. In addition, to be effective, performance measures need to be clear, well-defined, easily understood and well communicated to those whose output are measured by the RBA approach. The rewards system should also be in line with the performance measurements set.

5.9 **Roles and responsibilities of staff**

The roles and responsibilities of the internal audit staff from the field auditors to the audit managers in terms of implementation of the RBA approach have to be clearly identified and redefined in order to obtain a sense of commitment in adopting this new approach as well as to avoid any misunderstanding. All the departments/sections/units within the internal audit department should have a working understanding of each other's functions and roles so that better co-ordination and co-operation could be developed among the departments/sections.

5.10 **Quality Assurance Review**

There is a need to establish a quality assurance review function internally to ensure that not only the internal audit work conforms with the RBA methodology but also to set internal standards/benchmarking that field auditors can emulate. Feedback from the internal quality assurance review function is needed to ensure further enhancements and continuous improvements are made to the existing methodology. External quality assurance reviews are required to obtain external benchmarking against the industry's best practices. This may be done at an interval period of every 5 years.

5.11 **Getting Acceptance From The Internal Audit Staff And Senior Management As Well As External Auditors Of ABC Bank**

The internal audit staff must believe that the RBA approach is the right way to go and would definitely bring added value to the organization. If there is resistance in the RBA approach/methodology, the implementation of the RBA approach in the internal audit department may be hampered. Furthermore, management buy-in is also crucial as their support and co-operation would smoothen the transformation process from the compliance based auditing to the RBA approach. Finally, as the external auditors, to some extent, rely on the work of the internal auditors, they must also be convinced that the new approach is beneficial to the organization and complements their auditing work.