

CHAPTER SIX

RBA IMPLEMENTATION STRATEGY AND APPROACH

6.1 Overview of Implementation Approach and Phases

In order to deal with the change to the RBA approach, the internal audit of ABC Bank has planned a phased and gradual approach starting from Year 2002. In this way, the transformation will be smoother and less prone to failure as compared to a drastic change. An estimated time frame of three years is suggested for a complete transformation from the existing auditing approach to the RBA approach.

Specific incremental targets and expectations would be developed for each year until the end of the third year (Year 2005). For instance, the first year of the implementation would be considered the forgiving year because the overall understanding of the RBA approach by the internal audit staff may be poor and not yet solid. Hence, the quality of the audit reports may not be reflective of the form as suggested by the RBA methodology. However, specific targets are required to close the identified gaps. For instance, weightage on initiatives or motivation shown by internal audit staff to change and learn the RBA approach should be provided to encourage the right attitudes among staff. Different specific expectations would also be set for different units within the internal audit department according to their ability and readiness to apply the new audit approach. For example, internal auditors who audit branches are used to standard audit programmes. Therefore, they would be given less weightage in their appraisal in relation to preparation of customized audit programmes compared to the internal auditors who are familiar with preparing audit programmes such as those auditors who specializes in head office and subsidiaries audits. These targets and expectations would subsequently be used to measure the performance and

achievement of the internal audit department in its implementation of the RBA approach over the span of three years. In the subsequent year, a more demanding target should be established to continue the overall transformation from a compliance-based auditing to one which is RBA-based.

6.1.1 **Transitional/Basic Stage**

For the first half of the year, a soft roll-out of the risk-based audit concept will be implemented with intensive training sessions provided to all the internal audit personnel in order for them to appreciate and acclimatize themselves with the new approach. It is called a soft roll-out only because the sections or units who are of the view that they are ready to embark on the risk-based auditing concept are encouraged to perform their audits based on risk-based auditing approach. The full implementation of the RBA approach is not mandatory until all the internal auditors of the department are adequately trained. The training would be divided into 5 modules (see Appendix II) and would be conducted on a progressive basis for each auditor. After each training session, the auditors are encouraged to apply the methodology during the course of work where applicable. Quality of audit findings and reporting would be monitored to determine achievement of this application.

Hard roll-out of the RBA approach would take place after all the training sessions had been completed. It is called a hard roll-out because at this phase all the internal audit staff should be provided with the necessary training and should be ready to implement the RBA approach. The audits would then be performed using the new RBA approach and reporting would be based on the new reporting formats consisting of risk location reports, risk category reports, interim reports(quarterly or half-yearly audit reports) and the annual group-wide audit report.

In addition to the minimum broad targets set for this financial year, that is the year when RBA is first introduced, specific expectations in relation to audit proficiency would be set/established for different units within the internal audit department according to their readiness. Feedback would also be obtained to further improve the methodology.

6.1.2 **Enhanced Stage**

With the enhanced methodology and the updated risk-based audit plan, the risk-based approach would be applied in the audit of all the risk locations. In addition, more demanding broad targets would be set with specific expectations for different units within the internal audit department according to the revised assessment on readiness.

Subsequent training emphasizing on the soft skills would be conducted particularly to further upgrade the auditors' skills in, for example, conducting meetings/interviews and effective writing. Technological supports in the form of appropriate software and computer networks would be acquired or established to enhance efficiency in the performance of audit, either on storage of information or work documentation.

The internal audit department may need to be restructured to facilitate the smooth application of the RBA approach. Further enhancement would be made to the risk-based methodology based on the additional feedback collected.

6.1.3 **Advanced Stage**

After the learning period during the transitional or basic and enhanced stage of the implementation process, the remaining identified gaps between the actual practice and the RBA methodology adopted would be closed under the advanced stage in order to put the internal audit department in the desired operational state. Same level of proficiency

would be expected from all the units within the internal audit department. Additional training would be conducted based on identified gaps between the actual practice and the RBA methodology as a result of deficiencies in the expected level of skill set, for example, in the area of advanced soft skills (coaching and effective presentation skills).

A comprehensive Quality Assurance Review (QAR) is planned at the end of the implementation stage to evaluate the achievement of each of the target set and to pave the way for continuous improvement.

6.2 **Other Areas To Be Covered Under the Implementation Strategy**

6.2.1 **Formation of specific targets or performance measurements and expectations**

For the purpose of implementing the gradual transformation towards the RBA approach, specific performance measurements/targets and expectations would need to be formulated for each unit within the internal audit department, based on the common and broad targets set for the whole of the internal audit department.

All units are given a learning period of two years, after which, the same level of proficiency level is expected.

For this purpose, an assessment process to review the readiness of the each unit within the internal audit department would take place perhaps after the intensive training are conducted. The results of assessment would be used to formulate specific targets/performance measurements and expectations of the respective units. These targets should be agreed upon by each of the units and documented and should be revised from time to time

based on the actual progress. Additionally, these targets should be the basis of the achievement and appraisal for the units concerned for each financial year. These targets and expectations would reflect different levels of extent and quality of audit work including audit reports under the RBA approach.

6.2.2 **Structural reorganization of the internal audit department**

The internal audit department should be restructured to facilitate the smooth application of the RBA approach. The new organization structure is expected to be more auditee-focused and it will emphasize on specialization, that is, in accordance with the operational focus of the organization, for example, by customer types (corporate, commercial or retail customers) and by risk areas.

The new structure is also expected to facilitate optimization of resource allocation and sharing as the audit team-mix for each visit is expected to be more complex to match different expertise or knowledge requirements.

6.2.3 **Knowledge Management**

The internal audit department should improve its knowledge management system in order to ensure effective storing and sharing of the abundant knowledge and information that would continue to be acquired under the RBA approach. Effective knowledge management would contribute towards both audit effectiveness and efficiency.

The aspects that should be looked into include documentation needs and protocols, information retrieval needs and knowledge sharing needs.

6.2.4 **Technological Supports**

The utilization of technology is crucial to ensure efficiency in the audit processes. The efforts to obtain the appropriate technology software to facilitate audit activities should be extended to arrive at a total solution to support audit documentation and knowledge management needs under the RBA approach.

In selecting the right software, assessment of the internal audit departments needs and requirements is a pre-condition. The software selected should fit into the current internal audit department's overall technology platform. If possible, the software selected should allow integrated internal audit applications rather than just house stand alone tools. Apart from assessing the costs that comes with purchase of the software, there is a need to evaluate the vendor. The vendor should have a good track record and can provide continuous support and maintenance as well as upgrades, when required.

6.2.5 **Roadshows For Senior Management In the Organization**

The involvement and acceptance of senior management in the organization is critical in the successful implementation of the new approach by the internal audit department. Senior management should create a sense of awareness about the efforts undertaken by the internal audit department to not only provide reasonable assurance on the internal controls of the organization but also to provide value-add services. With senior management's involvement, unhindered flow of information and communication can be achieved to ensure the audit plan is reflective of the current challenges and risks faced by the organization. With the roadshow, any performance gap or expectation gaps between senior

management and the internal audit department may be bridged to arrive at a common understanding of the RBA approach.

6.2.6 **Periodic Progress Reports To the Audit Committee of the Board**

The progress of the implementation of the RBA approach would be reported to the Audit Committee of the Board on a periodic basis, for example, at a quarterly interval. The reporting would include among other things, the status of achieving the minimum broad targets set for each stage of the implementation programme.

6.2.7 **Continuous Professional Development Programme For the Internal Auditors**

In order to ensure continuous professional development among the internal auditors, staff are encouraged to take professional examinations relating to their respective fields such as Certified Internal Auditor (CIA) examinations organized by IIA, CIAFIN (Certificate for Internal Auditors in Financial Institutions) organized by IBBM (Institute of Banks, Malaysia), Certification for Credit Professionals (CCP) organized by IBBM or academic degrees such as MBA. Appropriate incentives should be given to encourage staff to continuously strive to improve and develop themselves in the internal auditing profession.