The risk-based audit (RBA) approach seeks to improve audit effectiveness and efficiency by shifting the function from a policing activity to one that contributes effectively to managing risk and achieving wider organizational goals. The approach aims to increase the accountability of government ministries and line agencies by ensuring transparency, validating key systems of internal control, and committing resources against key risks. Underlying the early signs of success of a recent RBA pilot in Kenya were strong support for the pilot from the Bank’s Auditor General and the incorporation of some key lessons the Bank has learned about development interventions—particularly about the importance of country ownership, local champions, partners, and a long-term perspective.

What is RBA?

Traditional audits focus primarily on compliance with rules and procedures, and their recommendations may not give management enough information about the achievement of organizational goals. RBA involves high-level risk profiling of the audit portfolio over time; thus it facilitates strategic use of scarce audit resources, aligns audit efforts with management objectives, facilitates institutional development, and reduces risk exposure by focusing attention on areas of weakness.

In RBA, risk is measured by assessing the ethical climate, competence of personnel, size of assets and of operations, materiality, and results of previous audits. Direct probability estimates, normative tables, and comparative risk ranking are typically used to identify risk. Risk factors are then converted from conceptual and subjective (qualitative) data into quantitative data. An overall risk score is derived by scoring and weighing the risk factors. The result is a risk-based engagement plan that guides the deployment of audit resources to high-risk areas.

Why Kenya?

The operating environment for public financial management in Kenya and active support of senior officials for audit reform were critical to the selection of Kenya for an RBA pilot. In the years immediately preceding the pilot, the Government of Kenya (GOK) had been active on the public financial management reform front.

In 2003, GOK enacted the Government Financial Management Act to improve accountability of government financial management practices. In 2004, a new Public Audit Act was enacted to strengthen the independence and operational capacity of the Controller and Auditor General, and an Internal Auditor General was appointed to improve internal audit functions in GOK ministries. In addition, Parliament passed the Anti-Corruption and Economic Crimes Bill, establishing an anti-corruption commission, and the Public Officer Ethics Bill, requiring the declaration of wealth by public officers. Recognizing that efficient use of public resources is a precondition for economic development, GOK prepared strategic plans for all ministries, with specific performance targets, and with performance contracts to be signed by the Permanent Secretaries to make them accountable for use of public funds. In this context of performance measurement and accountability, Permanent Secretaries and other senior officials began seeking greater inputs from internal audits to ensure effective risk management and use of public resources, and to provide support for improving performance by identifying areas of weaknesses. Thus, following an Internal Audit Consultative Forum in March 2004, GOK requested the Bank to pilot the RBA approach as the next step in the country’s ongoing reform of public financial management practices.

Pilot Implementation

The Bank worked with Kenya’s Internal Auditor-General (IAG) to pilot the RBA approach in the Ministries of Health and Planning. Initially, a high-
level forum was organized to explain the concept to Permanent Secretaries of the ministries and other senior government staff, and to build consensus. This was followed by a week of theoretical and practical training courses for 32 internal and external auditors from the offices of the IAG and the Controller and Auditor General. Participants were assisted to perform a risk assessment, which resulted in the preparation of a risk-based engagement plan and audit plan. While assessing risks, the participants interviewed the Permanent Secretaries and senior officers of the ministries, whose views were reflected in the assessments. (Box 1 depicts the risk scores of Ministry of Health functions.)

Key Pilot Features

The early feedback from the Kenya RBA pilot confirms findings from across the Bank’s work over the recent past. The features that have helped ensure that early returns on the pilot point to success include the following.

Intervention followed strong political will and government leadership for change.

The Bank responded to GOK leadership in piloting the RBA approach in Kenya. The introduction of the concept in a high-level forum before the training course stimulated considerable interest in the government and also in the media. The outcome of the forum received wide media coverage, which helped in reaching broader consensus. The program’s prospects for sustainability have been enhanced considerably as additional ministries have asked to be more extensively involved in modernizing audit functions using the RBA approach.

A committed counterpart is essential to program success.

There is a strong commitment to and ownership of the program from the government in general, particularly the Office of the IAG. Equally important is the enthusiasm of the Permanent Secretaries of the pilot ministries about making a fundamental change in the way the ministries undertake their business. The Ministry of Finance provided full support and advocated for the modernization of the audit functions to meet the business needs of the government.

Partners, long-term engagement, and technical assistance support are prerequisites for success.

The World Bank and other development partners are engaged in long-term public financial management capacity development in Kenya. The Bank, the Institute of Internal Auditors, Inc. (USA), and lately Germany’s GTZ are working as a team with the GOK on full implementation of the RBA approach in Kenya. Once this pilot phase is completed, the Bank and other development partners will also be providing long-term support for public financial management reforms and capacity development, including roll-out of RBA to all ministries.

The change was managed.

The program laid out clear-cut strategies of networking and team building, covering the program team as well as the beneficiaries. The strategy included raising awareness and creating an expectation of change, publicizing success stories, creating the right teams, and broadening the base of support. The Office of the IAG promotes and nurtures formal and informal, as well as functional and cross-functional, teams to exchange ideas, share experience, and identify common ground for cooperation. This new group of supporters is adding to the pool of change agents essential to broaden and deepen the platform across the government.

Challenges and the Way Forward

The RBA pilot sparked wide interest and raised high expectations in Kenya among senior management and other key stakeholders across the government. To meet these expectations, it will be necessary to increase the capacity of the internal audit staff. The Bank is providing continuing support for public financial management reform through a wider institutional reform and capacity-building program, and it is joining with the Institute of Internal Auditors, Inc. (USA) to support the Institute of Internal Auditors, Kenya Chapter, in strengthening training capacity and producing certified internal auditors in Kenya. It is expected that RBA will bring fundamental improvement in audit effectiveness in Kenya; if this expectation is realized, Kenya’s RBA may serve as a model across the continent in the future.

Note: The Kenya risk assessment process derived a risk score for various functions in the Ministry of Health. There is no absolute scale; the scores depict the relative risk associated with each function (the higher the score, the higher the risk) and thus enable management to apply audit resources in line with risk rather than uniformly across all functions.

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This note series is issued by the Financial Management Anchor to summarize good practice and key policy findings on FM-related topics.