



Internal Audit, Risk & Controls Fundamentals



Associazione Italiana
Internal Auditors

Agenda

- Risk Assessment
- Audit Plan
- Audit Engagement: Planning, Fieldwork, Reporting
- Follow-up

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- **Audit Plan**
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Risk Assessment Process

Risk assessment is the identification and analysis of relevant risks to the achievement of an organization's objectives, for the purpose of determining how those risks should be managed.

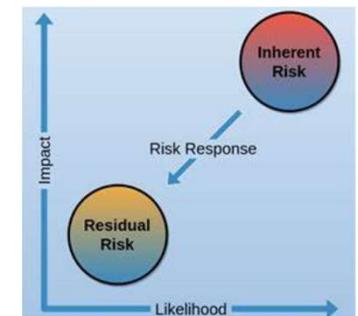
IA Standard 2010 – Planning

“The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.”

Inherent Risk: the amount of risk that exists in the absence of controls. In other words, before an organization implements any countermeasures at all, the risk they face is inherent risk.

Residual risk: the risk that remains after controls are accounted for. It's the risk that remains after your organization has taken proper precautions.

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Risk-based internal auditing (RBIA)

IIA defines risk-based internal auditing (RBIA) as a methodology that links internal auditing to an organisation's overall risk management framework.

The implementation and ongoing operation of RBIA has three stages:

1. Assessing Risk Maturity
2. Periodic Audit Planning
3. Individual Audit Assignment

Risk Appetite: risk appetite can be defined as the amount of risk an organisation is willing to take or accept in pursuit of its objectives.

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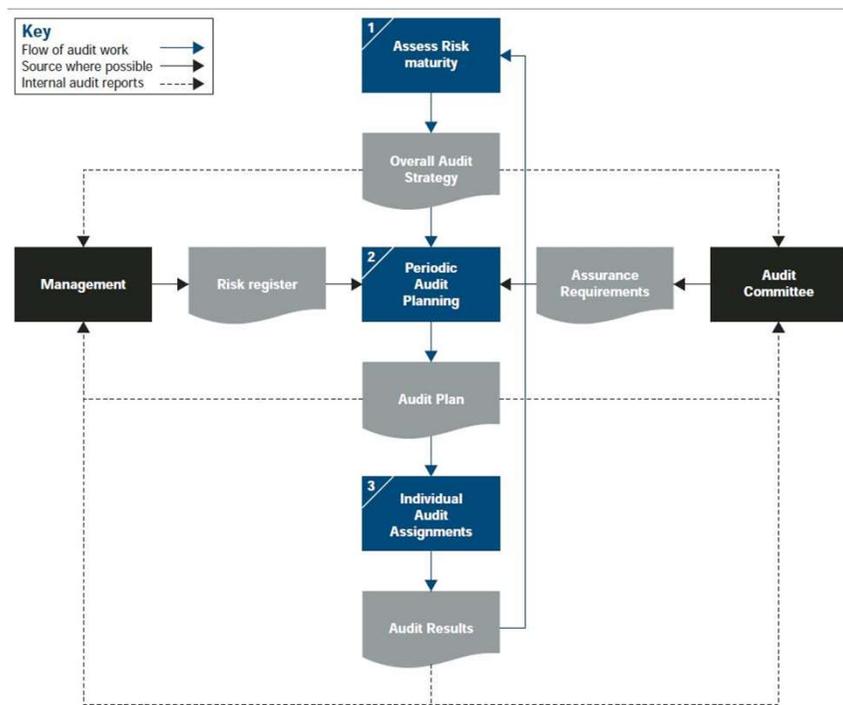
Risk Tolerance: boundaries for risk taking, commonly expressed as a range of upper and lower limit. Exposures outside the upper risk limit are unacceptable and outside the risk appetite.

Risk Appetite and Risk Tolerance should be defined and approved by the Board of Directors

Extent of Risk Appetite	Risk Tolerance Level	Risk Management Approach
Acceptable Appetite (Acceptable) Will operate in this area after risks have been effectively mitigated	Moderate Tolerance	Confident
Low Appetite (Tolerable) May operate in this area where the value is assessed as worthwhile, but only after risks have been effectively mitigated	Limited Tolerance	Conservative
No Appetite (Unacceptable) Will not operate in this area	Zero Tolerance	Avoid

Risk-based internal auditing (RBIA)

Overview of the three stages



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Risk Register: DB/information repository an organization creates to document the risks they face and the responses they're taking to address the risks.

Key Elements:

- Risk description (what could go wrongs)
- Likelihood and potential impact (\$/€) – Inherent measure
- Risk Rank
- Residual measure
- Risk Owner
- Action Plans for further mitigation

Description	Effects	Probability	Impact	Risk Rank	Owner	Response Plan
Web component of the application depends on the design created by the external design team.	Delays in the design delivery will directly impact the project schedule	6	10	60	D. Nizhebetkiy	*Procurement manager should include the following terms in the contract: - Weekly Reports. - Weekly on-site meetings. - Delivery via collaboration system (e.g. Invision)*
Resources for mobile development are limited and on	- Unavailability of developers may cause delays. - Quality may suffer due to multitasking.	8	8	64	D. Nizhebetkiy	- Develop cross-project HR plan together with Ann Smith and Ron Nagle - Secure required resources.

Risk-based internal auditing (RBIA)

Risk Maturity

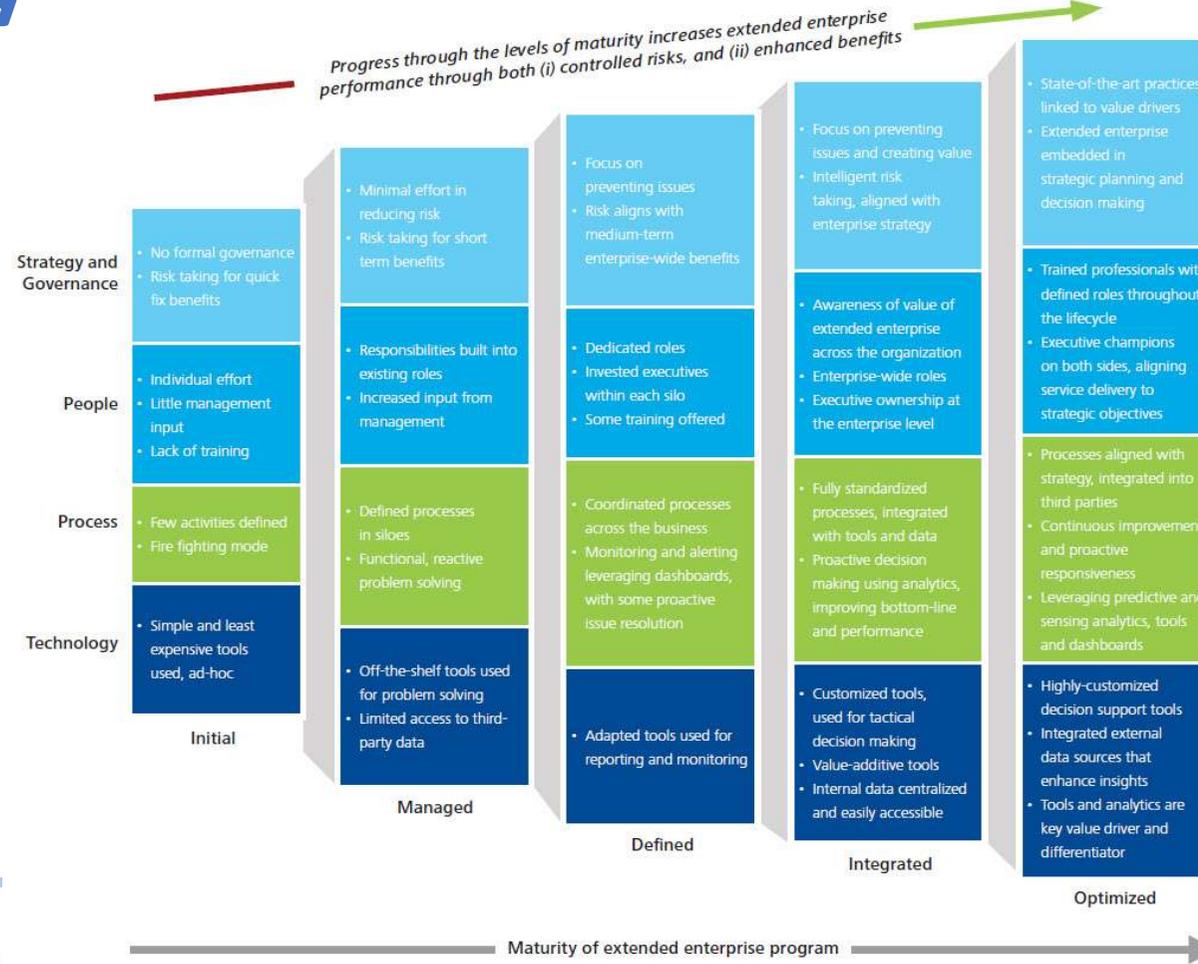
As we have seen in the previous slides, the first stage of RBIA is to review the level of risk maturity.

There are three objectives to this stage, which are to:

- Assess the risk maturity of the organisation
- Report to management and to the audit committee on that assessment
- Agree an audit strategy

Risk-based internal auditing (RBIA) Risk Maturity

Maturity model approach is based on the principle that effective risk management processes develop and improve with time as value is added at each phase in the maturation process.



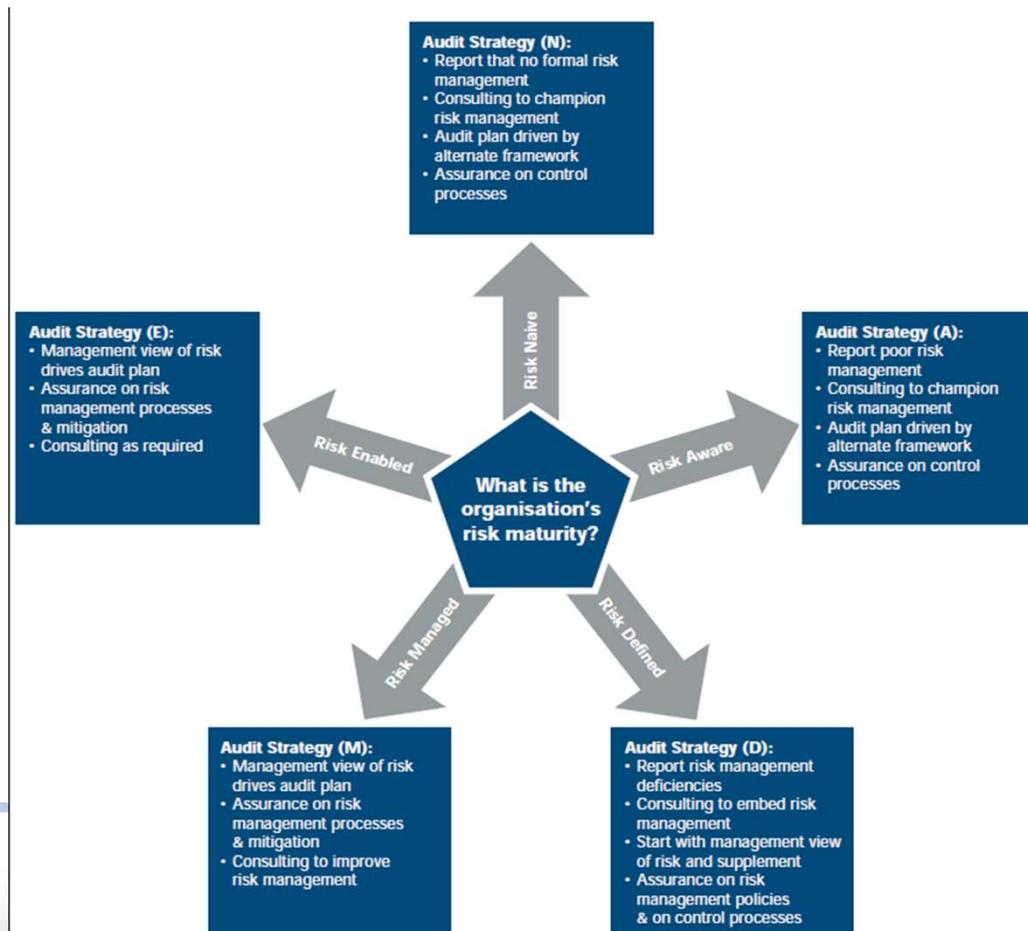
Risk-based internal auditing (RBIA) Audit Strategy

The audit strategy selected depends upon the organisation's risk maturity. Risk naïve or risk aware organisations will be unable to implement RBIA straight away. However, such organisations can benefit from some aspects of the audit strategies described below.

There are three potential elements to an RBIA audit strategy:

1. the type of assurances that you expect to be able to give
2. the framework that will be used for your audit planning
3. the type of consulting services that you expect to provide.

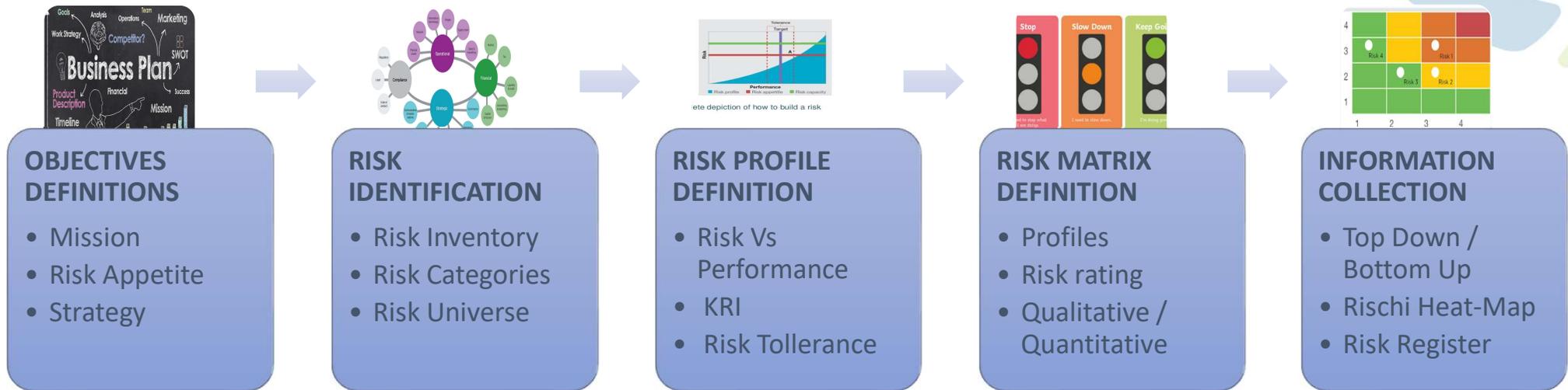
Risk-based internal auditing (RBIA) Audit Strategy



6 Steps to a Good Risk Assessment Process



Risk Analysis



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Key Risk Indicators: metrics used to manage current and potential exposure to various operational, financial, reputational, compliance, and strategic risks

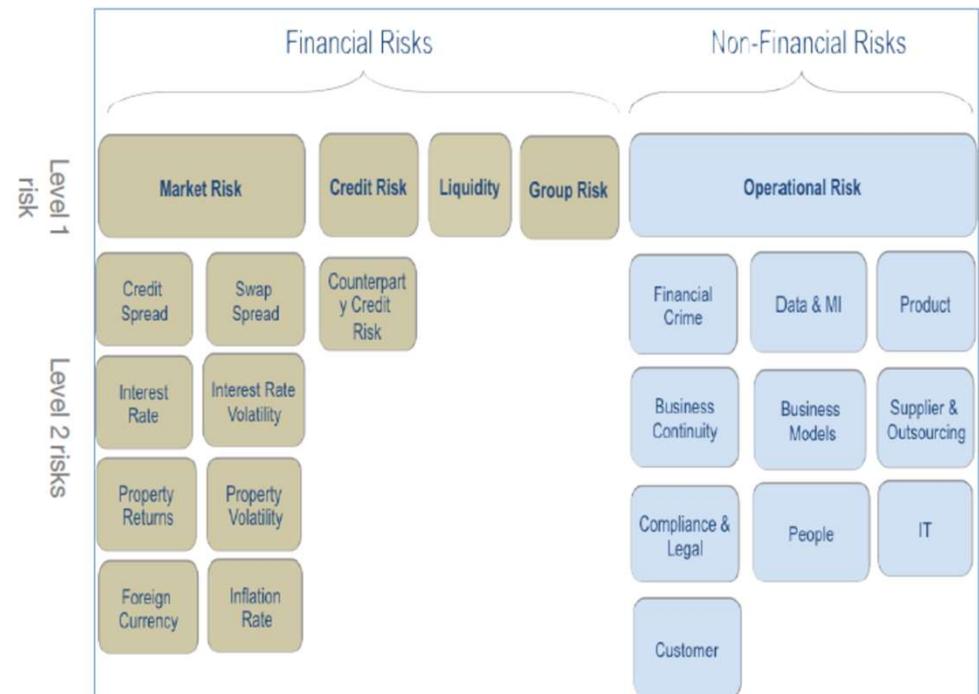
Risk #	Risks	Key Risk Indicators (KRI)	Owner	Low	Medium	High	Month 1	Month 2
001.16	Client Orders: the firm does not arrange for prompt, fair and expeditious execution of client orders	Number of errors related to client orders	Ops Dept	0	<30	>30	18	31
002.16	Front office business units fail to identify, assess and manage risks in the first line of defence	Number of items recorded in the loss database	Risk Dept	0	<30	>30	12	55

Risk Identification – Risk Library

Consider what you define risk to be. A common definition of risk is any event that negatively influences your ability to achieve your business goals.

Risks affect a company's ability to survive, successfully compete within the industry, and maintain its financial strength and positive public image as well as the overall quality of its products, services and people.

Once you have analyzed your company's risks, you should begin to establish a company risk library. The risk library provides the framework for the risk assessment process. It summarizes and defines, in a common repository, those risks to which the company is exposed.



Audit Universe

An audit universe is the collective grouping of auditable 'components' – sometimes also called auditable areas, units or entities – that support the development of the internal audit plan and help to identify appropriate internal audit coverage that the chief audit executive (CAE) can then prioritise. There are different ways this can be developed. The CAE may also consider whether an audit universe is required at all.

The CAE can choose whether to create and/or maintain an audit universe based on factors such as:

- the organisation's geographical reach
- the market sector volatility
- the activities undertaken by an organisation
- the volume of organisational change
- the risk and assurance requirements of an audit committee, board, and other key internal and external stakeholders

Diapositiva 14

Ug0 si potrebbe inserire un grafico sui fattori che incidono sull'audit univere. riportando tutto il testo del secondo capoverso nelle note

Utente guest; 2022-02-14T10:47:22.408

Risk Matrix - Example

As organisations gain experience doing risk assessments, they may want to build on their qualitative heat map by adding definitions to “Potential Impact” and “Likelihood” that quantify the terms.

Impact and probability are the two main components of Risk analysis. Looking at impact versus probability is common in order to categorize and prioritize risks as some risks may have a severe impact on projects objectives but only happen on rare occasions, while other have a moderate impact but occur more frequently.

		Impact or Severity				
		Incidental <i>Insignificant</i>	Minor <i>Minor</i>	Moderate <i>Moderate</i>	Major <i>Major</i>	Extreme <i>Catastrophic</i>
Probability or Likelihood	Frequent	Low-Medium	Medium	Medium-High	High	High
	Likely	Low-Medium	Low-Medium	Medium	Medium-High	High
	Possible	Low	Low-Medium	Medium	Medium-High	Medium-High
	Unlikely	Low	Low-Medium	Low-Medium	Medium	Medium-High
	Rare <i>Very unlikely</i>	Low	Low	Low-Medium	Medium	Medium

Impact Scale

Rating	Descriptor	Definition
5	Extreme	<ul style="list-style-type: none"> Financial loss of \$X million or more³ International long-term negative media coverage; game-changing loss of market share Significant prosecution and fines, litigation including class actions, incarceration of leadership Significant injuries or fatalities to employees or third parties, such as customers or vendors Multiple senior leaders leave
4	Major	<ul style="list-style-type: none"> Financial loss of \$X million up to \$X million National long-term negative media coverage; significant loss of market share Report to regulator requiring major project for corrective action Limited in-patient care required for employees or third parties, such as customers or vendors Some senior managers leave, high turnover of experienced staff, not perceived as employer of choice
3	Moderate	<ul style="list-style-type: none"> Financial loss of \$X million up to \$X million National short-term negative media coverage Report of breach to regulator with immediate correction to be implemented Out-patient medical treatment required for employees or third parties, such as customers or vendors Widespread staff morale problems and high turnover
2	Minor	<ul style="list-style-type: none"> Financial loss of \$X million up to \$X million Local reputational damage Reportable incident to regulator, no follow up No or minor injuries to employees or third parties, such as customers or vendors General staff morale problems and increase in turnover
1	Incidental	<ul style="list-style-type: none"> Financial loss up to \$X million Local media attention quickly remedied Not reportable to regulator No injuries to employees or third parties, such as customers or vendors Isolated staff dissatisfaction

Likelihood Scale

Rating	Annual Frequency		Probability	
	Descriptor	Definition	Descriptor	Definition
5	Frequent	Up to once in 2 years or more	Almost certain	90% or greater chance of occurrence over life of asset or project
4	Likely	Once in 2 years up to once in 25 years	Likely	65% up to 90% chance of occurrence over life of asset or project
3	Possible	Once in 25 years up to once in 50 years	Possible	35% up to 65% chance of occurrence over life of asset or project
2	Unlikely	Once in 50 years up to once in 100 years	Unlikely	10% up to 35% chance of occurrence over life of asset or project
1	Rare	Once in 100 years or less	Rare	<10% chance of occurrence over life of asset or project

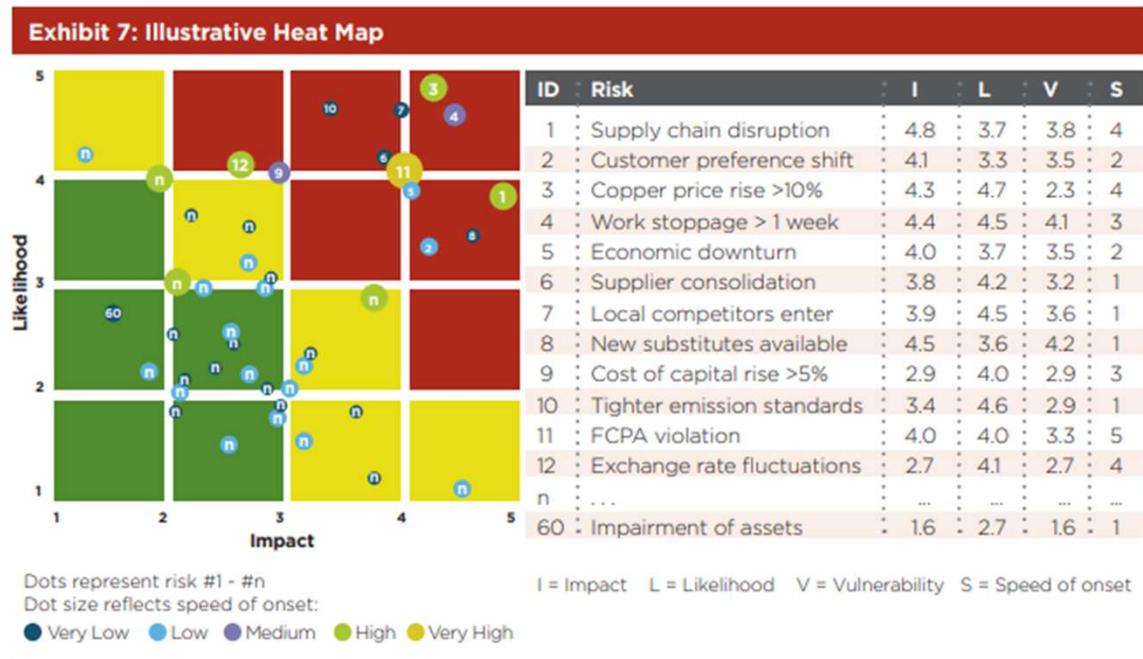
Risk Analysis Output

The purpose of the risk analysis is the list of prioritized risks, with indication of: category of belonging, type of risk, relevance, ownership, responses to existing risk, action plans for risks positioned in an area of non-acceptability

Hazard Group	Sequence	No	Location	Event	Comments Cause, Potential Impact	Added by	Date Added	Assessed by	Threat or Opport.	Probability (P)	Probability in Project Period	Eco.Loss to P.	Eco.Loss 3P	Harm to ENV	Delay	Fat.&Inj. Wrkrs	Fat.&Inj. 3P	Comp. w. Laws	Risk Score Overall	Final Score	Mitigation Owner	Mitigation measures what we have done - Comments
1	0	01.00		Contractual disputes																		
1	1	01.01	General	Lack of clear definition of the borders between Open Book and Unit Prices parts may cause mistakes in financial reports	Importance of correct cost allocation during work execution into two separate accountancy system 1) Open Book 2)Unit Priced (TRV will be more involved in Open Book Part) We need to define the procurement process in every detail. Definition has to be made clearly, otherwise there might be conflict within collaboration, also questions about collaboration efficiency. Plus Mistake may cause conflict and financial loss. More clear definitions needed for General Expenses and cost related to Overheads.	Team	15.11.2017	PM	Threat	3	Rarely	3	0	0	4	0	0	0	Undesirable	3	PM	Contract review meetings btw TRV and AGN started on April 2018. Target of the meetings is to develop the same understanding for the contract terms and conditions.
1	2	01.02	General	Transparency - OpenBook	This is different than Astaldi and Gülemaak used to work, Adaptation to transparency has to be done as earliest as possible, otherwise it will cause conflict which may lead delay of financial compensation	Team	15.11.2017	PM	Threat	2	Unlikely	3	0	0	3	0	0	0	Medium	2	PM	The transparency adaptation meetings have been carried out satisfactory during June 2018.
1	3	01.03	General	Collaboration	Collaboration with AGN and TRV is an opportunity. Collaboration is established by different parties from three different countries which may cause different understanding of Collaboration between the parties. Astaldi and Gülemaak working at several different countries together and this two team holding 80% of teh consortium which make an agreement possible in short time. There might be also internal risk between the consortium members, It may cause conflict in collaboration if not work, it is an opportunity if works very well.	Team	15.11.2017	PM	Opportunity	5	Very likely	5	0	0	5	0	0	5	Opportunity	5	PM	Collaboration management system is being implemented with a series of actions, meetings, workshops, initiatives

Risk Heat-Map

A risk heat map is a visualization tool which shows the different risks a company faces and how impactful each of them are to the company. This helps open the discussion on the risk assessment and management.



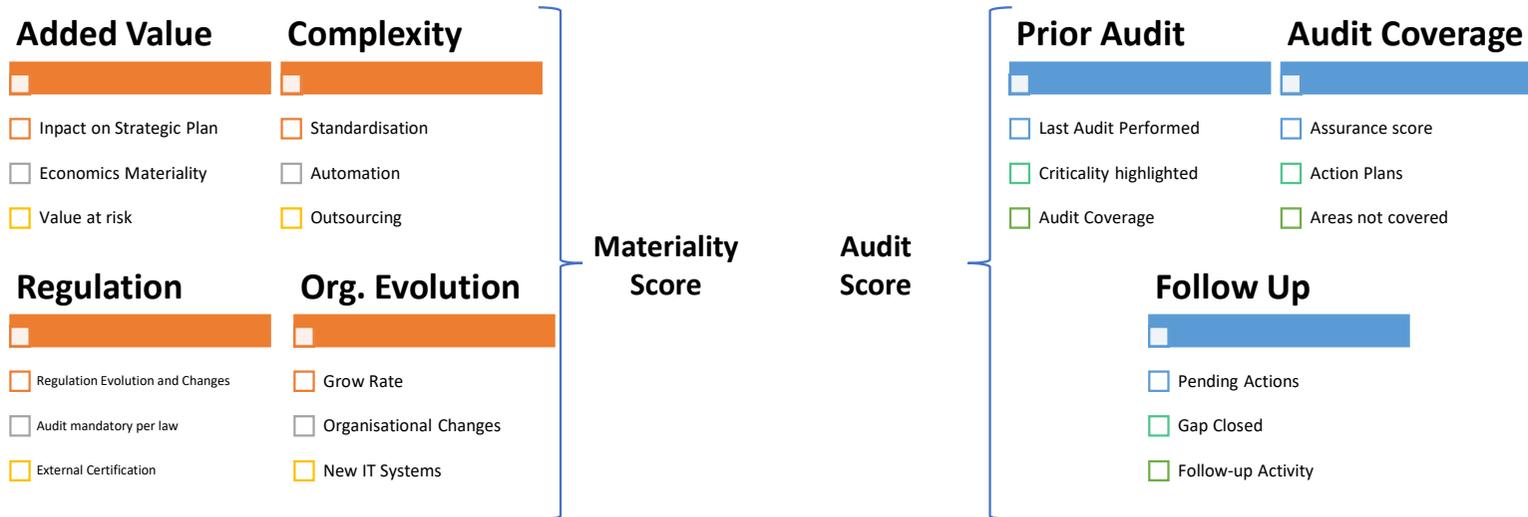
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- **Audit Plan**
- Audit Engagement: Planning, Fieldwork, Reporting
- Follow-up

From the Risk Assessment to the Audit Plan

Audit Projects Prioritisation Process Adjusted Risk Score

For each audit project (e.g. process, department, area) that we can include in the Audit Plan, an "overall weighted score" can be determined which takes into account not only the risk analysis, but also other factors as showed below:



From the Risk Assessment to the Audit Plan

Audit Projects Prioritisation Process
Adjusted Risk Score



Prioritizing objectives & risks

Defining Risk Assessment Rigor

Setting Independent assurance level

Rating & Adjusting Residual Risks

Audit Universe	Score Risk Analysis W:50%					Audit Activity Results W:30%				Process Materiality W:20%					TOTAL SCORE Weighted Score
	Inerent Risk	Control Level	Residual Risk	Total Score	Weighted Score A	Level of Criticality After Action Plan	Last Audit Performed (Year)	Total Core	Weighted Score B	Economics Value	Stretegic Objective	Compliance Impact	Total Score	Weighted Score C	
Auditable Unit 1	A	B	C	$D=(A+C)/2$	$E=D*0,50$	A	B	$C=(A+B)$	$D=C*0,30$	A	B	C	$D=(A+B+C)/3$	$E=D*0,20$	Weighted Score A+B+C
Auditable Unit 2															
Auditable Unit 3															
Auditable Unit 4															
Auditable Unit 5															
Auditable Unit 6															
Auditable Unit 7															
Auditable Unit N															

From the Risk Assessment to the Audit Plan

Audit Projects Prioritisation Process
Adjusted Risk Score

Performing the risk assessment, Internal Audit score each single auditable unit evaluating different drivers (e.g. risk analysis, audit activity and materiality).

The result is a total score for each Auditable Unit.

Audit Universe	Score Risk Analysis W:50%					Audit Activity Results W:30%				Process Materiality W:20%					TOTAL SCORE Weighted Score
	Inerent Risk	Control Level	Residual Risk	Total Score	Weighted Score A	Level of Criticality After Action Plan	Last Audit Performed (Year)	Total Core	Weighted Score B	Economics Value	Stretegic Objective	Compliance Impact	Total Score	Weighted Score C	
	A	B	C	$D=(A+C)/2$	$E=D*0,50$	A	B	$C=(A+B)$	$D=C*0,30$	A	B	C	$D=(A+B+C)/3$	$E=D*0,20$	
Auditable Unit 1	75	0	75	75,00	37,50	25	0	25	7,50	50	50	50	50,00	10,00	55,00
Auditable Unit 2	25	0	25	25,00	12,50	25	0	25	7,50	25	25	50	33,33	6,67	26,67
Auditable Unit 3	100	50	50	75,00	37,50	25	75	100	30,00	100	75	0	58,33	11,67	79,17
Auditable Unit 4	50	25	25	37,50	18,75	50	75	125	37,50	75	50	75	66,67	13,33	69,58
Auditable Unit 5	50	0	50	50,00	25,00	75	25	100	30,00	25	25	75	41,67	8,33	63,33
Auditable Unit 6	100	75	25	62,50	31,25	100	50	150	45,00	25	75	50	50,00	10,00	86,25
Auditable Unit 7	25	0	25	25,00	12,50	25	0	25	7,50	50	75	25	50,00	10,00	30,00
Auditable Unit N	75	50	25	50,00	25,00	25	50	75	22,50	100	100	25	75,00	15,00	62,50

From the Risk Assessment to the Audit Plan

Audit Projects Prioritisation Process
Adjusted Risk Score

Next step is to order the different auditable unit from the most relevant to the lowest using the total score totalized, having in this way a prioritization of the possible auditable unit to be included in the audit plan.



Audit Universe	Score Risk Analysis W:50%					Audit Activity Results W:30%				Process Materiality W:20%					TOTAL SCORE Weighted Score
	Inerent Risk	Control Level	Residual Risk	Total Score	Weighted Score A	Level of Criticality After Action Plan	Last Audit Performed (Year)	Total Core	Weighted Score B	Economics Value	Stretegic Objective	Compliance Impact	Total Score	Weighted Score C	
	A	B	C	$D=(A+C)/2$	$E=D*0,50$	A	B	$C=(A+B)$	$D=C*0,30$	A	B	C	$D=(A+B+C)/3$	$E=D*0,20$	
Auditable Unit 1	75	0	75	75,00	37,50	25	0	25	7,50	50	50	50	50,00	10,00	55,00
Auditable Unit 2	25	0	25	25,00	12,50	25	0	25	7,50	25	25	50	33,33	6,67	26,67
Auditable Unit 3	100	50	50	75,00	37,50	25	75	100	30,00	100	75	0	58,33	11,67	79,17
Auditable Unit 4	50	25	25	37,50	18,75	50	75	125	37,50	75	50	75	66,67	13,33	69,58
Auditable Unit 5	50	0	50	50,00	25,00	75	25	100	30,00	25	25	75	41,67	8,33	63,33
Auditable Unit 6	100	75	25	62,50	31,25	100	50	150	45,00	25	75	50	50,00	10,00	86,25
Auditable Unit 7	25	0	25	25,00	12,50	25	0	25	7,50	50	75	25	50,00	10,00	30,00
Auditable Unit N	75	50	25	50,00	25,00	25	50	75	22,50	100	100	25	75,00	15,00	62,50

From the Risk Assessment to the Audit Plan

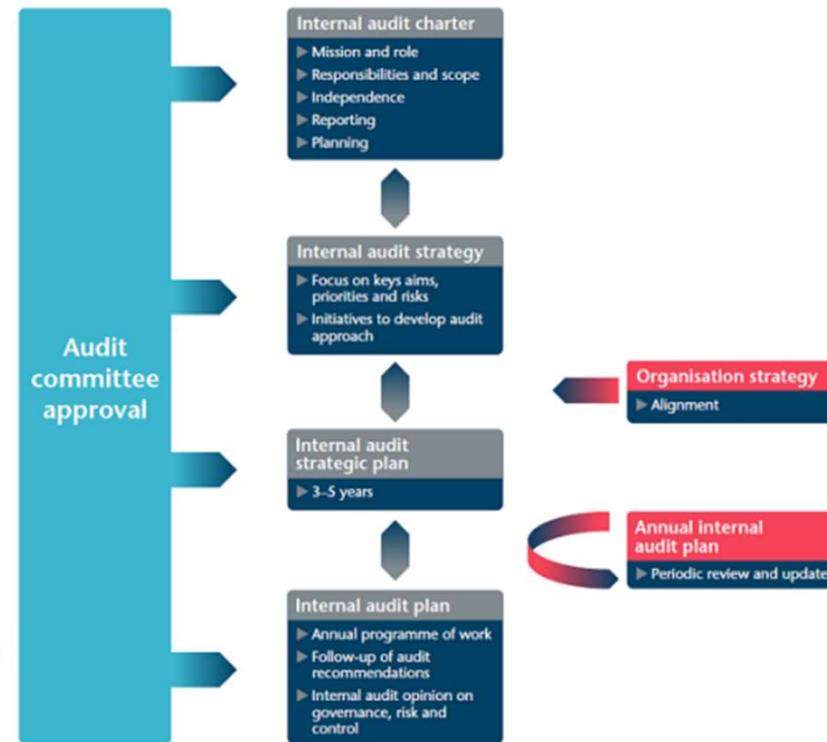
Audit Planning in line with available resources

Considering the resources available in the Audit Department (in terms of total amount of man/days for the audit period), it is possible to identify the audit that can be included in the audit plan and the audits that due to lack of internal resources could be externalized if high priority for the business or to be considered for the following years.

Audit Universe	TOTAL SCORE Weighted Score	AUDIT PROCESS TIMING (DAYS)	MANAGER SUPERVISION (DAYS)	CAE REVIEW (DAYS)	TOTAL (DAYS)	TOTAL DAYS NEEDED	TOTAL DAYS AVAILABLE 300
Auditable Unit 6	86,25	40	12	7	59	59	INCLUDED IN THE AUDIT PLAN
Auditable Unit 3	79,17	40	12	7	59	118	INCLUDED IN THE AUDIT PLAN
Auditable Unit 4	69,58	40	12	7	59	177	INCLUDED IN THE AUDIT PLAN
Auditable Unit 5	63,33	40	12	7	59	236	INCLUDED IN THE AUDIT PLAN
Auditable Unit N	62,50	40	12	7	59	295	INCLUDED IN THE AUDIT PLAN
Auditable Unit 1	55,00	25	10	5	40	335	TO BE EVALUATE
Auditable Unit 7	30,00	25	10	5	40	375	TO BE EVALUATE
Auditable Unit 2	26,67	25	10	5	40	415	TO BE EVALUATE

Internal Audit Annual Plan

The diagram below illustrates the relationships between the components. It also means all four of these components should be reviewed regularly, updated if necessary and then approved by the audit committee to specifically retain alignment and value.



Internal Audit Annual Plan

Draft Audit Plan

Several areas worth further attention include:

Name of the audit

Resource for the audit

Timing of the audit

Value-add of the audit

Contingency

Follow-up

Holidays, training and sickness

Planning, reporting and liaison

Challenge & Review

Involvement in the challenge and review should be sought from the following audience, thereby adding further value:

- Internally within the internal audit activity
- Business stakeholders
- Senior executives and audit committee members.

Communication

The approved audit plan should be communicated promptly to:

- Senior management
- Business areas
- 3. Stakeholders
- 4. Internal audit staff and managers

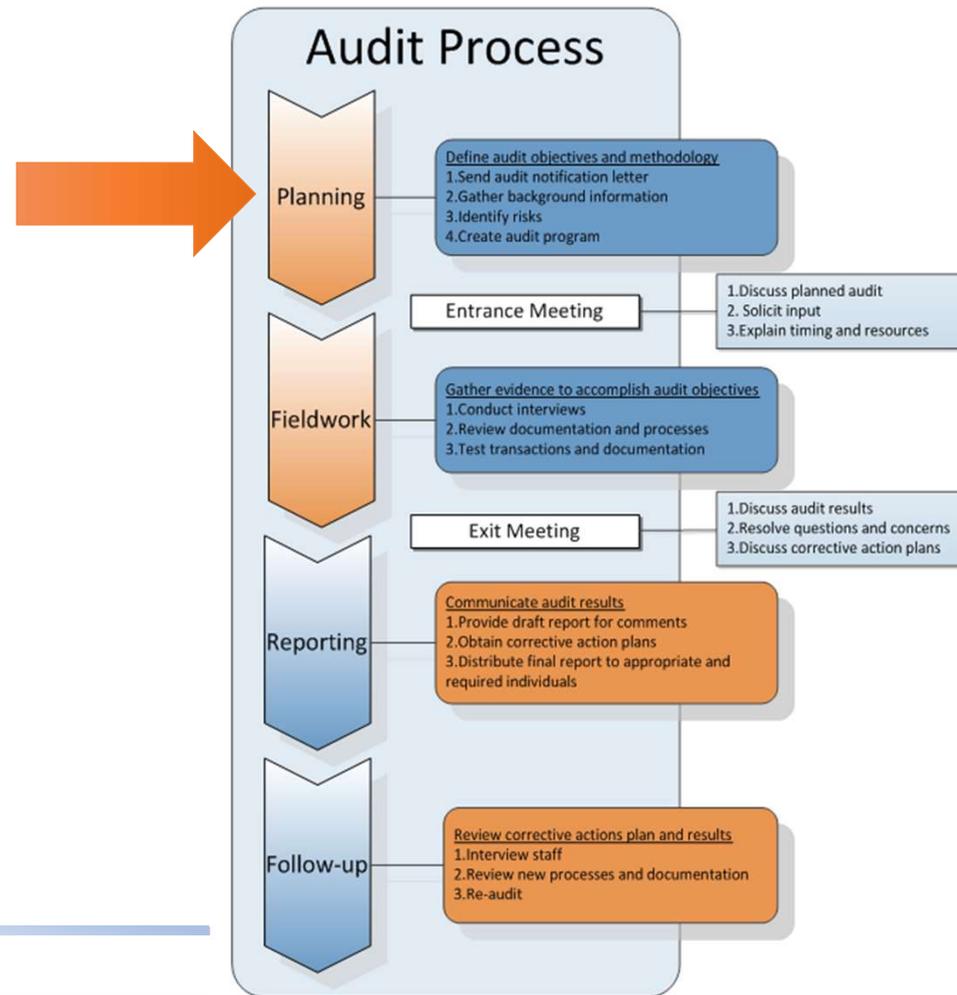
Delivery

- Liaise with operational units/departments on forthcoming audits
- Allocate the work to staff
- Supervise the work, including quality assurance
- A communication plan for disseminating results at the draft and final reporting stages should be in place
- the final report or a summary being provided to members of the audit committee

Performance Monitoring

To ensure that the internal audit annual plan produces the desired results, it is important to put in place a series of performance goals. These should be both qualitative and quantitative to enable management and the audit committee to monitor the function's performance

Internal Audit Process – Main Steps

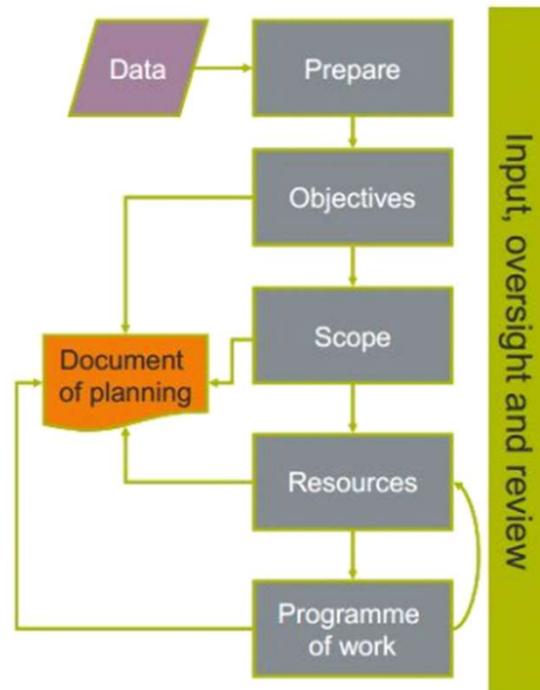


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- **Audit Engagement: Planning, Fieldwork, Reporting**
- Follow-up

Audit Engagement

The internal auditor needs to prepare and then develop and document the engagement's objectives, scope, timing, resource allocations and work programme.

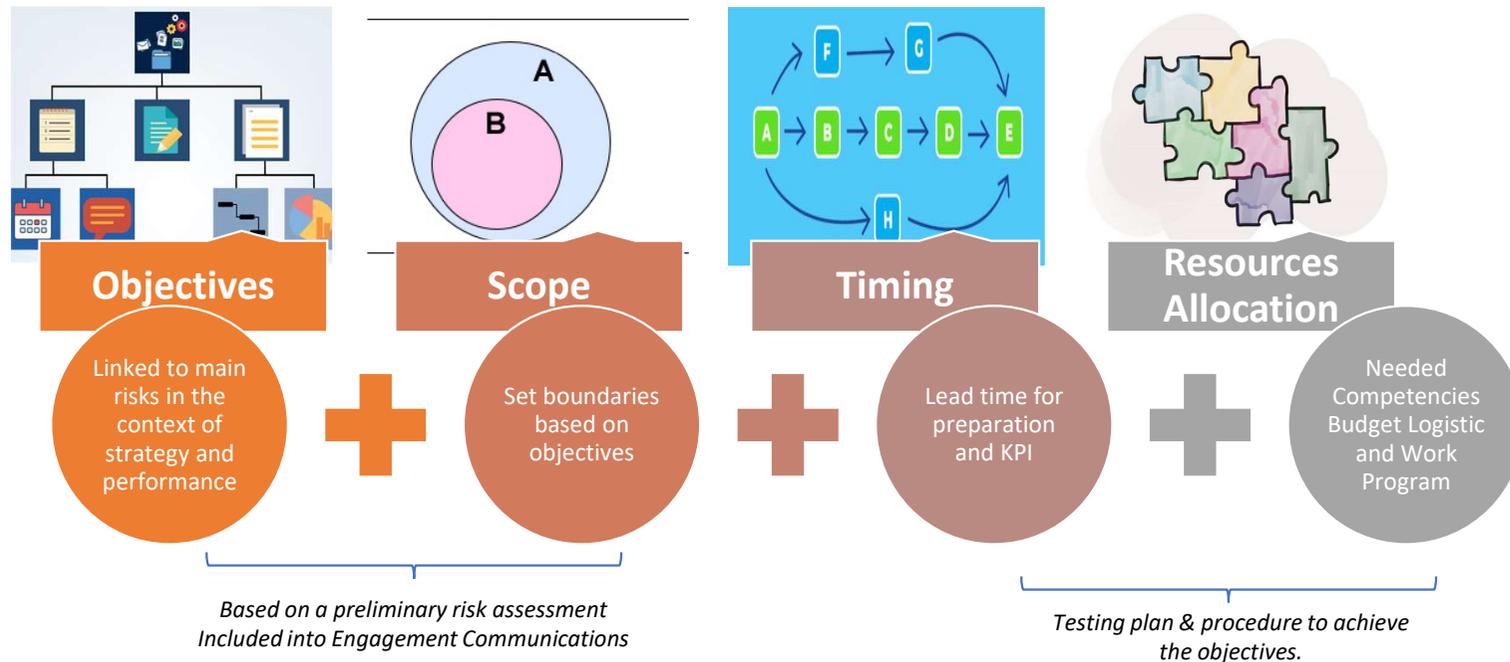


Engagement Planning

Performance Standards 2200 – Engagement Planning

Internal Auditors must develop and document a plan for each engagement, including the **engagement's objectives, scope, timing and resources allocation**. The plan must consider the **organization's strategies, objectives, and risks relevant to the engagement**

Identifying key controls to be tested based on organization's strategies, objectives, and risks, including standard evaluation criteria



Engagement Planning

Preliminary Survey: Which information is needed?

Identifying Objectives, Strategies, Processes, Relevant IT and other systems, Sources and reliability of data

Reasons:

1. To become familiar with the processes, risks and controls of the activity subject to the assessment and identify engagement objectives (including how to measure them – KPI)

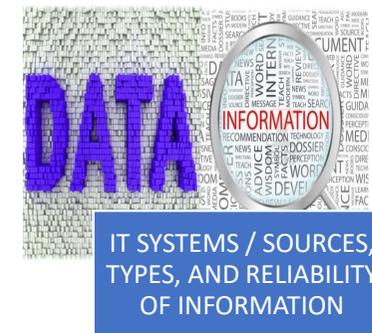


2. Gather information, suggestions and comments from the auditee (ie business plan)



POTENTIAL RISK SCENARIO

Means:



Engagement Execution

Analytical procedures



ANALYSIS OF DATA DEVIATION

Between expected or standard and actual results

TREND ANALYSIS

Historical and forecast data analysis

RATIO ANALYSIS

Relationship between mathematical, often expressed as a percentage (%), time frame, etc.



1. Comparing actual data with forecast data and/or prior period's data as well as budgets or forecasts
2. Financial and non-financial ratio analysis
3. Single data study and relationship with other comparable data
4. Comparison of data with data expected based on comparable data or expected data of other business units or analogous industry

Engagement Execution

Performance Standards 2210 – Engagement Objectives

Objectives must be established for each engagement

(derived from key risks that have been identified related to the area or process under review)



Articulate what the engagement is specifically attempting to accomplish

Engagement Scope and Resources

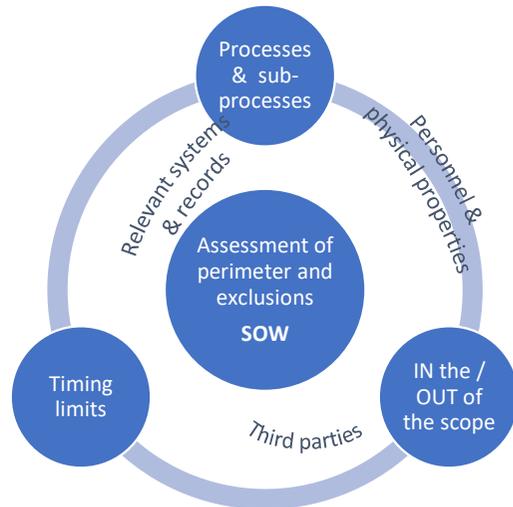
Engagement Scope and Resources allocation: Project Management

St 2220 The established scope must be **sufficient** to achieve the objective of the engagement

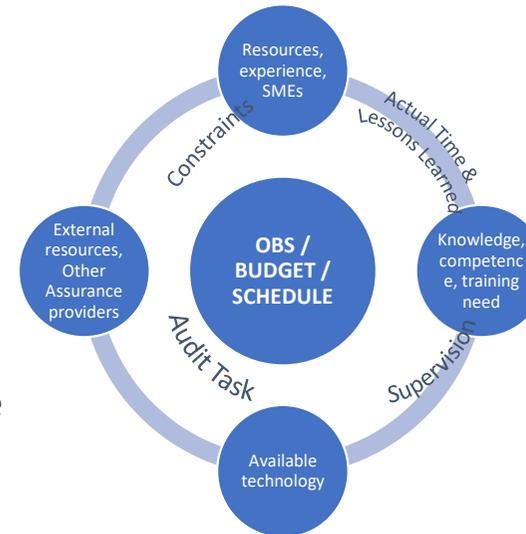
St 2230 Internal auditors must determine **appropriate and sufficient resources** to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources (**responsibilities in IAs, not on CAE**)

During the engagement planning it is necessary to define:

- ✓ Resources necessary and their effective/efficient use
- ✓ Documents to be stored, their format and content
- ✓ Content and milestones of the work program



Due Professional Care
KPI

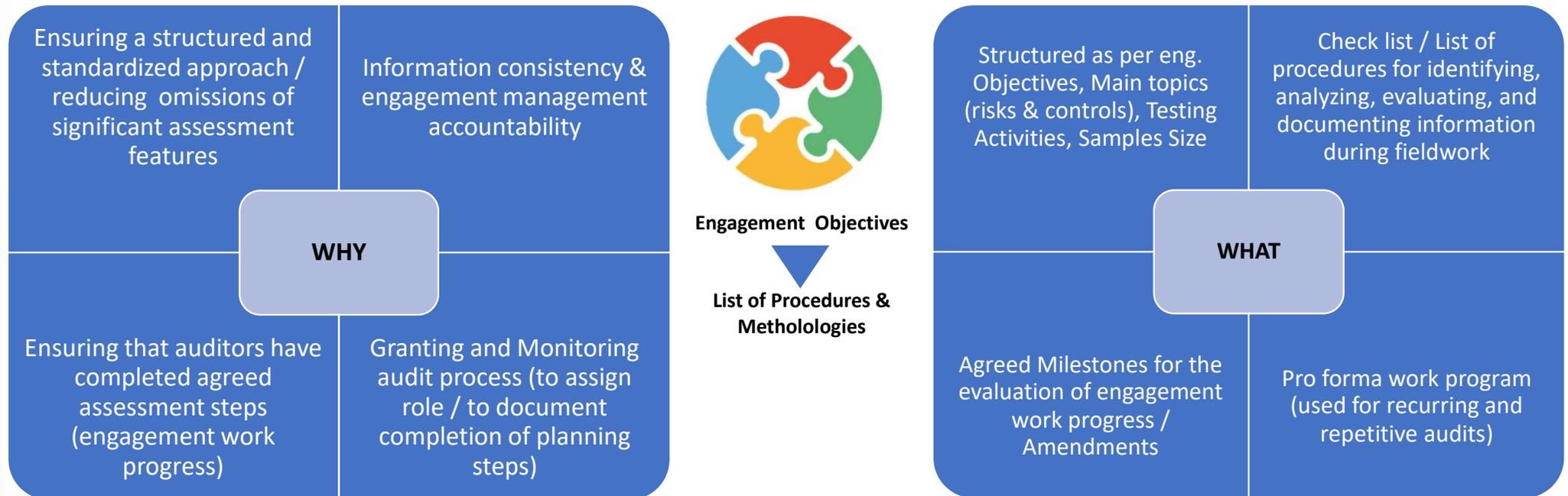


To link engagement scope and available resources to the objectives into the planning memo / work program (relevant)

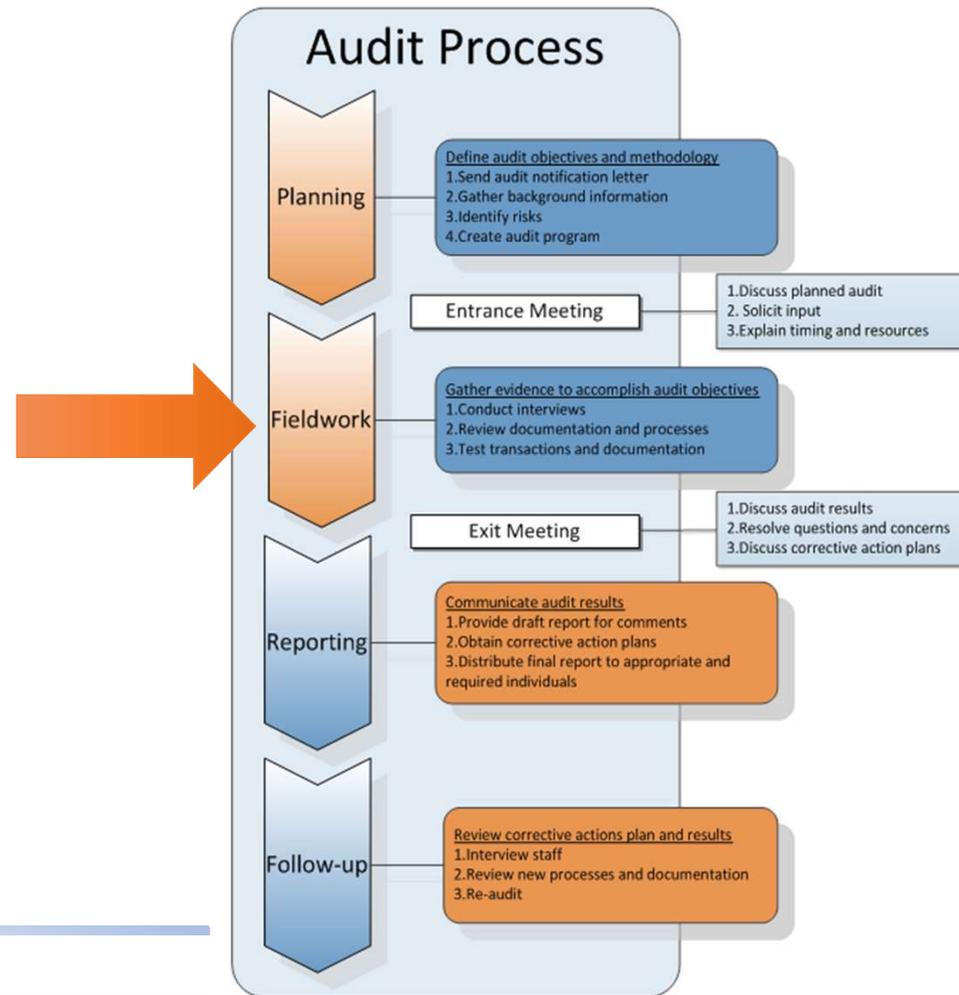
Work Programme Definition

Performance Standards 2240 – Engagement Work Programme (WP)

Internal auditors must **develop and document work programs** that achieve the engagement objectives.



Internal Audit Process – Main Steps



Management Interviews

The interview as a data collection method has the following strengths and weaknesses:

	STRENGTHS	WEAKNESSES
Interviews in general	<ul style="list-style-type: none">Gather data on various complex issues in an efficient way- Take into account situational and individual factors- Provides information that is not available from other sources	<ul style="list-style-type: none">- Constitute the lowest form of evidence, which needs to be supplemented by evidence from other sources.- Can be difficult to draw general conclusions
<i>Unstructured interview</i>	<ul style="list-style-type: none">- Useful for theory building- Offers rich data- Well suited to complex subjects	<ul style="list-style-type: none">- Can be time intensive- Additional effort involved in data analysis- Difficult to quantify data
<i>Structured interview</i>	<ul style="list-style-type: none">- Useful for hypothesis testing- Generates breadth of data- More easily quantified	<ul style="list-style-type: none">- Limited options can bias responses- Need very good advance knowledge- Difficult to reach deep understanding

For interviews to be successful, it requires some initial work and sufficient consideration of the different stages, which entail initial preparations, formulating questions, developing an interview guide, organising the interview, managing the interview situation, and documenting and analysing the information obtained from the interviews.

Testing Activities

What should be tested and how? Which are the priorities in testing? Audit Objective

Due to time and resource constraints, not all risks can be reviewed. Therefore, auditors must perform a detailed evaluation of key risks which may impact the objectives and must be considered in audit program and related controls to be tested

First understand how **audited** management looks at risks

- ✓ Management risk assessment and level of management reliability
- ✓ Risk management processes and reporting
- ✓ Management response to level of risk exceeding risk appetite limits

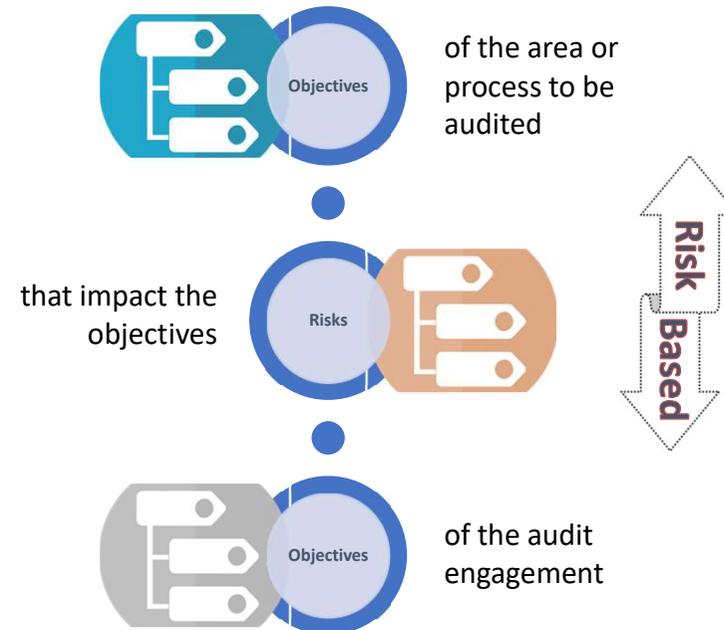
Figure 1: Risk and Control Matrix for Accounts Payable

Business Objective	Inherent Risk	Impact (L,M,H)	Likelihood (L,M,H)	Control
A Personnel expenses are appropriate and authorized.	A.1 Corporate cards are issued inappropriately, resulting in fraudulent expenses.	M	M	Duties are segregated.
	A.2 Personnel are not provided guidance on corporate card usage and expense policies, resulting in inappropriate expenses.	L	M	Expense policy is communicated to personnel authorized to incur organizational expenses.
	A.3 Expense reports are not submitted/reviewed timely, resulting in inappropriate expenses.	H	H	No control is in place.

LIKELIHOOD	HIGH	C.2	A.3
	MEDIUM	A.2	A.1
	LOW	C.1	B.2
		B.3	B.1
		LOW	MEDIUM
			HIGH
		IMPACT	

Then complete the risk evaluation with

- ✓ Risk assessment performed during internal audit annual planning
- ✓ Adjusted risk ratings (**Inherent Risk**) and Emerging risks
- ✓ Results of previous audit reports
- ✓ Evaluation of controls' design considering appetite / tolerances (**Residual Risk**)
- ✓ Risk prioritization (**Engagement Objectives**)

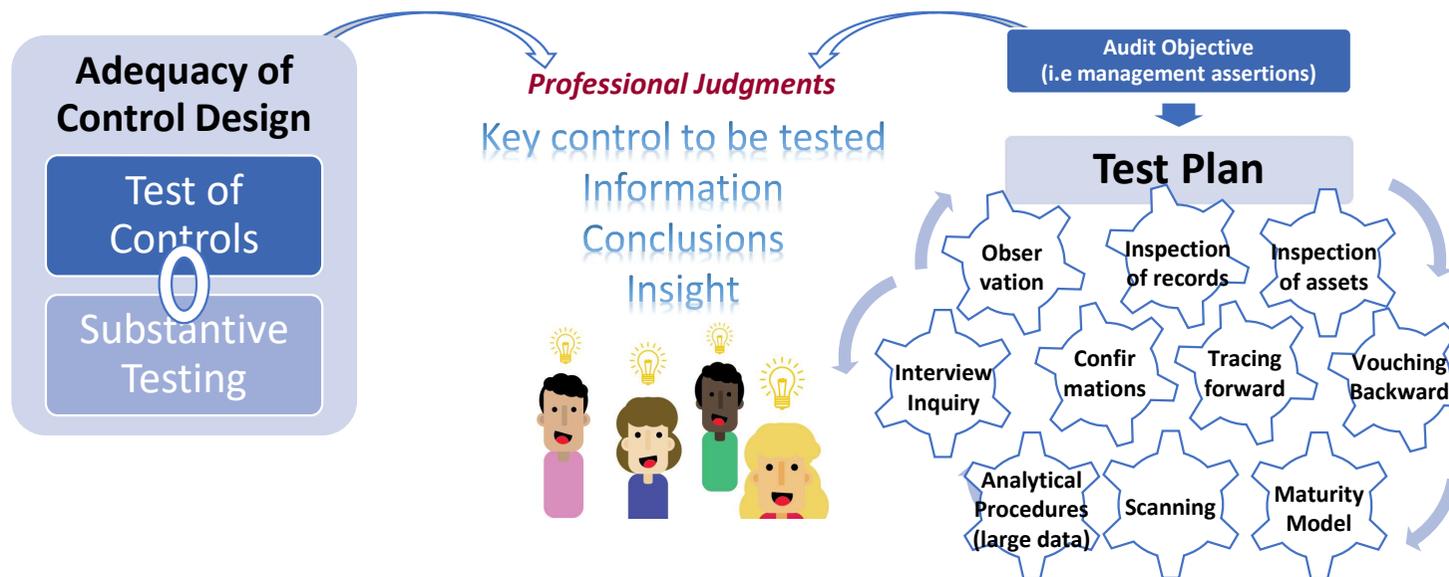


Testing Activities

Select the right Audit Strategy and Testing Plan

Audit Procedures (Audit Strategy and Testing Plan) are intended to identify, analyze, evaluate and document sufficient information to achieve the engagement's objectives. The procedures should

- consider inherent risks and the adequacy of control design to identify key controls to be tested for effectiveness → **AUDIT STRATEGY**
- be based on the results of planning process in order to be consistent with risk based audit objectives → **SELECTION OF TESTING PLAN**



Testing Activities

Which tests or audit steps are necessary to assess the risks?

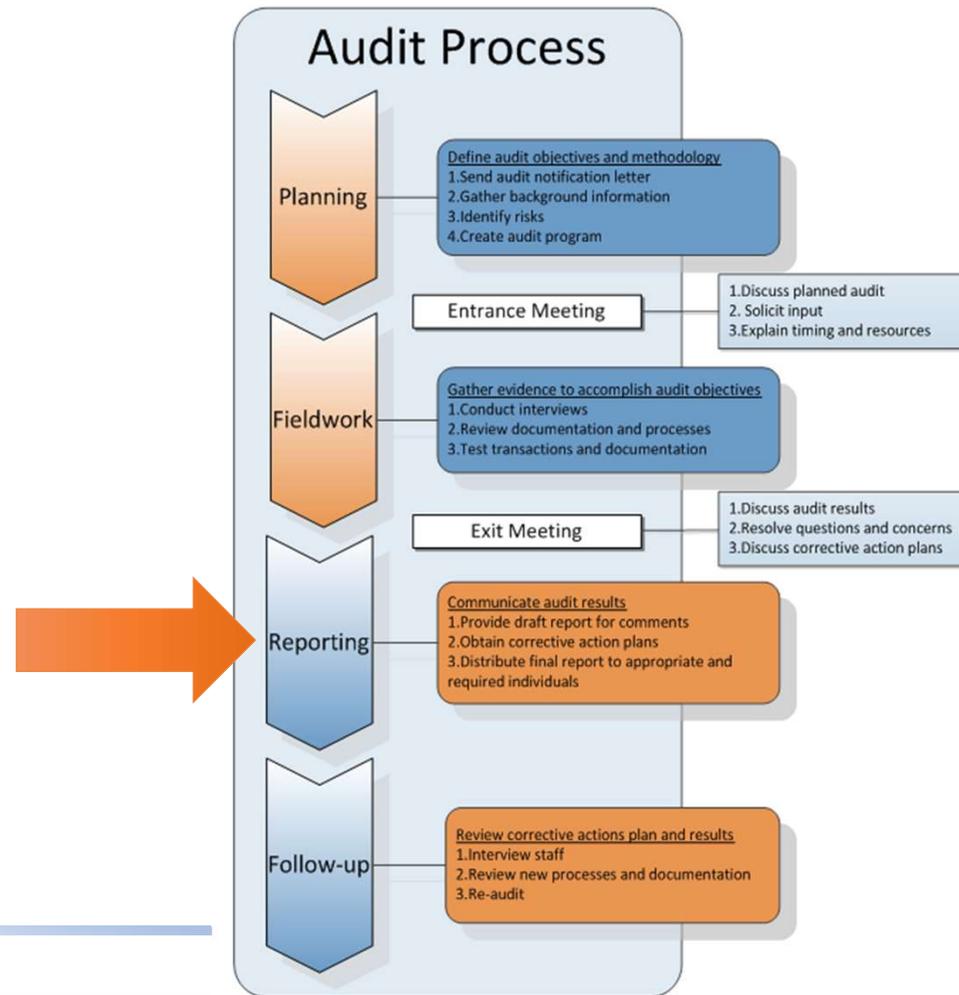
Each engagement procedures in the work program should be designed to test a particular control that addresses risk, to make engagement team understand what they need to do and which tasks remain to be performed. Work program include **management assertions**; testing objectives, criteria, approach, procedures, and population; and sampling methodology and sample sizes.

Ability to select the right engagement procedure for given objectives, assertions and situations.

Below an example of how to ease the identification of testing activities to be performed during the engagement in accordance with a specific audit objective

Testing Type	Description	Example	Testing Activity Objective	Evidences Collected
Observation	Direct observation of a particular asset or of the way an activity is carried out, possible to acquire photographic documentation	Direct Visit to the warehouse Walkthrough of the transactions	Existence (may be also Occurrence) Assets actually exist	Physical Information (most persuasive) Direct observation (2 is better)
Inquiry	Interviews Questionnaires Survey	Preliminary examination when the assignment is planned	Understand the business: collect data and infos on auditee's risk management and control environment	Testimonial information (may need corroboration, if internal or originating from the client)
Inspection / Examination (inspection of records / Inspection of tangible assets)	Detailed Testing Activity (e.g. Observation, Confirmation, Tracing & Vouching)	Inspection of financial statements: transaction and events were recorded in the proper account and presented / described clearly	Existence, Completeness, Right, Valuation, Presentation, Disclosure	Physical Information Documentary information (better in original document)

Internal Audit Process – Main Steps



Reporting Activity

The final result of every audit is a written report that details the audit scope and objectives, results, recommendations for improvement, and the audit client's responses and corrective action plans.

Draft Report – Audit reports are typically prepared in draft form and distribution is initially limited to the immediate manager of the area so it can be reviewed prior to further distribution of the audit report.

If recommendations are made, written responses detailing the following are requested of the audit client:

A corrective action plan to resolve the problem and its root cause,

The person responsible for implementing the corrective action, and

An expected implementation date.

These responses will be included when the final audit report is distributed to the appropriate level within the organization (Auditees, Directors, C-Level, Senior Management).

Priority level issues and recommendations are reported to and tracked by the assurance team until implemented.

Reporting Activity

Exit Meeting – If necessary, an exit meeting will be held to provide an opportunity to resolve any questions or concerns the audit client may have about the audit results and to resolve any other issues before the final audit report is released. Those attending usually include the audit team, management of the audited entity such as the: operating personnel involved during audit engagement, team leaders, Head of/Directors, as well as others that the audit client wishes to invite.

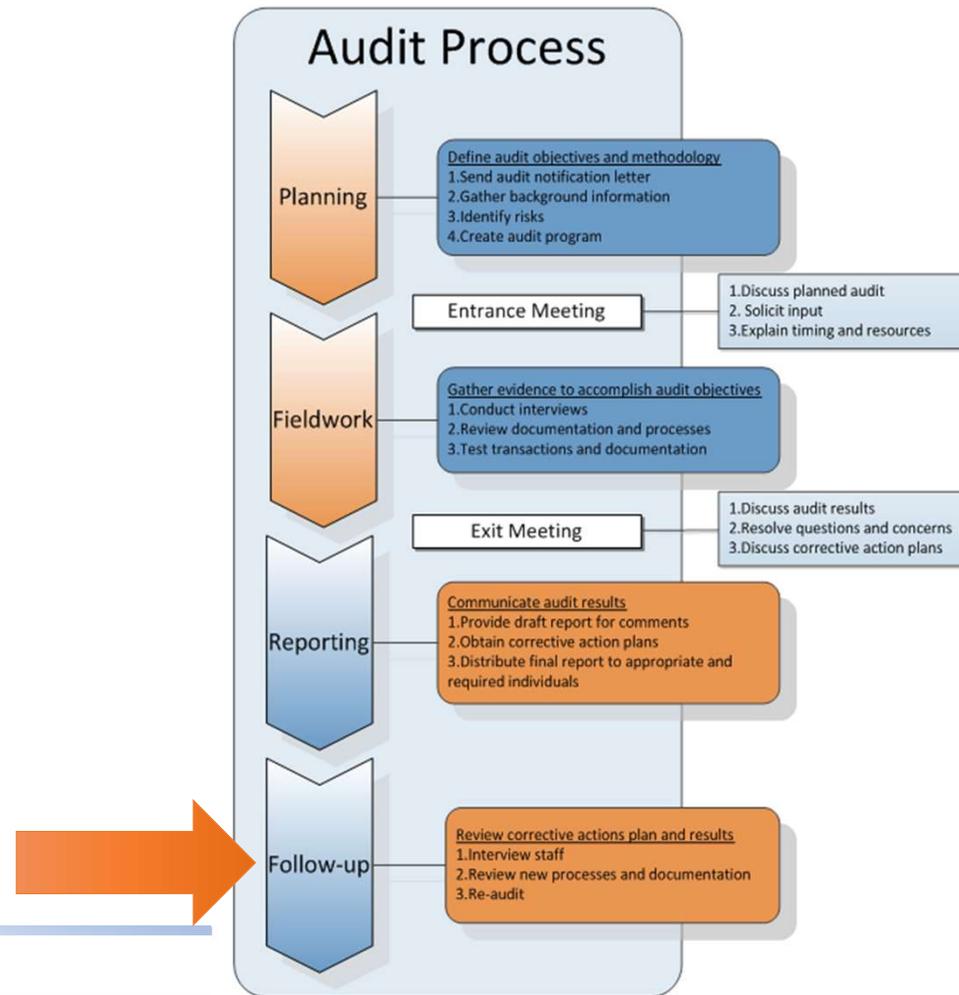
After the exit meeting and once the audit client has provided responses and comments, the draft report is distributed to the different levels of executive management responsible for the department or function for review and comment before the final report is issued.

Final Audit Report – The final audit report is addressed to the Senior Management, Board of Directors and any other relevant internal or independent Committees (e.g. Audit Committee)

Agenda

- Risk Assessment
- Audit Plan
- Audit Engagement: Planning, Fieldwork, Reporting
- **Follow-up**

Internal Audit Process – Main Steps



Follow up Activity

Standard 2500

“The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.”

Follow-up is a process by which internal auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations, including those made by external auditors and others.

This process also includes determining whether senior management and/or the board have assumed the risk of not taking corrective action on reported observations.



Thank You