

# Risk Based Auditing

## Certificate in Internal Audit 5

### Who should attend?

- Heads of Audit, Audit managers and senior auditors
- Auditors responsible for developing or implementing a risk based approach
- Other assurance professionals such as those in Compliance and QA functions who are wanting to develop their Risk based approach
- Managers and Directors of business functions – to aid their knowledge of a risk based audit approach.
- This course will be highly beneficial for delegates that have previously attended the Certificate in Internal Audit 2 – Internal Audit Practitioner or Certificate in IA 3 – Advanced Audit skills

### What you will learn

- The concepts and practical application of RBA
- Understand how to identify, mitigate and control risks effectively
- Challenge management and sell the benefits of proactive risk management
- Audit major areas of risk for your business with confidence
- Add value to your organisation by the application of risk-based audit services
- Gain confidence in your audit plans through understanding the role of risk
- Plan risk based assignments efficiently and effectively
- Understand the role of IA in fraud prevention and detection
- Measure success effectively

### Why you should attend

The Institute of Internal Auditors in a recent professional guidance statement stated the following :-

**'Internal Audit are being asked to provide much greater assurance to Senior Management than ever before. The Institute believes that the only way to provide such objective assurance is by means of risk based auditing'.**

**Audit functions that are able to focus their efforts towards the significant risk in their organisations are able to concentrate their limited resources on the issues which drive business goals and aspirations. In consequence audit plans are directed at the issues, which really matter. This course provides all the latest developments. The course features interactive voting and includes many new topics.**

**Furthermore, a participative approach whereby auditors and managers work together to identify, assess and control business risks significantly enhances the level of assurance and reduces the chances of nasty surprises – a huge benefit in these more difficult times**

## What is Risk Based Audit?

- Definitions
- Worldwide trends
- Trends (from the BRM Internal audit best practice database)
- The transition from systems based to risk based assurance
- The different approaches to audit
- Audit's primary roles, objectives and concerns
- What is best practice?
- *Perceptions of internal audit – 2008 survey results*
- The role of the function – policeman, risk assessor or consultant
- How to ensure you adopt best practice
- **Interactive voting – the challenges of RBA (20 questions)**
- The key challenges resulting

### Exercise 1 Challenges for Internal Audit

- The need to widen the coverage - to become less financially based
- RBA in the different sectors
- The need to introduce a broad business based approach and the actions required
- The steps needed to embrace a risk based approach

## The Nature of Risk

- The concept of risk
- The relationship between risk and objectives
- Why senior management may lack a full understanding of the risks
- Risk culture
- **Interactive voting – the role of IA in risk management (25 questions)**
- Surprises and risk
- Measurement of risk: probability and impact (or likelihood and consequences)
- Categories of risk
- Inherent and residual risk

### Exercise 2: Analysing a disaster

## Business Risk

- The wider business agenda – understanding strategic risks
- How risk management has grown from being a useful tool to being the very pulse of the organisation
- Corporate governance and the challenges posed

- Building an appreciation of your organisation's risk appetite
- The new International Risk standard ISO 31000
- The AUS/NZ Risk Management Standard
- The COSO standard
- Steps to take in establishing a business risk management programme
- Leading the programme – skills required
- Outline of a best practice process

## **Risk Identification and Evaluation**

- Approaches and techniques
- Explanation of a risk workshop approach
- The need for facilitation skills and the characteristics required
- How to identify, sift and group the risks
- The use of diagnostic questions and thought- provokers
- Measuring the consequences and the likelihood of occurrence of each key risk
- Risk scoring
- The use of risk matrices to prioritise the risks

### **Exercise 3: Interactive Risk Workshop**

## **Assessment of Risk Mitigation**

- The need for separate mitigation workshops
- How to assess risk mitigation
- Identification and evaluation of risk exposures
- Dealing with the exposures (The 4 Ts – terminate, tolerate, treat or transfer)
- Exploiting opportunities
- Establishment of action plans

### **Exercise 4: Risk Exposures**

<b>Day 2</b>	<b>The RBA Role</b>
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## **The Role of Internal Audit in Risk Facilitation**

- IIA Advice
- The benefits of close involvement
- The drawbacks

## **Risk and Internal Audit**

- The changing scope of modern internal audit
- Identifying, appraising and evaluation risk during the audit process
- Translating key risks from the business risk process into the basis of the audit programme

- Options for involvement
- Monitoring of action plans and audit committee reporting
- Evaluation and reporting of actual versus perceived controls
- Determining which key risks are not readily auditable
- Coordinating efforts with other assurance providers

### **Exercise 5: Risk and reward – team exercise**

#### **Embedding the Process**

- Ensuring compliance with governance requirements and adopting best practice
- Quarterly board reporting to review progress in addressing the exposures
- Risk Management Committee reporting
- Bi-annual evaluation of key risks to ensure new risks identified and included
- Integrating the programme into the overall risk agenda – e.g. strategic planning, health, safety and environmental management, regulatory requirements, insurance procedures, etc.

### **Exercise 6: Interactive Risk Workshop – Mitigation**

#### **The Internal Audit RBA role**

- Audit's primary roles, objectives and concerns
- What is best practice?
- The audit charter and terms of reference
- The role of the function – policeman, risk assessor or consultant
- The reputation of the function and how to assess it
- The need to add measureable value

### **Exercise 7: Success Measures**

#### **Strategic Audit Planning**

- Strategic audit planning
- How to decide which areas to audit
- The audit universe
- Determining the level of assurance
- Demonstration of a best practice audit risk planning model (**an electronic version will be provided**)

### **Exercise 8: Developing a strategic audit Plan using the model**

## Tactical Audit Planning

- Audit programme development
- Sources of audit work
- Assignment planning and control
- Managing audit requests
- Fieldwork techniques
- Technology – CAATS, audit automation, etc.
- Audit coverage – geographic and business units
- How to cover specialist areas
- The need for future orientation

### Exercise 9: The challenges of risk based audit assignment planning

## The Converging Roles of the Assurance Providers under the Risk Umbrella

- The increasing emphasis on governance, assurance and control
- How should the various assurance providers rise to the risk challenge?
- Synchronising regulatory compliance with internal audit and the risk management functions
- The need to coordinate quality assurance, security, insurance and the health and safety functions in relation to risk management
- Linking external auditors into the process
- The need to coordinate risk reporting

### Exercise 10: Coordinating your efforts with other assurance providers

## Planning a Risk based audit

### CASE STUDY

#### A worked example of a risk based audit of HR

- Brainstorming the functional objectives
- Building a picture of the risks
- Consider threats and opportunities
- Building the details of the controls
- Planning the assignment
- Determining the types of test and techniques to use
- Determining the threats to success

**Exercise 11. Specific audits will be chosen for the purpose by the delegates and the functional objectives and risks brainstormed in groups**

## **The RBA approach**

- The need to assess the risk maturity of the function
- Commitment to risk management
- Reviewing risk registers
- The questions to ask
- Assessing risk appetite
- Reviewing the effectiveness of the risk management process adopted
- Determining which risks should be concentrated on in the audit
- Reviewing risk ownership and identifying gaps
- Determining the inherent and residual risks
- Identifying residual risks above the risk appetite
- Assessing the 4 T's
- Consultancy assignments

**Exercise 12. Discussion – the challenges of the RBA approach**

<b>Day 4</b>	<b>Risk Based Auditing in Practice</b>
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## **RBA in practice**

- Determining the scope of a RBA assignment
  - Whether objectives are being delivered efficiently and effectively
  - Whether risks have been identified, evaluated and are being managed
  - Whether controls mitigate the risks effectively
  - Where risk exposures exist action is being taken to improve controls
  - Whether appropriate management oversight is in place

**Exercise 13: Scoping a RBA assignment**

## **Relationships with the Board and Audit Committees**

- Board requirements of internal audit
- Developing regular contact with the chief executive
- Role of the Audit Committee
- The Audit Committee relationship – how to develop this
- Evaluating the audit committee requirements
- How to anticipate requests
- How to develop effective audit committee reports
- Developing an annual report for the Board or Audit Committee

## Exercise 14: The Audit Committee or Board Report

### Quality Assuring or Benchmarking the IA function (and the RBA approach)

- The IIA requirements
- Introduction to the unique benchmarking template
- Explanation of the 11 sections
  - Corporate Governance and the Internal Audit role
  - Professional standards
  - Audit charter
  - The Audit Committee relationship
  - Skills, training and resources
  - Strategic audit planning
  - The Audit manual
  - Completing the audit
  - Audit reports
  - Measuring performance
  - Marketing the function
- Explanation of the scoring system – 200 areas with a maximum overall score of 500

## Exercise 15: The challenges of benchmarking

### Fraud and the Internal Audit Role

- How to build a picture of the major fraud risks and exposures in your organisation
- The key elements of a best practice framework
- How to develop specific strategies and measures against fraud
- The use of data mining as a fraud prevention tool
- Evaluating the effectiveness of controls – proactive programmes for internal audit
- How to ensure an effective balance between prevention and detection
- The ECIIA paper

**An Auditors Fraud Toolkit will be provided**

## Exercise 16: The Audit role -fraud prevention and detection