

LATEST DEVELOPMENT FROM IIA GLOBAL

PRACTICE GUIDE: DEVELOPING A RISK-BASED INTERNAL AUDIT PLAN

In today's unprecedented environment, effective internal auditing requires thorough planning coupled with nimble responsiveness to quickly changing risks. To add value and improve an organisation's effectiveness, internal audit priorities should align with the organisation's objectives and should address the risks with the greatest potential to affect the organisation's ability to achieve its goals.

Ensuring alignment between internal audit priorities and the organisation's objectives is the essence of Standards 2010 – Planning, 2010.A1, 2010.A2, and 2010.C1, which task the chief audit executive (CAE) with the responsibility of developing a plan of internal audit engagements based on a risk assessment.

This practice guide will help the CAE and internal auditors create and maintain a risk-based internal audit plan. The guide describes a systematic approach to:

- 1) Understand the organisation.
- 2) Identify, assess, and prioritise risks.
- 3) Coordinate with other providers.
- 4) Estimate resources.
- 5) Propose the plan and solicit feedback.
- 6) Finalise and communicate the plan.
- 6) Assess risks continuously.
- 7) Update the plan and communicate updates.

What CAE should do?

The guidance is general enough to apply to the circumstances, needs, and requirements of individual organisations. When applying the guidance, internal auditors should take into account their organisation's level of maturity, especially the degree of integration of governance and risk management.

Auditors may need to adapt the guidance to the specifics of the industries, geographic locations, and political jurisdictions in which their organisations operate.

Reference:

<https://global.theiia.org/standards-guidance/recommended-guidance/practice-guides/Pages/Developing-a-Risk-based-Internal-Audit-Plan.aspx>



INTERNAL AUDIT IN THE COVID-19 ERA: A GLOBAL GLANCE AT RESPONSES TO THE PANDEMIC

COVID-19 Creating Unique Demands, Opportunities

Internal audit must find ways to provide value in a practical way and help the organisation move from crisis management to issue management, to short-term and long-term risk management.

Internal audit should embrace this unique opportunity to:

- ✓ Participate in crisis management committees.
- ✓ Identify new and changed risks.
- ✓ Eliminate duplications and bottlenecks in new processes.
- ✓ Be agile, including finding ways for internal auditors to work remotely.
- ✓ Ramp up data analytics.
- ✓ Provide answers as the liaison to the board and the audit committee.

- ✓ Be a humble but confident protector and nurturer.
- ✓ Work closely with those with first- and second-line roles, as well with external audit, by asking “How can we help?”
- ✓ Prepare to deal with pressures to “cross the line” by assuming management responsibilities.
- ✓ Continuously provide assurance and insight on “business as usual” risk and risk responses.

Find Ways to Contribute, Learn and Grow

Internal auditors to review what had previously been robust audit processes to determine their suitability under present circumstances and are brainstorming new approaches. The difference is that the new dimensions are being added, audits are being reprioritised and creative ways to gain remote access are being discussed. Some internal auditors are being asked by boards to monitor compliance, focus on fraud risk, back up crisis management resources and prepare for the transition out of crisis management. Such roles can be embraced within an independent capacity by maintaining accountability to the board and applying an objective mindset.

Show Leadership

The crisis is creating the need for new processes and internal audit should be involved. For example, in managing disruptions in global supply chains, internal audit can look at procurement processes and follow supply chains from beginning to end and identify constraints. By identifying changing risk exposures, as well as the need for corresponding changes to risk responses, internal audit exhibits leadership that supports the organisation’s efforts to move forward. For example, by understanding and articulating the risks associated with cloud computing or platforms for teleconferencing, internal audit activities can take a leading role in providing benefit to the organisation, as well as to internal auditors who are suddenly having to audit remotely.

When assurance engagements are suspended or reduced, internal audit’s focus may turn more to advisory services. Identifying risks and making contributions, all the while staying independent, can be done by refraining from decision-making and “owning” associated risks.

Exercise Your Relevance

Embracing technology such as advanced use of data analytics, robotic process automation and artificial intelligence allows practitioners to continuously monitor for and more easily detect fraudulent activity and patterns of corruption, and it can be done remotely.

What Internal Auditors should do?

Internal auditors should leverage this crisis as an opportunity to change their mindsets, adopt other ways to work and embed those actions in the operations of their functions and organisations going forward. It is also important for auditors to stay technically up to date and stay relevant.

Reference:

<https://global.theiia.org/knowledge/Public%20Documents/Internal-Audit-in-the-COVID-19-Era.pdf>



INTERNAL AUDIT IN THE COVID-19 ERA
A global glance at responses to the pandemic

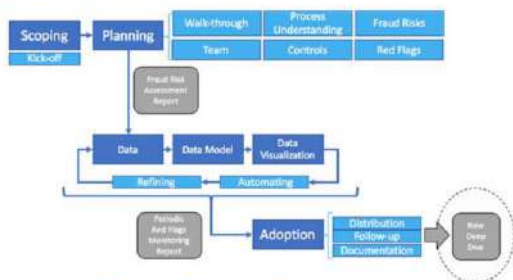
INFORMATION TECHNOLOGY

THE ANALYTICS JOURNEY: ANALYTICS DEVELOPMENT

Here is the biggest secret in internal audit analytics: The success of new analytics has less to do with what happens in the computer, and more to do with good project definition and management. The internal audit function's analytics expert cannot know everything about all the organisation's data and everything about all of the organisation's business processes.

There will be some fluidity between stages, but in general, each has its own objectives (see "The Analytics Development Process," below).

The Analytics Development Process



Start with the right questions, show what was found, why it matters, and how to act on it.

Step 1: Scoping

Target: Go or no-go.

The objective of this stage is to understand where this idea came from (background), define its general scope and objective, and decide whether to go forward with the new project based on how it will fit with internal audit's overall analytics programme.

Step 2: Planning

Target: Team and tests.

At this stage, the analytics expert leading the project will build a team for the project and agree on what aspects, features, or objectives to pursue and how to do it. The team should comprise:

- The process owner, who understands what to test for and why it is important.
- Someone from the process team, who knows how the test elements are captured in the process, their normal ranges, and the meaning of their deviations.
- The IT person who supports that system and knows — or can find out — what tables and fields capture the information identified by the process.

Step 3: Piloting

Target: Sample data, draft data model, and draft visualisation/reporting.

The extra planning time pays off during the pilot stage. Because the auditor knows what to look for (test) and where it is (data), he or she can quickly move to the math (data model), reporting, and follow-up to validate that the test is providing the expected value.

A common question at this stage is whether or not the internal auditor needs direct access to the data during the pilot. Data must be trustworthy and useful for the test. It helps for auditors to keep a log of the related data sets, along with comments on their usefulness and trustworthiness, as shown below.

Name of the Analytics Project

Does the data seem reasonable, reasonably complete, and accurate?

Name	Source	Usefulness			Trust		Decision
		Relevance	Completeness	Timeliness	Accuracy	Consistency	
1) Example: All 2018 net payments (no details).	Oracle – IT team member.	High monetization — supports four tests.	OK — no pay slip details. Tested: all payroll and relocations for test ID were listed.	OK — from implementation of CenterPoint to day of extract.	OK — system extract created by subject-matter expert.	OK — set up as an Oracle report, so fields will not change name or locations.	Use — fundamental table.

Step 4: Deployment

Target: Established data access, integrated data modeling, and visualisations/reporting.

Once the pilot has proved its value, the auditor should formalise the testing process and make it repeatable for periodic reporting. Ideally, this process should be automatic, such as using robotic process automation.

Step 5: Establishment

Target: Documentation, distribution, and schedule.

As the development work is completed, the real work of acting on the new information starts. To declare this project closed and move on to the next one, the auditor needs to:

1. Document the testing, including why the auditor is performing the tests, where the data comes from, and what will be done to the data.

2. Determine who will receive the results and establish a follow-up process and expectations.
3. Set the re-run schedule for these new tests. Does the user need this information daily? Monthly? Must the user be contacted immediately when this happens?

What CAE should do?

A consistent approach to analytics can show internal audit's stakeholders that they are not wasting their time giving auditors their support. The development process, or "the way we do things here," is key to consistency and scalability. It can provide a shared language between team members and stakeholders, as well as allow auditors to pursue and track projects running in parallel. It also will enable other auditors to take over part, or all, of a project if help is needed. Although the process is simple, its importance should not be underestimated.

Reference:

<https://iaonline.theiia.org/2020/Pages/The-Analytics-Journey-Analytics-Development.aspx>



RISK MANAGEMENT

THE ASSESSING RISK IN A POST-PANDEMIC WORLD

As the coronavirus (COVID-19) pandemic has changed the world, internal audit functions have needed to face that world differently. Before the outbreak, internal auditors worked in similar ways, following the same code of conduct, adhering to the same standards, and using many of the same tools. Now, auditors have another thing in common: the need to adapt to frequently changing risk conditions.

An Audit Plan in Peril

Many internal audit functions started their risk assessment and audit planning process in late 2019. By early 2020, departments in most of the world had formed at least a skeleton of their audit plan, and some had communicated their formal plans to the audit committee and senior management. Some audit functions began executing engagements in early 2020. That all changed in March, when the coronavirus began to race swiftly around the world and businesses experienced the first effects of social-distancing measures.

Post-pandemic Planning

The audit plan that existed before the pandemic is based on an old risk paradigm. In a post-pandemic world, chief audit executives (CAEs) must think differently about their organisations' risks and how to redeploy audit resources. Here are some questions CAEs should ask in rethinking their audit plans.

What does the organisation's new normal look like? Even businesses that were least impacted by COVID-19 will have systemic changes in their risk environment (see "Questions for CAEs" at the end of this article). There may be major fallout to institutions and systems that organisations rely on, and regulators, financial institutions, and supply chains may experience disruptions well past the point when stay-at-home orders are relaxed. Some may no longer exist.

Is my risk assessment process agile enough? This question will be critical as CAEs begin prioritising how to redeploy resources to address elevated risk in legacy risk areas as well as in new, uncharted territory. Risk assessments need to be agile because risk dynamics may change frequently in the near term. CAEs should evaluate and streamline legacy risk assessment processes.

Does my team still possess the skills to execute the risk assessment and audit plan? In the post-pandemic world, risk profiles probably will change — in some organisations, dramatically. CAEs need to evaluate the talent in their teams and internal audit's ability to identify risks and execute engagements that focus on new types of risk.

Does my team still have an objective mindset? Unprecedented times call for unprecedented measures, and during the COVID-19 emergency, many internal auditors have been called to duty in ways they never imagined. If auditors were engaged in non-audit activities within the business or performing activities that normally would be incompatible with professional standards, CAEs should evaluate staff objectivity.

A New World of Risk

The world is different now, with different risks. Internal audit functions must recalibrate how they view the inherent risks their organisations face as the recovery period begins.

Although pivoting from the old world to a new one is not a new phenomenon, the magnitude of COVID-19 impacts is more global and more severe than anything most auditors have experienced. Internal audit's ability to respond is vital not only to how its business recovers, but also how audit realigns with its stakeholders' needs.

What CAE should do?

To advice their board on relevant data governance questions they need to know to fulfill their duty of oversight.

To assess their situation during the COVID-19 crisis, CAEs should ask:

- What does organisational staffing look like now? Have there been reductions or reorganisations?
- Have key stakeholders changed? What new audit clients should I anticipate?
- Have workforce reductions or reorganisations impacted how internal controls are executed? Are there new segregation of duties concerns or controls that no longer have control owners?
- What processes have been temporarily or permanently changed?
- What systems were temporarily modified or permanently changed? Were appropriate IT general controls followed for these changes, and, if not, what are the implications?
- What controls were modified to accommodate unique business situations or risks?
- Have there been any key personnel changes such as loss of unique subject-matter expertise or loss of key leaders in strategic areas?
- Has the organisation's strategic focus changed in the near or long term?
- How have cost structures changed?
- Have there been fundamental changes in the organisation's debt and capital structures? Are there new or different debt covenants?
- What new legal or compliance challenges is the organisation facing (lawsuit exposures, changes to compliance infrastructure)?
- Have new business opportunities emerged and have corresponding risks been identified?
- Have the fundamentals of business-unit operations or strategies changed?
- How have business continuity dynamics changed (key infrastructure changes, key customer changes)?
- How have enterprise risk management dynamics changed (key risks, key risk indicators, response plans, and risk appetite)?

Reference:

<https://iaonline.theiia.org/2020/Pages/Assessing-Risk-in-a-Post-pandemic-World.aspx>

CURRENT ISSUES

REASSESSING RISK: WHAT MATTERS MOST NOW?

As SME's look to reopen facilities and make accommodations for operating under the "new norm" of doing business during the coronavirus pandemic, internal audit leaders are assessing the risks and helping their organisations prepare to unlock the doors. Same goes to those big companies, some are still just trying to get their bearings.

According to Norman Marks, a risk management and internal audit expert and author of the blog, executives can be forgiven if they feel like they are treading on unsteady ground. And business advisors are not afraid of veering into hyperbole when they discuss the effects of the coronavirus crisis. "Never has business changed so much, so fast."

A new regulations, guidance, and directives are being issued nearly every day from the government like the Securities and Exchange Commission and agencies such as the PENJANA. For instance, new guidance on the legislation designed to help those impacted by the shutdowns, like the, salary subsidy by the government the companies so they can remain their employer. Financial institutions must continually monitor the information to ensure they remain in compliance and support the mechanism that is suggest by the government such as bank moratorium for six months.

However, in this pandemic is forcing internal audit executives to rethink their approach to coronavirus risks and risk assessments on the fly. Three-quarters of internal audit leaders, for example, are updating their audit plans in response to the pandemic, more than half have discontinued or reduced the scope of some audit engagements, and 39% have added new engagements. Most CAEs realise that if the goal of internal audit is to help the organisation succeed, they need to provide insight on the challenges and issues that matter now.

Catching a Tiger by the Tail?

While the pandemic impacts different sectors of the economy differently, some changes in the risk environment cross multiple industries. One is the risk of

time frame. Until recently, few organisations planned for large sections of their workforce to be working remotely for several months.

For many businesses, the pace at which risk is changing is mind-boggling and may still be accelerating. With so much uncertainty, getting a handle on risk can feel like trying to catch a tiger by the tail. Internal audit must shift accordingly.

The massive numbers of employees working from home for extended periods of time also gives rise to several risks. Cybersecurity breaches and fraud has become a more prominent concern at many organisations. More than 40% of companies have increased efforts on both of these fronts, the IIA coronavirus survey finds.

Similarly, even as employees work remotely, many still need to share data. Their employers need to ensure they continue to comply with data privacy laws. As more companies move portions of their operations to the cloud, appropriate cloud governance, including spending on cloud services, has become increasingly critical for example, worked with an organisation that discovered it had been overpaying its cloud service provider by hundreds of thousands of dollars. It is time for effective internal controls which will minimise the risk of overpayments.

Liquidity risk is rising at many organisations too especially true for some smaller organisations that may not have bank lines of credit in place to which they can turn. The situation may fundamentally change the strategy for the business going forward. A business might decide to factor its accounts receivable, taking a discount in exchange for quicker access to cash. Another option, albeit one that can further stress the supply chain, is to stretch payments. Which can be advised, by the Internal auditor the potential benefits and risks of each.

Many supply chains also are facing increased risks. Vendor viability is a huge concern. A lot are going through hard time during this period. People and processes can be another source of increased risk, given the many operational changes companies are making. The organisations furlough employees, for example, they need to ensure workers' access to the

corporate network is terminated, and that other employees are assuming the responsibilities of those let go.

Changing Approach to Risk Assessments

Given the scope and pace of change in many risks themselves, most audit executives will need to adjust their risk assessment processes to remain relevant and continue to add value. A starting point is to facilitate conversations about risk with the rest of the executive team. In some ways, the pandemic may help. Say management insists the probability of a specific risk is zero. Internal audit probably will have more room to push back, pointing out that it's likely few executives, even last year, envisioned much of the economy shuttering to stop the spread of a virus and encourage management to look at a greater range of risks and their impact over a longer period of time.

At Signature Bank, McManaman and her team worked with their operations and risk colleagues to complete a modified risk assessment based on COVID-19. "We asked the management teams, 'What's changed in your area? What are the risks you're seeing now?'" modified their risk assessments and started conducting risk monitoring activities. They continue to monitor changes daily and weekly while they shifted focus to many of the risks that changed because of the pandemic.

To ensure her group understands where the risks are and moves appropriately as the risk landscape changes, McManaman and her colleagues continually talk with other leaders in the bank as well as regulators.

Data analytics can also help audit executives intelligently reassess risk, especially now that it is more difficult to observe operations on-site. "Data analytics is taking a more important role, faster than people thought," Young says. In its efforts to bring inventory levels down, for example, Young's team is using data analytics to determine the benefits of consolidating some shipments and then handling them more efficiently once they arrive.

Internal Audit's Time to Shine

While the loss of life, health, and jobs resulting from the pandemic can never be discounted, a few silver linings might emerge. One is the greater focus on potentially catastrophic risk. Since it is become harder for anyone to deny the likelihood or potential of different risks, more thoughtful discussions about risk should ensue.

Some of the changes implemented to accommodate the restrictions imposed to thwart the pandemic will ultimately boost efficiency, even after the restrictions are eased. Young notes that while his group will continue to make site visits to various locations, they will likely be shorter and more focused on the exceptions generated by data.

What Internal Auditors should do?

Internal audit executives who can work with other executives and pivot to provide the insight and advice that can help the organisation address new risks and succeed in a rapidly changing environment can benefit as well. The challenges presented by the pandemic offer is a great opportunity for internal audit to shine and be relevant, again.

Reference:

<https://internalaudit360.com/reassessing-risk-what-matters-most-now>

