



AUDIT EXECUTIVE
CENTER

THE ESSENTIAL RESOURCE FOR AUDIT EXECUTIVES

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UNIQUE CONCERNS OF THE SMALL AUDIT FUNCTION

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Learning Objectives

- How continuous risk assessment can shape the audit plan
- View risk as a continuum and determine proper allocation of resources for your organization
- Potential strategies to manage talent constraints
- Using the three lines of defense approach to ensure that key risks are covered

Key Imperatives for Small Audit Functions

- Small Audit Functions:
 - Innovative
 - Flexible
 - Credible
 - Establish strong relationships



Using continuous risk assessment to shape the audit plan

Standard 2000 - Managing the Internal Audit Activity –
The CAE must effectively manage the internal audit activity to ensure it adds value to the organization

- Institute of Internal Auditors International Professional Practices Framework

IF YOUR
PRESENCE CAN'T
ADD VALUE TO MY
LIFE
YOUR ABSENCE WILL
MAKE NO DIFFERENCE.

Using continuous risk assessment to shape the audit plan

The Company's internal audit activities are established to assist the Audit Committee and Company management in their oversight and risk management roles.

- Atlas Air Worldwide Internal Audit Charter



Using continuous risk assessment to shape the audit plan

Developing, implementing and communicating to the Audit Committee and management an annual audit plan using an appropriate risk-based methodology, including consideration of any risks, control concerns and special projects identified by management or the Audit Committee.

The VP-IA will submit the plan to the Audit Committee for review and approval. To address changes in the organization's business risks, operations, programs, systems and controls, modifications to the plan may be required on an ongoing basis

- Atlas Air Worldwide Internal Audit Charter

Using continuous risk assessment to shape the audit plan

Risk:

“The possibility that an event will occur and adversely affect the achievement of objectives.”

- Committee of Sponsoring Organizations, *Enterprise Risk Management—Integrated Framework*



Using continuous risk assessment to shape the audit plan

Risk Assessment:

“Risk assessments must bring together the right parties to identify events that could affect the organization’s ability to achieve its objectives, rate these risks, and determine adequate risk responses.”

- pricewaterhousecoopers – A Practical Guide to Risk Assessment

Using continuous risk assessment to shape the audit plan

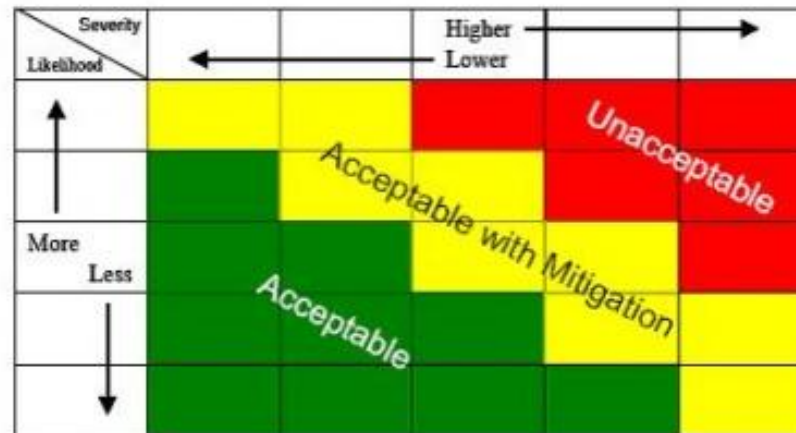
Core Principles:

- Linkage to key objectives
- Understanding of impact and likelihood
- Organization's risk appetite and tolerance
- Ongoing risk relevancy

Using continuous risk assessment to shape the audit plan

A consistent approach and methodology helps to ensure the process achieves credibility

Credibility drives continuity



Using continuous risk assessment to shape the audit plan

The key is to pick meaningful data (i.e., a high correlation to the Company's strategic objectives and risks)



The Risk Continuum and Internal Audit Resources

Developing the audit plan, important considerations:

- Goal is to become a relevant and trusted advisor for the organization
 - Avoid overcommitting
 - Concentrate on high inherent residual risks
 - Maintain audit focus
 - Execute and deliver the process

The Risk Continuum and Internal Audit Resources

- Attract and retain top level talent
 - Make your audits count
- Want to avoid information overload and use technology effectively
 - Small margin for error
- Under promise and over deliver
 - Plan is a piece of paper without good execution
- Multi-task / “Devils in the details”
 - Roll up your sleeves / findings supported by facts
- Preparation drives credibility
 - Establish a good process / path to relevancy

The Risk Continuum and Internal Audit Resources

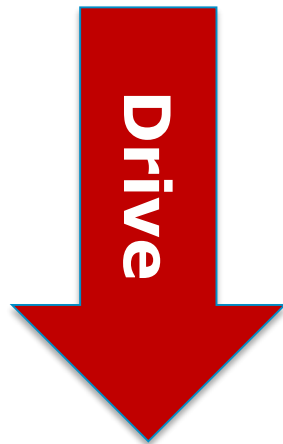
Helpful Sources:

- Industry Guides
- Subject matter experts
- Trade groups
- Company officers
- Board members
- Industry and trade organizations
- Colleagues (past and present)
- Competitors (professional confidentiality)
- IIA Chapters and networks (Local and National)

Linking Risks and Audit Coverage

Conceptually:

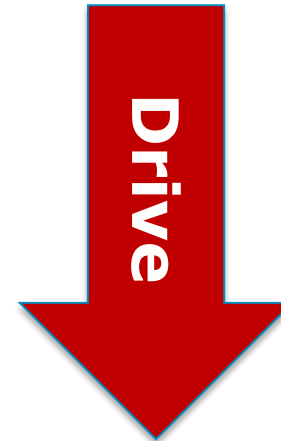
Risk



**Audit
Coverage**

In practice:

Resources

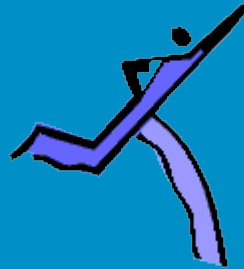


**Audit
Coverage**

*Source: The Pulse of Internal Audit survey: ©2015 The IIA Audit Executive Center.
Total may not equal 100% due to rounding.*

Determining potential strategies to manage talent constraints

talent



Determining potential strategies to manage talent constraints

- Understand the skills and knowledge needed
 - Identify what is needed to address the risk to the organization
- Perform a Team / Individual skill / knowledge assessment
 - Competency framework
 - Self-assessment
 - Assessment from supervisor
 - Combine assessments
- Identify your strength and weaknesses (gap)



Determining potential strategies to manage talent constraints

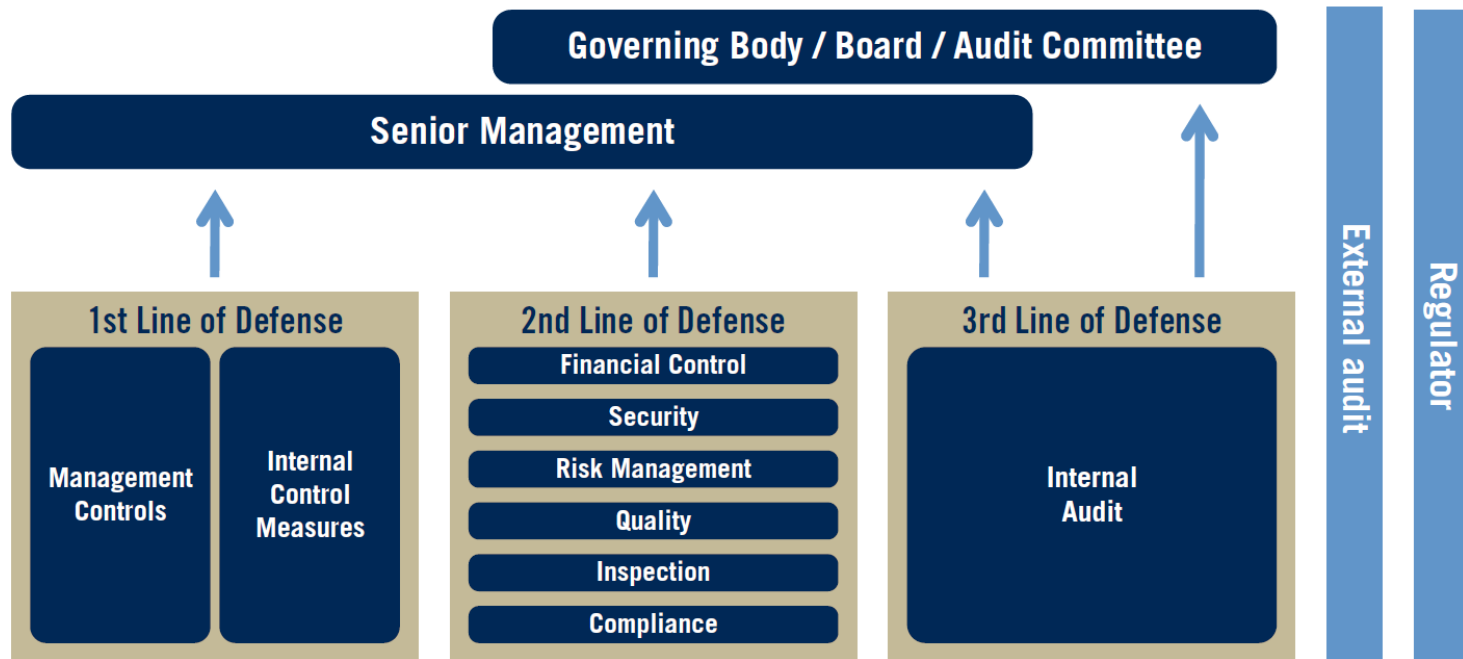
- Identify the options to address the gaps
 - Short term:
 - Assess if there are other areas in the organization looking at the risks
 - Outsource what you cannot do (if funds are available) to address skill gaps
 - Guest auditor - Partner with department to get the missing knowledge (business expertise)
 - Access to in-house training from expert in the business area
 - Use in house resources as mentor

Determining potential strategies to manage talent constraints

- Identify the options to address the gaps
 - Longer term:
 - Professional development addressing the skills needed
 - Rotate in/out within the organization to acquire knowledge
 - Change the staff mix to acquire the missing skills

Using the three lines of defense approach to ensure key risks are covered

The Three Lines of Defense Model



What if the three lines of defense model is not used?

Impact on a small audit function

- Need to understand who is performing the following roles:
 - Manages risk and control
 - Monitors that risk and control activities are operating
 - Provides independent assurance

Using the three lines of defense approach to ensure key risks are covered

- Using the three line of defense model means that:
 - Operations as the first line
 - Risk and Compliance as the second
 - Internal Audit as the third
- Roles and Responsibilities are understood by all stakeholders

What does this mean for a small audit function

- Need high level of organizational independence
- Provides assurance over the activities of both the first and second lines of defense

Using the three lines of defense approach to ensure key risks are covered

- Need to agree on the list of key risks
 - Meet with the management or group of individuals responsible to perform the risk management
 - Understand their risk assessment process
 - What are the areas being assessed? (financial, IT, operational, security, etc...)
 - Meet with the management or individuals responsible for compliance
 - Understand their risk assessment process
 - What are the areas being assessed? (regulation, ethics, contracts, etc...)

Using the three lines of defense approach to ensure key risks are covered

- Need to agree on the list of key risks
 - Meet with operations
 - Understand their risk assessment process
 - What are the areas being assessed? (Internal Controls, SOX, IT general control, etc...)
- Understand what they are doing to address these key risks.
 - What are the mitigation activities?
 - Understand the residual risks vs risk appetite

Using the three lines of defense approach to ensure key risks are covered

- IA should concentrate on ensuring that the process used by the other line of defense are addressing the key risks
 - Assessing their assessment process
- IA will not need to provide an assessment on the risks but an assessment on how the risk is being managed
 - Assessing the process to establish the mitigation activities

In Conclusion

- Use practical way to approach an organization to get most out of your audit function
- Use frameworks to stay in line with what's important to organization
- Understand your business and associated risks
- Use organization's existing structure & capabilities to mitigate risks
- Use organization's resources, be creative, make it happen

Questions?

