



Maximising the value of assurance through risk based auditing

An Australian Perspective

David Tattam

Managing Director - Australia

Director – East Africa

david.tattam@protecht.co.ke

www.protecht.co.ke



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Agenda

1. What Board and Management need from the assurance function
2. Aligning audit with strategy and objectives
3. Identifying key risks as a basis for risk based auditing
4. Identifying key controls as a basis for controls assurance testing
5. Developing a focussed and efficient audit program
6. Audit techniques using latest technologies
7. Maximising the value of the assurance function – the three lines of defence

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Perception of Audit

**Hindrance?****or****Enabler?**

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Risk Management

*“... a process, effected by an entity's board of directors, management and other personnel [everyone], applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, **to provide reasonable assurance regarding the achievement of entity objectives.**”*

Source: COSO Enterprise Risk Management – Integrated Framework. 2004. COSO.



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This should come from

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GRCA

Governance, Risk Management, Compliance and Audit

- **Governance:** Approach to direct and control the organisation. Includes organisation structures, and management information / reporting
- **Risk Management:** Framework and process to identify, analyse, treat and report risk across the organisation
- **Compliance:** Process to ensure adherence to external rules and regulations, and adherence to internal policies, procedures and controls
- **Audit.** The provision of independent assurance that the GRC framework and processes are operating effectively and efficiently



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Main areas of reasonable assurance

1. That the key risks that could stop our strategy and objectives being achieved:
 - Have and are being identified by the business early
 - Have and are being continually assessed by the business
 - Are being effectively and efficiently managed by the business
2. That our risk appetite as laid down by Board is being adhered to, assessed and reported against.
3. That our risk management is proactive rather than reactive
4. That we have no “control islands” (Time bombs) waiting to go off
5. That “show stopper” risks (severe but plausible) have been identified, assessed and managed.
6. That our risk management system is working effectively



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Main areas of reasonable assurance

7. That there is full and open disclosure of risks and issues in our business
8. That risk incidents are being identified early, by us, and managed efficiently and effectively to minimise damage and learn from our mistakes.
9. That we are complying with all important external compliance requirements
10. That we are following and complying with all internal policies and controls
11. That information on which we rely to make decisions is materially accurate and shows a fair view
12. That our control frameworks are efficient
13. That our risk and control culture is positive



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Proactive Risk Management

- Risk Management is traditionally reactive “**Fire Fighting**”
- Make risk management more proactive:
 - Anticipate better
 - Identify risk symptoms and red flags early and react



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Responsibilities in Risk Management

- **Board**
 - Responsible
 - Understand Risks
 - Set Risk Appetite
 - Approve Risk Policies
 - Risk Culture
 - Risk Oversight
 - Ensure management is carrying out risk management
- **Audit, Risk and Compliance Committee**
 - Conduit between senior management and board
 - Assist board in meeting its responsibilities
 - Ensuring adequate GRC process and practices in place
 - Report to board on risk related matters
- **Senior Management**
 - Implement
 - Maintain and carry out
 - Report



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Responsibilities in Risk Management

- **Business**
 - Operational responsibility for risk management
 - Carry out day to day risk management
 - Maintain robust system of internal controls
 - Own the risks and controls
- **Compliance**
 - Ensure compliance with external and internal requirements
 - Encourage business to attest to compliance
 - Report
- **Risk Management**
 - Support business in implementing and carrying out risk management
 - Report
- **Audit**
 - Provide independent assurance



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Risk

Risk: the effect of uncertainty on objectives

ISO 31000: Risk Management - Principles and Guidelines



***Risk Management is really Objectives
Management is really Outcome Management***

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Risk Based Auditing

- The starting point is risk
- The starting point of risk is objectives

It should be called

“Objectives Based Auditing”



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The starting point for risk based auditing

The starting point is:

OBJECTIVES

The first problem is identifying and defining the organisation's objectives.

- Well defined strategic and business plans
- Business plans that have measurable targets
- Alignment of all board, management and employees objectives



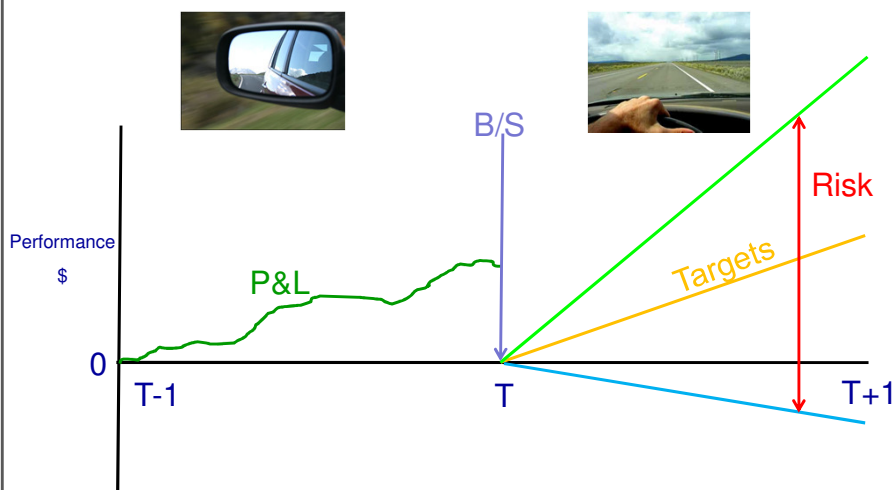
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Strategic / Business Plans


SMARTERS Objectives

Letter	Major Term	Minor Terms
S	Specific	Significant, Stretching, Simple
M	Measurable	Motivational, Manageable, Meaningful
A	Attainable	Appropriate, Achievable, Agreed, Assignable, Actionable, Adjustable, Ambitious, Aligned, Aspirational, Acceptable, Action-focused
R	Relevant	Result-Based, Results-oriented, Resourced, Resonant, Realistic
T	Timely	Time-oriented, Time framed, Timed, Time-based, <u>Timeboxed</u> , Time-bound, Time-Specific, Timetabled, Time limited, Trackable, Tangible
E	Evaluate	Ethical, Excitable, Enjoyable, Engaging, Ecological
R	Reevaluate	Rewarded, Reassess, Revisit, Recordable, Rewarding, Reaching
S	Satisfactory	Satisfies Strategic Vision

Looking back or looking forward?



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Risk Based Auditing

The starting point is **risk**

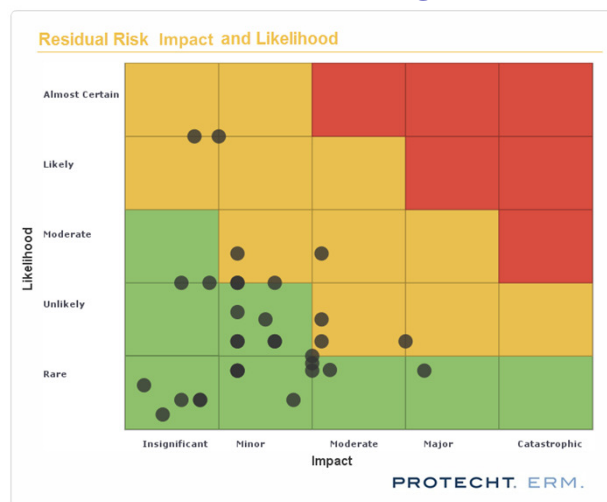
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Risk Characteristics

- **Future** – Future Potential Event
- **Impact (Consequence)** – The event must have a potential impact on the process being assessed. The impact may be both negative and positive
- **Uncertainty (Likelihood)** – There has to be some uncertainty around either the event occurring and / or the impact when it does occur
- **Intangible** – As risk relates to the future it is intangible until it becomes an incident.

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Understanding Risk



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Once Upon a Time

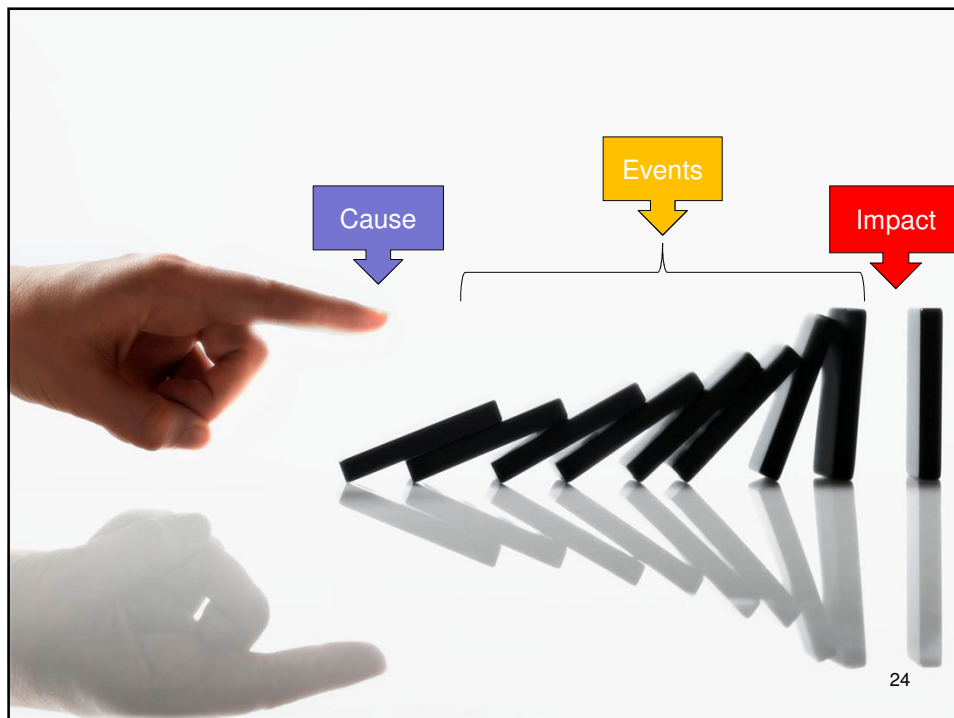
A train derailment at night left a number of passengers with serious injuries and caused substantial damage to the train. The train derailed as rocks had fallen on the track. The train driver did not see the rocks soon enough as one train headlight was faulty and the driver was excessively tired from an 11 hour shift due to lack of drivers as a larger than normal number were on sick leave with flu.

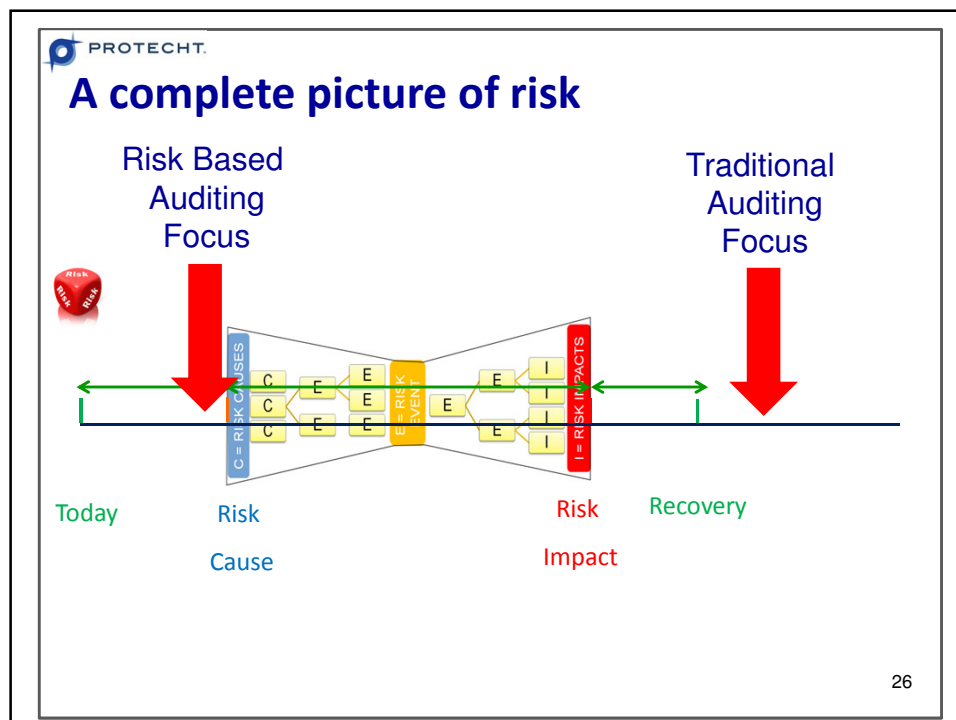
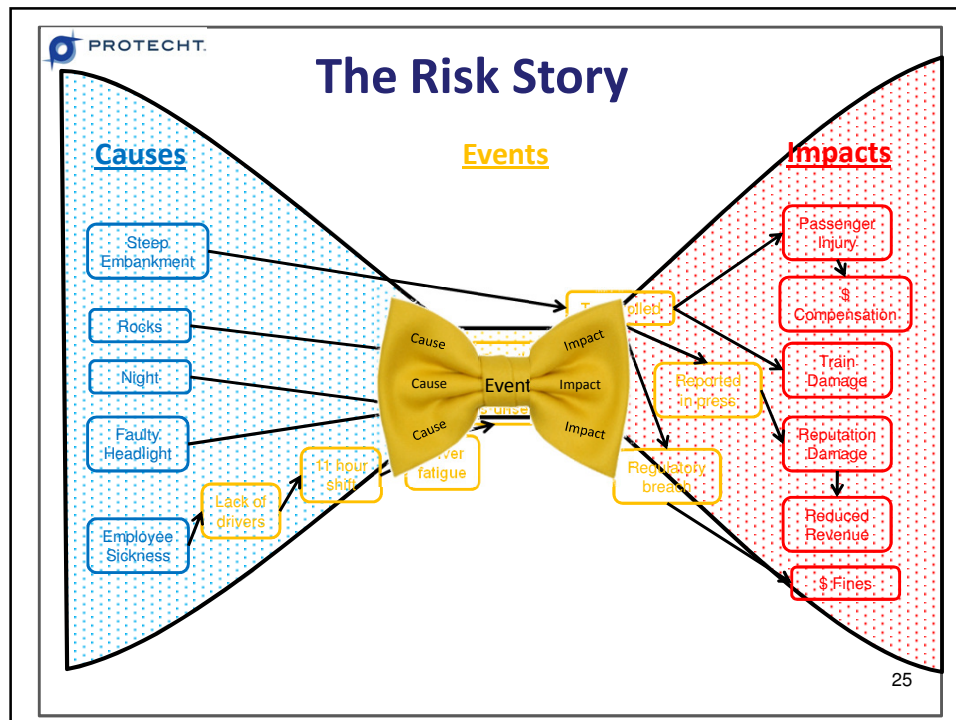
The steepness of the embankment meant that injuries were higher as the train rolled down the embankment.

The accident was reported in the press and the company's reputation suffered. The rail company was also subject to regulatory fines. Many passengers successfully sued for compensation.

In the ensuing 6 months, train passengers numbers fell markedly.

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Key Risks?


Risks that have the potential to materially impact one or more of the organisation's objectives.

- Inherent Risk – is high
- Residual risk – is high

LIKELIHOOD	5	L	M	M	H	I
	4	L	L	M	H	I
	3	I	M	M	H	VH
	2	I	M	M	H	VH
	1	I	L	M	H	VH
		1	2	3	4	5
		IMPACT				

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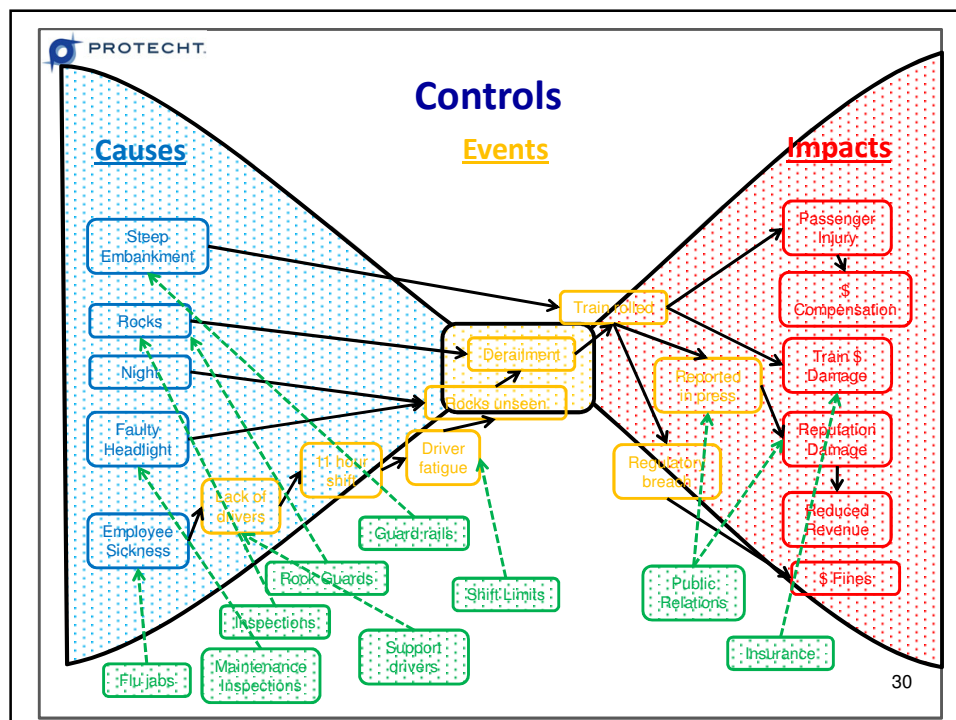
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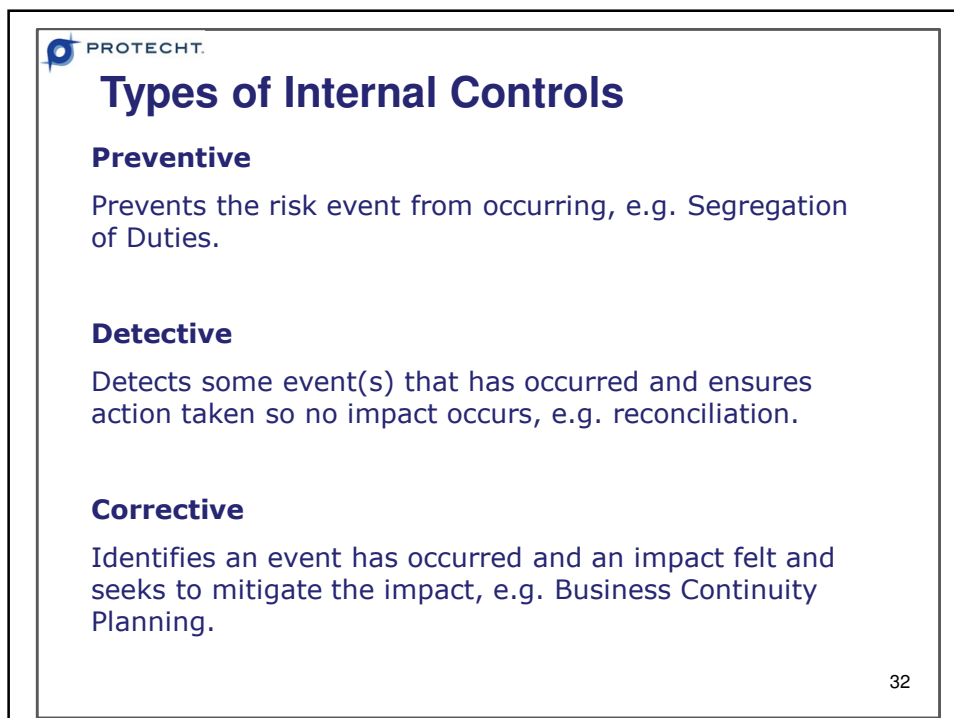
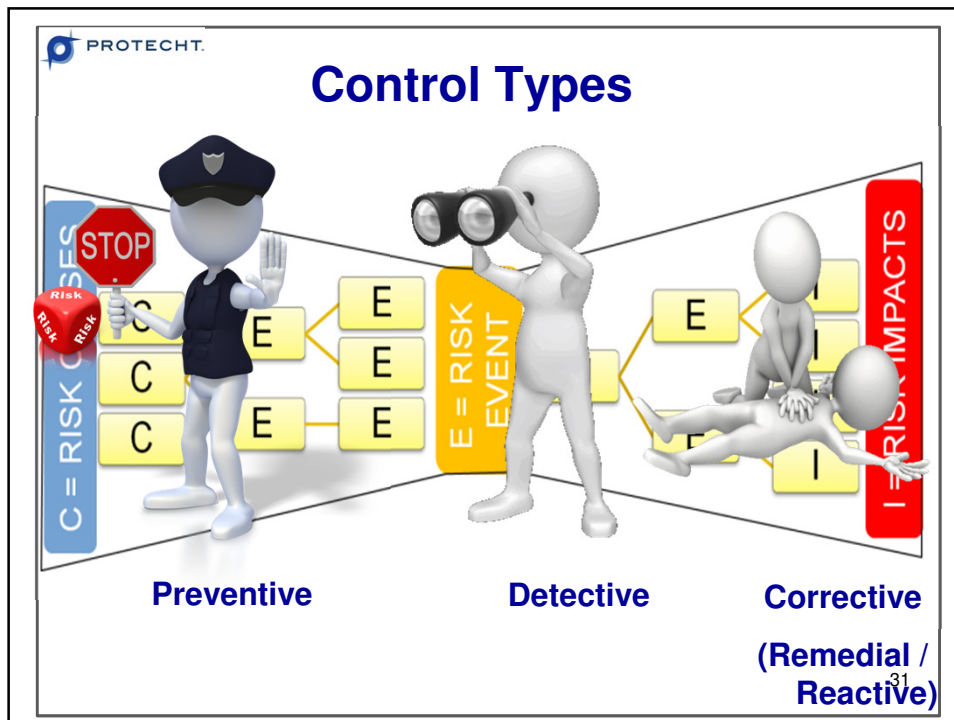
Controls

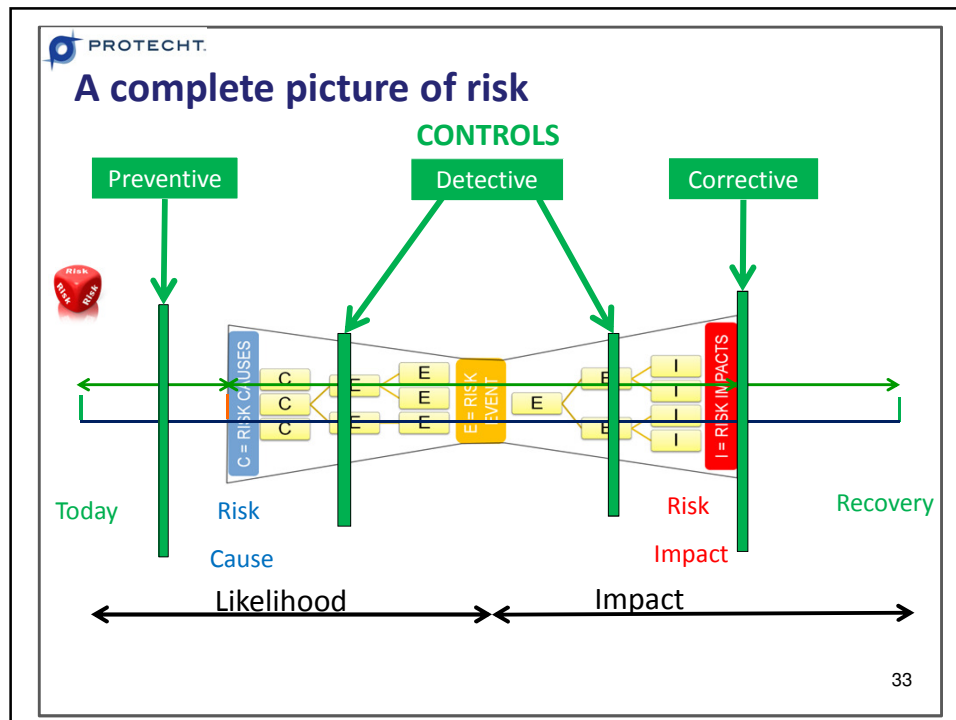
'A specific action taken with the objective of reducing either the likelihood of the risk occurring and / or the consequence if the risk were to occur.'


Protecht

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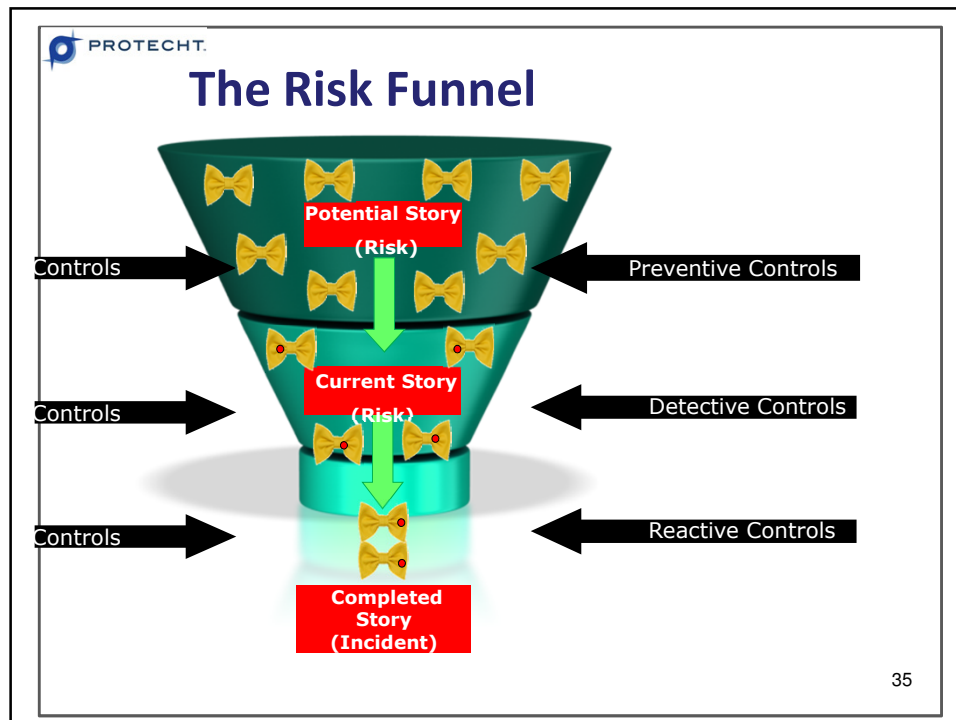






Impact of Controls on Likelihood and Impact of the “Main Event”

Control Type	Likelihood	Impact
Preventive	✓	
Detective	✓	✓
Corrective		✓

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 **Recognised Controls?**

1. Base – line controls
2. Minor controls
3. Medium controls (Non key / compensating control)
4. Key Controls

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Slide 36

- d1** Slides 2 and Slide 3 - content will change slightly as we compress number of chapters to around 3-4 for this intro piece (60 slides). However, objective and road map content will continue...

dave, 20/08/2009



Key Control

A control that reduces a large inherent risk to a small residual risk.

LIKELIHOOD	5	L	M	M	H	I
	4	L	L	M	H	I
	3	I	M	M	H	VH
	2	I	M	M	H	VH
	1	I	L	M	H	VH
		1	2	3	4	5
		IMPACT				

Note: The table above is a simplified representation of the risk matrix shown in the image. The image shows a 5x5 matrix with Likelihood on the Y-axis (1-5) and Impact on the X-axis (1-5). The cells are color-coded: Yellow (L), Orange (M), Red (H), and Dark Red (VH). A blue arrow points from the cell (Likelihood 5, Impact 5) to the cell (Likelihood 1, Impact 1), indicating a reduction in risk. The word 'Weather' is written across the middle of the matrix.

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Control Effectiveness

A control's effectiveness in mitigating a risk(s) is made up of 3 elements

- **The objectives of the control** in relation to the risk it is applied against, i.e. reducing the likelihood and/or impact. This determines the best the control can possibly be
- **The Design Effectiveness.** The degree to which the control meets the control objectives assuming it is operating perfectly
- **The Operating Effectiveness.** The degree to which the control is being operated and applied as intended

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Categories of Control over Operational Risk


1. Management Controls
2. Compliance Controls
3. Reconciliation Controls
4. Confirmation Controls
5. Review / Authorisation Controls
6. System Controls
7. Segregation of Duties
8. Procedural Controls
9. Legal Controls
10. Insurance
11. Disaster Recovery Plan



Beware the psychological factor

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Key elements of an effective audit function

1. Strong linkage between audit work and strategy / objectives

Strategy / Objectives



Risks



Controls



Audit

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Key elements of an effective audit function

2. Focus on providing assurance over the effectiveness and efficiency of the existing risk management function
3. Focus on providing assurance over the effectiveness and efficiency of the internal control framework
4. Avoid duplication of work and effort. Rely on what is already being done
5. Align with the risk management function – we are on the same team
6. Use technology where it is effective and efficient


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Developing an audit program

1. Audit the Risk Management Function first
2. Audit the business' ability to risk identify, assess and disclose / communicate
3. Identify the key risks and related key controls
4. Create test programs to test the key controls over the key risks

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Using Technology

1. **Audit software: Tools and Work papers.**

- Audit Planning
- Audit Management
- Work papers
- Design audit programs
- Execute audit programs
- Develop audit points
- Implement audit points

2. **Risk Identification and assessment software:**

- Risk Assessments
- Key Risk Indicators

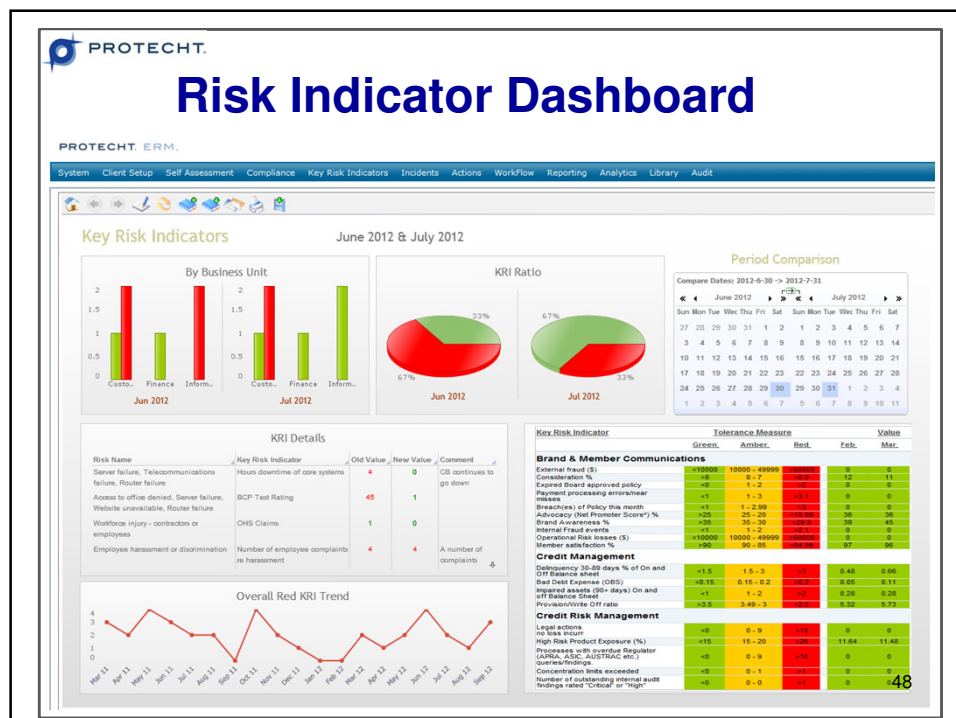
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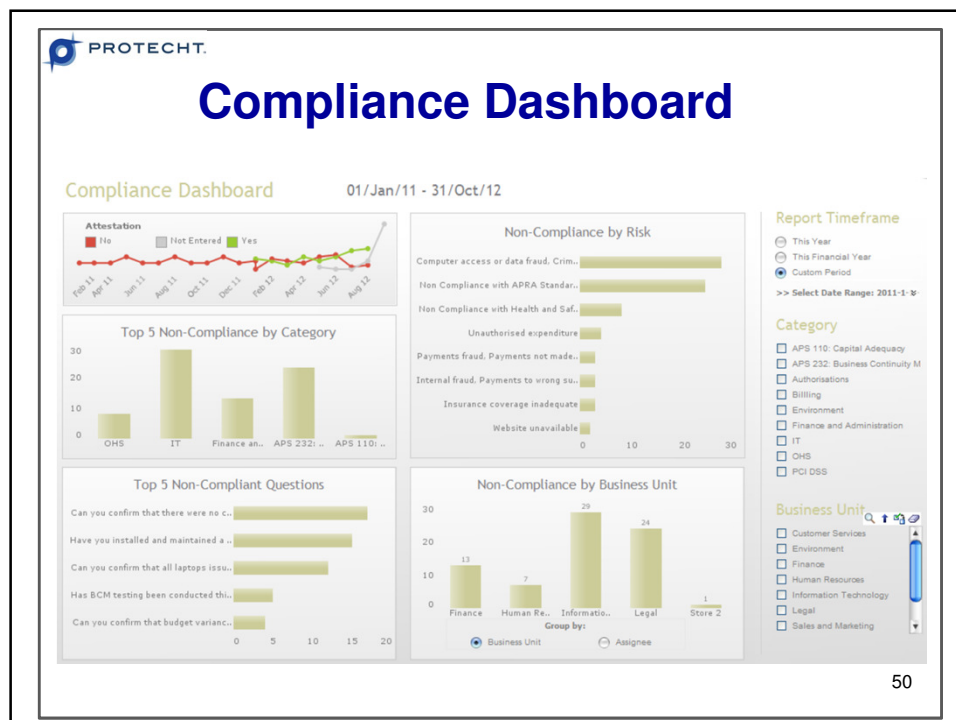
Using Technology

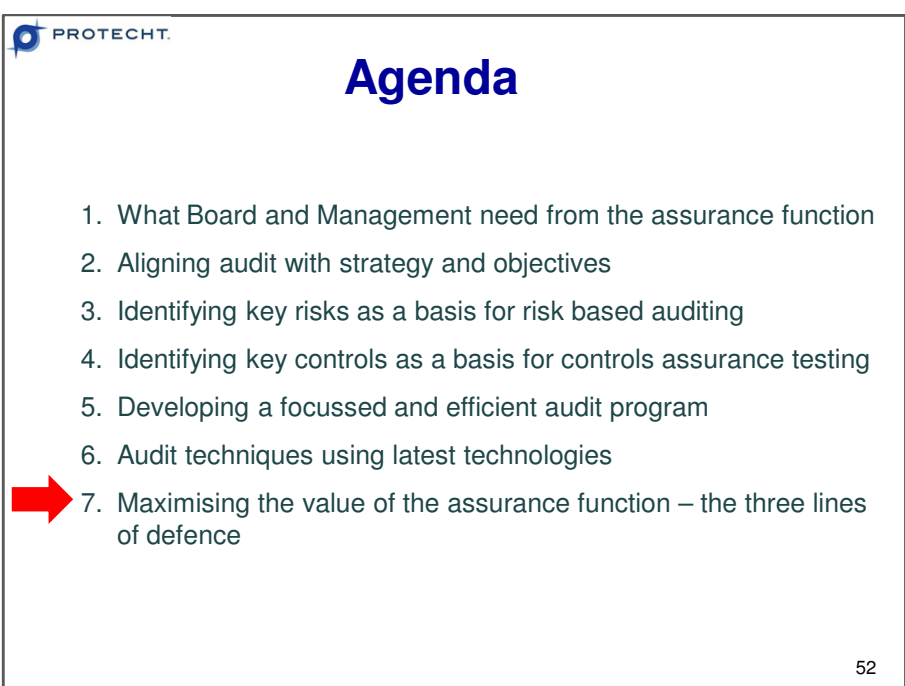
3. **Continuous Auditing**

- Interrogation software
- Big Data

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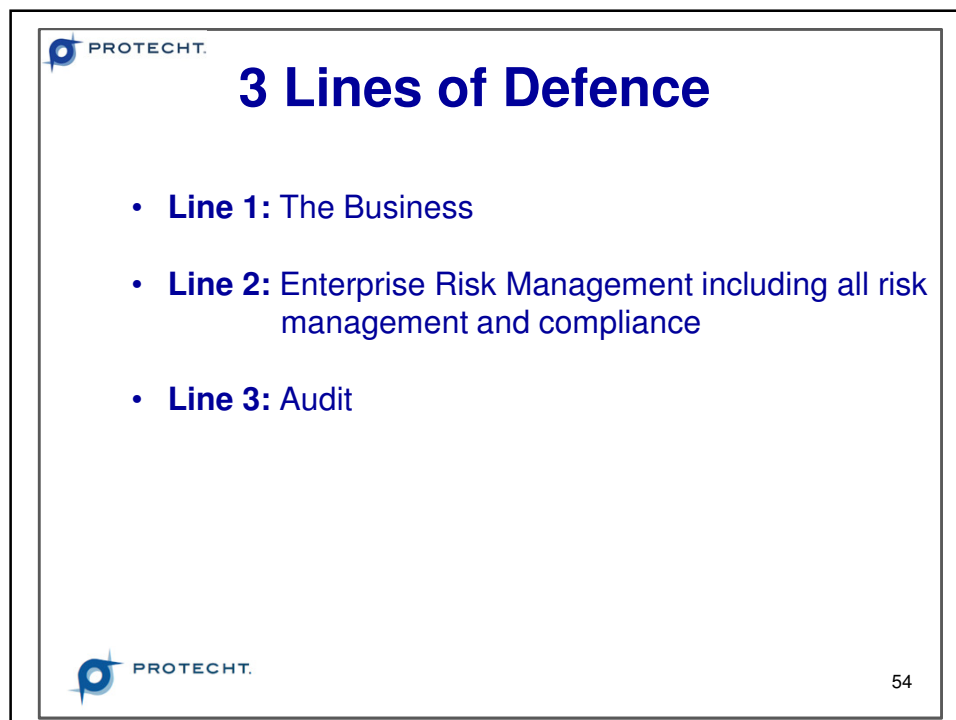
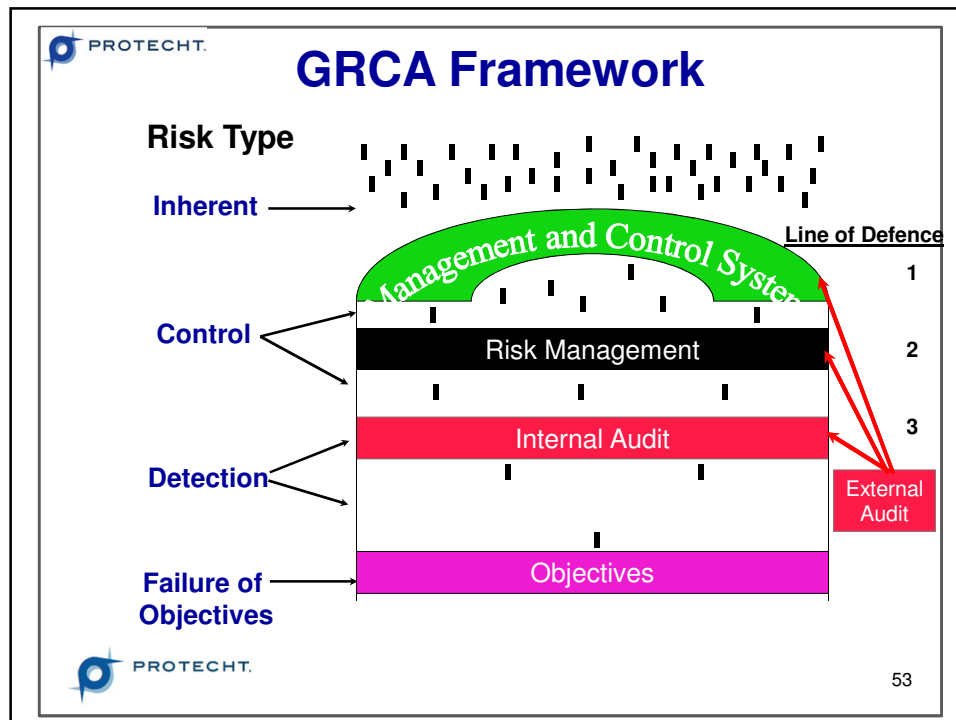


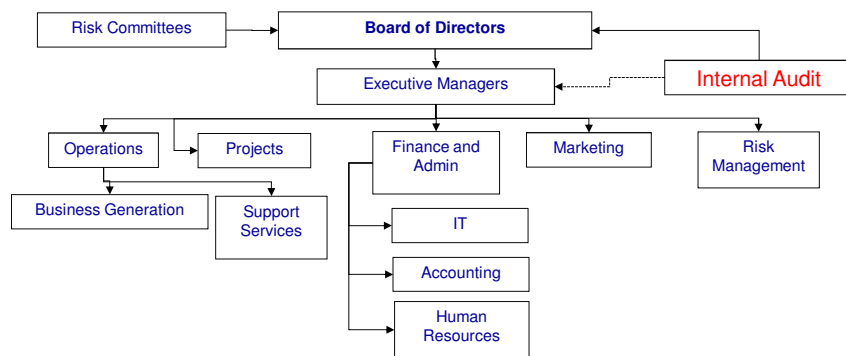
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Internal Audit: Stature, Independence and Mandate



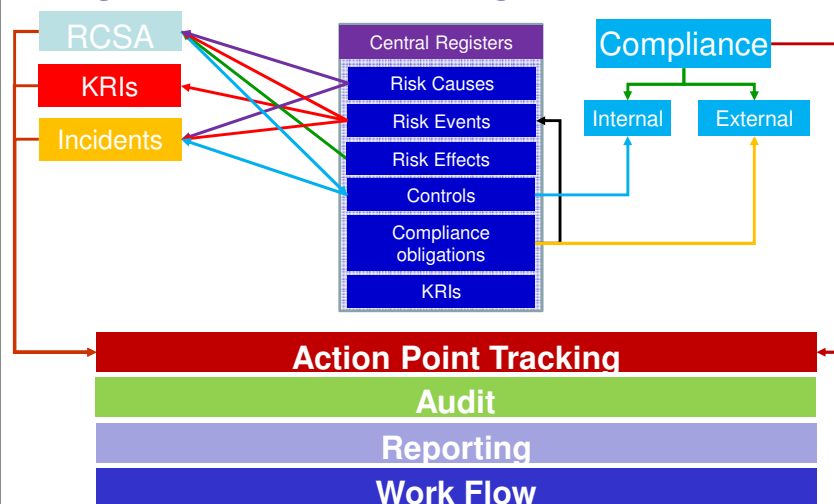
Key Roles of Audit when ERM is developing


1. Facilitating the identification and evaluation of risks
2. Coaching management in responding to risks
3. Co-ordinating ERM activities
4. Consolidated reporting in risks
5. Maintaining and developing the ERM framework
6. Championing the establishment of ERM
7. Developing RM strategy for Board approval

Key Roles of Audit when ERM is developed


1. Giving assurance on the Risk Management Process
2. Giving assurance that risks are correctly evaluated
3. Evaluating risk management processes
4. Evaluating the reporting of key risks
5. Reviewing the management of key risks


Integrated Risk Management and Audit




 PROTECHT.


Q & A



 PROTECHT.

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 PROTECHT.


 CPAK
Credibility Professionalism Accountability

Thank You

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An Australian Perspective

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