Strategic and Annual Internal Audit Planning - Practical example

Vienna, June 2018
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Introduction

The Guidelines for the preparation of strategic and annual internal audit (IA) plan - purpose

» to improve the quality of IA strategic and annual planning system
  » better connection of internal audit plans and internal audit work with
    » objectives and priorities of the institutions and subordinated institutions
      (hereafter: institutions)
    » national strategic documents
    » weaknesses in internal control systems
  » increasing the quality of risk assessment (reviewing risky but significant areas)
Introduction

- Steps in developing IA strategic and annual plan
  - conducting quality preparation for development of IA strategic and annual plan
  - identifying all potential audit areas – audit universe
  - identifying significant audit areas
  - carrying out a comprehensive risk assessment
  - proposing audit priorities within significant and risky areas
  - discussing the proposals with management
  - proposing final areas for auditing (taking into account the available resources)
Preparation for IA strategic and annual planning

» Internal audit should take into account

» objectives and priorities of the institutions
» expected changes in management of the institutions
» state of financial management and internal control systems in institutions
Preparation for IA strategic and annual planning

» Objectives and priorities of the institutions

» strategic and other planning documents of the institutions
» priorities and activities from National reform program and Convergence program
» priorities connected to EU funds management
  » role of Managing Authority, Intermediaty Body level 1, Intemediaty Body level 2 etc.
Preparation for IA strategic and annual planning

» Expected changes

» capital and investment projects planned for next three years
» possibility to use EU funds
» changes regarding regulatory framework
» planned IT improvements
» ....
Preparation for IA strategic and annual planning

» Review of financial management and internal control system

» external audit reports (SAI, AA)
» financial reports
» statements on fiscal responsibility
» internal audit reports from previous periods
» other sources of information
Determining IA objectives

» Examples of the objectives of internal audit work
  » strengthening the control system in the area of revenue collection on a variety of grounds
  » contribution to the prevention of external audit findings in the area of asset management
  » strengthening the management and control system for the needs of rationalization in business, achieving possible savings on certain categories of expenditures, greater use of funds etc.

» Avoid general phrases: "internal audit contributes to cost-effective, efficient and effective way of working..."

» Objectives and direction of the internal audit work will be more concrete when the priority areas are identified
Identifying audit universe – potential audit areas

» Internal auditors should comprehensively review all potential audit areas
  » all business systems
  » functions
  » programs
  » projects, activities and business processes that may be subject to audit

» Potential audit areas are most often identified by
  » program approach
  » functional approach
  » combined approach
Identifying audit universe – potential audit areas

» Sources of information
   » organizational structure of the institutions
   » strategic and annual working plans
   » budget or financial plans
   » business development plans
   » role of institutions in the EU fund management system
   » discussions with management
   » internal and external audit reports
   » financial statements
   » statements on fiscal responsibility
   » ......
Identifying significant audit areas

» In order to reduce the scope of the audit and use audit resources more efficiently, it is necessary to rank the areas of auditing through categories of significance
  » contribution to the achievement of the institution's objectives
  » financial significance of the system/program (share in the financial plan-budget)
  » influence of the area on external stakeholders (citizens, entrepreneurs...)
  » influence of the area on internal systems (new IT system, treasury)
  » complexity of the area
  » vulnerability of the area......
Identifying and assessing risks

For significant areas

- Strategic risks
- Operational risks
- » Financial risks
- » Reputational risks
- » Political risks
- » Human resources risks
- » IT risks
- » Risks of asset management
Identifying and assessing risks

» For a purpose of a more objective risk assessment, risk factors need to be identified
  » events, circumstances, business trends that increase or may increase risk likelihood

» Examples
  » increase in liabilities
  » increase in uncollected receivables due
  » increased customer complaints
  » increase in irregularities in external audit findings
  » drop in revenues
  » complexity of the organization
  » frequent regulatory changes
  » complexity of regulation
Identifying and assessing risks

» Risk assessment - impact and likelihood on the basis of

» identified risk factors
» information collected through interviews with management
» analysis of all available documentation, data and information
Determing audit priorities

» Auditing of important and risky areas

List of priorities for the three year period
(significant and risky)
Determining audit priorities

» Internal audit prepares list of priority audit areas - selected audit priorities based on
  » the result of previous analyzes of relevant documentation
  » performed risk assessment

» Internal audit discuss the list with management
Determing audit priorities

<table>
<thead>
<tr>
<th>PRIORITY AREAS</th>
<th>LINKS</th>
<th>INTERNAL AUDIT OBJECTIVES</th>
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</thead>
<tbody>
<tr>
<td>Contribution to the strategic priorities</td>
<td>National reform program</td>
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Connection of strategic and annual IA plan

» List of priority audit areas per years

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<th>PRIORITY AUDIT AREAS</th>
<th>(First year of strategic plan)</th>
<th>(Second year of strategic plan)</th>
<th>(Third year of strategic plan)</th>
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