

Strategic and Annual Internal Audit Planning - Practical example

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Connection of strategic and annual IA plans

» 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)



- » 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 informations



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 compliants
 - » increase in irregularities in external audit findings
 - » drop in revenues
 - » complexity of the organization
 - » frequent regulatory changes
 - » complexity of regulation



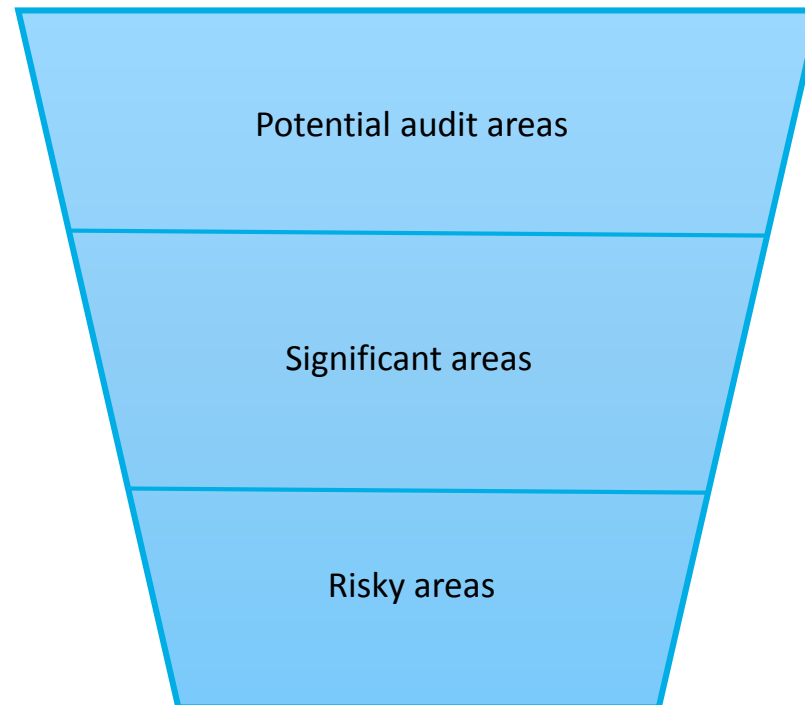
Identifying and assessing risks

- » 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



Determining 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



Determining audit priorities

PRIORITY AREAS		LINKS							INTERNAL AUDIT OBJECTIVES
		Contribution to the strategic priorities	National reform program	Financial significance	Management of EU funds	External audit findings (SAI, AA)	Risk level	Management request	
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									
9.									
10.									
xy									

Connection of strategic and annual IA plan

» List of priority audit areas per years

PRIORITY AUDIT AREAS		(First year of strategic plan)	(Second year of strategic plan)	(Third year of strategic plan)
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
...				
TOTAL NUMBER OF AUDITS				