

## RISK-BASED AUDITING OPEN COURSE PROGRAMME

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### SUMMARY

#### DAY ONE: RISK, RISK MANAGEMENT AND AUDIT

##### The Nature of Risk

- Risk-based auditing defined
- The concept of risk
- Risk as a topical issue
- Business risk
- Categories of business risk
- Emerging risks

*Exercise: classifying risks*

##### Risk and Internal Audit

- Changing audit paradigms
- New IIA and other international Standards
- Integrating the risk-based approach into audit methods
- The three dimensions of risk-based auditing
- Issues arising

*Discussion: audit options and opportunities*

##### Risk Management

- Taking and controlling risks
- Related developments, e.g. control self-assessment
- Risk management programmes and systems
- Risk management standards: AS/NZ 4360:1999
- Embedding a business risk management process

*Examples of risk management programmes and systems in practice*

#### DAY TWO: INTERNAL AUDIT'S CONTRIBUTION TO EFFECTIVE RISK MANAGEMENT

##### Audit Involvement in Risk Management

- Possible roles for internal audit
- The four levels of risk management

*Explanation and discussion of the options for audit involvement, and their benefits and implications*



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### Promoting, Evaluating and Improving Risk Management Systems

- Establishing a risk management programme
- The overall framework
- An embedded risk management system
  - risk identification, classification, recording
  - risk analysis and evaluation
  - risk mitigation: treat, terminate, 'transfer', tolerate
  - risk recording, monitoring and review
  - risk reporting
  - audit role and techniques overall and for each element

*Exercises in audit's contribution and use of the various techniques throughout the day*

### DAY THREE: RISK-BASED AUDITING IN PRACTICE

#### The Risk-Based Audit Process

- Elements and stages of the process
  - planning the audit
  - ascertaining and recording the system
  - assessing risk and controls
  - testing the application and effectiveness of controls and risk mitigation activities
  - evaluating findings
  - reporting results and follow-up
- Applying the approach
  - corporate and strategic activities
  - operational activities
- Risk-based auditing techniques
- Risk-reporting
- Management's acceptance of risk

#### Risk and Audit Planning

- Using the results of management's own risk assessment

#### Operational Level Risk-Based Audits

- Building on the systems-based approach
- Issue and risk analysis
- Risk-based auditing: applications

*Exercise: Planning and performing a risk-based audit*

#### Corporate Level Risk-Based Audits

- Strategic level assurances
- Corporate governance reviews



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- High level risk-based audits of specific issues: e.g. reputation risk; environmental risk, financial control
- Independent appraisal of management's own risk assessment arrangements
- Use of control frameworks such as COSO
- Auditing the control environment

*Examples of risk-based corporate audits; main case study*

### **The Practicalities of Risk-Based Auditing**

- Implementing a risk-based approach
- Using software
- The way forward



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### DETAILED

#### DAY ONE: RISK, RISK MANAGEMENT AND AUDIT

##### Course Introduction

##### The Nature of Risk

- Risk-based auditing defined:
  - RBA in the context of business process (“systems”) auditing
  - comparison with other methods
  - reasons for its adoption
  - features: embedding risk into all aspects of audit work
- The concept of risk explained
  - nature and elements of risk: likelihood and impact
  - the relationship between risk and objectives
  - risk and opportunities
  - risk-taking and risk management
  - operational, control and audit risk
  - inherent and residual risk
- Risk as a topical issue:
  - external drivers: corporate governance initiatives and regulatory requirements; control models such as COSO
  - internal drivers: business needs
- Business risk
  - business uncertainty
  - risk attitudes and strategies
  - enterprise versus caution
- Categories of business risk
  - the scope of enterprise risk
  - ways of categorising; sources and consequences
- Emerging risks

##### Risk and Internal Audit

- Changing audit paradigms
  - traditional approach
  - conventional auditing
  - leading edge auditing
  - off-the-edge auditing
- New IIA and other international Standards
  - IIA definition
  - nature, content and impact of new IIA Standards and Practice Advisories
- Integrating the risk-based approach into audit methods
  - the role, scope and methodology of modern internal audit
  - a way of thinking
  - embedding risk at audit management and operational levels
  - expectations, challenges, opportunities
  - audit styles: working in partnership



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- The three aspects of risk-based auditing
  - use of risk factors in audit planning
  - independent risk identification and assessment
  - participation in risk management initiatives and processes
- Issues arising
  - use of risk for audit purposes
  - promoting active risk management
  - principles of independence and value adding
  - the auditor as risk consultant

*Discussion: audit options and opportunities*

### **Risk Management**

- Taking and controlling risks
  - the nature of risk management
  - assigning responsibilities
  - risk appetite and strategy
  - risk mitigation
- Related developments
  - control self-assessment
  - risk and control reporting
  - insurance and other angles
- Risk management programmes and systems
  - developing, implementing, operating and reviewing risk management processes
- Risk management standards
  - AS/NZ 4360:1999
  - draft UK and other standards
- Embedding a business risk management process
  - approaches
  - conditions for success
  - overview of a comprehensive, integrated risk management system

*Examples of risk management in practice*

## **DAY TWO: INTERNAL AUDIT'S CONTRIBUTION TO EFFECTIVE RISK MANAGEMENT**

### **Audit Involvement in Risk Management**

- Possible roles for internal audit
  - audit's overall strategy and approach
  - implications of different forms of involvement
  - the contribution of others
- The four levels of risk management
  - overall framework
  - embedded risk management system
  - specific risk management programmes
  - day-to-day rational risk-taking



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### Promoting, Evaluating and Improving Risk Management Systems

- The overall framework
  - the organisational context
  - linking risks to objectives and strategies
  - developing an appropriate infrastructure; responsibilities
  - audit role and techniques
  - audit's place in the framework: relationships with others
- An embedded risk management system
  - risk identification, classification, recording
  - risk analysis and evaluation
  - risk mitigation: treat, terminate, 'transfer', tolerate
  - risk recording, monitoring and review
  - risk reporting
  - audit's role and techniques overall and for each element

*Exercises in audit's contribution and use of the various techniques throughout the day*

### DAY THREE RISK-BASED AUDITING IN PRACTICE

#### The Risk-Based Audit Process

- Elements and stages of the process
  - planning the audit
  - ascertaining and recording the system
  - assessing risk and controls
  - testing the application and effectiveness of controls and risk mitigation activities
  - evaluating findings
  - reporting results and follow-up
- Applying the approach
  - corporate and strategic activities
  - operational activities
- Risk-based auditing techniques
  - risk matrices
  - CRSA, etc
- Risk-reporting
  - annual audit assurance
  - management's acceptance of risk

#### Risk and Audit Planning

- Using the results of management's own risk assessment
  - independent or integrated strategic audit plans?

#### Operational Level Risk-Based Audits

- Building on the systems-based approach
  - characteristics and concepts



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- methodology and techniques
- applications
- Issue and risk analysis
  - extending the range of concerns
  - systematic and brainstorming approaches
- Risk-based auditing: applications
  - selecting areas
  - turning theory into practice

*Exercise: Planning and performing a risk-based audit*

### Corporate Level Risk-Based Audits

- Strategic level assurances
  - examples of developments and high level reviews
  - implications of such reviews
- Corporate governance reviews
  - nature
  - approach
  - working at Board level
  - contribution of others
- High level risk-based audits of specific issues
  - risk
- Independent appraisal of management's own risk assessment arrangements
  - planning and performing the assignment
- Use of control frameworks such as COSO
  - nature and use of COSO
  - control objectives
  - control components, including risk assessment
- Auditing the control environment
  - considering 'soft issues'
  - addressing ethical and other matters
  - auditing the 'tone at the top'

*Examples of risk-based corporate audits; main case study*

### The Practicalities of Risk-Based Auditing

- Implementing a risk-based approach
  - issues and concerns
  - matters arising from the training
- Using software
  - packages available
- The way forward
  - what happens next?

**Trainer:** *Keith Wade MA CPFA FIIA  
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