

# Implementing a Risk-Based Internal Audit Methodology



# About MED-AIGC

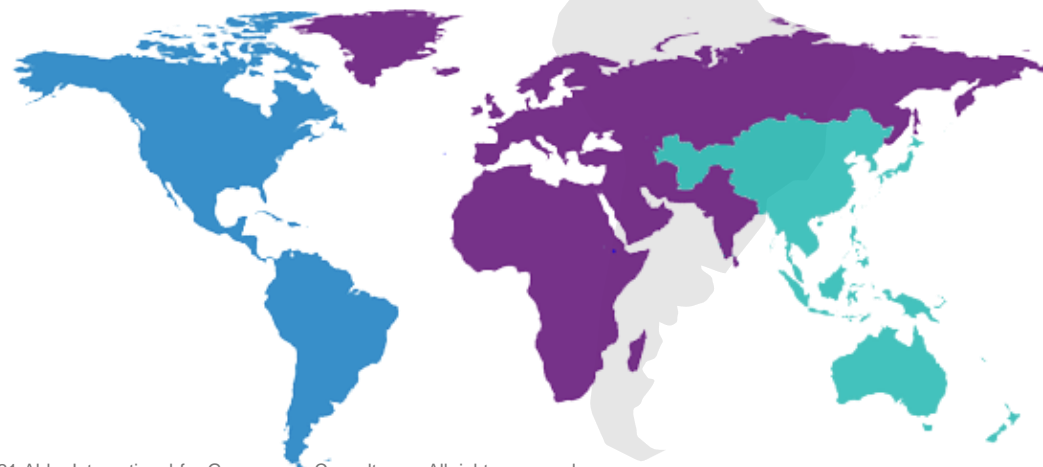
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## Our Risk Advisory Services

- Helping organizations implement Risk-Based Audit Methodologies and Internal Audit Software.
- Conducting Quality Reviews on Audit Functions.
- Outsourcing / Co-sourcing Internal Audit assignments.
- Data analytics services
- Conducting Risk Assessment Assignments.
- Implementing ERM (Enterprise Risk Management)/ORM (Operational Risk Management) Systems.
- Providing assistance in Assessing Compliance Risks and implementing Compliance Risk Monitoring systems.
- Documenting Policies and Standard Operating Procedures (SOPs).
- Conducting Fraud Audits.
- Conducting Fraud investigations.
- Loss quantification assignments.
- Developing / Reviewing Corporate Governance manuals
- Evaluating Controls

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**Summary**

# 1

## Relevant Definitions



# Risk

## Scope of Definition



## Risk: Wider Scope Definition

A range of possible negative events that could take place in an uncertain environment

Each of these events could have a significant impact on the organization and its goals.

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**Risk** is anything that will **prevent** you from **achieving** your business objectives....

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# Control

## Broadly Defined



## Control: Wider Scope Definition

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... is broadly defined as 'the **combination of many factor** which **support people** in their **efforts to achieve** their **business objectives**'.

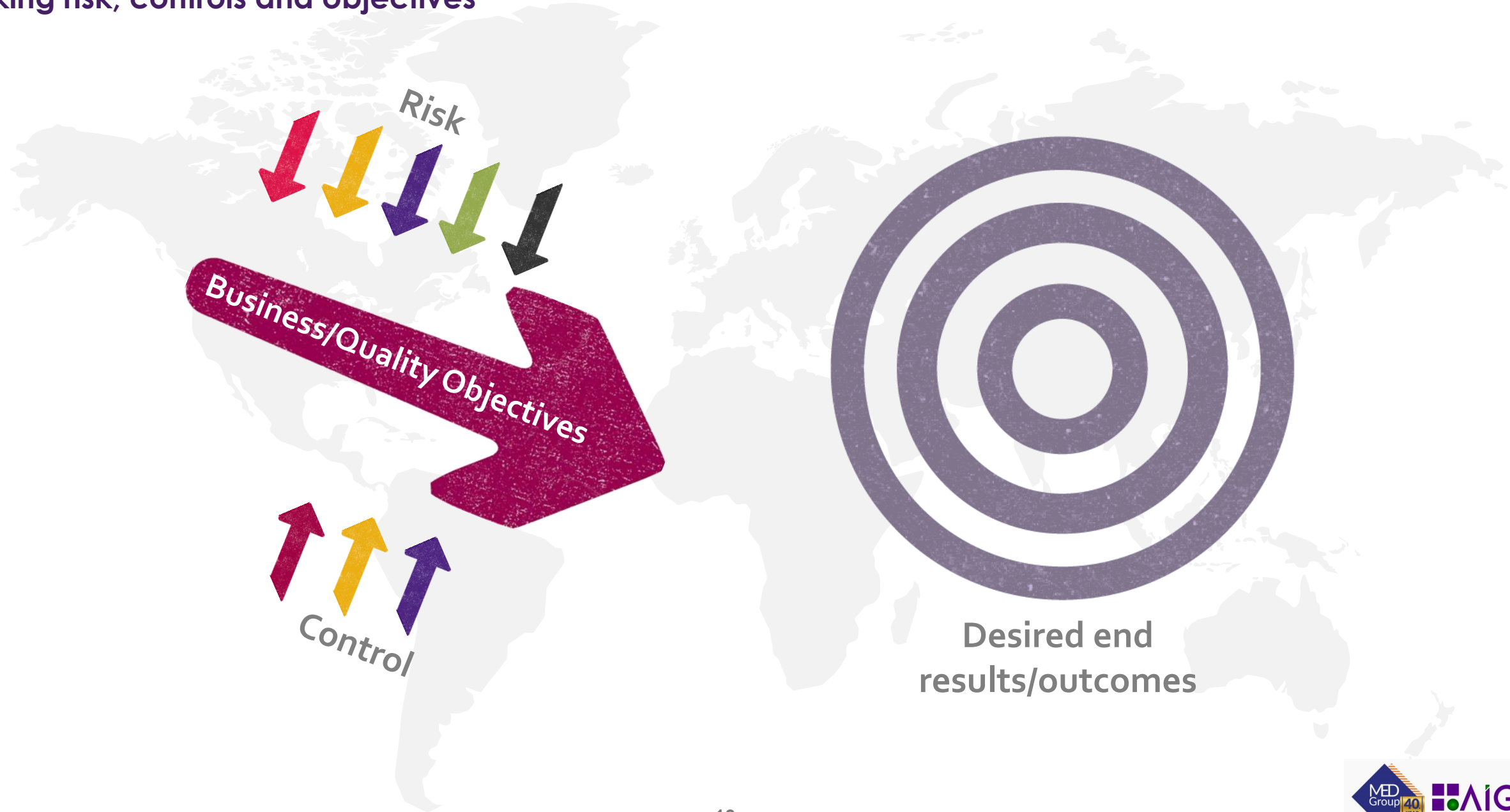
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# Linking risk, controls and objectives



# Linking risk, controls and objectives



# Linking risk, controls and objectives



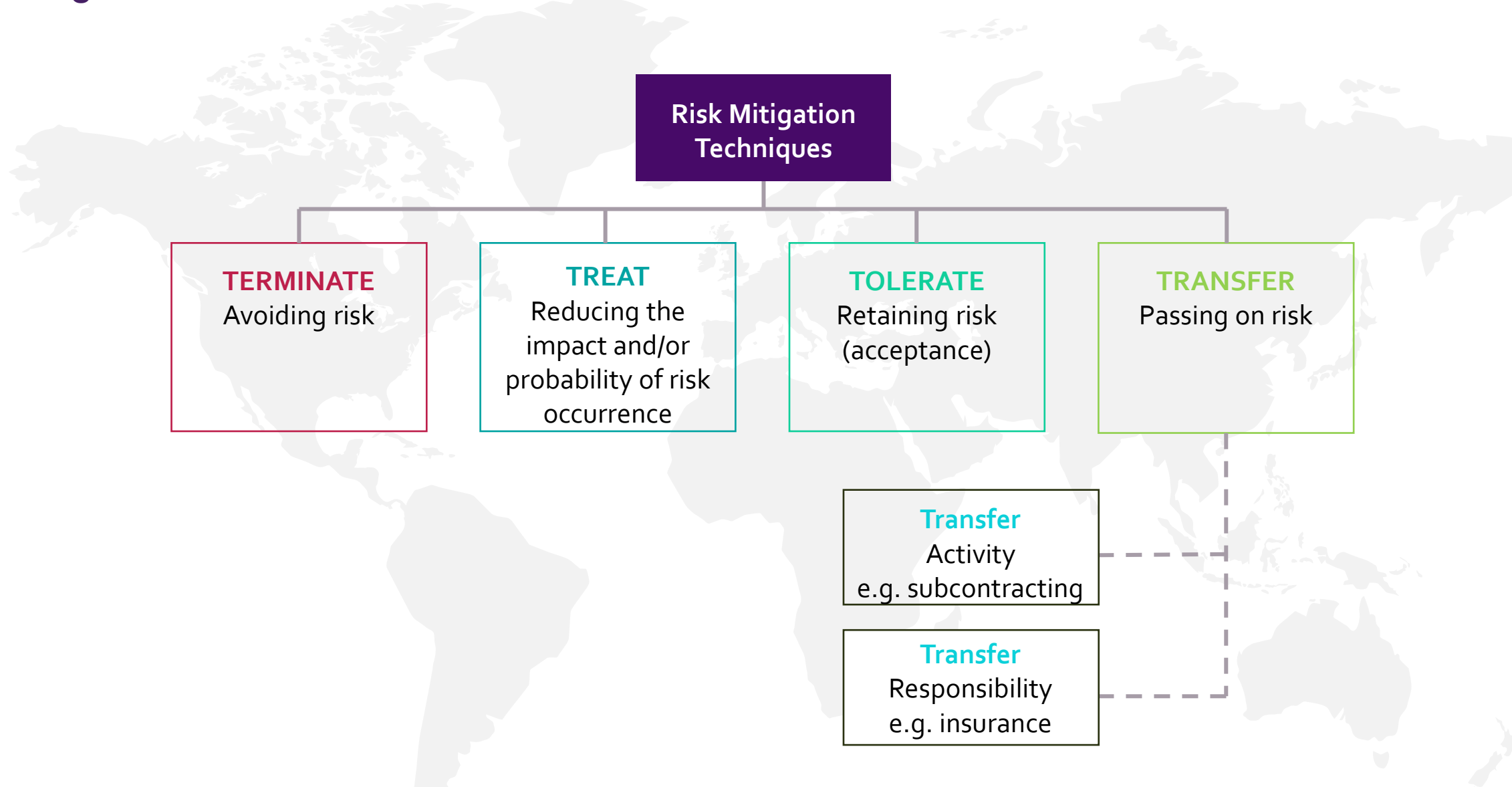
# Risk Management



... represents the **diversity** of **actions** management takes in order to mitigate some or all of the business risks.



# Risk Mitigation



# 2

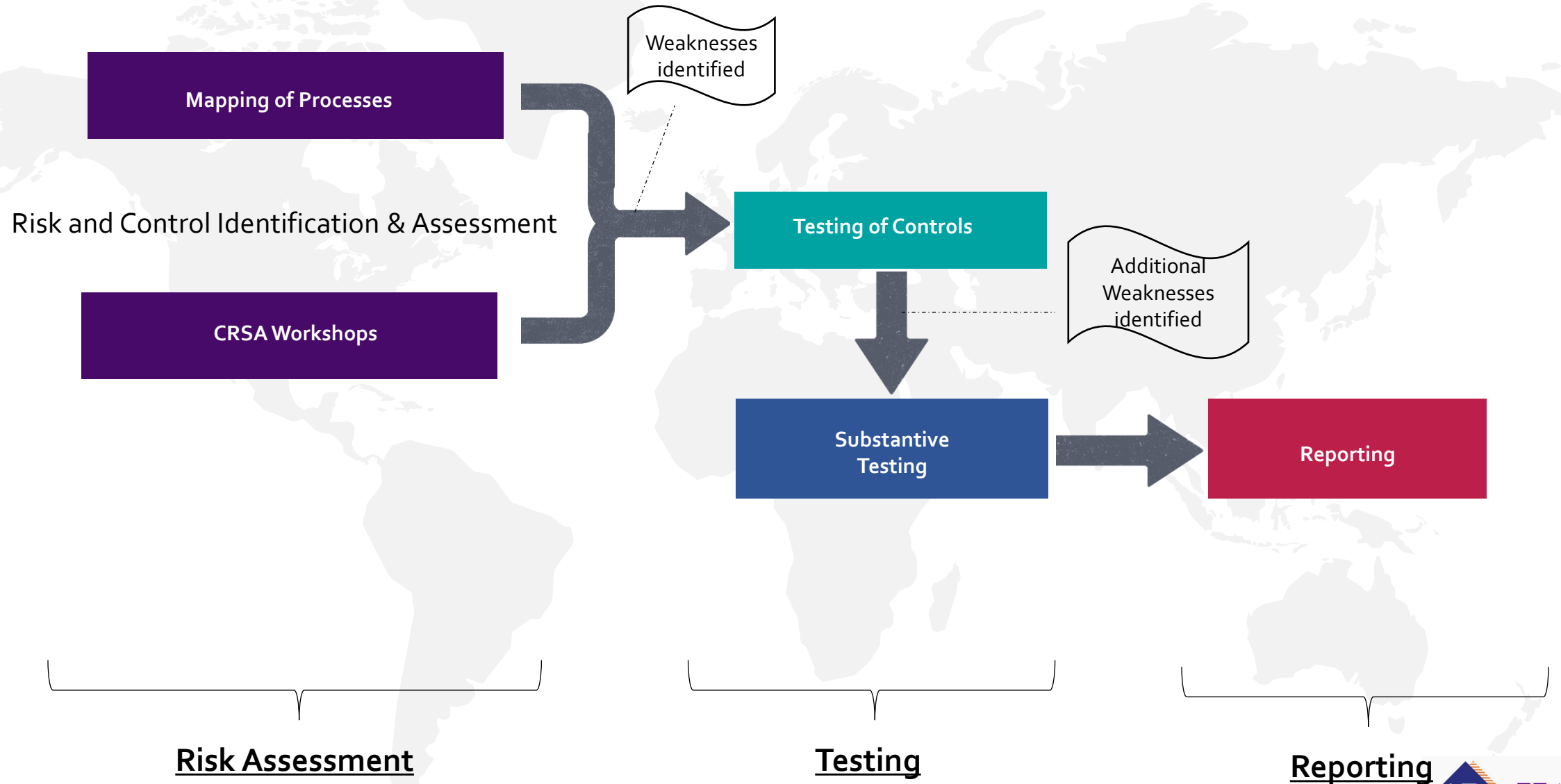
## Risk-Based Internal Audit Process

## What is RBIA?

### The Institute of Internal Auditors defines Risk Based Internal Auditing (RBIA) as a methodology that:

- Links **internal auditing** to an organization's overall risk management framework
- Allows internal audit to provide **assurance** to the board that risk management processes are managing risk **effectively** in relation to the risk appetite.

# Risk-Based Internal Audit Process



# What is CRSA?

**A process which the Business Unit members collectively:**

- Identify business uncertainties in their area of responsibility (Risks)
- Assess and evaluate their control activities
- Identify areas of weaknesses
- Develop actions for improvements under the guidance of Risk Management.



## Benefits of CRSA (Control and Risk Self-Assessment)

- Transfers the responsibility and ownership for developing, assessing, maintaining and monitoring controls to line management.
- Promotes controls and accountability throughout the Company.
- Increases comfort for Board and external stakeholders that controls are effective.
- Raises the overall awareness on controls.
- Improves efficiency of operations (by abandoning unnecessary controls)
- Aids management & audit in identifying potential exposures & weaknesses in internal control systems thus preventing errors & fraud.



## The CRSA Workshop

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The following slides shows a sample of **the risk assessment results** related to a Procurement function

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# Risk Register

Number	Subject	Impact	Probability	Asset	Working	Actual
10	Delay/failure in processing purchase requisitions	Medium	High	Cash/Financial Assets/Profitability	A	A
20	Issuing a wrong PO	Low	High	Cash/Financial Assets/Profitability	A	A
40	Unclear specification in the purchase requisition	Medium	High	Cash/Financial Assets/Profitability	A	A
50	Delay/failure to deliver purchase order	Low	Medium	Cash/Financial Assets/Profitability	C	C
60	Purchasing items that are already in stock	Medium	High	Cash/Financial Assets/Profitability	D	D
70	Purchasing large quantities that are not in need	Medium	High	Cash/Financial Assets/Profitability	B	B

80	Missing opportunity	Risk No:	<input type="text" value="20"/>				
90	FOC items granted	Risk Subject:	<input type="text" value="Issuing a wrong PO"/>		Asset:	<input type="text" value="Cash/Financial Assets/Profitability"/>	
100	Purchase price exchange	Description:	<p>Since the PO is prepared manually, there is a chance that it might contain wrong data:</p> <ul style="list-style-type: none"> <li>- wrong price</li> <li>- wrong quantity</li> <li>- wrong terms</li> <li>- wrong specifications</li> </ul>		Impact:	<input type="text" value="Cash/Financial Assets/Profitability"/> <ul style="list-style-type: none"> <li>Cash/Financial Assets/Profitability</li> <li>Goodwill Service &amp; Fairness</li> <li>Legal / Regulatory</li> <li>Knowledge</li> <li>Information</li> <li>Physical Assets</li> <li>Reputation/Goodwill</li> <li>Shariaa Goodwill</li> <li>Cash &amp; Legal</li> </ul>	
110	FX fluctuations	Entity Objective:	<input type="text"/>		Probability:		
		Impact on Objective:	<input type="text"/>		Working Env:		
		Basel Risk Category:	<input type="text"/>		Actual Env:		
		Basel Event Type:	<input type="text"/>		Predicted Env:		
		Basel Risk:	<input type="text"/>		Target Score:		
					Working Score:	24	
					Actual Score:	24	
					Gross Score:	99	
					Predicted Score:	24	
					Financial Reporting:	<input type="checkbox"/>	
					Weakness:		

# Control Register

Number	Control subject	Control Type	Test Result
10	Purchase Requisition system controls	Preventative	Untested
20	Purchase requisition checked by P. Officer	Preventative	Untested
30	Purchases policies and procedures manual	Preventative	Untested
40	Inventory items assigned to concerned P Officer	Preventative	Untested
50	3 Quotations from suppliers	Preventative	Untested
60	Quote analyzed by P Off & reviewed by Manager	Preventative	Untested
70	Purchase Order system controls	Preventative	Untested
80	Cost Cor		
90	PO is sig		
100	Follow-up		
110	Log book		

Control No:

Subject:

Description:

Control Type:

IT Related:

Control Category:

Control Sub-Category:

Control Status:

Cost Of Control:

Regulatory Compliance Status:

Linked to Mandated Control:

COSO element:

COSO principles:



# Risk and Control Matrix

Purchases , Gap %: 82%

No 10 : Delay/failure in processing purchase requisitions Asset: Cash/Financial Assets/Pr Impact: Medium - Probability: High

No	Control Description	Type	Test	10	20	40	50	60	70	80	90	100	110	120	130	140	150	160	170	180
10	Purchase Requisition system controls	P	U	2		4		2							2					
20	Purchase requisition checked by P. Officer	P	U					2	3											
30	Purchases policies and procedures manual	P	U										4							
40	Inventory items assigned to concerned P Officer	P	U	3	2															
50	3 Quotations from suppliers	P	U									3								
60	Quote analyzed by P Off & reviewed by Manager	P	U						3	4		4				3				
70	Purchase Order system controls	P	U																	
80	Cost Control Committee	E	U																	
90	PO is signed by three officers	P	U		4	2			3			2								
100	Follow-up system	C	U	4			2								3					
110	Log book for PO sent to the requesting Dept	C	U				2													
120	Fax office	E	U				2													
130	Warehouse	E	U											4			4			
140	Monitoring of inventory levels & expiry dates	P	U		1			1	3											
150	Staff rotation	P	U								3									
160	ABC Office in Germany	E	U			2							3				3			
170	Management supervision	P	U	2															4	
180	Finance Department	E	U																	
190	Monthly MIS reports reviewed by the PM	T	U									2								
200	Safekeeping of important documents - PO	P	U																	
210	Construction Division	E	U																	
220	Agreements with suppliers	P	U												2					

Target Environment	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Working Environment	A	A	A	C	D	B	A	D	A	A	B	C	D	A	B	D	B	D	B	
Actual Environment (SA)	A	A	A	C	D	B	A	D	A	A	B	C	D	A	B	D	B	D	B	
Gross Environment	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	
Predicted Environment	A	A	A	C	D	B	A	C	A	A	B	A	B	A	B	A	B	D	B	
Target Score (1081)	49	24	49	16	49	49	32	24	49	49	32	49	49	32	49	32	24	8	49	66
Working Score (1973)	49	24	49	49	198	59	32	99	49	49	39	148	130	24	9	198	79			
Actual Score (SA) (1973)	49	24	49	49	198	59	32	99	49	49	39	148	130	24	9	198	79			

# Remedial Actions

Diary Subject	Actioned Date	Risk/Event/Control/Activity	Status	Responsibility	Follow-up Date	Completed(%)	Priority
System to show inventory balances		Risk 60: Purchasing items that are already in stock	Raised In Draft	Ahmed Mahmoud	09/11/2021 00:00:00	0	Medium
Advance Payment Guarantee		Risk 140: Bankruptcy/failure of supplier	Raised In Draft	Mahmoud Nassar	31/08/2018 00:00:00	0	Medium
List of approved suppliers		Risk 140: Bankruptcy/failure of supplier	Raised In Draft	Mahmoud Nassar	01/10/2018 00:00:00	0	High
Suppliers informed of approved signatories		Risk 220: Employee sabotage	Raised In Draft	Purchases Manager	31/10/2018 00:00:00	0	Medium
Procedures for monitoring service contracts		Risk 280: Payment made but service not received	Raised In Draft	Purchases Manager	01/12/2018 00:00:00	0	Low

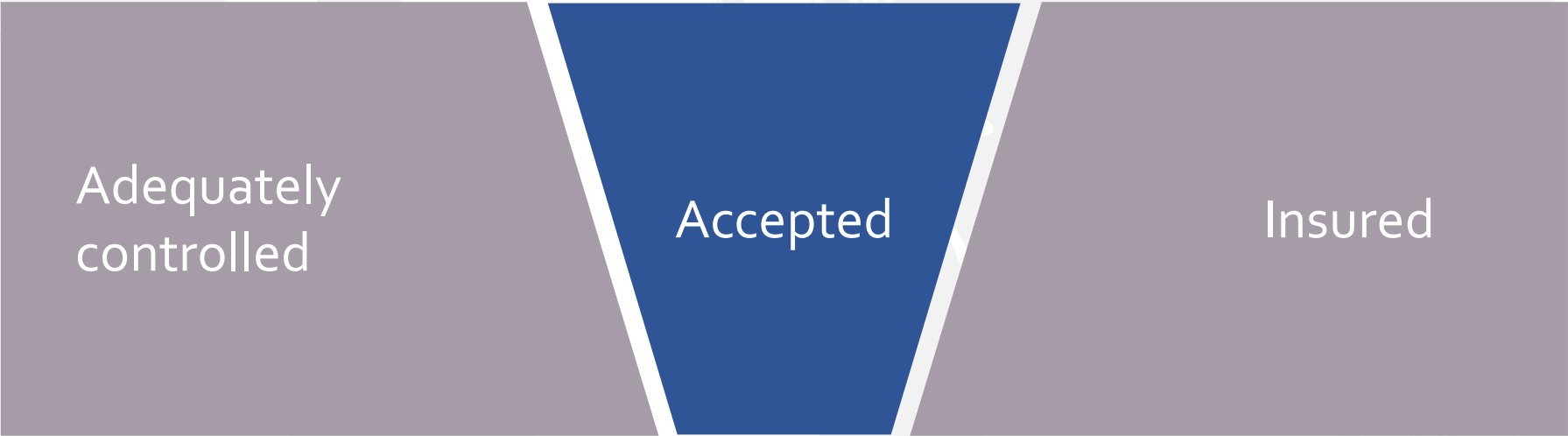
Enhance

Diary No.:	1	Raised by:	Admin
Diary Subject:	System to show inventory balances	Action by:	Ahmed Mahmoud
Risk / Control:	60:Purchasing items that are already in stock	Action Date:	09/Dec/2021
Diary Type:	New Control	Follow-up Date:	09/Nov/2021
Control Type:	Preventative	Raised On:	15/Dec/2021
Status:	Raised In Draft	Actioned/Closed Date:	
Updated by:	Admin	Internal Audit Related:	<input type="checkbox"/>
Updated On:	15/Dec/2021	Completed(%)	0
		Priority:	Medium
		Raised by:	

System to show the overall stock balances in all warehouses. PM should verify the balances prior to processing the PR

# Components of risks

RISK



# 3

## Practical Guidance on Risk-Based Internal Audit Implementation

## Elements of RBIA

- Planning
- Execution
- Reporting

## Planning for RBIA

There are two components:

- ❑ Mandays and the availability of the team members

Auditor Name	Total Working Days in the Year	Assigned Engagement Days	Vacations	Net Available Days	Employee No	Job Title	User Role
Admin	255	3	50	202	004	Head of IA	Administrator
Danish	255	3	35	217	002	IA Manager	Internal Auditor
Osama	255	3	20	232	005	IA Officer	Internal Auditor

- ❑ The Internal Audit view of the elements for all units within the portfolio:

Risk Evaluation Parameters			
Complexity:	<input type="text" value="2.00"/>	Management:	<input type="text" value="3.00"/>
Throughput:	<input type="text" value="3.00"/>	Control Environment:	<input type="text" value="4.00"/>
Value:	<input type="text" value="2.00"/>	Time Since Last Audit:	<input type="text" value="4.00"/>
Stability:	<input type="text" value="4.00"/>	Show Test for next:	<input type="text" value="300.00"/> (Days)

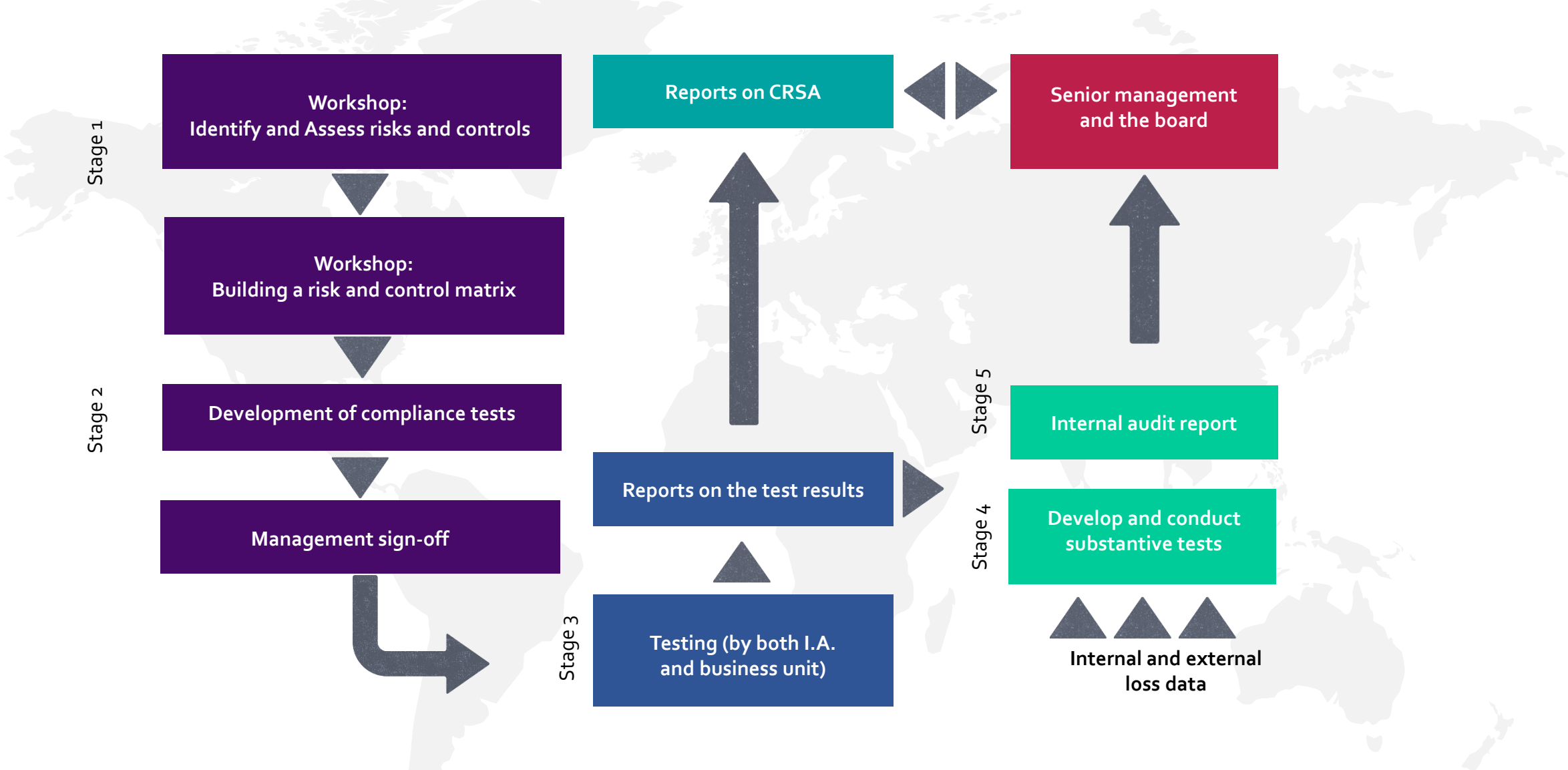
# Planning for RBIA – Con't

Entity	Complexity	Throughput	Value	Stability	Management	Control Environment	Time Since Last Audit	Overall Risk Rating	Star Rating
HKB - Foreign Ops Dept (132% Gap)	3	3	3	2	2	3	3	59	*****
Purchases (After testing)	3	3	3	1	1		3	52	*****
Human Resources (Post Testing)	2	3	2	2	2	3	2	51	*****
HK & C - Accounts Payable	1	3	3	1	1	3	3	48	*****
WECARE - Purchases	2	2	2	2	2	3	2	48	*****

Branch 2
Branch 4
Sales (Post Testing)
HKB - Commercial Credit

<span>+</span> Schedule New Audit <span>📅</span> Calendar View <span>✎</span> Edit View <span>🔍</span> Filter <span>🖨</span> Print								
Scheduled Start Date	Scheduled Completion Date	Actual Start Date	Actual Completion Date	Lead Auditor	Scheduled Total days	Actual Total days	Status	
Entity: EBC - Cards Functions (Post Testing)								
04/Jan/2016	13/Jan/2016			Admin	8	0	In Progress	
04/Jan/2016	13/Jan/2016			Admin	8	0	In Progress	
15/Nov/2016	20/Nov/2016			Admin	4	0	Not Started	
15/Nov/2016	20/Nov/2016			Admin	4	0	Not Started	
Entity: Purchases								
08/Mar/2016	09/Mar/2016			Admin	2	0	In Progress	
08/Mar/2016	09/Mar/2016			Admin	2	0	In Progress	
Entity: Purchases (After testing)								
10/Aug/2017	25/Aug/2017	07/Sep/2017	19/Oct/2017	Admin	11	31	In Progress	

# Practical Guidance on Risk-Based Internal Audit Execution



## Execution

There are two main types of Audit Tests:

- ❑ **Compliance Testing**

These tests provide the necessary evidence to ensure that controls are properly applied (as described by management)

- ❑ **Substantive Testing**

They are tests for operations, account balances, and other tests (such as/ analytical review) that aim to obtain evidences of the degree completeness, existence, and the accuracy of the data in the accounting records or financial systems. They are used to examine areas where internal controls are considered weak to establish whether the risks that the controls were intended to mitigate have actually occurred.

# Compliance Testing

Control

Control No:  Subject:

Control Type:  Description: 

1. Purchase requisition is entered by the authorized requester on the system..
2. Certain fields are mandatory to fill.
3. Authorization levels on the system. The system will forward the requisition to the correct authority.
4. Automatically generated PR serial no.
5. In case the PR is not processed the requester has the ability to view status.
6. Upon making a request the system will show the available quantity of that item in the warehouse and in the area-store. THE SYSTEM HOWEVER DOES NOT SHOW THE BALANCES IN OTHER XYZ-GROUP WAREHOUSES

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Audit Test Details

Test Result:  Test Date:  Approved from Audit Team Leader:  Finding Importance:

Test Description: 

Tests:
 

- 1- Inquire from the PM whether there were any system failures during the past year? If yes, inquire from the PM of the alternative procedures taken in case of system failure.
- 2- By requesting an unauthorized employee from the purchase department to try to approve a P.R, check whether the system prohibits an unauthorized person to do so.
- 3- Select a sample of 12 PO's (including at least 3 in foreign currency and also sele

 Audit Test Result: 

Upon conducting the test, we noted the following:
 

1. The system has stopped working four times during the last year, this forced the department to rely on manual operations.
2. Our sample indicated that 3 out of 15 transactions selected as a sample were not approved by the PM.
3. Purchases department submitted several requests to IT department relating to issues in the system. However, IT Department did not/ was late in responding

 Managements Reply: 
 Auditor Name : Danish

Affected Risk
Diary
Working Papers
Test Log
Related Regulations

No	Subject	Impact	Probability	Asset	Score	Key Control	IA Use Working	Actual Env	Actual Env New
10	Opening an account with expired documents	Medium	Low	Cash/Financial Assets/Profitability	2	<input type="checkbox"/>	<input type="checkbox"/>	B	A
40	Unclear specification in the purchase requisition	Medium	High	Cash/Financial Assets/Profitability	4	<input checked="" type="checkbox"/>	<input type="checkbox"/>	D	B
60	Purchasing items that are already in stock	Medium	High	Cash/Financial Assets/Profitability	2	<input type="checkbox"/>	<input type="checkbox"/>	D	D
130	Supplier delays	Medium	High	Cash/Financial Assets/Profitability	2	<input type="checkbox"/>	<input type="checkbox"/>	D	D

# Substantive Testing

**Risk Details**

Risk No	60	Asset	Cash/ Financial assets/ Profitability
Risk Subject	Purchasing items that are already in stock	Impact	Medium
Description	Purchasing Items from vendors although the items are already available in the warehouses.	Probability	High

No	Description	Type	Status	Score	Key	Use Working	IA Use Working
10	Purchase Requisition system controls	Other Entity	Never Works	2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20	Purchase requisition checked by P. Officer	Preventative	Never Works	2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
140	Monitoring of inventory levels & expiry dates	Preventative	Always Works	1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Page size: 10 | 3 items in 1 pages

**Substantive Test**

Event Discovered	<input type="radio"/> Yes <input type="radio"/> No	Test Date	15/Dec/2021	Test Schedule:	15/Dec/2019	Approved	<input type="checkbox"/>	Finding Importance	<div style="border: 1px solid black; padding: 2px;"> <span style="background-color: red; color: white; padding: 2px;">Very High</span>  <span style="background-color: blue; color: white; padding: 2px;">High</span>  <span style="background-color: orange; color: white; padding: 2px;">Medium</span>  <span style="background-color: yellow; color: black; padding: 2px;">Low</span>  <span style="background-color: green; color: white; padding: 2px;">Very Low</span> </div>
Test Description	Test Result		Managements Reply		Auditor Name				
<p>1.From the GL identify all payments made for goods during the previous 12 months; select 3 months, not consecutive plus all other payments &gt;SR50,000 and obtain all of the supporting documentation. Next obtain copies of the Inventory records for all other warehouses in the group (individual branch) for the 12 month period under review For the</p>	<p>Upon analyzing the list of items available in the inventory, it was noted that 53 out of 217 items were expired as of the date of our test. Upon conducting a physical inspection, it was noted that these items are indeed expired, moreover, they are still being issued to operations for use in the field. The value of these items is USD 5,600</p>								

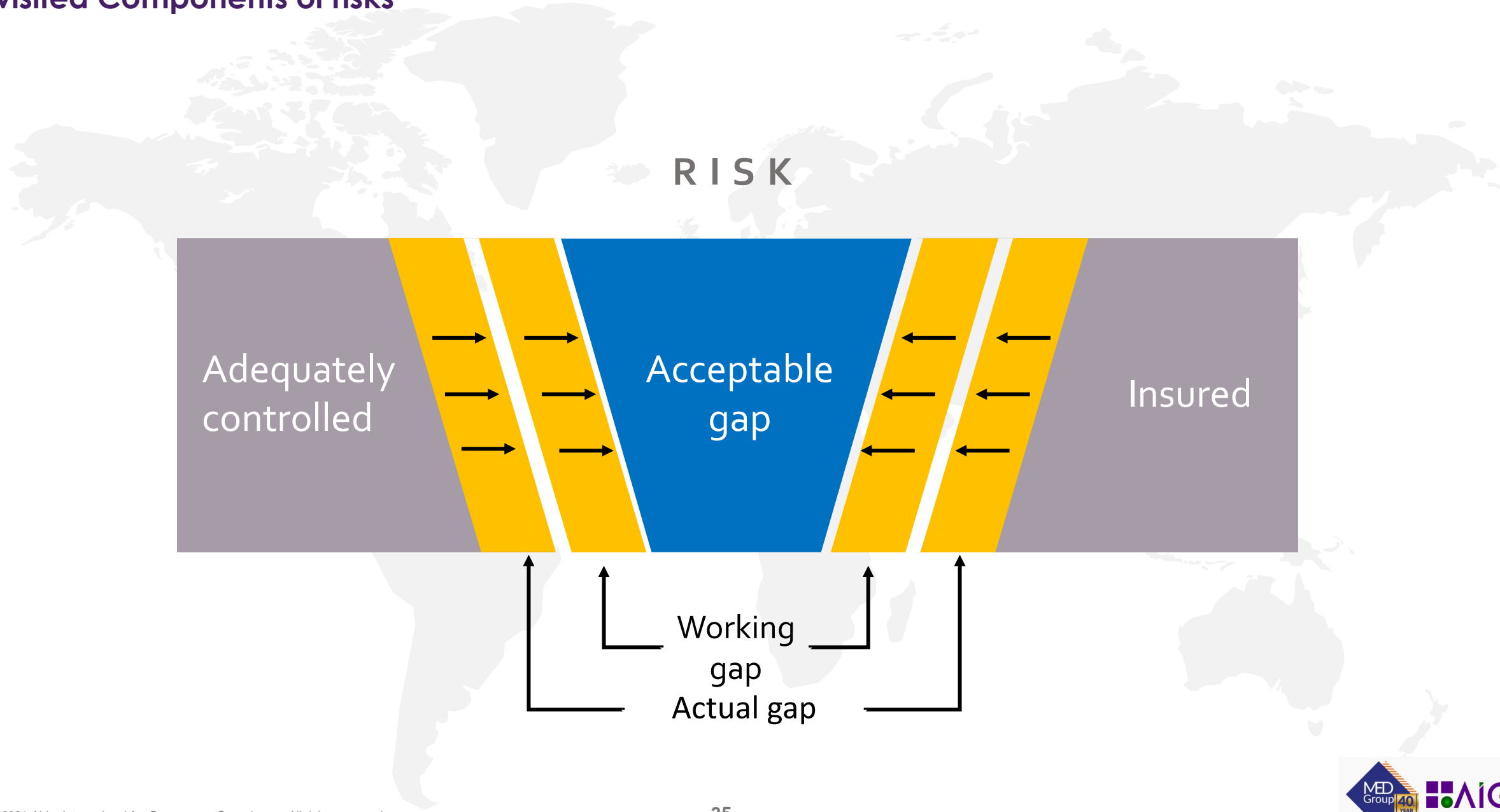
## Reporting

### The 5 C's of Reporting Internal Audit Findings:

1. Condition → What is the problem identified?
2. Criteria → Which Controls were Breached?
3. Cause → Caused by failure in Control Deployment or a deficiency in Control Design?
4. Consequence → Relevant Risks Impacted by the finding
5. Corrective action → Implement a new control or enhance an existing one?

Detailed Findings		Proposed action	Management Reply																																																																																				
2.	<p><b>Quotations Not Obtained as Per the Policy:</b></p> <p>Upon reviewing a sample of Purchase Orders (PO) (30 out of 8005) issued during the period covered by the audit, we noted the following:</p> <p>1. The supporting documents for 6 POs did not include any quotations. The table below shows the details of these POs:</p> <table border="1"> <thead> <tr> <th>Sn.</th> <th>PO Date</th> <th>PO Number</th> <th>PO Amount SAR</th> <th>Supplier Code</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>04-Jan-2017</td> <td>87475</td> <td>4,567</td> <td>S3037</td> </tr> <tr> <td>2</td> <td>09-Jan-2017</td> <td>87589</td> <td>2,500</td> <td>S3014</td> </tr> <tr> <td>3</td> <td>12-Jan-2017</td> <td>87658</td> <td>1,860</td> <td>S3036</td> </tr> <tr> <td>4</td> <td>01-Feb-2017</td> <td>88123</td> <td>7,600</td> <td>S3028</td> </tr> <tr> <td>5</td> <td>02-Feb-2017</td> <td>88153</td> <td>2,264</td> <td>S3059</td> </tr> <tr> <td>6</td> <td>15-Mar-2017</td> <td>89139</td> <td>950</td> <td>S3782</td> </tr> </tbody> </table> <p>2. The supporting documents for 3 POs included only 2 quotations. Moreover, no analysis was conducted over the received quotations. The table below shows the details of these POs:</p> <table border="1"> <thead> <tr> <th>Sn.</th> <th>PO Date</th> <th>PO Number</th> <th>PO Amount SAR</th> <th>Supplier Code</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>01-May-2017</td> <td>90166</td> <td>7,920</td> <td>S3954</td> </tr> <tr> <td>2</td> <td>29-Jun-2017</td> <td>91459</td> <td>38,000</td> <td>S4001</td> </tr> <tr> <td>3</td> <td>03-Aug-2017</td> <td>92226</td> <td>12,810</td> <td>S3876</td> </tr> </tbody> </table> <p>3. The supporting documents for 2 POs included only 1 quotation. The table below shows the details of these POs:</p> <table border="1"> <thead> <tr> <th>Sn.</th> <th>PO Date</th> <th>PO Number</th> <th>PO Amount SAR</th> <th>Supplier Code</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>23-Mar-2017</td> <td>89305</td> <td>20,000</td> <td>S3295</td> </tr> <tr> <td>2</td> <td>05-Jun-2017</td> <td>91027</td> <td>4,500</td> <td>S3171</td> </tr> </tbody> </table> <p><b>Risk profile situation:</b> As a result of these findings, control 20: (Obtaining multiple quotations) was rated as “Sometimes Works” and as a consequence, the entity’s Risk Profile was affected in the following manner:</p> <table border="1"> <thead> <tr> <th>Risk No.</th> <th>Risk description</th> <th>Asset type</th> <th>Impact</th> <th>Probability</th> <th>Working Env.</th> <th>Actual Env.</th> </tr> </thead> <tbody> <tr> <td>70</td> <td>Purchasing material higher than the market price</td> <td>Cash/Profitability</td> <td>Medium</td> <td>Medium</td> <td>D</td> <td>D</td> </tr> </tbody> </table>	Sn.	PO Date	PO Number	PO Amount SAR	Supplier Code	1	04-Jan-2017	87475	4,567	S3037	2	09-Jan-2017	87589	2,500	S3014	3	12-Jan-2017	87658	1,860	S3036	4	01-Feb-2017	88123	7,600	S3028	5	02-Feb-2017	88153	2,264	S3059	6	15-Mar-2017	89139	950	S3782	Sn.	PO Date	PO Number	PO Amount SAR	Supplier Code	1	01-May-2017	90166	7,920	S3954	2	29-Jun-2017	91459	38,000	S4001	3	03-Aug-2017	92226	12,810	S3876	Sn.	PO Date	PO Number	PO Amount SAR	Supplier Code	1	23-Mar-2017	89305	20,000	S3295	2	05-Jun-2017	91027	4,500	S3171	Risk No.	Risk description	Asset type	Impact	Probability	Working Env.	Actual Env.	70	Purchasing material higher than the market price	Cash/Profitability	Medium	Medium	D	D	<p>A Policy to be developed and followed for the required number of quotations to be obtained from suppliers.</p>	<p>Orders were based on previous purchases. That does not require new quotations.</p> <p><b>Auditor Reply:</b> The department should develop a clear policy to control POs process in terms of number of quotations to be obtained for each purchase.</p>
Sn.	PO Date	PO Number	PO Amount SAR	Supplier Code																																																																																			
1	04-Jan-2017	87475	4,567	S3037																																																																																			
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4	01-Feb-2017	88123	7,600	S3028																																																																																			
5	02-Feb-2017	88153	2,264	S3059																																																																																			
6	15-Mar-2017	89139	950	S3782																																																																																			
Sn.	PO Date	PO Number	PO Amount SAR	Supplier Code																																																																																			
1	01-May-2017	90166	7,920	S3954																																																																																			
2	29-Jun-2017	91459	38,000	S4001																																																																																			
3	03-Aug-2017	92226	12,810	S3876																																																																																			
Sn.	PO Date	PO Number	PO Amount SAR	Supplier Code																																																																																			
1	23-Mar-2017	89305	20,000	S3295																																																																																			
2	05-Jun-2017	91027	4,500	S3171																																																																																			
Risk No.	Risk description	Asset type	Impact	Probability	Working Env.	Actual Env.																																																																																	
70	Purchasing material higher than the market price	Cash/Profitability	Medium	Medium	D	D																																																																																	

# Revisited Components of risks



# 4

## Traditional vs. Risk-Based Internal Audit

# Traditional approach versus Risk Based IA Approach

Subject	Traditional internal audit approach	Risk based internal audit approach
Scope and Focus	Audit plan based on the audit cycle (time duration)	Audit plan based on the results of the business units risk evaluation. Risky areas are covered first and more frequently
	Focuses on compliance with P&P and the proper deployment of controls. No assessment is usually conducted on whether controls are sufficient to mitigate risks.	Starts by assessing whether controls are sufficient to mitigate risks and later tests whether these controls are properly deployed
	Does not aim to assess whether there are control redundancies	Focus on risks that are not properly controlled and/or overly controlled
	Important Risks might not be covered in the audit program	Provides assurance that Important risks are being managed properly
Efficiency and Cost effectiveness	An understanding of business unit operations is built through time consuming process mapping exercises and might rely on outdated P&P manuals.	In depth understanding of the business unit operations through risk assessment workshops and with the participation of the business unit management.
	Internal audit resources are spread over all business units/activities	More efficient use of internal audit resources by concentrating on risky units/areas

# Traditional approach versus Risk Based IA Approach

Subject	Traditional internal audit approach	Risk based internal audit approach
<b>Relationship with the business</b>	<p>It is common to have disagreements with the business unit management on the importance of the findings raised by internal audit</p>	<p>The importance of risks is established during the risk assessment phase and in agreement between internal audit the business unit management</p>
	<p>Disagreements with the business unit management on the action plans is also common. Leading to delays in implementation</p>	<p>Remedial actions are discussed and agreed with the Business, thus improving timely and effective implementation of corrective measures</p>
<b>Objectivity</b>	<p>Subjective internal audit ratings; the auditor mainly relies on his judgment on the importance of each finding.</p>	<p>More objective ratings (findings are classified in accordance with pre-agreed risk importance criteria).</p>

# 5

## The Need for Technology

## The Need for Automation

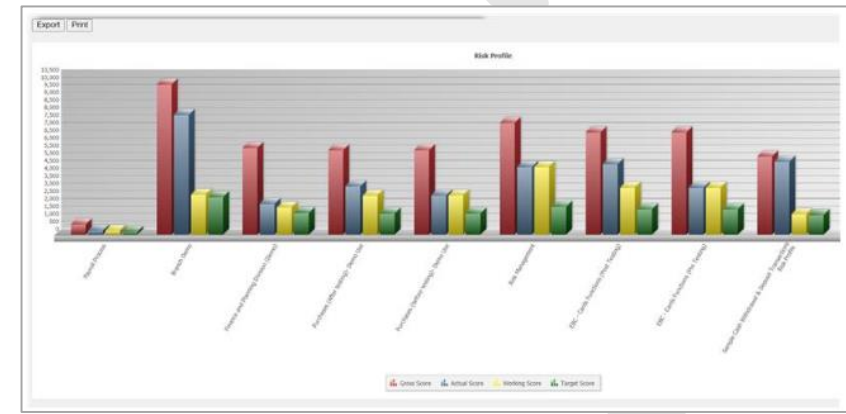
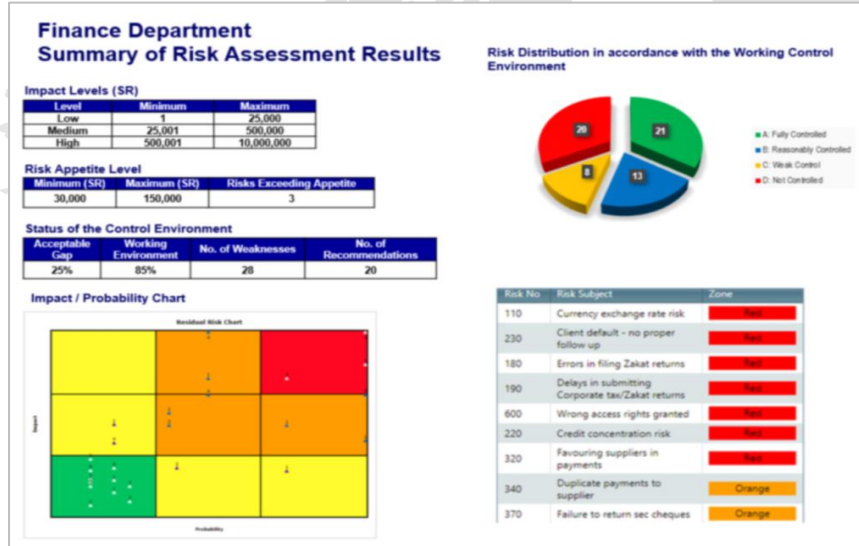
There is a Growing Need for Internal Audit to continuously evolve. The reasons include (but not limited to):

1. Technological Advancements resulting in:
  - i. Large Size of Data and Daily Transactions
  - ii. Multiple Sources of Data Preventing Standardization
  - iii. Advanced Technical Operations resulting in a significant number of potential risks
2. Limited Resources which Prevents Auditing the Available Information/ Documents in a timely manner.
3. The Need For More Enhanced Value Added From The Internal Audit Work.

**Internal Auditors Should Find Methods to Automate Their Activities and Apply Continuous Monitoring Techniques**

# CAREweb for Risk Based Internal Audit

(Risk Assessment Dashboard)



(Key Residual Risks)

### Corp. Risk Importance

Organisation Level: UK Demo, Impact (I), Probability (P)

Sorted by Corp. Risk Importance

Cumulative Gap%: 113.47

Entity	Risk No	Description	Asset	Impact	Probability
Corporate Risks-Middle East Div	10	Financial misstatement	Reputation/Good will	High	High
Corporate Risks-Middle East Div	60	Dominant chief executive	Cash/ Financial Assets/ Profitability	High	High
Corporate Risks-Middle East Div	70	Lack of strategic direction	Cash/ Financial	High	High
Loans and Deposits Operations	50	Exceeding the authorised limits			
Loans and Deposits Operations	10	Wrong account or amount entry booking			
Corporate Risks-Middle East Div	150	IT system Failure			
Branch Demo	450	High employee turnover rate			
Branch Demo	420	Branch armed robbery			



# IDEA Data Analytics for Risk-Based Internal Audit

(Data Visualization)



(Red Flags Identified)

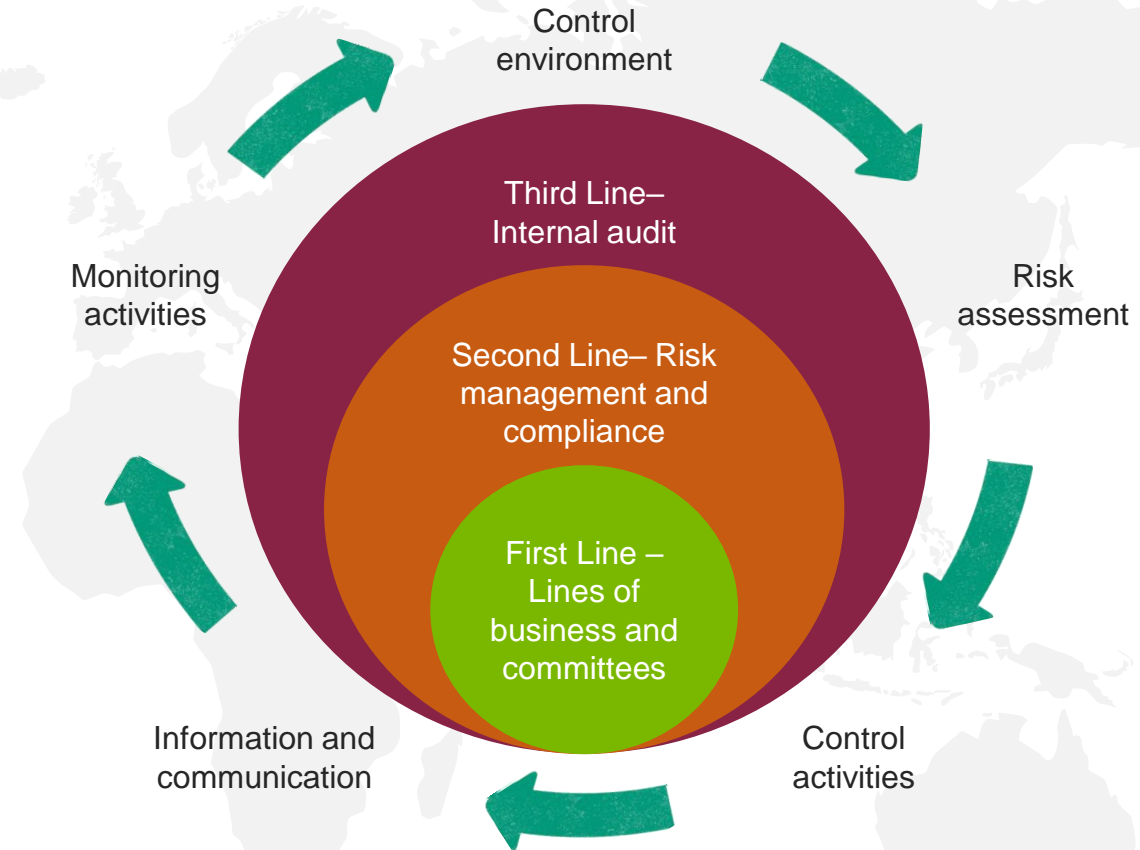


# 6 | Summary

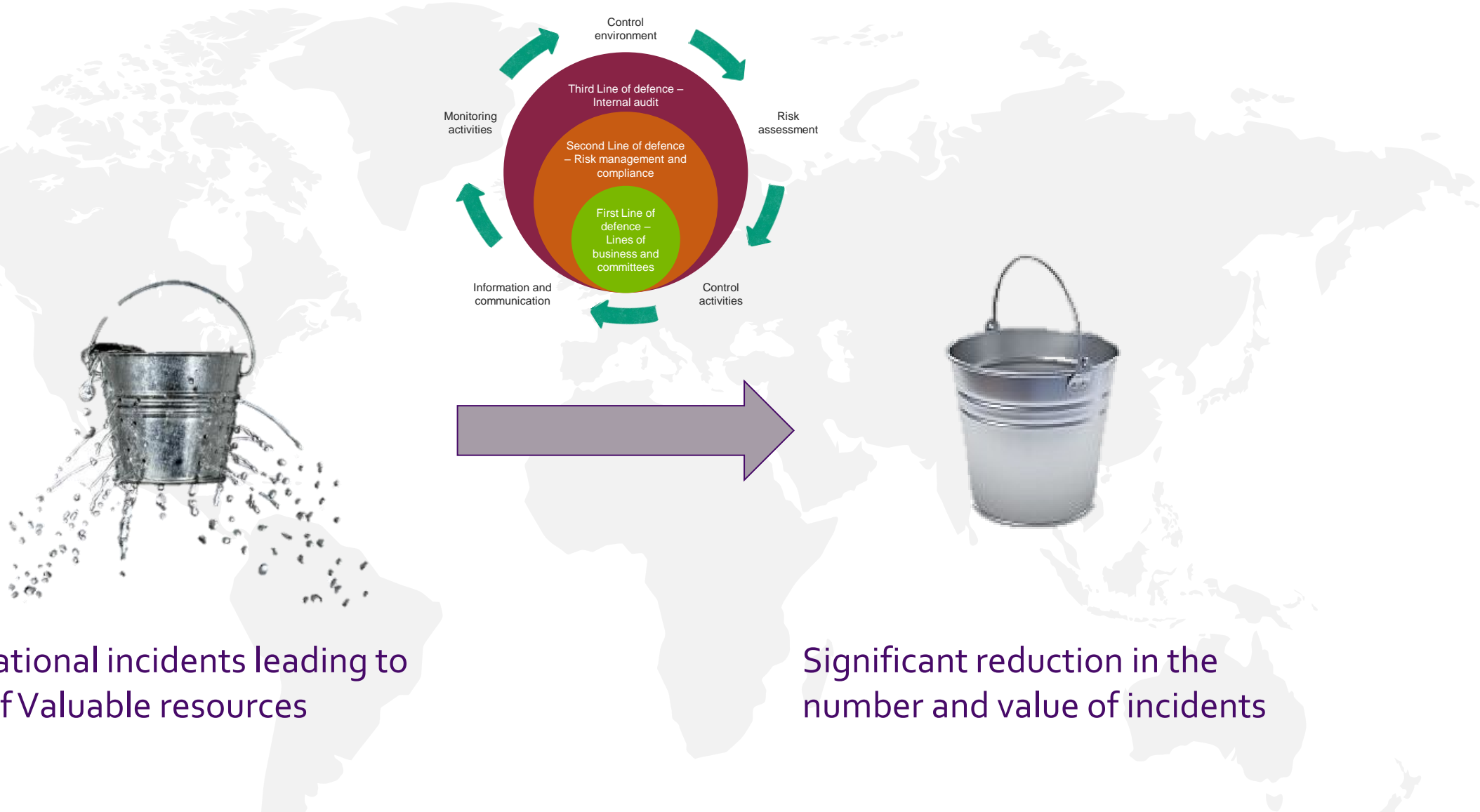
# The Three Lines Model

- ✓ 1<sup>st</sup> line : staff are the “risk owners”, they have direct responsibility for the management and control of risk. They participate in CRSA workshops and conduct Self Assessment tests
- ✓ 2<sup>nd</sup> line : Risk Management monitors risks that can breach the board’s appetite (tolerance level) and monitor KRIs. Compliance monitors Legal/Regulatory risks.
- ✓ 3<sup>rd</sup> line : Internal Audit provides independent assurance in respect of the integrity and effectiveness of the risk management framework

## Governance Framework / Board Oversight



# In Summary



Operational incidents leading to loss of Valuable resources

Significant reduction in the number and value of incidents