

RISK BASED IA PLAN

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RISK ASSESSMENT & RISK MANAGEMENT

CONCEPT OF RISK MANAGEMENT

- Risk is associated with uncertainty, volatility, chaos, crisis and also opportunity.
- Risk is part of Gods game alike for men and nations. Can we ignore and do nothing about it?
- While appearing for exams or overcoming difficulties in life what we do is hope for the best but also prepare for the worst.
- Risk is nothing but combination of probability and impact of an event occurring
- Risk Management – Best practices (ERM, COSO, ISO, ATOM, COBIT, etc)
- Hope for the best and prepare for the worst

Risk is the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.



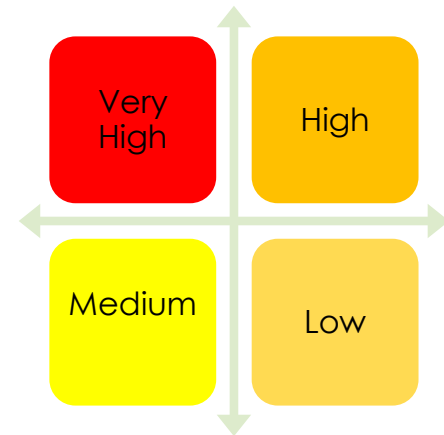
Risk Management is defined as “A process to identify, assess, manage, and controls potential risk events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.



RISK MANAGEMENT - OBJECTIVES

- **Strategic**
- **Financial/ Reporting**
- **Operations**
- **Compliance**

Capturing Risk into a Matrix



HOW TO CONDUCT RISK ASSESSMENT?

1. ***Undertake a formal risk review:*** A designated team is established (either in-house or contracted in) to consider all the operations and activities of the organisation in relation to its objectives and to identify the associated risks.
2. ***Risk self-assessment:*** An approach by which each level and part of the organisation is invited to review its activities and to contribute its diagnosis of the risks it faces.
3. ***Risk identification workshops:*** Is done through holding workshops, meetings and discussions with senior management. **Accounts and Record analysis:** done by examining and analysing the accounts, primary and secondary data, on the objectives, strategy and process.
4. ***Questionnaires/ Survey:*** Collecting relevant information through suitably drafted questionnaires.

Any one or a combination of approaches to the risk identification process is desirable. The auditor should have thorough business understanding and sector knowledge. A top down approach is more effective where the management team participates in the risk assessment exercise. Catalogue the risk assessments in process and function wise risk registers or risk and control matrices.

TIPS



- **Complex risk management models have failed. No science can replace “good judgment and wisdom of experienced people”.**
- **Risk is inherent in everything so we cannot stop doing business or living !!! We need to learn on surviving along side.**
- **Humans or sophisticated models cannot predict black swan events so any risk management exercise focusing on black swan events shall fail.**
- **Risk management can succeed with a crisp and compact risk library**

ICAI STANDARD ON PLANNING OF AUDIT

STANDARD ON INTERNAL AUDIT (SIA) – 1 OF ICAI

Objectives of Planning:

- The Internal audit plan should be developed in consultation with those charged with governance, including the audit committee, if any, for the timely and efficient conduct of the engagement.
- The internal audit plan should be consistent with the goals and objectives of the organization under audit as well as the terms of the engagement between the entity and the auditor. It should help in achieving the objectives of the internal audit.
- The plan should be continuously reviewed by the auditor in light of the changing conditions of audit environment and any changes thereto should be brought to the notice of the management of the entity. Any major modification should be done in consultation with the management or those charged with governance.
- The internal audit plan should also consider the level of assurance required by the organization on different aspects of its operations and controls.

Factors affecting the Planning Process:

- The internal audit plan should be based on the knowledge and understanding of the entity's business.
- The Internal auditor should have regard to the objectives of the engagement as well as the time and resources required for conducting the engagement.
- The internal audit plan should also reflect the Risk Management Strategy of the entity.

The planning process is affected by the understanding and assessment of:

- The objectives of the activity under audit,
- The significant risks associated with the activity under audit,
- The risk management and internal control system instituted in the organisation to reduce the above risks to an acceptable level.
- The possible areas in which the internal audit can suggest improvement to the risk management and/ or internal control system associated with the concerned activity.
- The selection of engagement team,
- Industry and business developments affecting the entity
- Changes in financial reporting framework

Scope of Planning:

The Internal Audit plan should cover areas as under:

- Knowledge of the legal and regulatory areas within which the entity operates
- Knowledge of accounting and internal control processes and their effectiveness
- The nature, timing and extent of audit procedures to be performed
- Activities warranting special focus based on materiality and criticality of these activities
- Staff and budget allocations
- Reporting responsibilities.

The internal audit plan should also identify the benchmarks against which the actual results of the activities, the actual time spent, the cost incurred would be measured.

The scope of an internal audit is affected by the following:

- Terms of engagement
- Nature of accounting system and IT system
- Expected audit coverage
- Materiality threshold
- Nature and extent of audit evidence required

Audit Universe:

- **Audit Universe** comprises the activities, operations, units etc., to be subjected to audit during the planning period. The audit universe is designed to reflect the overall business objectives and therefore includes components from the strategic plan of the entity.
- Thus, the audit universe is affected by the risk management process of the client. The audit universe and the related audit plan should also reflect changes in the management's course of action, corporate objectives, etc.
- The internal auditor should periodically, say half yearly, review the audit universe to identify any changes therein and make necessary amendments, to make the audit plan responsive to those changes.

Establishing the Objectives of the Engagement:

- The objectives can be established based on the auditor's preliminary understanding and review of the risks and controls associated with the activities forming the subject matter of the internal audit engagement.
- The results of such review should be documented.

Establishing the Scope of Engagement:

- The scope of the engagement should sufficiently cover the objectives of the engagement. The scope should be determined based on the information collected during preliminary review.
- In case the internal auditor is of the view that circumstances exist which would restrict the auditor from carrying out the procedures, including any alternative procedures, considered necessary by him, he should discuss the matter with the client to reach a conclusion whether or not to continue the engagement. The scope of his engagement should be documented comprehensively to avoid misunderstanding on the areas covered for audit.

Deciding the Resource Allocation:

An audit work schedule should be prepared with details on:

- activities/ procedures to be performed;
- engagement team responsible for performing these activities/ procedure
- time allocated to each of these activities/ procedures.

The Work Schedule should be flexible enough to accommodate any unanticipated changes in the following:

- any significant changes to the entity's missions and objectives, business processes, and management's strategies to counter these changes
- any changes or proposed changes to the governance structure of the entity
- composition of the engagement team in terms of skills and experience and any changes thereto

Preparation of Audit Programme:

- The internal audit programme should also be finalized in consultation with the appropriate authority before the commencement of the work.
- The internal auditor should also prepare a formal internal audit programme listing the procedures essential for meeting the objective of the internal audit plan.

GLOBAL BEST PRACTICES

PLANNING AUDIT PROJECTS

Understanding of the Activity being Audited:

- Preliminary survey to determine the objectives of the activity, existing systems of internal control, and apparent risks
- Discussions with the audit customer
- Interviews with individuals affected by the activity, for example, users of the activity's output
- Review of management reports and studies
- Review of internal audit literature relevant to the activity
- Onsite observations
- Analytical auditing procedures

Understanding of Risk and Controls

- Review or creation of process flowcharts
- Review or creation of process narratives
- Walkthroughs
- Documentation of risk and controls (risk and control matrices,



Project Planning

- Development of audit programs
- Issuance of engagement letter to the audit customer

RISK BASED AUDIT PROGRAM

RISK BASED AUDIT PROGRAM

	Substantive Tests
	Test of Controls
	Analytical Testing
	Others (including rationalization)

			Q1	Q2	Q3	Q4
1.1	Order booking	High				
	Adequacy of system of receipt and action on enquiries from prospective clients					
	Approval and authorization of changes in original quotations sent to the prospective client					
	Review of final contracts by legal entities					
	Authorisation of final contract					
	Generation and authorisation of sales order					
1.2	New customer acquisition	High				
	Evaluation of client credibility as per the policy					
	Adequate documentation of client evaluation					
	Authorisation of final pricing and contractual terms					
	Regular updation of marketing database					
1.3	Market intelligence	Medium				
	Adequacy and appropriateness of system of regular collection of data on the basis of survey, research, past trends, forecasts and estimation					
	Fixation and periodic review of marketing targets regionwise by authorised personnel and due approval of the same					
	Comparison of actual results figures with targets set					
	Generation of exception reports and appropriate action taken					
1.4	Customer relationship management	High				
	Follow-up of policy on after sales support					
	Adequacy of system of obtaining customer feedback and updation the records					
	Timely analysis of customer's complaints					
	Remedial action on customer complaints and inputs and review of the same by the senior management					
	Receiving timely customer feedback after remedial action is taken					