Risk Based Audit

"Together we make a difference"
27 June 2024

Risk Based Audit - Agenda for today

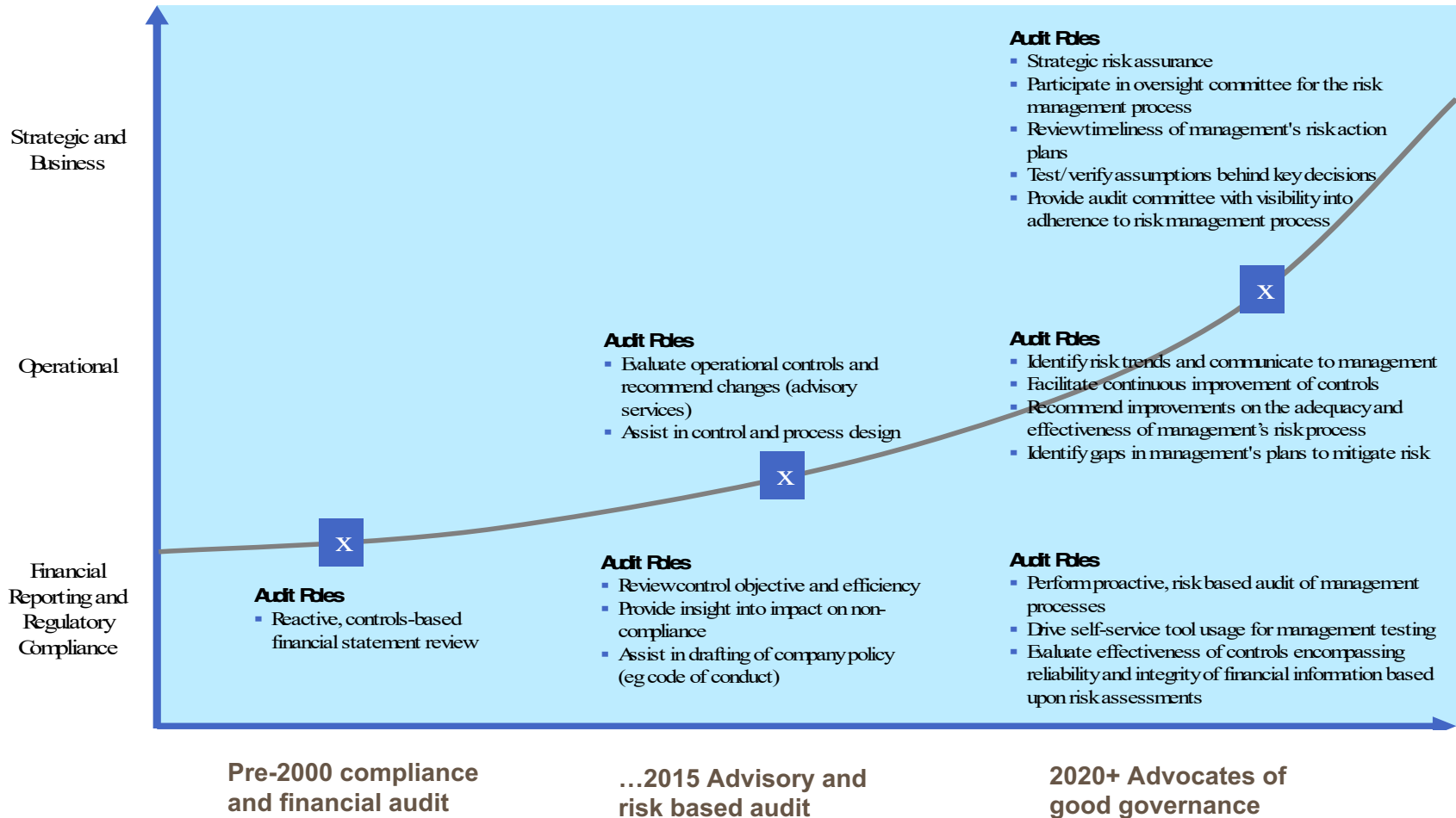**In the previous session we covered:**

- **Evolution of the profession**

- **Customer survey & BARC requirements**

- **Internal Audit role and position of risk auditing**

- **Risk based audit – How do we know that we are doing the:**

    - **right audits?**

    - **audits right?**

In this session we will cover:

- **Doing the 'audits right'**

- **Internal Audit Services that Companies Require**

- **Practical Example and Case Study of and End2End review**

- **Quality Control in Audit Projects**

- **BARC Reporting of Systemic Issues**

- **Customer Feedback**

Summary and questions

Evolution of the Internal Audit Function

Audit Roles
- Strategic risk assurance
- Participate in oversight committee for the risk management process
- Review timeliness of management's risk action plans
- Test/verify assumptions behind key decisions
- Provide audit committee with visibility into adherence to risk management process

Strategic and Business

Audit Roles
- Evaluate operational controls and recommend changes (advisory services)
- Assist in control and process design

Audit Roles
- Identify risk trends and communicate to management
- Facilitate continuous improvement of controls
- Recommend improvements on the adequacy and effectiveness of management's risk process
- Identify gaps in management's plans to mitigate risk

Operational

Audit Roles
- Reactive, controls-based financial statement review

Audit Roles
- Review control objective and efficiency
- Provide insight into impact on non-compliance
- Assist in drafting of company policy (eg code of conduct)

Audit Roles
- Perform proactive, risk based audit of management processes
- Drive self-service tool usage for management testing
- Evaluate effectiveness of controls encompassing reliability and integrity of financial information based upon risk assessments

Financial Reporting and Regulatory Compliance

Pre-2000 compliance and financial audit

…2015 Advisory and risk based audit

2020+ Advocates of good governance

Source: Audit Director Round Table Research

Feedback from Stakeholders received from over 60 visits to clients

"Assurance activities, audits and reports, are a seemingly ever increasing workload at the businesses …"

"There is a lack of understanding of function and purpose of the overall Group (Assurance) programme… please add value to my business"

"The potential for overlap, redundancy and new requirements will continue to flourish in this environment without an explicit management mechanism"

"Corporate Assurance should facilitate sharing of "common" and "best practice" processes…"

"There does not appear to be any coordinated… communication plan to ensure that senior leaders across the group understand the...scope of the assurance program"

"Corporate Assurance should look at broader and strategic risks…"

BARC Requirement

Company Director

"Steve 2 questions please:
1. How do we know that you are doing the right audits? and
2. How do we know that every audit is executed properly?"

Overview of internal audit

The Institute of Internal Auditors   :

Internal auditing:	**Is designed to:**	**Achieve:**
• is an independent, objective assurance and consulting activity	• add value; • improve operations; and • help an organisation accomplish its objectives	improvements to: • risk management; • internal control; and • governance process

Internal audit activity evaluates risk exposures relating to the organisation's governance, operations and information systems in relation to:

1. Design, effectiveness and efficiency of operations	3. Safeguarding of assets
2. Reliability and integrity of financial and operational information	4. Compliance with laws, regulations and contracts

In order to facilitate a good governance process, Internal Auditors:

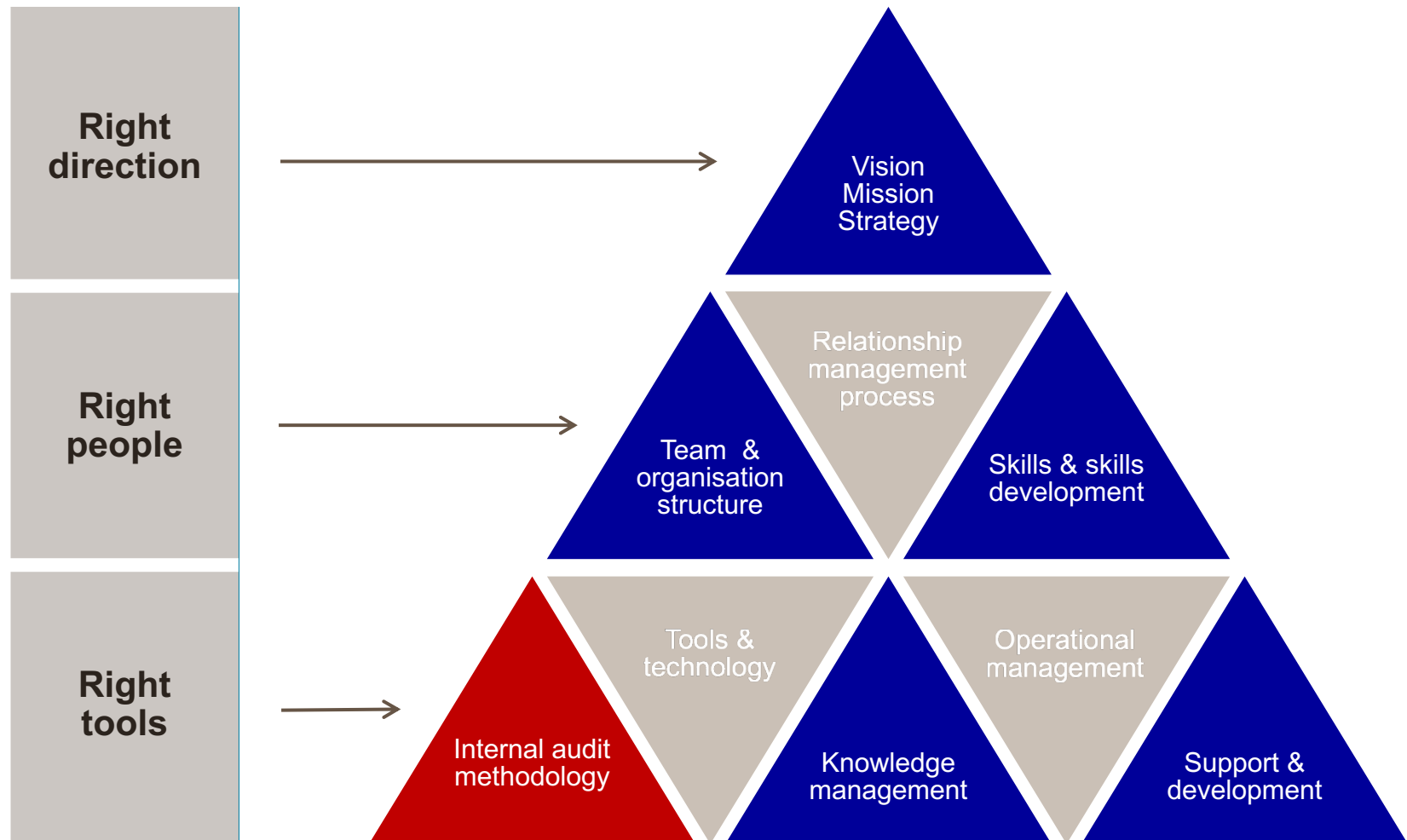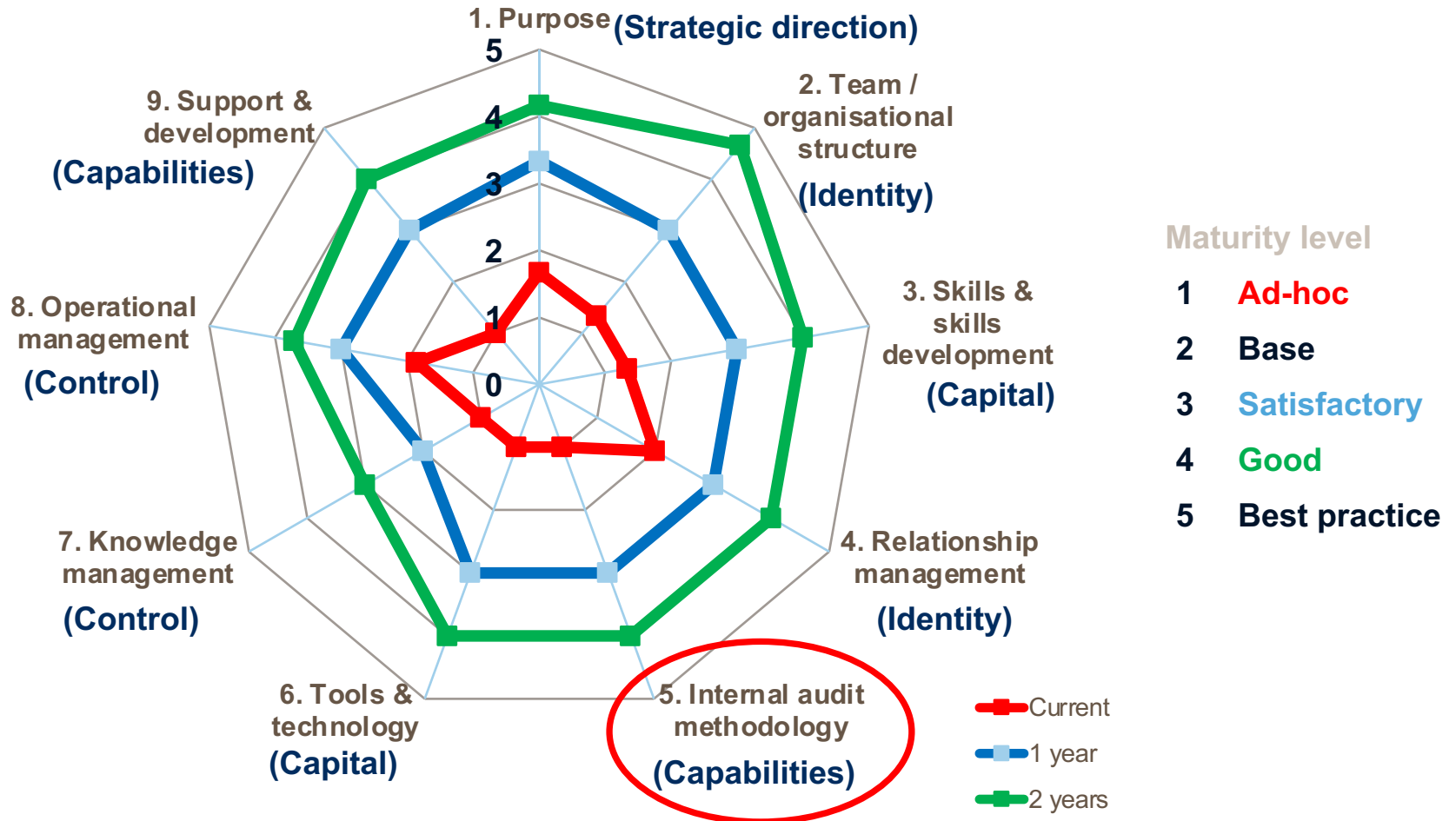| Assess adequacy & effectiveness of risk identification processes and management	Assess the ethics and values of the organisation	Assess performance management	Communicate risk & control information

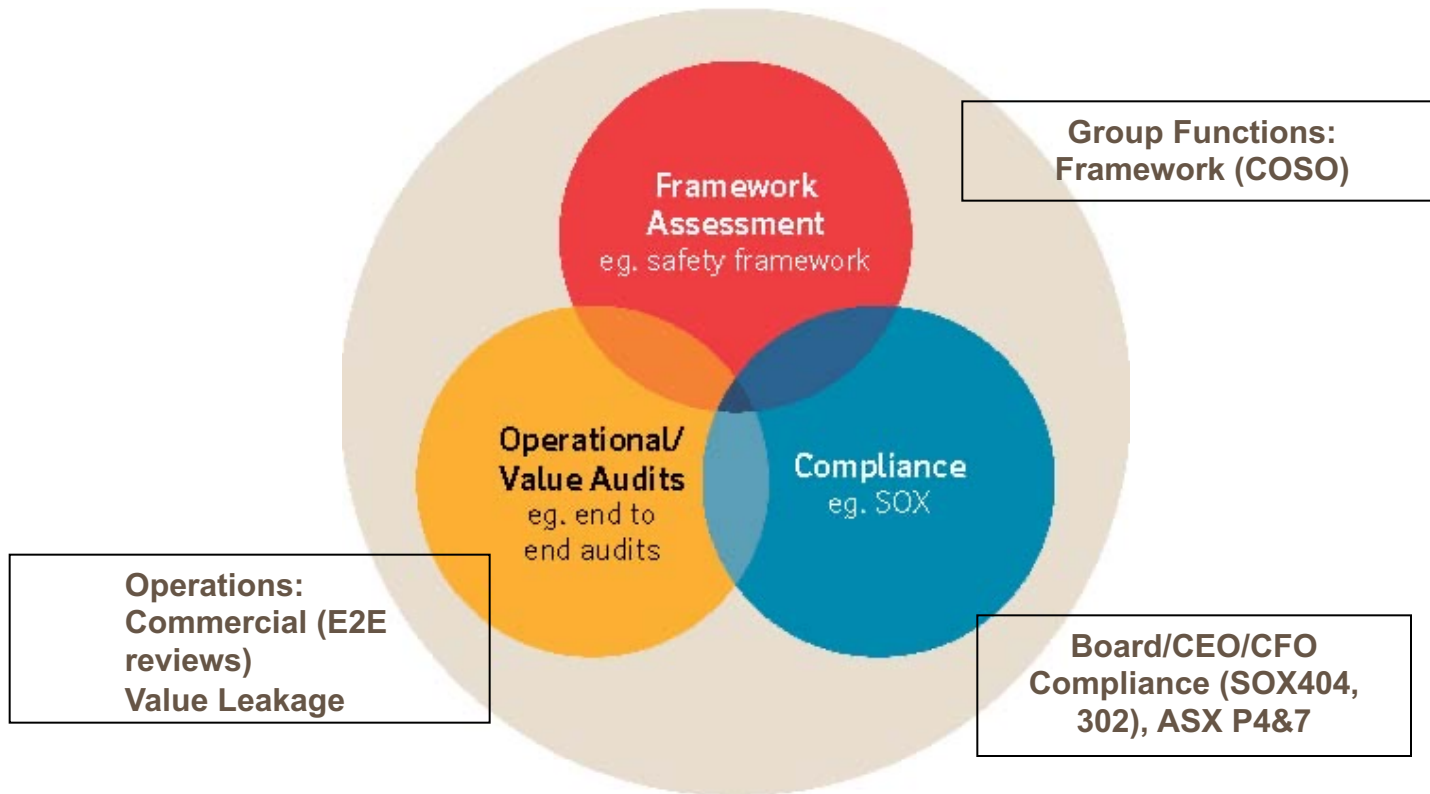27 June 2024

Nine attributes for internal audit excellence

To achieve our mission & vision, we focus on developing the nine attributes which provides the basis for **leading-practice internal audit capability**.

Right direction	→	Vision Mission Strategy
Right people	→	Relationship management process / Team & organisation structure / Skills & skills development
Right tools	→	Internal audit methodology / Tools & technology / Operational management / Knowledge management / Support & development

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The IA function's maturity example below

Maturity level

1	**Ad-hoc**
2	**Base**
3	**Satisfactory**
4	**Good**
5	**Best practice**

Radar chart axes:

- 1. Purpose (Strategic direction)
- 2. Team / organisational structure (Identity)
- 3. Skills & skills development (Capital)
- 4. Relationship management (Identity)
- 5. Internal audit methodology (Capabilities)
- 6. Tools & technology (Capital)
- 7. Knowledge management (Control)
- 8. Operational management (Control)
- 9. Support & development (Capabilities)

Legend: Current · 1 year · 2 years

Do the right audits – unpacked – overview of BARC and Management needs

Framework Assessment
eg. safety framework

Operational/ Value Audits
eg. end to end audits

Compliance
eg. SOX

Group Functions: Framework (COSO)

Operations: Commercial (E2E reviews) Value Leakage

Board/CEO/CFO Compliance (SOX404, 302), ASX P4&7

Internal Audit Services that Companies Require

Category	Audit Response	
'Standard' Audits	1	Health Check/Diagnostic
	2	Sample Testing Audit
	3	Project/Programme Monitoring
	4	Pre-implementation Review
	5	Post-implementation Review
Risk and Control Framework Reviews	6	Risk Interviews/Verbal Advice
	7	Project Management Framework
	8	Control Framework Review
'Complex' Audits	9	End-to-End Process Audit
	10	Deep Dive
	11	Investigation
Education	12	Business Coaching/Education

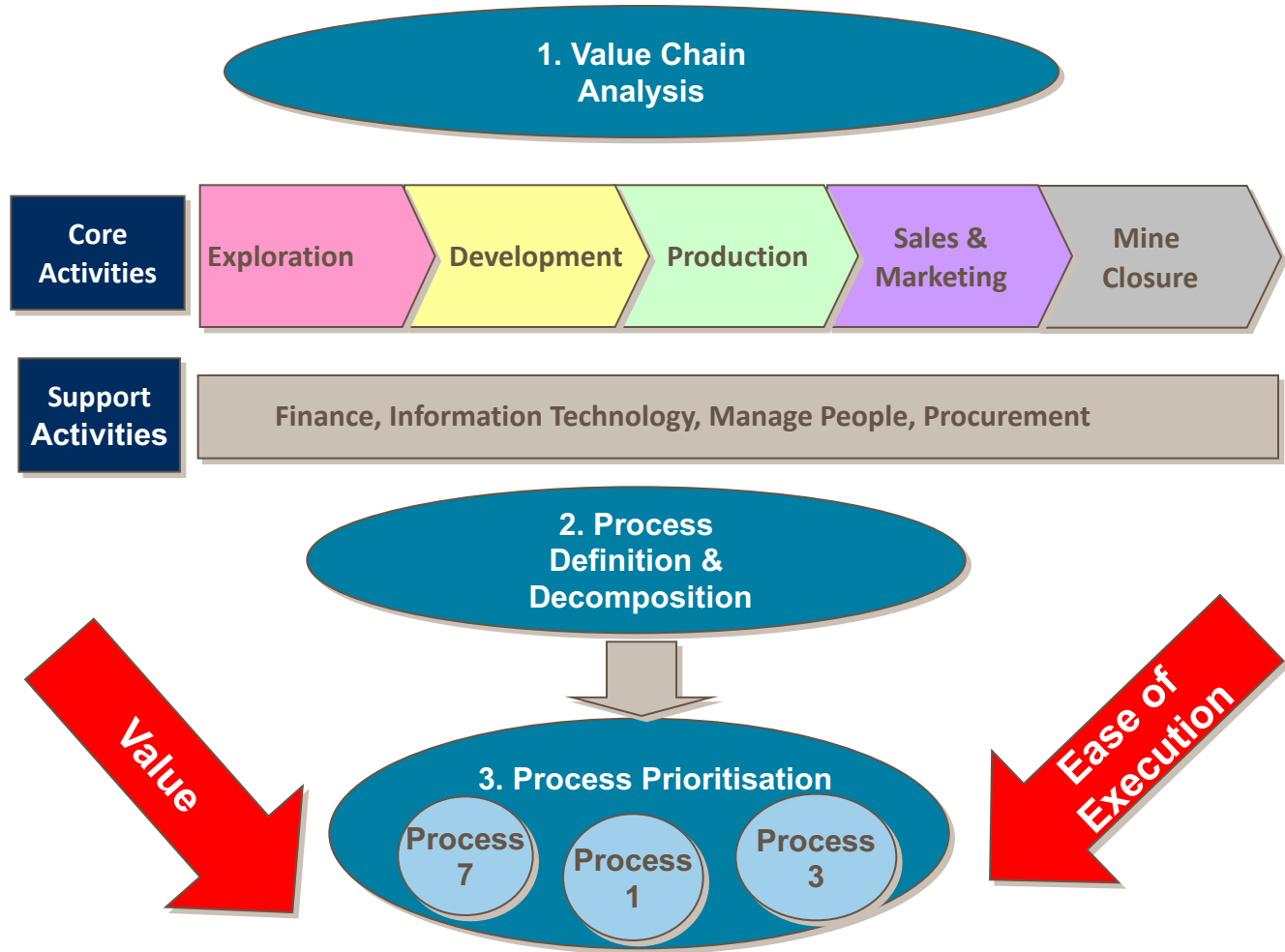# What is an end-to-end process audit?

- An end-to-end process audit is a thorough review of a complete business process from start to finish.

- It involves defining the process scope, mapping the process flow, collecting data, evaluating performance, assessing risks, and conducting a gap analysis.

- The audit assesses the governance framework in place to manage the end2end macro process, identifies inefficiencies, risks, and compliance issues, providing actionable recommendations for improvement. The findings are documented in a detailed report, and follow-up audits ensure that improvements are effective and sustained.

- This comprehensive audit helps organisations optimize processes, enhance productivity, and ensure regulatory compliance.

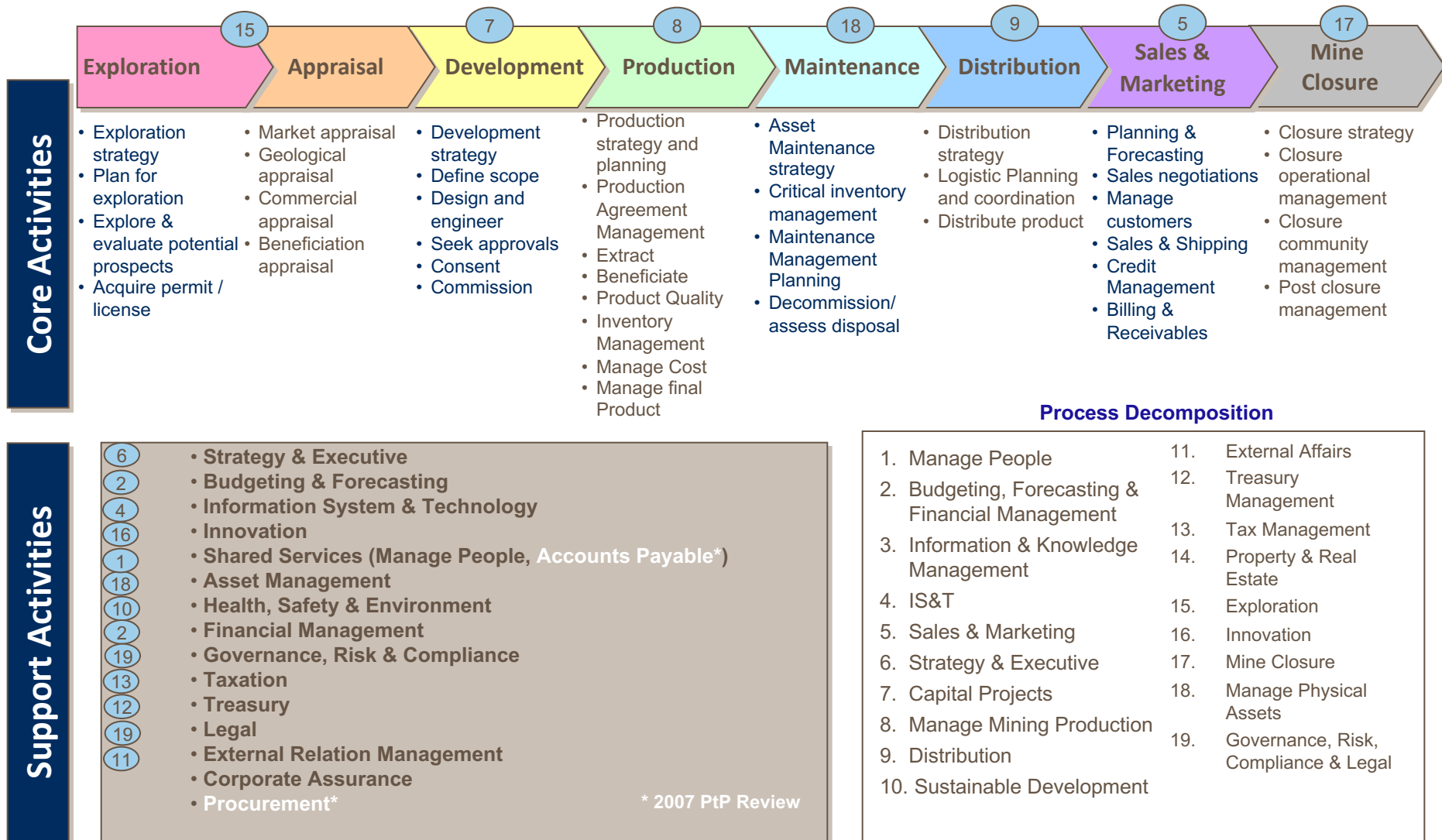# Case Study: How to Approach an End-to-End Review

Steps :

1. Select Process

2. Scope & objectives (risk based)

3. Execute Projects

4. Collate and Analyse Results

5. Process Level Conclusions

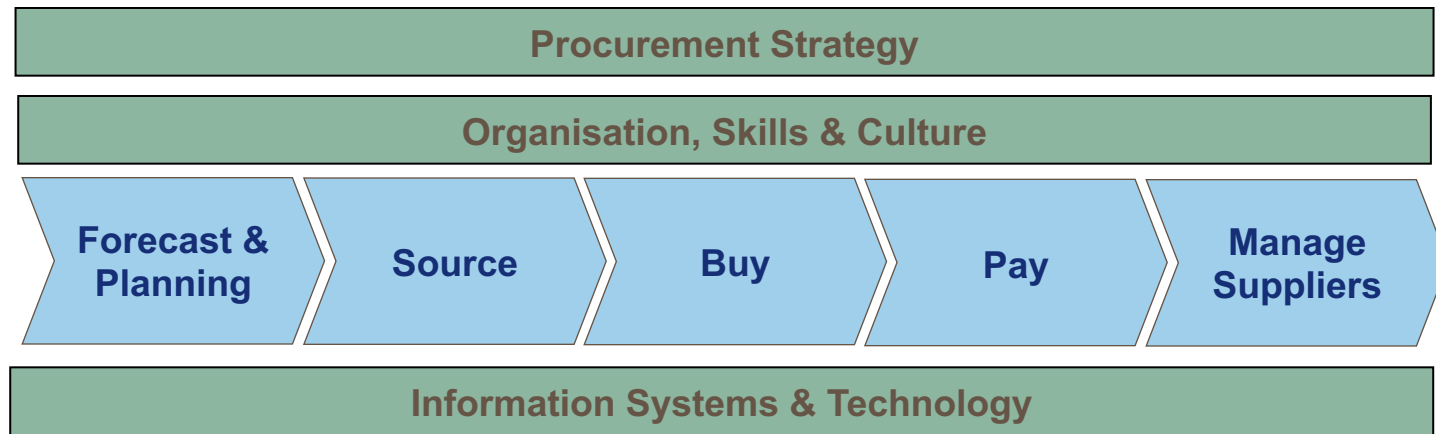6. Reporting

Step 1: Select a Process

1. Value Chain Analysis

Core Activities	Exploration	Development	Production	Sales & Marketing	Mine Closure

Support Activities	Finance, Information Technology, Manage People, Procurement

2. Process Definition & Decomposition

3. Process Prioritisation

Value

Ease of Execution

Process 7

Process 1

Process 3

Mining Value Chain Analysis

Understand and define the Company value chain

15		**7**	**8**	**18**	**9**	**5**	**17**
Exploration	Appraisal	Development	Production	Maintenance	Distribution	Sales & Marketing	Mine Closure

Core Activities

Exploration
- Exploration strategy
- Plan for exploration
- Explore & evaluate potential prospects
- Acquire permit / license

Appraisal
- Market appraisal
- Geological appraisal
- Commercial appraisal
- Beneficiation appraisal

Development
- Development strategy
- Define scope
- Design and engineer
- Seek approvals
- Consent
- Commission

Production
- Production strategy and planning
- Production Agreement Management
- Extract
- Beneficiate
- Product Quality
- Inventory Management
- Manage Cost
- Manage final Product

Maintenance
- Asset Maintenance strategy
- Critical inventory management
- Maintenance Management Planning
- Decommission/ assess disposal

Distribution
- Distribution strategy
- Logistic Planning and coordination
- Distribute product

Sales & Marketing
- Planning & Forecasting
- Sales negotiations
- Manage customers
- Sales & Shipping
- Credit Management
- Billing & Receivables

Mine Closure
- Closure strategy
- Closure operational management
- Closure community management
- Post closure management

Support Activities

- (6) **Strategy & Executive**
- (2) **Budgeting & Forecasting**
- (4) **Information System & Technology**
- (16) **Innovation**
- (1) **Shared Services (Manage People, Accounts Payable*)**
- (18) **Asset Management**
- (10) **Health, Safety & Environment**
- (2) **Financial Management**
- (19) **Governance, Risk & Compliance**
- (13) **Taxation**
- (12) **Treasury**
- (19) **Legal**
- (19) **External Relation Management**
- **Corporate Assurance**
- (11) **Procurement***

* 2007 PtP Review

Process Decomposition

1. Manage People
2. Budgeting, Forecasting & Financial Management
3. Information & Knowledge Management
4. IS&T
5. Sales & Marketing
6. Strategy & Executive
7. Capital Projects
8. Manage Mining Production
9. Distribution
10. Sustainable Development
11. External Affairs
12. Treasury Management
13. Tax Management
14. Property & Real Estate
15. Exploration
16. Innovation
17. Mine Closure
18. Manage Physical Assets
19. Governance, Risk, Compliance & Legal

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Step 2: Scoping – Understand the process

Procurement Strategy

Organisation, Skills & Culture

Forecast & Planning	Source	Buy	Pay	Manage Suppliers

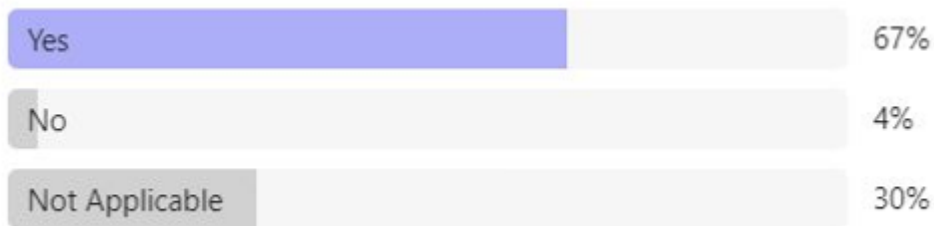| Information Systems & Technology |
|---|

Approach – Process Diagnostic

- Compare process structure and costs to **benchmarks**

- Interview key **stakeholders** across the end-to-end process to identify high risk and high impact areas

- Use **data analytics** to validate the high risk and high impact areas

Survey Question 1

Do you conduct a planning workshop at the beginning of each audit project with selected audit staff and the audit client focusing on the material risks of the audit?

Yes	67%
No	4%
Not Applicable	30%

Step 2: Scoping - Risk Assessment

Risk assess each sub process…….

Impact / Consequence

Likelihood		Very Low	Low	Moderate	High	Very High
Almost Certain		M	H	**6** H	E	E
Likely		**3** M	**5** M	**8** H	H	E
Possible		L	**7** M	M	**4** H	E
Unlikely		L	M	**2** M	H	H
Rare		L	L	M	**1** M	H

Legend:
- **1** Procurement Strategy
- **2** Organisation, Skills & Culture
- **3** Forecast & Planning
- **4** Source
- **5** Buy
- **6** Pay
- **7** Manage Suppliers
- **8** Information Systems & Technology
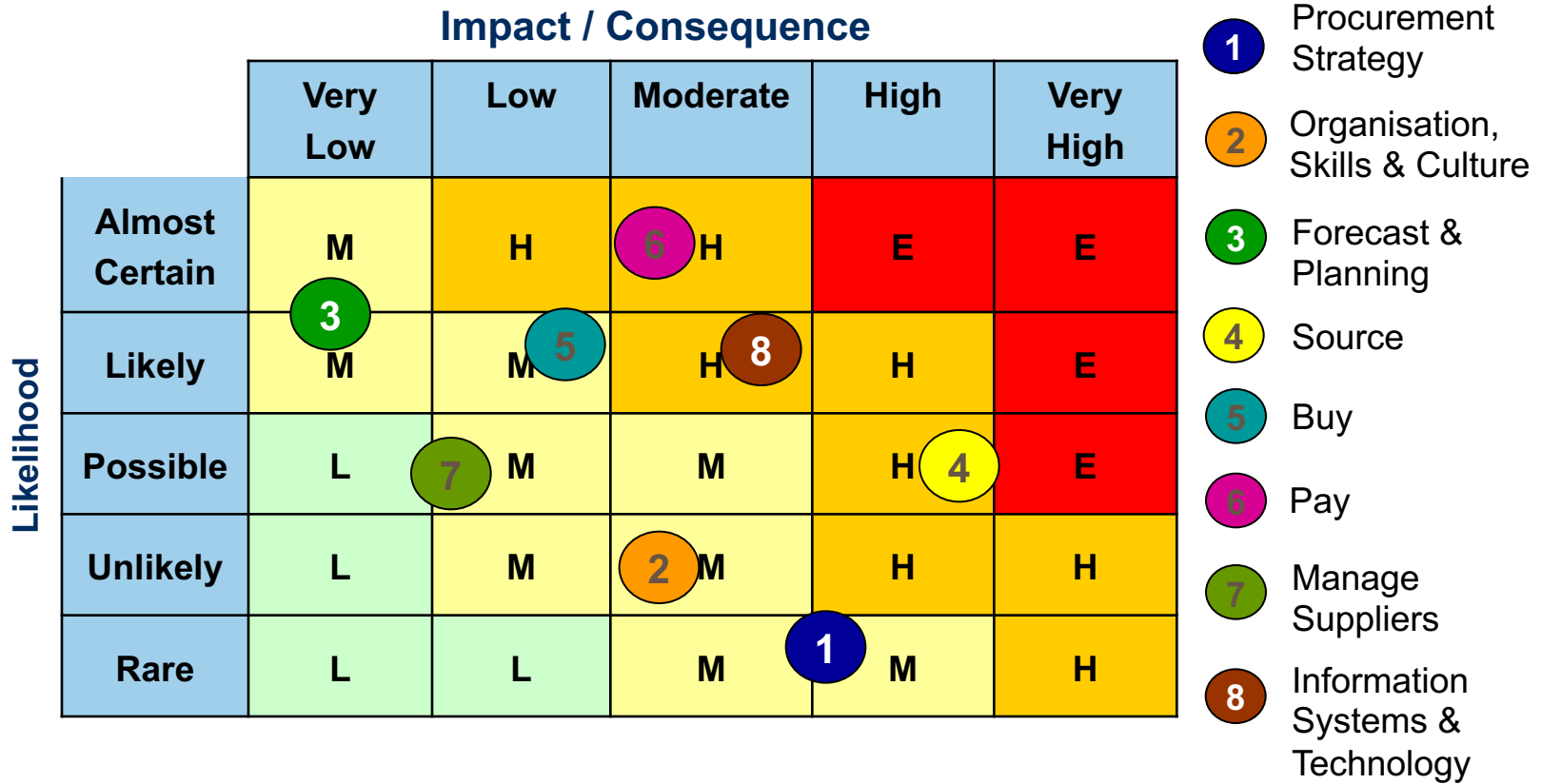
……. and only then consider locations.

Survey Question 2

Are the audit scope, objectives, plan, and tests reviewed and approved to ensure appropriate audit coverage?
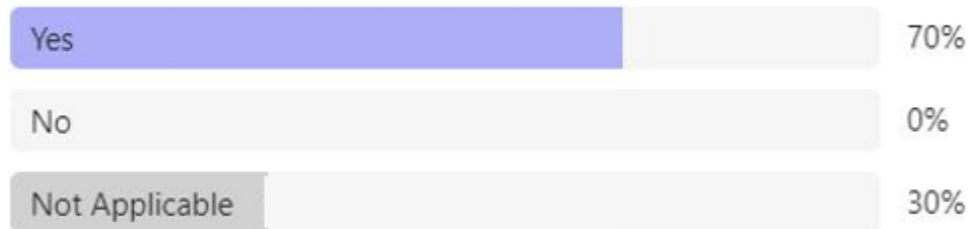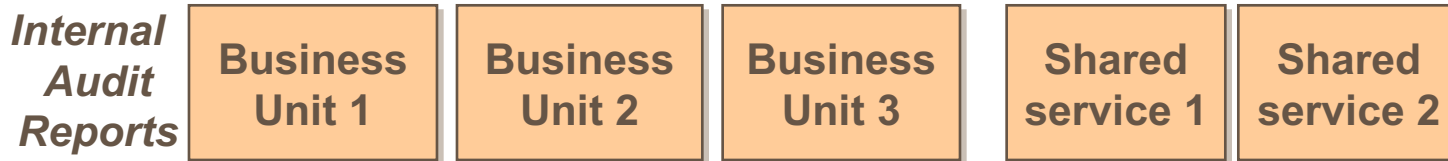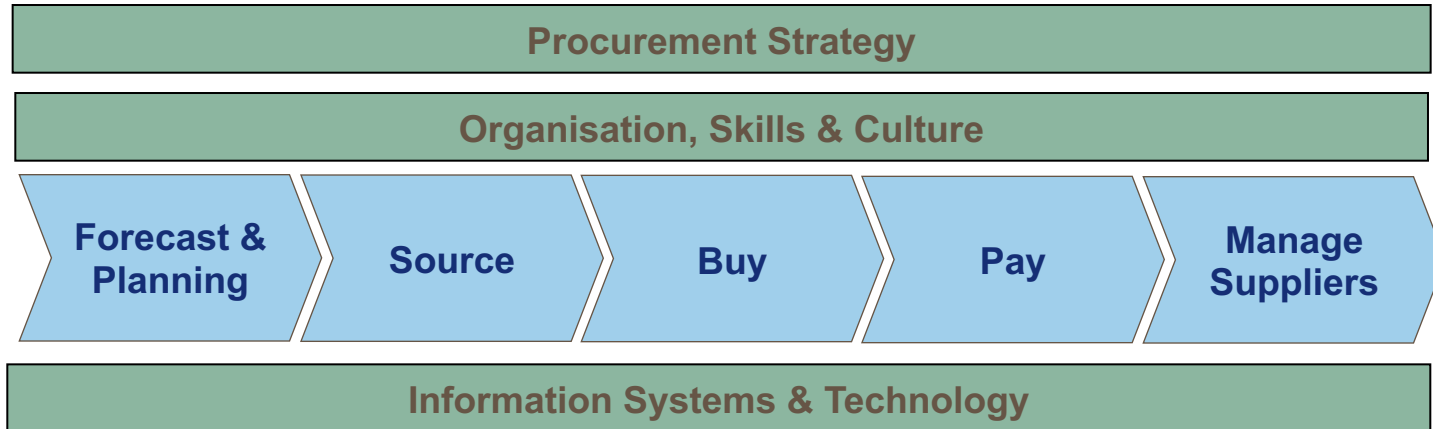
Yes	70%
No	0%
Not Applicable	30%

Step 3: Execute Projects

Procurement Strategy

Organisation, Skills & Culture

Forecast & Planning	Source	Buy	Pay	Manage Suppliers

Information Systems & Technology

Internal Audit Reports

Business Unit 1	Business Unit 2	Business Unit 3	Shared service 1	Shared service 2

An internal audit report is prepared for each of the in-scope business unit, projects and support functions

Ratings are applied as per the normal Internal Audit Methodology

Step 4: Collate and Analyse Results

Business	A	B	C	D	E	F	G	H	I	J	K
Issue 1	H	H		H	M	M	M	H		L	(Leading Practice)
Issue 2	L			L	M				L		
Issue 3				L			L				(Leading Practice)
Issue 4				M	M	M	M	H			

Systemic issue ?

Opportunity to share leading practice ?

Root Cause?

Issue Rating		High		Medium		Low
	☐	No issues noted		Leading Practice		

Survey Question 3

Are all audit findings analysed and reported in terms of standard/key control/key risk, condition/finding identified, root cause(s) (to ensure the deficiency is remediated by management), impact/effect, and recommendation/corrective action (addressing the cause(s) and specifying who does what by when and how)?

Yes	68%
No	4%
Not Applicable	28%
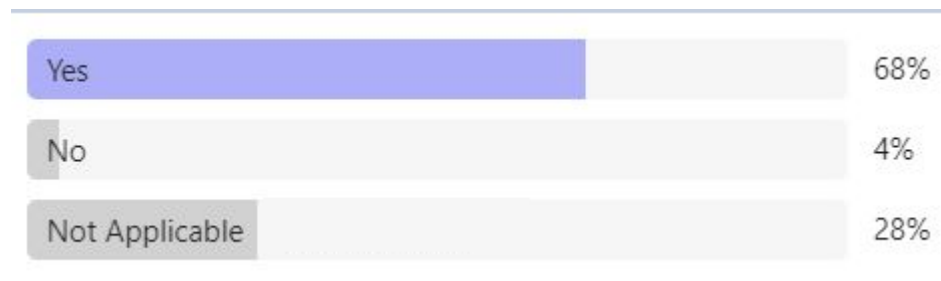
Reoccurring & systemic issues & follow up audit actions

All prior period issues are mapped and re-occurring & systemic issues identified are considered in future audits

Issues		Business Unit / Function																								
		Business A	Business B	Business C	Business D	Business E	Business F	Business G	Business H	Business I	Business J	Business K	Business L	Business M	Business N	Business O	Business P	Business Q	Business R	Business S	Business T	Business U	Business V	Business W	Business X	Business Y
Report Rating		M	M	M	M	M	M	S	M	S	S	S	S	M	M	S	S	S	S	M	S	M	M	-	-	S
1	Invoices are not always reconciled to timesheets or checked against scheduled rates, and expenses are not always verified	M	L	M	L	M			M		L			M	M	L	M			H		H	M		H	
2	The completion of agreed actions in accordance with agreed timeframes is not always monitored		L	L	L	L	L																			
3	Purchase Requisitions completed with an inappropriate GL Account or Cost Centre																					M				

Risk Rating

Report Rating: G = Good S = Satisfactory M = Marginal W = Weak

🟥 High	🟧 Medium	🟨 Low	⬜ Issues identified but not rated

Step 5: Make Process Level Conclusions

Value Leakage ($)
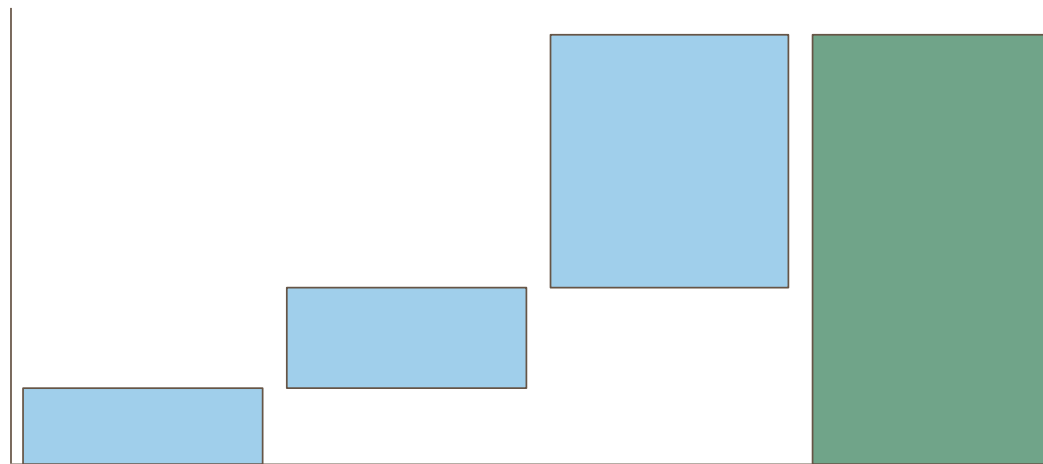
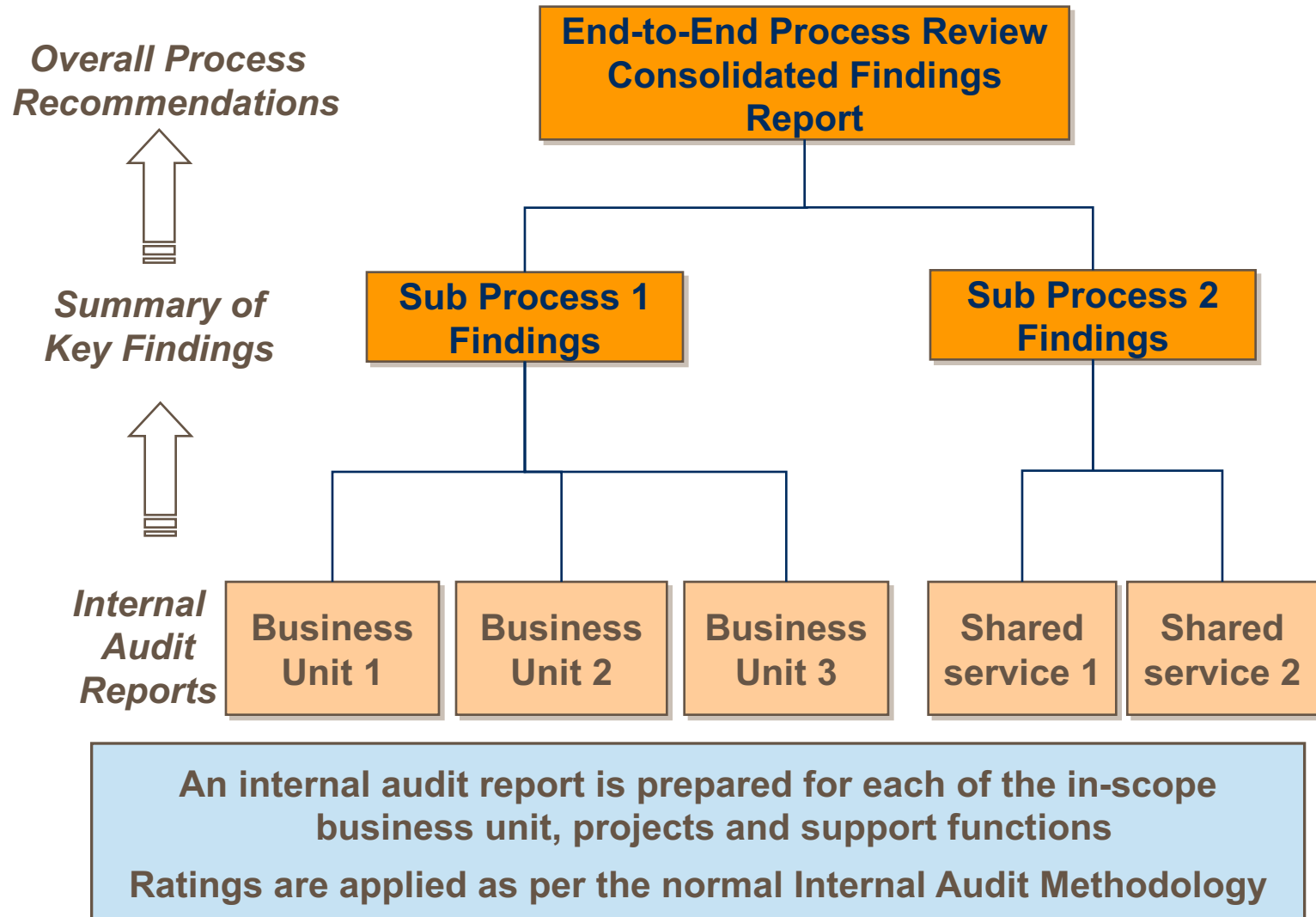Process redesign to address Issue 1

Process redesign to address Issue 4 (etc.)

Apply leading practice (e.g. seen at Business 'K')

Expected Total "Value Leakage"

Value Leakage
=
both **real** cost
and **opportunity** cost

Step 6: Reporting: Process Level Conclusions

Overall Process Recommendations

Summary of Key Findings

Internal Audit Reports

End-to-End Process Review Consolidated Findings Report

Sub Process 1 Findings

Sub Process 2 Findings

Business Unit 1

Business Unit 2

Business Unit 3

Shared service 1

Shared service 2

An internal audit report is prepared for each of the in-scope business unit, projects and support functions

Ratings are applied as per the normal Internal Audit Methodology

Survey Question 4

Are all audit project issues and overall conclusion, including management requests, rated and reported to the Audit and Risk Committee?

Yes	74%
No	0%
Not Applicable	26%
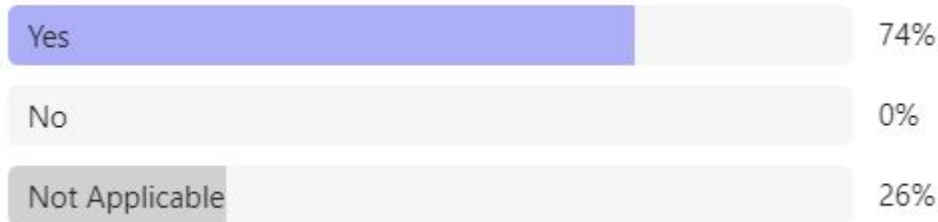
Contractor Management – Reconciliation and Validation

Poor controls around invoice reconciliation and expense verification is one of the most prevalent and costly risks identified in the Contractor Management audits

| Issues	Business Unit / Function																								
	Business A	Business B	Business C	Business D	Business E	Business F	Business G	Business H	Business I	Business J	Business K	Business L	Business M	Business N	Business O	Business P	Business Q	Business R	Business S	Business T	Business U	Business V	Business W	Business X	Business Y
Report Rating	M	M	M	M	M	S	M	S	S	S	S	M	M	S	S	S	S	M	S	M	M	-	-	S	
1 Invoices are not always reconciled to timesheets or checked against scheduled rates, and expenses are not always verified	M	L	M	L	M			M		L			M	M	L	M			H		H	M		H	
2 The completion of agreed actions in accordance with agreed timeframes is not always monitored		L	L	L	L	L																			
3 Purchase Requisitions completed with an inappropriate GL Account or Cost Centre																					M				

Report Rating: G = Good S = Satisfactory M = Marginal W = Weak

Risk Rating

High · Medium · Low · Issues identified but not rated

Survey Question 5

Does your function maintain a data base of all findings over the past 3-5 years, analyse and report to management and the Audit and Risk Committee any long term re-occurring or systemic issues relating to material risks?
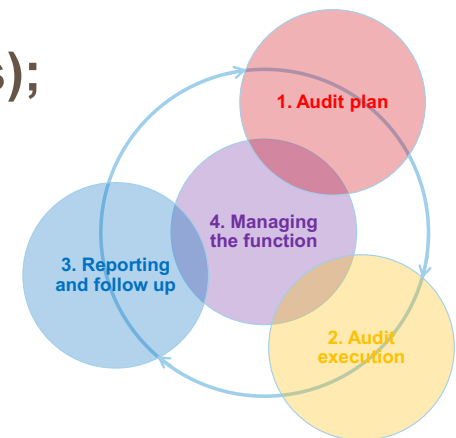
Yes	56%
No	15%
Not Applicable	30%
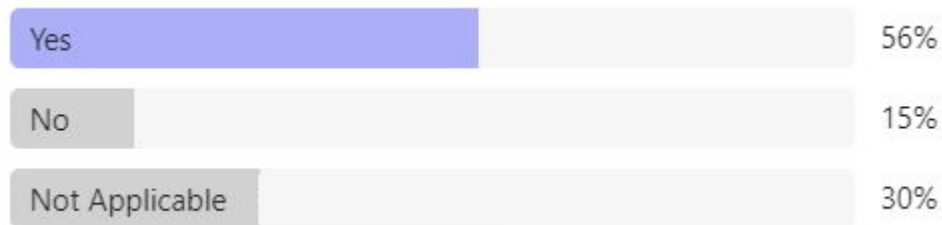
Quality Control of audit projects

4 Key elements of the quality strategy

Internal audit quality is managed in four areas as depicted in the diagram at right:
1. **The annual audit plan (do the right audits);**
2. **Audit execution (do the audits right);**
3. **Reporting and follow up; and**
4. **Management of the function.**

Requirements – audit execution

Quality of audit execution is managed in four ways:
1. **In-built quality measures in the audit execution methodology;**
2. **Peer reviews prior to deliverables being issued;**
3. **Peer reviews of completed audits; and**
4. **Post-audit incident analysis.**

Value to customers

- **All stakeholder** groups get value from the review

  - Audit Committee, Functional Owner, Operational Management

- **Systemic** issues are **identified** and **elevated** to a sufficient level in the organisation to facilitate a Group solution

- Individual businesses see actions being taken to address issues caused by areas **outside** their direct **control**

- "Tried and tested" **leading practices** are identify and **shared**

- Internal Audit becomes a '**great investment**' rather than a compliance obligation

Lessons Learned

- Have **clear goals** set up-front and include all stakeholders

- Obtain and maintain **high level** support

- Strong **project management** is required

- Substantial **upfront** planning required

- A cohesive **multi-disciplinary** team is essential

- Provide ongoing **communication** to stakeholders

Reputation risk for Internal Audit is HIGH

- Clearly understand if you are **able to perform** this or not

Wrap Up – Why End-to-End Reviews?

End-to-End Reviews allow Internal Audit Functions to deliver a world class service consistent with the IIA definition of Internal Auditing

*"Internal Auditing is an independent, objective assurance and **consulting** activity designed to **add value** and **improve** an organisation's **operations**. It helps an organisation **accomplish** its **objectives** by bringing a systematic, disciplined approach to **evaluate** and **improve** the **effectiveness** of risk management, control and governance processes"*

Source: The Institute of Internal Auditors Australia

Summary

Group CFO/FD…

"I am very happy with the PtP end product. I am going to take the Group CEO through the report and I found this approach very valuable to our Company. I fully support that we do one of these types of reviews a year. Please convey my appreciation to every person who worked on this project."

Question time…..