ΠΑΝΕΠΙΣΤΗΜΙΟ ΠΕΙΡΑΙΩΣ

ΤΜΗΜΑ ΝΑΥΤΙΛΙΑΚΩΝ ΣΠΟΥΔΩΝ

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στην
ΝΑΥΤΙΛΙΑΚΗ ΔΙΟΙΚΗΤΙΚΗ

A Research in Internal Audit & Internal control

Ιωάννης Ντούμας

Διπλωματική Εργασία

που υποβλήθηκε στο Τμήμα Ναυτιλιακών Σπουδών
του Πανεπιστημίου Πειραιώς ως μέρος των
απαιτήσεων για την απόκτηση του Μεταπτυχιακού
Διπλώματος Ειδίκευσης στην Ναυτιλιακή Διοικητική

Πειραιάς

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- Κουτούπη Ανδρέα (Επιβλέπων)

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Πρόλογος και Ευχαριστίες

Η εκπόνηση της παρούσας Διπλωματικής εργασίας πραγματοποιήθηκε στο πλαίσιο του Προγράμματος Μεταπτυχιακών Σπουδών στην Ναυτιλιακή Διοικητική του Τμήματος Ναυτιλιακών Σπουδών του Πανεπιστημίου Πειραιά. Διήρκησα από το έτος 2019 έως το 2020.

Στο σημείο αυτό θέλω να ευχαριστήσω σε όλους όσους συνέβαλαν άμεσα ή έμμεσα στη ολοκλήρωση του κύκλου μεταπτυχιακών σπουδών και στην ολοκλήρωση της διπλωματικής εργασίας.

Αρχικώς θα ήθελα να ευχαριστήσω τον επιβλέποντα καθηγητή μου κ. Κουτούπη Ανδρέα. Η διαθεσιμότητα και η υποστήριξη του οποίου καθόλη την διάρκεια της εργασίας με βοήθησε πολύ.

Θα ήθελα επίσης να ευχαριστήσω το λοιπό διδακτικό του μεταπτυχιακού προγράμματος το οποίο μέσω των μαθημάτων με εφοδίασε με τις απαραίτητες γνώσεις για την κατανόηση και ανάλυση του αντικειμένου το οποίο μελέτησα.

Τέλος θα ήθελα να ευχαριστήσω τα μέλη της οικογένειας μου για την κατανόηση και υποστήριξη τους χωρίς τις οποίες θα ήταν αδύνατη η ολοκλήρωση της παρούσας εργασίας.

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Abstract

Business today are facing great challenges and complications than ever before, as economical, legal and technological interdependence become more common and pronounced. Due to these developments, risks may go unidentified too long and early warning indicators ignored. It is therefore an assumption that every business organisation has put in place risk management and internal control systems in order for the organization to continue running. In light of this, this paper has been undertaken in order to present more about the internal control systems implemented by companies and the part of internal audit inside those systems.


My thesis is a study of the need that every organisation has. The study is made by examining the theoretical field of knowledge that I had access to. This study reveals that control systems exist in the company and that these control systems are very important, effective and therefore provide adequate checks and balances.

Internal Audit

The terminology of this makes use of international standards as recorded by the Institute of Internal Auditors in the International Business Practice Framework.

Internal audit is usually a professional and independent evaluation function, which provides information on management practices and activities at the organization level. This function helps to improve the overall efficiency and effectiveness of organizational functions and the transparency of the decision making process. Internal control provides senior management with assurance on the design and operation of governance, risk management and control processes within the organisation. This safeguard function is a very key piece of the effort of organizations to provide value and accountability to Internal Users and persons other than internal users such as Investors, creditors, Government for the use of revenue.

Internal audit focuses on management systems, business processes and practices, but also on financial and non-financial information. The results of internal audits help to identify problems and threats and to make recommendations for improving performance.
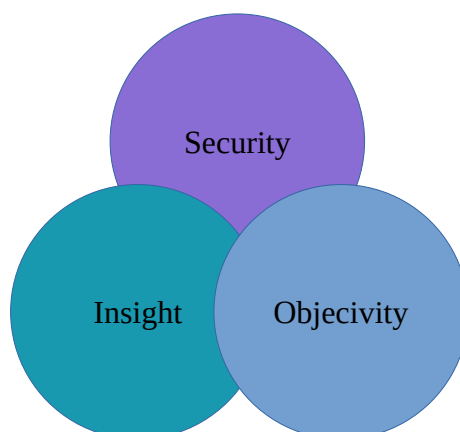
Internal control = Security, insight and objectivity

Governments and senior management rely on the interior to provide objective assurance and insight into issues such as the effectiveness and efficiency of risk management governance processes and the internal control system.

Source : Institute of internal auditors (2015), international framework of professional practices.

Creating an internal audit unit.

Services and Role of internal control	Human resources management	Professional practices
Governance Structures	Organizational relationships and work culture	Performance management and accountability

Source : Adapted from IIA (2009), IPPF Supplemental Guidance : Internal audit capability model (IA – CM), institute of internal Auditors and IIA (2012), IIPF Supplemental Guidance: implementing a New Internal Audit Function in the Public Sector, institute of internal Auditors.

This section addresses the six key issues that the supervisor (head on internal audit unit) must consider in order to set up an internal audit unit. Some of these issues refer to the way the internal control function is administered, while others are related to the way the internal control function is integrated within the organization. These issues include the role of responsibilities of internal control personnel management professional practices, governance structures, organizational relationships and work culture, performance management and accountability mechanisms.

Initial steps to set up an internal control function

The first year is a trial period – The head of an internal audit unit focuses on promoting the necessity and role of internal audit while at the same time developing the necessary ability to conduct audits in order to begin to add value to the organization.

The following 21 steps will help the organization to begin correctly.

1. In cooperation with the competent services of the organization you require an understanding of the legal basis for the establishment of the internal control function, the scope of responsibilities and powers.
2. Set up channels of communication with the head of the organization and establish a regular schedule of meetings with them, as well as channels of communication with those responsible for the fight against the corruption.

3. Establish business relationships with all top executives and stay informed about the organisation's work by participating in its discussions.

4. Understand and implement the IIA control standards, as well as the future development of the internal control function.

5. Familiarity with your organization's internal control system and the established management frameworks of an organisation.

6. Join the institute of internal Auditors in order to connect with the wider audit community and gain access to professional development sources.

7. Access the staffing and resource need for an internal audit function and state the key reasons for adequate staffing of an internal control unit.

8. Place people with appropriate skills and experience in the internal control unit.

9. Meet with top executives to find out what they expect from the internal audit function and begin to define the audit environment.

10. Promote the use of self- assessments of internal control, to help the audited entities to be in «control readiness» as well as support the identification of the audit environment, the risk assessment process and the identification of audit priorities. The activity should include the following: Training of management on self- assessment of control and assistance in identifying the necessary improvements to keep the organization in «audit readiness». This will also help the audit team learn about the procedures used to evaluate controls and identify common issues to consider.

11. Train senior executives on the role and methods of internal audits, internal audits vales etc.

12. Draft the internal control regulations and get the approval of the management regarding the development of the vision mission, the core values and a strategically important plan. Start laying the groundwork for the need to set up an audit committee, which will help you provide effective audit services.

13. A risk assessment exercise should be conducted including the prioritization of hazards and the identification of those that could be easily addressed so that you can document the added value of the internal control function. Determine acceptable risk tolerance (risk tolerance) of the organization.

14. Based on the initial risk assessment, create a draft audit action to be discussed with external auditors to reveal overlaps as much as possible.

15. Begin to evaluate internal audits by implementing the audit action plan recognising that top management may need a faster implementation plan.

16. Implement a quality assurance and improvement plan. This should be treated as a continues activity that is constantly evolving.

17. Identify training needs and individual employee training programs based on an existing skill assessment process and support the acquisition of Vocational Certification .

18. Establish a system of continuous communication and information between the internal control function and the supervisors and employees, including the continuous promotion of internal control. This involves the creation of communication tools that will describe the role and responsibilities of internal control as well as the key findings from the audit report in accordance with the rules of "Open Government" and data protection.

19. Establish a performance audit framework (including creating a database to monitor the implementation of the audit action plan and any corrections). In order to highlight the presence of internal control and to communicate its contribution to the achievement of the goals of the organization.

20. Establish relationships with external auditors to promote the effective provision of independent assurance services within the organisation.

21. Building relationships with the wider control community with the goal of promoting continuous improvement and innovative thinking.

Service and the role of internal control

This mission of internal control is to strengthen and protect the value of the organization by providing objective advice and assessing the risks that threaten the organization. Internal control assists each organization in achieving its objectives through a disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

However , the means to be used to achieve this role vary depending on the circumstances the services provided by internal control are typically based on the needs of the organization, the scope of responsibilities and the operational capacity of the internal control unit.

Services include the provision of security and activities related to management advice and audit of compliance with the institutional framework for systems, procedures, operations performance cost – effectiveness of financial systems information and reporting technologies.

The broader focus of the audit takes into account the governance activities of the organization that can help the organisation achieve its goals and key priorities by improving the governance framework including the ethical code of the organization. The specific focus of the audit includes the examination of individual transaction for errors or compliance with policies and provisions. The scope of auditors work moves between these extremes and includes activities such as examining internal audit clips, procedures and systems to identify systemic weaknesses and make suggestions for improving business operations.

Following the international standards of the IEEE the audit services can be classified into three categories as shown in the graph below. The first area focuses on traditional ensuring compliance control. It is the performance of an audit of compliance of an approved area of the process or system with the policies in the procedures in the laws in the agreements or other requirements governing the conduct of the area of the procedure or system being audited. These outputs of the operation include documented audit mission reports that provide guidance or advice to management as well as working papers documenting audit findings as well as ensuring that the sector, process or system under control operates in accordance with the relevant provisions for the provision or detection of illegal acts or infringements of existing civil procedures or contractual requirements.

Traditional Assurance	Performance and assurance	Consultant energy
• Performing a conformity and adherence control of a particular process domain or system relating to policies, procedures, laws, regulations, regulations, agreements or other requirements governing the conduct of a domain of a process or system under control. • Carrying out adequate	• Evaluating and searching efficiency effectiveness, the economy of operations of activities or programs, or conducting missions for governance, risk management and control system. Performance cost – effectiveness control covers the full range of functions and business processes of	• Consulting services contribute to facilitation rather than security and include the preparation of system development reports, self assessment of performance and controls and advice. Key deliverables include self-assessments of control valves, support for the development of the internal control system framework and

work to provide an opinion on the overall integrity and effectiveness of the agency's governance, risk management and control procedure	the relevant management controls and the results achieved.	management – oriented assessments.

Source : International standards for the professional practice of the internal auditing, institute of internal auditors

Performance cost – effectiveness control is the second area of activity aimed at evaluating the efficiency and cost effectiveness of operations and programs and includes audit missions related to risk management governance and supervision processes. Cost effectiveness auditing covers the full range of operations and business processes, the relevant management security set by management and the results achieved. Outcomes include adding value by identifying opportunities to achieve organizational goals more rationally and improving operations efficiency. Also affects reforms that contribute to the development and maintenance of more efficient and effective organic functions.

The third area is the provision of consulting services that analyse a situation or provide guidance and advice to management. Consulting services add value without the internal auditor taking on tasks related to the organizations management or business operations. The consulting services are intended to support the management of the organization and provide security. Issues such as the need to prepare development reports self -assessment performance, audits and reorganizational proposals are addressed.

The consulting services offered by the Internal Audit Service can focus on assisting management to ensure that the agency's organizational units and programs are ready for audit through activities such as conducting audit readiness assessment exercises. (audit readiness reviews). This activity involves identifying processes and structures that may need to be reorganized in order for a program to service or benefit from the internal control function. For example providing advice on integrating controls. In the context of consulting services, internal control enters into a more specific relationship of cooperation with management. In the process and with the further acceptance of the operation of internal control we can move to more dynamic services such as compliance and performance controls.

When deciding the type of audit services to be provided, the needs of the management and the operational capabilities of the audit function must be taken into account. When deciding the type of audit services should be specified in the official Regulations of the control operation of the operation.

Personnel Management

Staff management is the process of shaping a work environment that enables staff to make the best use of their skill. Personnel management is a system that starts when a job is deemed necessary and involves the formation of effective teams with the aim of improving and evolving it through a training and development program.

The chart below shows five main pillars of a reliable personnel management framework for the operation of internal control. It starts with identifying the business scope of the audit function and the necessary human resources needed to fulfil the specific function. Secondly, a reliable plan is needed on how these staff is organized. This is achieved through a concatenated skills profile and related job profiles. Finally, training professional development and performance – based management are key tools to inspire and support high levels of performance.

Business planning and human resource planning

The main role of the chief internal auditor is to identify the resource needs and to demonstrate to the top management the business need and the reasons why they should invest in internal audit as a function that adds value to the organization as a strategically important investment.
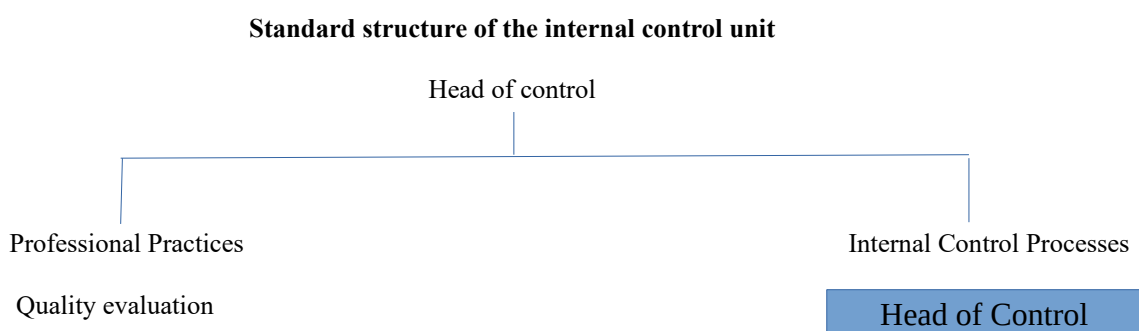
Internal control provides a vital overview of the financial management and operations of the organization as well as important services such as fraud detection and prevention, examination of the internal control system and monitoring compliance with the objectives set. The existence of internal control units that review policies and procedures on a regular basis ensures that agencies reduce cases of fraud and any other financial losses. The audits examine the efficiency of operations that can be a significant area of loss for management.

They answer the question of whether the organization operates with maximum possible efficiency. Inefficient operations waste resources without improving customer service. An audit of functions may reveal specific deficiencies or highlight unnecessary bureaucracy. Does the organization follow the applicable procedures? The elimination of non- compliance with the rules enables the management of the organization to maintain control and supervision of their operation. In addition, the organization should be informed about labour law in order to avoid costly mistakes. Internal controls offers important services for evaluating specific functions.

Another important element that reinforces the argument for the need to develop an adequately staffed and funded internal control function is to use information derived from the comparative study for the characteristics of internal control functions. There is a set of comparative studies The most comprehensive survey is that of the IEEE for the Global Audit Network (Gain) which records typical sizes of internal control functions, the number of resources for each organization as well as expected results.

Organizational structure

Depending on the resource needs, a typical organizational structure includes two types of activities undertaken by the internal control function : professional practices and the audit business object. Professional practices usually include actions related to the evaluation of the quality of internal control in strategic planning reporting as well as communication with the external auditor and other relevant external bodies such as the bodies and the central coordination body of internal control. The audit actions concern the planning in the reporting of the results of the audit results. Depending on the size of the organization In addition to the head of internal audit department typically includes three levels of jobs. The first tier is the chief auditor who leads the audit missions, the auditors who carry out the audits and to support the conduct of the audits the introductory level for the auditor posts.

Standard structure of the internal control unit

Head of control

Professional Practices   Internal Control Processes

Quality evaluation   Head of Control

Strategic Planning

Connection with external controller

Control
Introductory level

Skills / Competencies Framework

The graph below profile of skills and abilities that targets the needs of organizations. The definition of the necessary skills / abilities of the staff contributes to the development of the outline of the jobs as well as to design of the organizational structure. Most importantly, a completely based management system supports the dialogue between the employees and the superiors regarding their current job and career advancement, specifying the elements that should be included in their individual training program.

Competency / skills framework for internal control

Field of Knowledge	Abilities	Introductory Level	Assistant Auditor	Internal auditor	Head of the internal Control
Technical Skills	• Understanding of the IPPF • Risk management and control experts • Critical thinking • Research methodologies • Specialization in a filed (Accounting, finance, statistics, etc.)	64%	39%	24%	13%
Business Skills	• Strategy • Structure of Control • Budget • Project Management • Performance Management	16%	24%	25%	25%
Human Abilities	• Influence • Negotiation • Decision making • Contact • Human Resource Management skills (recruitment, selection, placement and retention of qualified staff)	14%	21%	25%	23%
Leadership	• Team spirit development preparation and guidance • Motivation to high performance • Mobilization and inspiration • Change management.	6%	16%	26%	39%

The control unit needs staff with different backgrounds and different levels of experience. Smaller organizations should rely on more experienced auditors while larger organizations will benefit form a combination of less experienced employees with more experienced executives and individuals with different academic and professional backgrounds.

Assigned Control skills Include:

- Adequacy in the application of standard of procedures and internal control techniques. Adequacy implies the ability to apply this knowledge to situation that may arise and to handle them without extensive technical research or external assistance.

- Adequacy in accounting principles and techniques, auditors working extensively on financial data and reports must be proficient in these areas.

- An understanding of management principles that allows auditors to recognise and evaluate the consistency of derogations from good business practices. Understanding implies the ability to apply general knowledge to situation that may arise, to identify significant deviations and to conduct the necessary research to find logical solutions.

- The ability to evaluate basic principles such as accounting, economics, commercial law, taxation, finance, quantitative methods and information technology. The ability to asses implies the ability to identify existing or potential problems and to determine the need for further research or to seek professional help.

- In addition, auditors must have the appropriate skills in interacting with public officials and communicating effectively both orally and in writing.

- Another highly valued qualification is computer proficiency.

Job Descriptions

Another important step in the selection and placement process is the creation of detailed job descriptions for the internal control unit in which the skills, knowledge and skills required will be identified. The above ensures clear roles and responsibilities within the internal audit team and contributes to the professionalization of the internal audit function.

Learning and internal evolution

The IEEE International Curriculum lists 9 (nine) key areas of training as shown in the table below. Head of internal audit must support all their staff in their ongoing professional development. For

example, once an auditor has obtained an internal auditor certification, he or she needs to compete a specific number of professional training serums each year.

Proposed professional program development

1. Principles of internal control.
2. Ethical principles and organizational governance.
3. Fraud and investigations.
4. Control of information technology.
5. Communication skills for internal auditors.
6. Internship or case study / internal control projects.
7. Advanced internal control function.
8. Creation and management of internal control function.
9. Danger management.

Source : IIA Global Model Internal Audit Curriculum.

Measuring staff performance.

The internal element of the internal control management framework is the measurement of employee performance. The ability to manage employee performance is vital. This measurement starts with the heads of internal control who should report directly to the reporting body. At the beginning of each year, the annual objectives of the chief internal auditor and the key deliverables for how to measure performance should be requested. Then in the middle of the year there should be a discussion between the body that we are reporting to and the head on internal control about the performance of the internal control unit and whether there is a need to modify the objectives. At the end of the year a formal summary of the achievements of the internal audit activity must be submitted and this document must be signed by both the body that we are reporting to and the head of the internal audit. This document should identify the key achievements of the year, the areas that need improvement and a training programmed aimed at supporting the chief internal auditor in achieving the organizational objectives. This approach must be repeated for every employee of the internal Audit Service.

Professional practices

Professional practices reflect the full set of policy processes and practices that enable the internal audit activity to carry out its tasks effectively and professionally. They refer to the ability of the internal control unit to align with the organization's priorities and risk management policies while

contributing to the continues improvement of the internal control activities and the organization as whole. They include the development and the implementation of a quality assurance and improvement program that covers all aspects of internal control activities.

Every internal audit function must have a quality Assurance and Improvement Program (QIAP) the main reason for its existence is that the chief internal auditor must have confidence in the quality of audit reports and recommendations submitted to the top management. Without a quality assurance program, the head of internal audit cannot be sure that the results of audit missions are valid and reliable. The quality program includes periodic internal and external quality evaluation and continues internal monitoring of the course of audit activities. The IEE has a complete manual of the QAIP program for which every audit supervisor must be informed and must implement it in his/ her organization. The program is designed to help the internal control activity add value and improve the organization's values by ensuring that the control function complies with internal control standards.

Quality program evaluations include the following :

- Comply with the definition of internal control, code of conduct and standards including appropriate remedial action cases of non-compliance.
- The completeness of the proper functioning of internal control, objectives, aims, policies and procedures.
- Contributing to the organizations risk management and control processes.
- The effectiveness of continues improvement activities and the adoption of best practices.
- The extent to which internal activities add value and improve the functions of the organization.

Governance structures

Governance structures generally refer to the combination of procedures and structures implemented by the head of the organization and senior management or other supervisory body (such as an audit committee), which aim to inform, direct, administer and monitoring the activities of the organization with the view to achieving its objectives.

> IEEE model 1100 : independence and objectivity
>
> The internal audit function must be independent and the internal auditors must be objective in performing their task.
>
> Explanation : Independence is the exemption from conditions that prevent the internal control function from performing its duties in an impartial manner. In order to achieve the required degree of independence, the Head of Internal Audit has direct and unhindered access to senior management.

Objectivity is the impartial attitude and mentality, which allows internal auditors to perform their work as they believe and do not accept compromises in terms of quality. Objectivity requires that auditors judgement of audit rights not be influenced by others. Threats against objectivity must be addressed at the individual level of the auditor, at the level of mission but also at the operational and organizational level.

IEEE model 1110 : Organizational independence

The head of internal control must report to such hierarchical level within the organization that allows the internal control function to respond to its responsibilities. The head of Internal Audit must confirm to the Board at least once a year the organizational independence of the Internal Audit function.

IIA (2016) International Standards for the professional practice of internal auditing (standards), institute of Internal Auditors

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Governance structures refers to administrative and operational relations of the internal audit with the reporting body such as the audit committee. Includes the relationship of the head of internal control with the management of the organization and the way in which the internal control function is integrated in the structure of the organization and in the governance regime. It also includes the means by which the independence and objectivity of audit activities are ensured, for example through its formal missions, its institutional responsibilities and the oversight mechanism such as an audit committee.

To whom should I refer the internal control functioning ?

Maintaining audit independence is vital for internal control to add value to the organization. The distinction between administrative reporting relationships and operational reporting relationships can contribute to the independence of the audit function.

An administrative reporting relationship clearly identifies power relations between jobs or units in the organisational hierarchy. The actions of the subordinates are subject to the management or approval of the immediate senior management and regardless of the autonomy that the management will choose to allow the existing organisational levels.

On the other hand a functional reporting relationship concerns the relationship between jobs or organizational units at different levels of management based on the specific nature of the functions for which there is shared responsibility. In this case, often referred to as the indirect reference, the higher hierarchical positions or units provide operational guidance and support to the lower hierarchical positions or units of organisational structure.

Source : Cite HR (n.d) Difference between administrative and functional reporting

The Governance structure also provides an organizational framework for the organizational control unit to contribute effectively to the achievement of the mission, goals and objectives of the organization.

Irrespective of the current framework, it is important that the purpose of the mandate and the responsibilities of the internal control function be formally defined in an operating regulation. This enhances the understanding and acceptance of top management and can be utilized by the head of internal audit to ensure increase access to information within the organization.

Given the extent and complexity of internal control activities. The control unit must have the appropriate level of power within the organization otherwise the other units within the organization will not cooperate with the internal control function. Adequate and proper recognition of the value and position of internal control within the organization is primary goal. Therefore this function should be reported directly to the top management of the organization.

The internal control activity must cover all the functions of the organization and for this purpose it must have unrestricted access to the staff, documents, files and fixed assets of the organization.

In addition to recognizing its position and value within the organisation, the internal control unit must have organizational independence. This means that the internal control function must have a direct reference relationship with the units or even the functions that fall under control.

The internal control operating regulation provides a formal mandate for its activation. It must therefore identify the following issues related to the internal control function.

- Delimits the position of the internal control unit within the organization and gives its business scope, as well as the nature of activities.
- Authorizes the access of internal auditor, inter alia. To the records, personnel and fixed assets of the organization deemed necessary for the provision of audit and consulting work.
- Authorize the head of internal audit to allocate available resources, set schedules, determine the scope of audit objectives without undue interference by the management.

- Empowers the head of internal audit to allocate available resources, to set schedules to determine the scope of audit work, and to set audit objectives without undue interference by management.
- Clearly defines the unit reporting system, giving the head of internal control full and unrestricted access to top management.
- Communicates clearly that the propose of the internal audit activity as defined in the relevant institutional framework is to provide framework to the organization evaluating the effectiveness of risk management and control governance procedures in accordance with the IEE's international auditing standards and code of conduct.

Organizational Relationships and work culture.

Organizational relationships and organizational culture refer to the relationships of internal control with the other units of the organization. It includes the relationship of the head of internal control with the top management, as part of the management team, as well as the ability to provide advice and influence to senior management and the development of efficient and sustainable communication relationships.

The role of the head of internal control is to create relationships within the organization. This presupposes active communication including specific communication actions so that all staff have sufficient information to understand and appreciate the role of internal control and to know how the various units within the organization can benefit from internal control. This includes individual updates seminars and communication programs. The staff of the organization must be actively involved to understand the role and importance of internal control.

Creating and maintaining relationships is part of the advisory nature of internal control if programs and services do not understand their role in developing the implementation and monitoring of internal control loops and their utilization towards a more efficient management system and achieving results, then it will be difficult for internal control to function properly within the organization. To this end, internal audit should work with managers to help them prepare the audit «audit ready»

Performance Management and Accountability

Performance management refers to the information needed to manage, implement and control internal control activities and to evaluate performance and its results.

It is very important that the head of internal control is able to demonstrate the added value that internal control brings to the organization. This includes the ability to communicate the performance of internal control activities to stakeholders and society. The ability to report regularly on audits and results is the best way to secure the support of top management.

In addition, the chief internal auditor must also ensure that the data collected in the audits is secure. This includes procedures for managing and protecting data integrity and producing and presenting relevant information and results whenever required.

How to help programs and services stay in control

Internal control system

The internal control system is a process exercised by the management and staff of an organization, designed to provide reasonable assurance regarding the achievement of the objectives related to business operations financial and non-financial reporting. In particular, an internal control system ensures that.

- The functions are performed methodically, ethically, economically, efficiently and effectively.
- Accountability obligations are met.
- The organization complies with applicable laws and regulations.
- Resources are protected from misuse losses and damage.

The internal control system and the internal control function as defined above is a continuous management function while the internal audit is a formal evaluation on a case-by-case basis of how well the management and staff performs their duties. Internal control units often examine the quality of the internal control system within the organization. Internal control units often examine the quality of the internal control system within the organization.

The internal control system is synonymous with the term "control by management" with the primary share of responsibility being open to the management of the organization, but presupposes the participation of all employees. It is an important part of the management of organizations and should be flexible enough so that each organization is able to adapt control activities to their specific needs. Therefore, an internal control assessment require an examination of the specific risk management mechanisms and systems, as well as the overall management and governance system of each organisation.

How to perform a self- assessment of internal of internal control vales

The internal control system is not a separate system but is an integral part of each system and process that management uses to regulate and direct its work, the internal control system is the control flaps that the management has integrated in the infrastructure of the body to help, on an ongoing basis, the executives to manage the organization and to achieve their goals.

Because the internal control system is one of the basic functions of the management, it is important for the executive to have a basis for regular evaluation, so as to control whether the mechanisms of the organization's internal control system are able to achieve their goals. Management should not be content with formal evaluations conducted by third parties. Audits of an organization's internal audit procedures are generally conducted on an annual basis or less frequently. We will assist the administration of a regular assurance system, which will certify that the procedures of the internal control system are constantly performed at a satisfactory level. This will return to management to identify potential problems before they escalate into systemic issues instead of waiting for them to be identified during internal and external audits. As self- assessments are less detailed and time consuming and therefore do not require many resources they can be conducted more often. Since the internal control system is the responsibility of every employee in the organisation, conducting self assessments allows more people to feel that they are part of the whole process. Such a process enables the administration to :

- Participate in the recording and assessment of risk.
- Develop a troubleshooting plan.
- Assess the likelihood of achieving the organization's goals and
- Calculate and control and report on financial inflows and results.

The results of the self- assessment tool are a representation at a specific point in time of the relevant strengths and weaknesses of the internal control environment. The assessment does not identify the reasons for the weaknesses or inadequate internal control values, but many identify areas for further investigation. In conduction with the completion of the standard work from a written self-assessment report can help summarize the whole possess and key findings. Such a report will address the following issues.

Background – Details of the context in which the evaluation takes place, key changes and initiatives concerning the internal control valves, scope and scope of the evaluation as well as a description of the organizational units examined.

Objectives – Presentation of the logic of self-evaluation and the intended user of the findings.

Methodology – Description of the specific business scope of the justification assessment team for the selection of specific indicators and the sampling methodology for data collection.

Strengths – Summary of areas where internal control valves are adequate and how to conduct the assessment.

Weaknesses – Details on areas where internal control valves are inadequate or incomplete and how the assessment is conducted.

Changes over time – if the evaluation is carried out regularly, it is necessary to identify the collective changes, whether positive or negative.

Next steps – Description of how to use the results of the self – assessment to support the efforts of reinforcements of internal control.

Implementation of the audit self – assessment process at organization level.

The application of the self – evaluation methodology can create a sense of ownership of both the evaluation process and the findings. Can also contribute to internal communication. Ideally,

communication to internally reported parties is divided into three stages of the self- assessment process.

Design : A first meeting with the organization's executives to present the evaluation is necessary to establish a transparent communication about the evaluation process and the expected results. The workshop should reinforce the participants constructive critique of the evaluation design by further increasing its acceptance by the stakeholders of an organization. During the meeting the participants can be provided with some notes that will the rest of their colleagues.

Implementation : During self-assessment, the team should be prepared to work with colleagues on internal control flaps./

Results : The results of the evaluation must be communicated clearly and transparently. Top leadership focuses on prioritizing concrete actions aimed at strengthening the weaknesses of the internal control system. And identifying areas where management system or procedures do not work. Sharing conclusions with other staff is important in consolidating responsibility for improving internal control and management systems.

The completed internal control system self – assessment worksheet should be submitted to head of internal control for review. The internal audit will evaluate from its own point of view the results of the self – assessment and requesting documentation material where necessary. Next the most important thing is that the internal control unit will summarize the results of the individual worksheets completed through the organization and will prepare an audit readiness report.

How to create an audit action plan based on risk assessment

This section presents how to systemically assess the risks and priorities at the level of planning the activities and controls of the internal control unit with a view to exposing the organization risks. The control program is one of the most important tools developed by the internal control unit. The value given by internal control begins with understanding the strategy and goals of the organization and then determine the best way in which internal control can support their achievement. The first question that may arise is «What are the goals of the organization and how can internal control support these priorities?»

Six – stages of developing an audit action plan. This section examines each of these stages.

- It must first identify the control environment ie. all possible controlled entities and activities within the organization.
- The second stage involves identifying all potential risks related to the control environment.
- Third, priorities must be set on the basis of the importance of the risks as it is not possible to address all the risks due to limited resources.
- The fourth stage concerns the identification of the most critical risks with the audited entity or activity and the prioritization of the audit missions that will be undertaken.
- Fifth, the audit action plan must be implemented and beyond.
- The sixth stage includes communication about the success and challenges associated with implementing the program.

These six steps will be implemented, taking into account existing risk analyses at the organization level, the goals of the organization and top management strategies and expectations as well as potential internal and external threats. In addition risk taking does not have to be complicated and may include information gathering activities, such as questionnaires, interviews or workshops.

The most important factor to consider when developing an audit action plan is the added value of internal control. That is, if leaders are not facilitated to assess internal control, it is more likely that it will not happen. To do this we must confirm that the audit program supports the strategic goals and objectives of the organization. The approval of the plan by the top management and its involvement in its elaboration will contribute to the goal. The main points that this section highlights include the following :

- The preparation and approval of an audit based plan based on the organization's exposure to risk
- The preparation of risk information and the internal control system in appropriate places within the organization.
- The documentation of the procedures for conducting the periodic risk assessment
- Training activities regarding the planning of audit action based on risk assessment.

The chief internal auditor should establish a risk assessment – based audit program audit program to identify the organization's objectives. Explanation : To prepare the plan based on risk assessment, the head of internal audit consults with top management and the board in order to fully understand the strategy of the organization, the main business objectives, the relevant risks and the risk management procedures. The head of internal control must review and adapt the program as required in connection with changes in the activity, risks, functions, programs, systems and controls of the body.

Risk Identification

The internal control program ensures that internal control adequately addresses the areas with the greatest exposure to key risks that may effect the organization's ability to achieve its objectives.

The internal audit program ensures that internal control effectively addresses the areas with the greatest exposure to key risks, which may affect the organization's ability to achieve objectives. As mentioned above the IEE guidelines direct the Head of Internal Audit to begin preparation of the internal audit plan through consultation with top management and audit committee, if any in order to understand the organization's strategies, business objectives, risks and risk management procedures. It is very important for the head of internal audit to take into account the maturity risk management procedures.

Control Environment

The first step in any audit design process is to determine the audit environment. Although there are some similarities between organizational control environments basically each organisation has its own. The similarities include some typical management activities.

Overview of the control environment

- Management Framework.

- Design & accountability.
- Asset and resource management.
- Human resource management.
- Protection of assets, information and people.
- Information management
- Legal services
- Communications
- Implementation of programs and services.

The control environment plans and initiatives related to the organization's strategic plan and may consist of business units, processes, programs system or internal control flaps. It is important to start based on the strategies and goals of the organization, in order to avoid the risk of proposing diminished audit missions and not to provide the information that would really interest the management. Most internal audit chiefs that ask the usual internal audit question «what could go wrong?» to those responsible for achieving the strategic goals of the organisation immediately identify new audit projects that may have not been formulated yet.

Some organizations may use a formal risk management framework to record evaluate and manage risk. However if this does not exist the auditors often intervene and create it. Once this framework is created for the first time and its operation starts after a while, the business units take over this function. The graph below shows the process of recording risk assessment and prioritization.

The head of internal audit can begin by examining existing information about the recording of risks. This includes understanding the management priorities based on the official organizational objectives of the texts related to the mission of the organization and related reports. The head of internal control must be informed of key initiatives or changes in the organisation's operation. Must also be aware of fraud cases or control system weaknesses that have already occurred. It is crucial to understand the government's priorities and how they are supported by the organizations actions and goals. External audit work should also be taken into account, including detailed examinations of previews internal audit reports. Finally, external threats, such as economic conditions and international relations, must also be taken into account.

When conducting a risk assessment, the head of internal should look at the activities of the organization from the perspective of different types of risk. Such as those shown in the graph below.

Strategic risks can limit the achievement of the organizations goals or specific initiatives. Operational risks are those events that could impede the implementation of the organization's key actions within its budget. Possible resources constraints or problems with financial reporting. Finally there are risks to existing legislation.

The main control activities should be rated to control and compliance issues. It is essentially a matter of providing as to the effectiveness and efficiency of the bids set by the administration and the level of compliance with them. When resources allow a second point of added value should be the control management performance issues in terms of efficiency and effectiveness. A third area that can be considered is the control of impending risk, so that the organization can anticipate changes and target innovation by achieving strategic goals such as providing customer – centric services.

To determine the risks in each of these areas as well as their potential consequences, the Head of Internal Audit may use a set of information gathering tools, such as interview, opinion polls, meeting and workshops to gather additional data from management regarding risks at various levels of the body, but also stakeholders in the day-to-day operations of the body. In most cases there will be limited or no access to quantitative and historical risk information, but through qualitative methods an initial risk profile can be created which will be enriched over time.

Contrary to popular belief, top management should not be the first person person to be sought in an interview when conducting the risk assessment. Consider starting with boss level executives.

When meeting middle- level executives you should ask how their roles and responsibilities contribute to the organisation's goals and objectives and to understand how the make the most of their time. You can also ask them if they have increased the individuals or resources of their group and look for reasons for it. For example, taking on additional tasks, new programs or a new need for specialized knowledge may be the reasons for this change. The following roles directly identify key management initiatives that could benefit from providing independent information and security.

Hierarchy of risks.

The control tool is usually an indicative risk collection and assessment tool. The initial factors or criteria to be considered when measuring risks include : the complexity of entity, the importance of

the organization, ie the size and number of resources employed, the frequency of changes in the organization and changes can lead to instability. The movement / departure of staff as this implies a loss of institutional memory the legal issues related to the operating framework of the organization and may pose risk to its reputation.

In order to verify the relevant risk assessment, each risk must be considered in conjunction with the others. The graph below presents an overview of this approach. It involves examining the potential impact of a risk in relation to the estimated likelihood of that risk occurring. These risks can then be aggregated to be categorized between high and low risks.

Risk Mapping

Impact : What is the

impact of this risk on

the organization's

	Very rarely	Rarely	Moderate	Very Likely	Almost certain
Maximum	🟡	🟡	🔴	🔴	🔴
Very high	🟡	🟡	🟡	🔴	🔴
Moderate	🟢	🟡	🟡	🟡	🔴
Low	🟢	🟢	🟡	🟡	🟡
Negligible	🟢	🟢	🟢	🟡	🟡

High risk : Controlled organisations in this area pose significant risk to the organization's objectives and mission.

Low risk : Control of these organisations will have little added value.

Chance
It is certain or unlikely that danger will occur.

Prioritization of audit work.

The top management of the organization is able to formulate in the best way the most important risks for the organization. It is better to give them enough and quality information from the work done in the field so that they can use it and comment on it than to start the process of risk assessment with these interviews.

Once you have gathered all the top executive into one room to discuss who they consider to be the areas of highest risk to the organisation, creating a future action plan will be one of the easiest tasks that you can accomplice. While there may be good reasons why an executive may object to a proposed audit project, most will find it difficult to avoid audit in the long run once they and their colleagues have assessed the risk as a key.

As illustrated bellow, once risks associated with the audit environment are identified, audit work should be prioritized, based on the risks we have the greatest strategic value to the organization. Audit project should then be prioritized based on available resources as it is rare to have enough resources to fully audit all areas. When the following steps are performed the result is usually the control action plan. Once the design of the proposed audit schedule is complete, be sure to document the reasons why each project / mission was included in your proposed audit schedule. If you prove that you did your job well, there will be minimal reasons to reject your audit program.
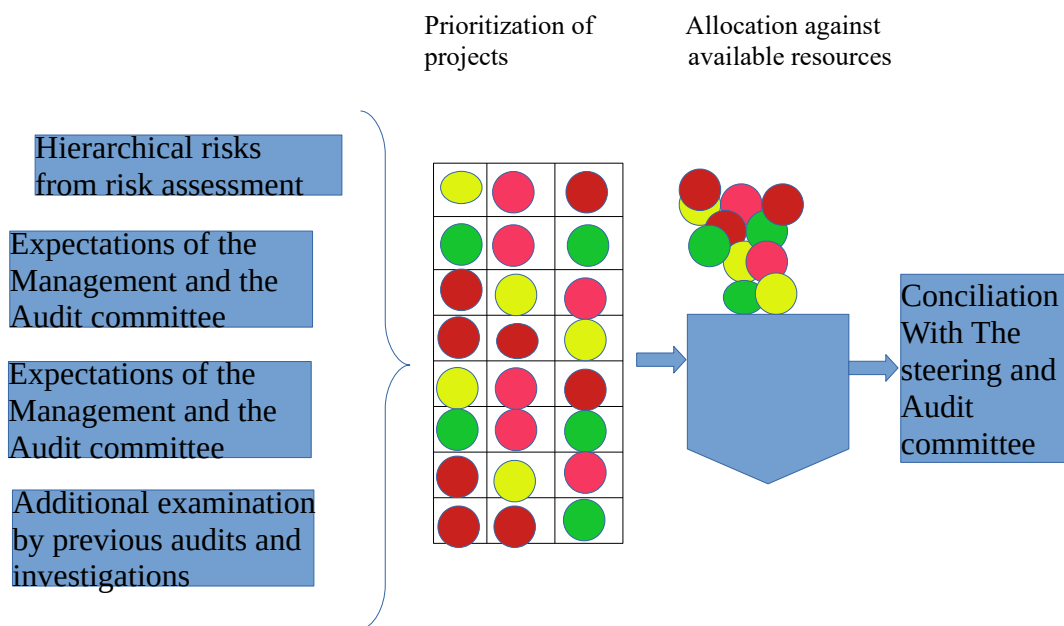
Mapping of safeguards

In setting up its internal control program, the head of internal control must take into account any request from senior management and the ability of the internal control function to be based on the

work of other internal and external safeguards (according to IEE 2050 standard). It would be helpful to consider information from the first and second lines of defence within an organisation's internal control system when trying to determine which control project to start. Linking risks to specific objectives and business processes helps the head of internal audit to organize the control environment and prioritize risk. The risks are then analysed based on any existing internal control valves to determine if there are gaps and deficiencies, therefore an organization's safeguards activities are captured to identify deficiencies on which internal control should focus. The head of the internal control uses a risk based approach to calculate both internal and external threats. Internal risks can affect key products and service personnel and system. Related factors related to internal risks include the degree of change in risk since the last inspection or the quality of the check valves. External risks are related to political instability, the environment the geopolitical situation. Relevant external risk factors may include pending regulatory or legal changes or other political and economic factors.

To ensure that the control environment meets all the key risks of the organization (as far as possible) the internal control activity independently examines and confirms the key risks identified by the top management.

When the above information is collected and examined the head of internal audit draw up an internal audit program that usually includes.

- A list of proposed inspection missions (and clarifications on whether these missions are of a safeguard or advisory nature).
- The documentation for the selection of each proposed mission, the time of completion of the final check, changes in management etc.
- The objectives and scope of each proposed mission.
- The list of initiatives and projects that derive from the internal control strategy but may not be directly related to an audit mission.

Although audit programs are usually prepared on an annual basis, they may cover a different period of time. For example, an internal audit activity may maintain a twelve -month audit schedule and evaluate individual shipments on a quarterly basis. Otherwise the internal audit activity can create luxury audit program and evaluate it every year.

When the head of internal audit discusses the internal audit program with senior management, he or she must identify areas of risk that are not addressed in the program. For example, the discussion may be an opportunity for the head of internal audit to consider the roles and responsibilities of senior management in relation to the risk management process as well as to evaluate the applicable standards related to maintaining the independence and objectivity of the internal control. The audit supervisor evaluates any information received from stakeholders prior to finalizing the program.

The internal control program must be flexible enough to allow the head of internal control to review and adjust the program in response to changes affecting the organization's risks, functions, programs, systems and internal controls. Top management should be informed of significant changes in order to review and approve them in accordance with the IEE 2020 standard.

Communication about the audit plan

Communicating the achievements of the internal control function is an opportunity to show the value that internal control adds to the organisation. The Head of Internal Audit must report regularly to the top management and the audit committee of the organisation on the achievements of the internal audit activity. This includes results such as the provision of the audit and advisory services but will also include the impact of actions, the improvement of strategic decision – making, the way in which control supports the strengthening of cyber security or the way in which control has contributed to prevention and detection of fraud.

Internal control and fraud

The credible management practices of an organisation, strong values and clear rules are the key elements in the fight against fraud. As ethical values are fundamental to supporting credible management directions.

This section focuses on the role and responsibilities of internal control related to fraud risks and describes how auditors should deal with the suspicion or allegation of fraud that arises during an audit mission. Emphasises the important role of internal control in the detection of fraud and the essential link between internal control and investigate inspection bodies. Emphasizes also the way in which internal audit can support the prevention and detection of fraud both in the design of the audit program and in the execution of individual audit missions.

The template 2120 of the IEE.

The internal control function must assess the likelihood of fraud occurring and how the organization manages the risk of fraud.

The head of internal audit helps to combat fraud in two ways :

Evaluate fraud risk management and prevention actions by the organization including fraud awareness programs, staff training of policies and procedures in case of fraudulent activities. The Chief Internal Control can help reduce the risk of fraud by ensuring that adequate risk management strategies are in place to discourage fraud and reduce losses if they occur.

Relation between internal control

The purpose of internal control is to make recommendations for improving governance, risk management and control processes. The purpose of a fraud investigation is to confirm or disprove the suspicion or allegation of fraud. If the investigation concludes the fraud has taken place, then its results will be used to prosecute the person or persons who committed the fraud. Although internal auditors may identify a potential fraud, their contribution is limited to the point where the suspicion or category of fraud is considered a potential fraud. At this point the investigation is being conducted by fraud investigation teams.

The differences between internal audits and fraud investigations exists on many levels, starting from the time activities and their initial assumptions. The table below shows the differences between internal control and fraud investigation.

Feature	Internal control	Fraud Investigation
Strating point	Based on risk	Based on accusation Or Suspicion
Business object	Opinion on governance, Risk management and Internal control	Information on court and Disciplinary proceedings

The chief audit executive and senior management should pay close attention to fraud and the assignment and communication of roles and responsibilities for preventing detection, investigating, reporting, and dealing with potential fraud.

Head of internal audit must understand the difference between irregular acts, misdemeanors and fraud and be aware that that weaknesses in the internal control system can lead to fraud. These actions can be caused by many factors related to the lack of knowledge in the gaps of the follow-up procedures to the difficulties in the interpretation and implementation of policies and regulations and off course actions that are done with intent. A detailed analysis of the situation is often required to determine the cause and effects of the misconduct and to decide whether any corrective or disciplinary action is required before it becomes fraudulent.

Fraud risk assessment internal control guidelines

As part of the fraud risk assessment, the head of internal audit should ensure that management has clearly defined and communicated the roles and responsibilities for preventing the detection of investigations and reporting of possible fraud and has identified the person responsible. To take corrective actions when fraud is detected.

In their leadership role, senior management has an obligation to actively monitor management practices and internal control flaws and to take timely and effective remedial action when significant deficiencies are identified.

In the international Standards on The Internal Practices of the Institute of internal auditors (IEE) Fraud is defined as follows :

Any illegal acts characterized by Fraudulent concealment or Misuse of trust. These acts do not Depend on the use of threats of Violence or physical force. Frauds Are committed by individuals and Organisations to obtain money, Assets or services to avoid payment Or loss of services or to safeguard Individual or business interests.

Internal control is an integral part of the overall governance system

of the organisation and the internal control system to prevent, detect, investigate and report any possible fraud. However, the function of internal control is not the only mechanism responsible for carrying out all these activities.

The internal audit activity creates and implements an annual program of internal audit missions based on risk assessment which enables the head of internal audit to provide an annual assurance report on the effectiveness and adequacy of risk management, control and governance processes.

While the work carried out to develop an annual program includes fraud risk recording and assessment activities, it does not include specific responsibilities for detecting, investigating and reporting potential fraud. However since internal audits may reveal possible fraudulent practices, miscalculations may arise as to the exact role of internal audits and controls in detecting fraud. Internal control procedures do not conceive that fraud will be detected. The role of internal control is to record the risk of fraud and to provide reasonable assurance about the adequacy of the internal control system in dealing with possible fraud.

The head of internal audit should ensure that the organisation's top management and internal audit staff clearly understand the roles and responsibilities of the internal audit function in relation to the prevention and detection of fraud misdemeanors and fraud. The head of internal audit should also ensure that top management is aware of the fact that an internal audit post may not detect an existing fraud. When conducting internal audits, there is no initial admission that fraud has been committed. Instead the fraud investigation typically begins with the assessment that the ongoing fraudulent transactions have taken place and that the purpose of the investigation is to confirm or refute the allegations.

However, the head of internal audit should be aware of the possibility of fraud and therefore consider the procedures for informing and raising awareness of his / her personal body about fraud issues as well as the mechanisms of fraud prevention must also conduct a comprehensive fraud risk assessment at organization level and understand the fact that the organisation is exposed to specific fraud risks. The Head of Internal audit must also ensure that internal auditors have the skills and knowledge necessary to identify fraud and that all parties clearly understand the procedures to be followed when an internal audit mission detects an act possible fraud.

How to carry out an audit

This module consist of three stages : planning an audit mission, conducting an audit, preparing and submitting the audit report. Each stage includes different steps, which are discussed in detail below.

Planning of audit missions

The design phase is the cornerstone of successful audit. Proper design allows control teams to identify objectives, scope, criteria and methodology. The design also enables the controller to better understand the subject area. This includes understanding the complexity of the contextual context environment., its place within the organisation, the legal basis and potential risks to ensure that control focuses on the areas where it can deliver the greatest value.

Key activities and outputs when planning a control mission

Activities

- Start the best
- Understand the controlled entity
- Identify the main risks
- Develop the control program
- Meet with the top management
- Approve the audit reference frameworks

Basic outflows

The audit design phase should lead to three key documents : a risks assessment in the audit program and the reporting framework.

- Risk assessment : ensures that the audit focuses on the areas with highest value and the most critical risks. Risk assessment is aided by a thorough undertaking of all the information gathered to identify the areas with the greatest inherent risks.
- Control program describes how the work is performed during the control process in order to achieve the specific objectives.
- Reference box : summarizes the scope, objectives, schedules and other planning parameters for informing senior management and the audited entity.

At the end of the design process, the audit teams should be able to clearly state what will be checked, why it will be checked and how this will be done.

International framework of business standards – design phase

The standards of the institute of Internal audit underline the following requirements :

Standard 2200 : Internal auditors should develop and capture the design of each project, which will include will include the objectives, business scope, schedule and resource allocation.

Standard 2210 : For each project the objectives must be defined.

Standard 2220 : The predetermined business scope must be sufficient to achieve the objective objectives of the project.

Standard 2230 : International auditors should determine the appropriate and adequate resources required to achieve the objectives of the project, based on an assessment of the nature and complexity of each project, time constraints and available resources.

Standard 2240 : Internal auditors must develop and document work plans and achieve project objectives.

Key activities at the design stage

Start of the audit projet	Signing the statement of objectivity Audit announcement Conducting an inaugural meeting
Understanding The Controlled Entity	Collecting data Collecting of information Analysis of information Writing worksheets
Risk assesement	Formulation of the historical context Creating initial proposals Informing the recipient of the control of the shipment
Designing of The Control Programm	Ensuring that the audit programm achieves the set objective Setting further expectations for each each control criterion Clear wording of specific test methods
Frame of reference	Discussion of risk assesment objectives , cirteria and scope Description of the basic elements of the design stage In the event that there are assesmets regarding the possibility of control, the meeting must conclude the documentation of any decision not to Carry out the control
Meeting with The head of Internal audit And top management	Approval by the Head of Internal Audit Meeting with the recipient of the audit Presentation to the body's audit committee Notification to the top Management

Start of the audit project

The above activities must be implemented at the beginning of the audit project to ensure that the mission is well planned and the service user is informed in a timely manner.

Statement of objectivity

Internal auditors must carry out the task in such a way that they have a trust in the morning of their work and that no significant quality compromises have been made. They must behave objectively and impartially and avoid any conflict of interest situation.

If the auditor's independence or objectivity has been affected in fact or appearance, the relevant information will be communicated to the audit supervisor or to the next hierarchical level. For example the objectivity of internal auditors is affected if the internal auditor has a personal relationship with the supervisor of the audited entity or if he or she participated in the design or establishment of the audited entity or program.

In accordance with the code of conduct of the institute of Internal Auditors, internal auditors :

- Should not engage in any activity or relationship that may affect or be deemed to affect the impartiality of the mission.
- They must not accept anything that might affect or be considered to affect their professional judgement.
- Must disclose all relevant facts which it is aware of which, if not disclosed could distort the audit report on the activities under consideration.

In order to limit the risk of non – objective evaluation when carrying out an audit mission, all auditors involved in the audit mission must sign the statement of objectivity at the design stage. In addition, any internal auditor who may join the team after the design phase must sign a statement of objectivity.

Announcement of the Mission

This is a simple and short step of the design process, as the service user is informed about his upcoming mission and the reasons for joining the control program. The announcement of the mission also creates a communication channel between the users of the services and the top management of the internal audit or the head of the audit mission.

The audit team must prepare a memorandum informing service users that the safeguard mission has begun. The memo is sent by the head of the internal audit to the service user, indicating that the audit design process has begun.

The memo must include the following :

- The start of the audit design phase and the search for information by the service user
- The notification of the name of the head of the audit mission
- A description of the initial business scope and objectives of the audit.
- Emphasizing the need for an inaugural meeting with the service user.

The memo template should be used to announce the audit. You will need the information to complete the memo.

- Name of the controlled entity.
- Title of the inspection missions.
- Date of approval of the annual risk assessment audit program.
- Objectives of the audit mission.
- Possible start date of the mission.

Conducting an inaugural meeting.

The audit team should meet with service users to describe the audit process, the initial audit objectives and the business scope. During the meeting, the auditors should be prepared to discuss the concerns of the service user regarding the mission, the audit process, the internal control rules of procedures and the issues of personal data protection. Minutes must be kept at the inaugural meeting.

Understanding the controlled entity.

To complete and create an overall risk assessment that will focus the mission on the areas of greatest value, the audit team needs to fully understand the entity to be audited. The audit team research should focus on the objectives and the environment in which the audited entity operates. The information obtained will facilitate the assessment of the entity's inherent risks.

Sources of information

Information exists within the institutional framework of the agencies and should be the first point of inquiry by the audit team. It is worth noting that a more complete set of information and documentation must be provided by the service user. It is important to have an open communication channel between the service user and the control team to facilitate the transfer and verification of information. When reviewing information, auditors should begin to record the potential risks that the audited entity may face.

A good starting point for gathering initial information is existing worksheets on the risks that threaten the organization. The audit team needs to have an in- depth understanding of the audited entity's business object in order to identify key risks in a particular audit project.

Examining material from interviews and documents is the primary means of gathering information. Interviews with the service user will help identify the objectives. Roles and complexity of the environment in which the audited entity operates.

Information Management

The documentation and interviews related to the mission will be stored together. To be able to refer to the sources of all audit observations requires a structured management of information from the beginning of the audit mission. At the end of the audit if requested the auditors should be ready to document each element of the audit.

Risk Assessment

Internal audit teams need to understand the risks in terms of key management objectives as well as existing internal control channels in order to have a targeted audit that will add value to the audited body. The information collected and transmitted during the «Understanding the entity» stage supports the risk assessment process. The composition of the information will equip the audit team

with knowledge of the audit team with knowledge of the entity's business, operating conditions and the conditions under which the entity may be exposed to risk.

Risk recording

As mentioned above, existing information on the types of risks an entity faces if such information is available may be the basis for the audit teams to record their own audit needs. It is worth noting that the existing risk information may be quite general at this stage and there is no thorough documentation, as required in controlled missions.

As an internal part of of the audit process that adds value to top management. A more thorough risk assessment should be conducted to ensure a complete record risks depending on the controlled entity, the involvement of the service user may be beneficial.

The audit team should record the risk associated with the entity's operations. The following information must be documented : key objectives, risks involved, likelihood of occurrence of risk and classification of risks.

When identifying the risks associated with the mission it is important to know the operational parameters that inherently tend to expose the organism to danger. The following factors must be considered.

- Degree of changes in conditions.
- Degree of complexity and legislative requirements.
- Degree of supervised entities and geographical dispersion.
- Degree of dependence and integration of information technology.

The documentation of the above data ensures that the audit team has a clear rationale for reaching conclusions about the objectives and business scope of the audit.

In rare cases, the outcome of the risk assessment may highlight an issue or evidence that the audit team will conclude that the audit mission is not required at this time. Therefore an assessment of the feasibility of carrying out the audit should be drawn up in addition to the risk assessment.

The purpose of the evaluation of the feasibility of the audit is to provide the head of internal audit, the service user and the audit committee, the necessary documentation for the non – execution of the mission. The assessment of the feasibility of the audit should indicate the objectives and scope of the mission as proposed in the annual audit plan based on the risk assessment and record the next steps.

Control design

The audit objectives are formulated in general terms, during the audit program preparation process, defining what the audit mission is expected to offer. These objectives could be considered as questions for which auditors seek answers. The audit chief has the obligation, once the collection of information on the audited entity's business object has been completed, to re-evaluate the audit objectives to reflect the new information collected.

In confirming the objectives, the audit team should ask about various issues related to the possibility of conducting audits in specific areas :

- Candidate activities to be audited are offered for auditing.
- Auditors have the required expertise or can obtain it.
- Control will add value to the organisation.
- Control objects are undergoing significant and fundamental changes.
- Appropriate performance evaluation criteria are available.

Business scope control mission

The business field delimits the issues that will concern the audit team. The relevant document must clearly outline the areas, procedures, activities or systems within the audited entity that will be the subject of the mission and which will relate to the outcome of the audit, including the time period and the physical spaces that will carry out the audit. It must also include areas outside the business scope of the mission.

The business scope can be determined based on the focal points of the mission (eg. Service management, framework, operational procedures, government procedures, control systems, etc.)

Any restrictions on the operational scope of the inspection mission and the reasons for such restrictions must be recorded. For example, such limitations occur when auditors are unable to control key organizational units or systems or are unable to perform the necessary audit procedures as a result of factors beyond their control. The operational scope of the audit mission may also be limited due to the inability to determine appropriate audit criteria.

Developing a control program

Once the risk assessment, business scope and objectives have been completed, the efficiency and quality of the audits depend to a large extend on the good planning and execution of the audit program.

The control program is detailed plans outlining the steps to be performed during the mission. The audit team should develop an audit program appropriate to achieve the objectives and over the identified risk. The plan must contain the audit objectives, criteria and methodological approach.

The criteria are generally found in the following areas : guidelines or standards for risk management , management control framework, standards of recognised professional organizations, recognised bodies of experts and generally accepted business standards or rules.

It is also best practice to record the sources of audit criteria in the audit program. If there are no generally accepted criteria related to particular audit objective others can be utilized that relate to relevant areas or presentation and approval by the service user would be beneficial. If no agreement can be reached on the criteria, the lack of agreement should be communicated in accordance with the terms of the reference box together with the terms of the reference box together with an explanation of why the audit team considers that the criteria remain appropriate.

The following features formulate good control criteria

- **Intelligible** : these criteria are clearly articulated and are not subject to significantly different interpretations by the users to whom they are addressed.
- **Relevance** : Contribute to the results and findings that are in line with the audit objectives

- **Reliability**: Lead to inconsistent conclusions or opinions when used by different auditors in the same cases.
- **Neutrality**: Free from discriminatory features that could mislead users from the findings and finding of the auditors.
- **Completeness** : exists when all the criteria that could influence the auditor's conclusion are identified or adopted.

The methodological approach to control refers to the work related to the collection and analysis of information to achieve the control objectives. This work ensures that sufficient and appropriate audit evidence is collected so that audit teams are able to draw conclusions about each audit criterion.

In describing the audit approach, audit teams should :

- Determine the necessary evidence to reach conclusions based on established criteria.
- Identify the structures and other procedures needed to gather the required evidence.
- Prioritize objectives in order to evaluate high – risk processes first.

It is important to consider all the evidence that may already be available when applying this particular audit approach. Creating a control approach that combines data from different sources and categories ensures that all possible outcomes are reliable and supported by appropriate evidence.

Sampling Plan

Sampling is a technique used to analyse data or part of this data generated by the service user. Sampling increases the efficiency and effectiveness of controls. Auditors should consider sampling techniques when applying specific control steps.

There are two ways of sampling :

1. Statistical sampling : Used to draw conclusions about populations. Statistical sampling allows controllers to display the characteristics of a sample in the population from which the sample was derived. It also allows the elimination of risks through the application of mathematical formulas.
2. Critical sampling : Used to prove the existence and determine the extent of presumed assumptions. Non – statistical sampling is the selection of samples without the application of structured techniques standard methods. The auditors can not draw conclusions about the populations from which the sample was selected beyond what was actually identified about that sample.

When sampling is used as an audit step to evaluate the entity, it is important for the audit team to record the methodology and obtain the official approval of the audit team leader.

The audit teams must define the sampling methodology in a plan consisting of :

- Sampling targets for control.
- The characteristic of the population.
- The selection of the sampling methodology (ie use the statistical or critical approach, approximation, information on the sample size and the sampling methodology)
- The documentation of the approach to be used.
- An explanation of the appropriateness of the approach.

Frame of reference

The reporting framework also provides a high – level summary of the audit plan to facilitate the user's understanding of the audit. The reference box provides information on the business scope, objective, approach and timing of the audit. This document is subject to review the audit.

Components of the reference frame

The reference box document ensures that users are up to date.

- The objectives of the audit.
- The criteria and the business scope.
- The audit methodology.
- The sampling method.
- The responsibilities of internal control.
- The responsibilities of the administration of the audited body.
- How the findings of the audit are communicated.
- The estimated audit schedule.

Information Management

The reference box must be communicated to the user and presented to the organisation's audit committee and designated reporting body.

Conduct of the audit

The audit phase officially begins with the approval of the reference framework. The stage of conducting an audit includes the collection, review, analysis, and evaluation of information related to the objectives of the mission. This will allow the audit team to draw its own conclusions about the taste of the environment being audit. During this stage, the control team runs the control program to :

- Acquire sufficient and appropriate evidence to support both positive and negative conclusions for each audit objective.
- Identify the residual risk.
- Assess the consequences and risks associated with non- compliance.
- Compares current practice, functions or results with existing frameworks.
- Record opportunities to improve performance.

International standards for the professional practice of internal audit : Phase of the audit.

Standard 2300 : Internal auditors must identify, analyse, evaluate and record sufficient information to achieve the project objectives.

Standard 2310 : Internal auditors must identify sufficient, reliable relevant and useful information in order to achieve the objectives of the project.

Standard 2320 : Internal auditors must base the conclusions and results of audit projects on appropriate analyses and evaluations.

Standard 2330 : Internal auditors must record the appropriate information for the existence of conclusions and results of projects.

Standard 2340 : The implementation of audit missions must be properly monitored to ensure the achievement of objectives, the objectives, the quality of work and the professional development of processes.

Start of Implementation Phase	-Development of tests, tools and instructions to ensure consistent Implementation of the control program -Meeting with the service user
Implementation Of the control system	-Collecting data -Collection of information / evidence -Information analysis -Drafting of working documents
Information on audit findings	-Descripitve formulation of its historical control -Creating initial proposals -Informing the auditee about the audit mission

Start of the implementation phase

Tools and guidelines need to be developed to ensure that audit teams consistently apply a similar methodology to meet the audit criteria and approach. This reinforces the control team's effort to achieve the missions objectives.

Some examples of ensuring consistent implementation include :

- Standardized folder checklists.
- Process evaluation plan.
- The sampling plan.
- The descriptions of the data examination process.

- The interview guide with the aim of answering the question that arise from the audit program.
- Clarification of key terms.

During the execution of the control program, there are times when the methodological approach needs to be changed. Changes can occur as the audit team becomes more aware of the procedures and the subject matter.

The recent information facilitates the continues improvement of the audit approach and support tools, with the aim of better meeting the audit criteria. The audit team should be vigilant to record any changes in the audit approach or saturation tolls.

Information Management

Tools such as the interview guide, standard checklists, interviews and minutes from the inaugural meeting with management should be kept in the project file.

Implementation of the control program

Collection of items

The evidence must be collected on all matters related to objectives of the audit and the operational scope of the mission. The institute of internal auditors proposed the observance of several standards in the process of gathering evidence.

- Item templates
- Trust and utilization of the work of other safeguards / control mechanism.
- Locating and recording the findings.

Evidence is a key component of any mission on which audit teams rely heavily to support their view of whether audit criteria are met. Evidence is considered appropriate when it is sufficient, reliable, relevant and useful support conclusions relating to the objectives of the mission.

- **Sufficient :** information means real, relevant and informed person can draw the same conclusions as the auditors.
- **Reliable :** information is the best that can be gathered through the use of appropriate control techniques.
- **Relevant :** information supports the findings of the audit mission and the recommendations that are consistence with the objectives of the audit mission.
- **Useful** : information that helps the organizations achieve its goals.

As you analyse the information and come to conclusions about a goal, it is worth noting that there is only one type of supporting evidence that verifies the conclusion. Generally the combination of data from different sources and different categories provides greater reliability that individual data. A combination of elements may not always be possible as you depend on the subject and the type of subject. The auditor's professional judgement plays an important role in determining whether the evidence is sufficient to rely on these conclusions or results. The methodologies (or data sources) that will be used to gather the evidence for each predefined control criterion should be clearly stated in the control (developed during the audit design phase).

Methods of collecting information

Data collection methods vary depending on the approach used to draw conclusions about an audit objective.

- Physical observation of functions or fixed assets (eg on-site inspection)
- Data packages supplied by the audited (eg collection of documents upon request answers on technical issues).
- Detailed examination of transactions (eg examination files).
- System tests.
- Calculation or independent verification of numerical calculations.
- Examination and analysis of documents.
- Interviews focus groups opinion polls and study.
- Analysis of information or data (eg data analyzes, trends, percentage, or regression analyzes)

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Drafting working documents

The working documents are necessary to document the implementation of the mission objectives and criteria. According to IEE 2330 standard «internal auditors must document relevant information to support the conclusions and results of the mission » working papers must be clear, accurate, concisely complete and reasonable.

The following should be included :

Data collection methods vary depending on the approach used to draw conclusions about an audit objective.

Traditional data collection methods include :

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- System tests.
- Calculation or independent verification of numerical calculations.
- Examination and analysis of documents.
- Focus group interviews, opinion polls and studies.
- Analysis of information or data (eg data analyzes, trends, percentages or regression analyzes).

Drafting of working documents

Working papers are necessary to document the implementation of the mission objectives and criteria. According to IEE standard 2330 «internal auditors must document the relevant information to support the conclusions and the results of the mission» The working papers must be clearly accurate, concise, complete and reasonable.

The following should be included :

- Interview notes, test results and documents collected directly related to the documentation of the findings.
- The reference of key documents (ie policies, policies, processes, flowcharts, etc.)
- The data and analysis in support of the above observations.
- The essential communication with the users of the services.
- The communication of the audit findings and the comments of the management for the results of the evaluation.

Each working paper is divided into four sections : analysis, test results, summary presentation of documents and notes of interviews. Audit teams must document the results based on the criteria applied for the evaluation. The results should provide data and analysis on causes and impact / consequences and include conclusions and possible recommendations.

Once the test results, documentation and analysis of the interviews have been completed, summaries of the analysis for each control criterion should be prepared. The key findings related to each audit criterion should be presented in the audit analysis sheet. The resulting findings should be articulated in a comprehensive and clear manner and should include those elements that emphasize the degree of confidence that the team has in them. As mentioned in the previous sections, findings confirmed by differential sources provide findings with a greater degree of reliability than individual repulsive data.

The purpose of presenting confirmed findings form different working papers is to support and validate the audit findings and conclusions reflected in the audit report. Best practice for these items is to be supported by impact and risk assessment (that is between what is and what should be).

In some cases, the findings may not only be negative as they may be activities within the controlled organization that are considered best practices. Emphasizing positive observations and good practices in reporting combinations with observations that may be perceived as negative will lead to a balanced report. It is worth noting that there maybe cases, based on the analysis, where a balanced exposure. It is worth noting that there may be cases, based on the analysis, where a balanced exposure is not possible.

Update on the audit findings of the audit mission

Presenting the background of the inspection mission

Before informing the service user and preparing the recommendations, the audit team should consider how to present the comments to the management. Using an approach that highlights the added value and importance of observations will mobilize management to take action.

Making recommendation.

One element in formulating an integrated approach is to formulate initial recommendations. Recommendations are suggestions for addressing the recorded observations (ie the risks and exposure of the organism to threats.) and should be feasible and appropriate. When developing recommendations, it is important for the audit team to work with the service user to find the appropriate and appropriate solution. One of the best ways in which internal control can add value is to make recommendations that address the cause of the problem rather than the symptoms. It is important that the recommendation is addressed to the right person, who can ensure that the recommendation will be implemented.

When making recommendations the audit team should post the following :

- Do they face the risks ? Are they realistic?
- Are they cost effective (ie the benefits /risk outweigh the costs) ?
- The user of the services has the power, expertise, resources and technology to implement the recommendations?
- The recommendations are in line with the mission of the service user, the current function, the future vision / direction of the environment and the culture?
- The recommendation is temporary measure, short-term long-term?
- Is the recommendation in line with the priorities and goals of the organisation?
- If you were accountable for the results, would you apply for this recommendation?

While the above items are sometimes difficult to evaluate are designed to encourage the audit team to prepare recommendation that will add value to the user and top management.

Recommendations that are considered essential have the following characteristics :

- Clear, concise, specific and detailed enough to make sense.
- Quite general – stating what needs to be done leaving the details of how they will be implemented in the management of the audited entity.
- Practical recommendations – formulated in an active form to the body responsible for their implementation.
- Recommendations positive in terms of style and content.
- They provide the possibility for their nylon monitoring in order to verify the degree of their implementation.
- Consistence and consistent with the other recommendations contained in the audit report.
- Clear identification of those who are responsible for acting.

Brief Information about the inspection mission

The purpose of the briefing is to involve the user of the services from this point in time, in the process of evaluation and discussion of observations, findings and possible recommendations. This ensures that all relevant information is included and that the service user is aware of the comments made. The advantages of this approach is that it provides a first class opportunity for the service user to work with the control team to develop effective solutions and suggestions together. It also provides an opportunity to analyse the areas of improvement identified by the audit team and allows the audit team to address issues that, although of interest, are not important enough to be recorded in the audit report.

- There are no surprises in terms of reporting the results.
- There are no misunderstandings and misinterpretation.
- The audit team is aware of all the evidence and corrective action already taken by the audited.
- The auditee expresses his / her opinion on the proposed recommendations.

At this point, it may be helpful for the audit team to discuss the less important findings that could be recorded in a letter to management or that would not otherwise be formally reported.

These meetings should be attended by : people who have the knowledge of the activity that is under control, can discuss any corrective actions. As a rule, the participation of senior executives in charge of the administration of the sector in question is mandatory. The head of the audit team and its members should also be present at these meetings.

The drafting of the report is launched after the discussion of the findings / observations and if they have been extensively discussed with the user of the service.

Submission of the audit report

The submission of the audit report is recommended in the aggregation of the planning and execution phases of the audit mission. At this stage, the audit team formally communicates its observations along with its views and recommendations, receives management feedback and examines management's response and it's proposed action plan.

The end result of these action is the production of appropriate reliable and objective products that can support the organization in achieving goals.

International standards for the professional practice of internal audit : audit phase.

The institute of internal auditors operates on the basis of internal standards for professional internal audit practices and describes the following conditions :

Standard 2400 : internal auditors must communicate the results of projects.
Standard 2410 : notifications should include the objectives of the audit mission, the scope of business as well as the relevant conclusions, recommendations and action plans.
Standard 2410A: Internal auditors are recommended to identify areas where the audited entity is performing well.
Standard 2420 : Notifications must be accurate, objective, clear, comprehensive, constructive, and timely.
Standard 2430 : Internal auditors may indicate that the projects in which they participated were "carried out in accordance with international standards for the professional implementation of

internal control" only if the results of the evaluation of the quality assurance and improvement program support this statement.

Brief description of the key activities for the audit report submission phase.

Drafting of a report by the audit team	The audit team records the audit mission history accurately, objectively, reliability and appropriately The head of internal audit evaluates the draft report
Drafting of a report by the audit team	The report is submitted to the user of the services for submission of Comments The audit team examines the comments to determine whether changes to The content of the environment are necessary
Preparation of the Control plan	The final draft of the report is submitted for comments and for the Development of the action / response plan of the administration.
Report Communincation	The audit report is prepared (concealment of sensitive data) for any Communication to third parties.

Writing the audit report by the audit team.

The audit team prepares the audit report after the information and reporting meetings with the service user. As mentioned earlier, an open line of communication is essential to build trust and ensuring the acceptance of comments and recommendations by the service user.

Written reports are the most tangible result of an internal control process and in most cases the most important deliverable for the service user. The function of internal control is generally assessed on the basis of the value of its findings and the quality of its recommendations. Therefore, it is vital that reports are accurate, objective, credible, clear and useful to management.

The message of the report is particularly important for readers to understand the key issues and understand the implications. The audit reports are prepared thematically or with the axis of the questions / criteria of the audit. In order to determine how the report is to be formulated, the author of the report should take into account the best approach for communicating comments/ findings to the service user and the general public. Audit teams should be aware that the report is the most important tool at their disposal for communicating audit results to the organisation.

The Characteristics of a good report

Understanding the needs of the recipients of the report of the key component to writing an effective report. A proper understanding of the environment and business operations will allow the audit team to record its observations in the most substantial way so as to support the acceptance of the report by the service user and force him to take action. The following are typical features of preparing a comprehensive report.

Accuracy : recorded observations should be free from errors and distortions and based on facts. Reports should only include information, findings and conclusions substantiated by sufficient and appropriate evidence.

Objectivity : The findings should be conveyed with the right style that gives objectivity and correct reasoning. Readers should be left with the impression that the treatment reserved for the body was fair. The use of language that leads to a defensive stance or refusal should be avoided.

Reliability : The report presented in an impartial manner will impress the readers in that the observations are objective and that the results of the audit are presented in their correct extend without exaggeration.

Clarity : Clear reports are easy to understand and based on logic. Clarity can be improved by avoiding the use of unnecessary technical language or terminology and providing adequate documentation.

Content : Reports must be concise, accurate and without undue detail.

Constructiveness : Constructive reports contribute to the improvement of organizations. The report should be useful, positive, and in line with the organizations goals.

Completeness : The comprehensive reports contain all the significant results of the audit, and fully cover the objectives described in the audit mission report. The reports shall contain all relevant information required to substantiate the findings and to facilitate a proper and adequate understanding of the issues raised.

Up-to-date : Up–to-date reports are those prepared without undue delay. Thus allowing immediate action to be taken.

The recipient should have about two weeks to review the first draft of the audit report. After receiving the recipient's comments, the audit team should evaluate the comments to determine if it is necessary to make changes to the content of the report. In some cases the findings may conflict with the views of the recipient or there may be significant disagreement as to the presentation of the facts. In such cases the head of the audit mission or the head of internal audit should discuss these issues with the service user to determine the most appropriate course action.

To facilitate management to respond and draw up an action plan, the final draft of the report should be sent to the head of the audited entity along with a template describing the information required for the management response, and the preparation of a detailed action plan as well as a memorandum explaining this request.

The following information must be disclosed

- Management response : should be short and clear usually no more that two letters of recommendation. The answer should determine whether management agrees with the recommendations.
- If the recommendation is «partially acceptable» an explanation should be given as to why no corrective action can be taken at a given time or an explanation as to why the recommendation is only accepted in part.
- If the recommendation was «rejected » an explanation or justification should be provided as to why the recommendation was not accepted and, where appropriate , a statement from management that it accepts the risk of non action. If there are significant disagreements between the auditors and recipients of the report regarding the content of the reports and the relevant recommendations. The head of internal audit should discuss with the management of the audited entity in order to overcome any deadlocks. If the negotiations are infective, the reports submitted to senior management should present the views of the auditees as well.
- Management action plan : The action plan should address each recommendation of the audit report separately and indicate detailed actions to be taken by management to implement the recommendations.

Presentation to senior management

The senior management of the program or the audited body should review and propose for approval the internal audit reports and the relevant corrective actions of the management. In order to support this mission, it is useful for a meeting of the above management to take place at regular intervals, which will be attended by external members from other organisations. In this way the head of internal control is given the opportunity to refer to areas in which in his/her opinion the management has accepted the assumption of a level of risk that is not acceptable by the mission of the organisation.

In addition senior management who direct the program or service under control is accepted to appear before the audit committee to discuss the results of the audit, as well as to present the corresponding action plan of the administration that responds to the recommendations that have been made.

The audit team is responsible for developing the presentation material that will be used to support the presentation of the report.

Request approval of reports if the audit committee proposes the report for approval. Once approved , the reports are considered complete.

Information Management

The publication process plays an important role in the wide dissemination of the report. This process should be considered to ensure that it complies with any requirements for the protection of personal and sensitive data or legal requirements.

The Role of Internal Auditing

Internal auditing has been identified by the IIA as follows :

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organizations operation's. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the defectiveness of risk management, control, and governance processes.

Independence is established by the organizational and reporting structure. Objectivity is achieved by an appropriate mind-set. The internal audit activity evaluates risk exposures relating to the organisation's governance, operations and information systems in relation to :

- effectiveness and efficiency of operations

- reliability and integrity of financial and operational information

- safeguarding assets

- compliance with laws. Regulations and contracts

Internal control has traditionally been based on the paradigms of :

- Internal control = management control

- management control starts with governance

- top management can control everything ; and

- internal control is imposed from the top

Today's business environment indicates that a more appropriate paradigm might be that continues improvement focuses control with owners of the process.

The role of internal audit must change to reflect the new reality. The fact that internal audit is ultimately responsible to the organisation will not change; however the owners of the process are becoming the custodians of internal control rather than traditional management structures. Internal auditors frequently become experts at describing the best design and implementation of all types of controls. However internal auditors are not expected to equal – let alone exceed – the technical and operational expertise pertaining to the various activities of the organisation. Nevertheless they may help the responsible individuals achieve more effective results by appraising the existing controls and providing a bases for helping to improve them.

With the increased demand for sound corporate governance processes, the role of the internal audit is evolving into a more advisory role to assist management with risk identification processes and the design of appropriate controls for effective management of such risks at the various levels of the organisation.

What is management

Management can be defined as the optimization of the utilization of corporate resources through the planning, organizing leading and controlling of the members of any organisation. It is a process of continues improvement in which the business itself is constantly adapting to its environment, and management in changing in the same way.

The Management Process

The management process begins with an understanding of the organisation's business. Until this is achieved, any attempt to decide on organisational needs will be at best misleading and at worst disastrous. Once the overall objectives and environment of the business have been established, establishing the needs becomes a comparatively easy task.

The organisation's needs may be determined by identifying and examining the key activities whose effective performances can either make or break it. These key activities must themselves be monitored and therefore ambitious performance objectives must be established early in the planing process. For every performance objective, there will be a range of threats, which, if fulfilled, will either reduce the effectiveness of or totally negate the objective. There must assessed in a formal risk assessment to determine an appropriate corporate coping strategy.

The coping control strategies of the organisation must be determined by management and appropriate controls designed to address the risks to be managed. The actual controls must be implemented and monitored and controls should exist to ensure that this happens. Controls, once implemented, must be effective in performance and periodically management, must evaluate and review performance with this in mind.

Establishing needs

Once an auditor has established the overall objectives and enthronement of the business, he/she must decide on its overall needs. A study of the organization's mission statement should clarify the general performance objectives. Management should have established strategic plans and objectives in order to ensure that the general performance objectives are achieved. By interviewing executive management, employees and perhaps even customers and suppliers, the auditor can determine what the business needs to successfully accomplice the objective.

Identifying the key activities

The auditor should then identify the major products and services provided to meet business objectives. Once again, this will involve determining the management's understanding of customers needs and numbers the competition and their probable response patterns, as well as management's understanding of which are their own key performance areas (KPAs) i.e those activities that can make or break the organization.

Establishing performance objectives

For each KPA, performance objectives must be established. This involves defining core activity targets that are both achievable and at the same time stretch the organization's capacity. Key performance indicators will be required to measure performance. The risk and threats could lead to non- or underachievement must be assessed, including both external and internal threats.

Deciding on control strategies

Once the full risk analysis is complete, management are in position to decide what activities must be ensured, which risks must be managed and which transferred. This in turn will dictate which risks can be cost effectively prevented, which must be detected and how any risk can be corrected.

Business risks must be prioritized and here trade offs will be required, since control measures are commonly contradictory, so that, for example, efficiently, often has to be traded off against effectiveness.

Implementing and monitoring controls

Wishing controls into existence will not make the appear. Control results from the planned and thoughtful intervention of management to achieve a specific end.

For controls to be effective, they must be monitored. Monitoring may take several forms, including self assessment, the user of several audits and the introduction of continuous improvement programs. Controls must be frequently, reviewed for both their ongoing relevance and their effectiveness, and must be modified and adapted where required.

Evaluating and reviewing performance

The auditing process is designed to determine where the audit as well as what to audit, and may use any and all of :

- Control strategy assessment.
- Control adequacy and effectiveness.
- Performance quality assessment.
- Unit performance reporting and
- follow – up.

Overall, the standards of audit performance must be set at a professional level. This normally means to a level laid down in the IIA's Standards for the Professional Practice of internal Auditing.

Executive Management's Responsibility and Corporate Governance.

Corporate governance can be defined as the relationship among various participants in determining the direction and performance of companies involves:

- Shareholders.
- Management; and
- the board of directors.

Under this definition, the objectives of a corporation may be further defined as including the attainment of human satisfaction in a social structure. Efficiency and effectiveness, flexibility and continuity then form a significant part of fulfilling a corporations objectives.

Management then become the link between the providers of capital (owners and shareholders) and the users of capital (operational or functional management). Executive management will normally review and approve financial and operating objectives. They will also offer advice to general management, recommend board candidates and review the adequacy of internal controls.

Professionalism within the internal audit Function

Internal auditing responsibilities include :

- Reviewing the reliability and integrity and operating information
- Reviewing operational systems to ensure compliance with policies, plans, procedures, laws and regulations.
- Reviewing the means of safeguarding assets and verifying their existence.
- Appraising the economy and efficiency of the use of resources and
- Reviewing operational effectiveness.

Internal audit can demonstrate its professionalism by adhering to the IIA's Standards for the Professional Practice of Internal Auditing. Adherence can also assure the head of internal audit that internal audit is complying with company and department policies and procedures.

The board of directors gains assurance that the internal audit function complies with internationally accepted norms, while the internal independent external auditor will be satisfied that the work of the internal audit can be used as audit evidence for particular aspects of their work. Internal auditors themselves also gain confidence that they are achieving quality and proficiency of output at a measurable and acceptable standard.

The internal audit charter

The principle that any internal audit charter developed by an organization should follow is embodied in the following extract from IIA Practice advisory 1000-1 Internal Audit Audit Charter.

The purpose authority, and responsibility of the internal audit activity should be defined in a charter. Th chief audit executive (CAE) should seek approval of the charter by senior management as well as acceptance by the board. The approval of the charter should be documented in the governing body minutes.

The charter should:

- establish the internal audit activity's position within the organisation.
- Authorize access to records, personnel and physical properties relevant to the performance of engagements; and
- define the scope of internal audit activities.

The Effect of Risk

In general, business risks can affect a business' ability to successfully compete, its ability to successfully compete, its ability to maintain financial strength, its positive public image and ultimately its ability to survive. Risks will affect the overall quality of an organisations products, people or services. But risks cannot be eliminated – only managed.

Auditors have traditionally been tasked with gaining and confirming an understanding of the system of internal control set up by management as fundamental to evaluate its adequacy and effectiveness. Internal control has been presumed to be response to a business risk. In order to evaluate the effectiveness of risk control measures, an auditor must comprehensively understand the underlying business risks.

This has two prime components.

- A thorough understanding of the business process is needed to identify critical processes where less than optimum performance could have serious consequences.
- A risk model or risk framework is needed to describe and quantify the effects and likelihood of possible negative consequences.

Such an in-depth understanding of the business process implies a collaborative approach, since an internal auditor is rarely as knowledgeable about the process as the manager who routinely controls it. In the same way, the managers involved in a business process on a day to day basis will normally lack the independent perspective an internal auditor can bring to risk evaluation.

- A specific risk model uses a formula that models the total business risk in each of the organisations processes. Many internal auditors use a risk model to help the plan their annual audit activities. These risk models however tend to be too narrowly focused to be applied to general business risks.
- A risk framework is logical view of the common business risks faced by an organization. A framework is more generalized than specific models and more easily applied to a variety of organizations and industries.

In 1999 McNamee defined a framework composed of three major domains of business risks and a number of risk groups within each domain. He defined the three domains of risk as follows.

- Ownership risks are the risk associated with acquiring maintaining and disposing of assets (except human assets).
- Process risks are the risks associated with putting assets to work to achieve objectives.
- Behavioural risks are the risks associated with acquiring, maintaining and disposing of human assets.

Ownership Risks

MacNamee went to define ownership risks as including external threats. I.e forces outside of the control of the organisation thaτ can affect the organisation's business processes and goals.

- Custodial risks are the risks associated with owning and safeguarding assets. Since human assets have different characteristics, they are covered under behavioural risks. Examples of custodian risks include obsolescence, damage in handling or storing the assets and theft from storage.
- Hazards (shared with process risks) are the risks to assets associated with loss or damage through fire, natural or human made disasters and accidental loss.
- Opportunity costs (shared with behavioural risks) are the cost of making less than optimum decisions about asset acquisition and disposition. Example include buying the wrong asset, paying too much, selling the asset too soon or too late, selling the asset too cheaply and disposing of the wrong asset.

Process Risks

Process risks include the following.

- Hazards (Shared with custodial risks) are the risks to processes associated with loss or impairment through fire, natural or human made disasters and accidental loss.
- Errors/omissions/delays are the risks to processes arising from random differences in human or machine activity in the process. Poor judgement in plans or operations, inappropriate or outdated control mechanisms and machine malfunction are examples of this risks.

- Frauds are the risk to processes arising form international misrepresentation of suppliers employees and customers. Examples of these risks include theft, bid rigging, bribery, kickback kickback schemes and customer abuse.
- Productivity loss (shared with behavioural risks) includes the risks to the process arising from poor design of the process or its control system. Examples include scheduling conflicts , inappropriate work rules, missing controls, lack of monitoring control systems, underutilizing assets in the process and global conflicts.

Behavioural Risks

Behavioural risks include the following.

- Productivity loss (share with process risks) include the risks arising from poor management practices or poor worker commitment. Underutilizing human assets, poor leadership, favouritism, lack of work structure and discipline, inconsistent management decisions and personal work/goal conflicts are examples of these risks.
- Dysfunctional workplaces include risk to employees from a dysfunctional work environment and the risk of the organisation from the employees working in such an environment. Examples of these risks are gender/racial harassment, too much pressure to meet objectives (without compensating control valves), employee theft and sabotage, workplace injuries, employee lawsuit and work place violence.
- Opportunity costs (shared with ownership risks) are the costs of making less than optimum decisions about human asset (people, knowledge and skills) acquisition and disposition. Hiring the wrong people or skills leave the organisation (through quitting firing or outsourcing) are examples of such risks.

Entity-wide Risk identification

Identifying and quantify risks will largely depend on each entity's objectives. It is an iterative process and must be carried out continuously. This often done as part of the planning process and may be done on a zero base or as incremental to the last review.

Risks can arise from internal or external factors and the factors themselves may be interrelated. Typical internal factors would include:
- The quality of personnel.
- Training.

- Motivation.
- Integrity.
- Changes in management responsibilities.
- Management's task maturity
- Span of control.
- The degree of dependence on information systems and their stability.
- The accessibility of assets.
- The effectiveness of board and audit committee.

Typical external factors would include:

- Competition
- Regulations.
  - New
  - Changes.
- Political changes.
- Economic Changes.
  - For better or worse.
- Technological developments.
- Natural catastrophes.

Techniques to Identify Risks

Risk identification techniques are usually developed by internal and external auditors and involve both quantitative and qualitative prioritization.

Other practices include review of economic and industry factors, senior management business- planning conferences and the use of industry analyst. The way in which risk is determined is not particularly important, as long as it is done. The factors that contribute to or increase risk must be identified.

Each major business unit or function, such as sale, production, marketing, technology development or research and development, normally identifies and ranks activity risks affecting the achievement of its objectives. Also there may be many subsidiary risks in the sated or implied objective. It is understood that not every risk can be identified, but obvious risks must be considered.

Risk Analysis and Internal Auditing

Risk analysis involves the estimating of the significance of the risk and assessing the likelihood or frequency of the risk. Management and auditors must consider how the risk should be managed, what actions need to be taken and controls need to be affected. Should they be preventative procedures to reduce the significance or likelihood of the risk occurring or displacement procedures to offset the impact if it does occur? Risks are normally evaluated before considering the mitigating effects of controls in order to establish inherent risk.

The Element of Risk Analysis

Process analysis is the procedure that permits the identification of key dependencies and control nodes and looks at the processes within a business entity. It identifies cross – organizational dependencies. Such as where business data originates, where it is stored , how it is converted to useful information and who uses the information. Quality control programs can positively affect these business processes.

Cost and benefit must be evaluated. Of these costs are normally easier to quantify. Theoretically costs should be incurred until they exceed benefits, but in practice this is a management decision and cost benefit analysis usually results in some part of the risk being managed and some part remaining. Given this the fluctuation nature of risk, management should review the residual risk regularly, assessing the extend of the exposure.

Risk analysis is a foolproof technique and has inherent limitations, such as poor judgement in decision making or access may not be available to data that is complete, accurate or timely. People make wrong decisions or get tired and make mistakes. Conclusion (two or more people can acting together) can occur. Management override, that bypasses the system of internal control may be possible.

Meaningful risk analysis can substantially increase probability of achieving objectives , since it alerts management to changes needed to control procedures and links activity objectives to action. Risk analysis focusses effort on control procedures and should become second nature. The process may formal or informal. However it is the results not the degree of formality that matter.

Risk Factors to Consider

Among the risk factors to consider are :

- the date and result of last audit

- the financial exposure and potential loss and risk.

- Requests by management to look at particular areas.

- Major changes in operations, programs, systems and controls.

- The opportunities to achieve operating benefits.

- The quality of the internal control framework.

- Management's competence.

- The complexity of transactions.

- The liquidity of assets.

- The ethical climate.

- Employee moral.

In assessing these factors, an auditor may choose to use objective assessment, which utilizes, only quantitative attributes of audible units, such as the value of throughputs, the valve of assets under control, the number of personnel or the volume of transactions. Risk factors are not weighted.

Using subjective assessment, each risk factor is weighted on scale reflecting degrees of concern. It allows an auditor to express his/her (or management's) feelings regarding the presence of possibility of risk.

Risk Base Auditing

Risk- based auditing involves an integrating approach, including the concepts of high level risk analysis and the overall audit plan. The audit plan may be differentiates between.

Mandatory audit activities, I.e those activities that must be carried out within the time span of the audit plan because of legal or regulatory requirements or to meet senior management requirements or external auditor liaison requirements; and

Marketing a Risk Base Internal Audit Approach to Management.

IIA practice Advisory 2010-2 : Linking the Audit Plan to Risk and Exposures guides an internal auditor in linking the internal audit plan to the assessment of the risk and exposures that may affect the business.

The internal audit activity's audit plan should be designed based on an assessment of risk and exposures that may affect the organisation. Ultimately, key audit objectives are to provide management with information to mitigate the negative consequences associated with accomplishing the organisations objectives, as well as an assessment of the effectiveness of management's risk management activities. The degree or materiality of exposure can be viewed as risk mitigated by establishing control activities.

Selling the Risk- based audit approach involves obtaining management buy in to the process. One effective way of achieving this is to ensure their participation in both risk identification and risk evaluation.

It is operational management's responsibility to identify, assess and manage risk. It is internal audit responsibility to assist management in this process by identifying and assessing risk and by assisting management to monitor how well risks are actually being managed by the business.

Most organisations do not have the resources available to identify, analyse and control all business risk. Implementing a formal risk assessment process helps by providing a consistent method for choosing high-impact risks on which to focus audit resources.

During the risk assessment internal auditors must develop an understanding of the operations business in order to identify and assess significant risks. They then use this assessment to allocate audit resources to areas within the organisation that provide executive management and the audit committee with the most effective and the most efficient and effective level of audit coverage. The output of the risk assessment is the primary basis for allocating audit resources during the audit planning process.

An auditor must always bear in mind that individual managers have differing attitudes to risk. Some managers or even organisations see the acceptance of risk as fundamental to making profits while others are highly risk averse and consider reducing risk a fundamental component of the business. This is called risk tolerance. Unless this auditor understands this concept, it is likely that management may consider audit recommendations to be impractical or unacceptable.

Based on the individual risk positions adopted, companies will manage risk in a number of ways, such as using insurance coverage, financial instruments, compliance and internal audit

functions. Management must understand that internal audit does not replace their responsibility to keep their own risk at acceptable levels. Risks themselves can be categorized according to the organizations response.

- Controllable risks are risks that exist within the processes of an organisation of an organisation and can be managed by the organisation.
- Uncontrollable risks are risks that arise outside the organisation and cannot be directly controlled or influenced, but which nevertheless call for a risk position to be taken by the organisation.
- Influence-able risks are risks that arise outside the organisation, but can be influenced by the organisation.

While internal audit deals with all three risk types owing to the limited resources at its disposal, it normally prioritizes those areas where risk control is both desirable and achievable. It then focuses on these areas.

Generally auditors will have developed a general understanding of a business and control risks faced faced by the client before meeting the client. During the initial client meetings, the clients expectations of internal audit services should have been clarified, together with any significant risk and control issues and control issues that the client faces.

Risk analysis can be carried out in variety of fashions. Qualitative analysis is used to help identify both asset and resources at risk as well as those threats and vulnerabilities to the assets and the safeguards already already in place to mitigate the threats. It can also be used to pick up on the controls which could be implemented to reduce the risks to unacceptable level.

Qualitative analysis, as the name implies, does not attempt to qualify the financial value of assets at risk nor the frequency of the occurrence of the threats. In addition the implementation costs of suggested controls is not usually included.

Quantitative analysis, on the other hand, attempts to identify potential losses in value terms using objective criteria. Typically this will involve considerably greater effort to put a value to specific threats but it does not facilitate the evaluation of the cost-effectiveness of suggested controls.

For most auditors a hybrid model combining the best of both quantitative and qualitative analysis is probably the most appropriate.

In most organizations putting value to assets is an everyday process where tangible assets are concerned. Valuing intangible assets is whole study area of its own. Assets such as reputation,

intellectual property, brand names and the like can be valued in variety of manners. Assessing the likelihood of damage to assets via threats via threats is also problematic since it is, in many cases, a subjective judgement and influenced by the risk appetite of the person making the judgement call. Some managers are risk averse while other will willingly accept risk as long as their perception of the payback for accepting the risk is high. By the same token, the assets are not equally vulnerable to every identified threat. Buildings are not commonly stolen and company vehicles do not suffer a loss of reputation. Anticipated losses must therefore be calculated for individual assets and specific threats.

Internal controls affect both the likelihood of an event having a detrimental impact on the organization as well as the degree of impact which it can have. In selecting internal controls the cost/benefit is normally one of the major measurement criteria but it need not the sole criteria. The 'risk appetite' is a measurement of how much risk management is prepared to accept in exchange for a given level of return.

Conducting a Risk Assessment
Objectives

The objectives of a risk management are to identify, assess and document the risks and related risk management activities in an organisation. These includes risks in the organisation's process and across its business units, geographic locations or product lines. The audit work should be properly aligned with the business objectives and should be agreed to by management. This in turn, allows audit resources to be allocated in the audit planning process.

Planing a Risk Assessment

The aim of planning a risk assessment is to provide the auditors with a workable structure so that the audit and be completed successfully and efficiently. The process involves reviewing the audit objectives, the roles and responsibilities of those involved and timelines.

Conducting the Assessment

Based upon the information gathered by the auditor during the preliminary survey, a list of threats to the attainment of the major control objectives of the client should not be available. These threats should be agreed with the auditee's representative in order to ensure that no significant threats have

been over-emphasized. Based upon this list of threats, a preliminary assessment of the inherent risk of a function or department may be derived.

The preliminary survey should also have produced a list of controls which management to be In place and effective to mitigate the threats. By matching the controls against the treats which they are intended to address, the auditor may come to preliminary evaluation of the residual risk should all controls function as intended. At this stage the auditors now in a position to the group the controls into 'control structures' for specific threats and identify the critical controls intended to address those threats. It should be noted that the auditor will normally assume that there is no specific intent to bypass controls at this stage and that those individuals responsible for implementing controls will normally be competent to carry out those controls. Testing of the controls will indicate where incompetencies are occurring or where controls are not functioning as intended.

Many auditors will use a graphical methodology, perhaps in the form of a matrix. To present these threats and controls to management to confirm their understanding of the control structures which management intend to be in place. At this stage the auditor is in position to assess the adequacy of the control structures intended to mitigate specific threats. Where the controls do not adequately address the concerns, recommendations can be made to 'plug the gap', normally by introducing additional controls.

Even if the control structures do not fully address the specific threats, testing will be normally be carried out on the key controls , I.e those controls which address significant parts on the threat in order to determine their effectiveness.

The risk assessment then forms the basis for the development of the audit program.

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