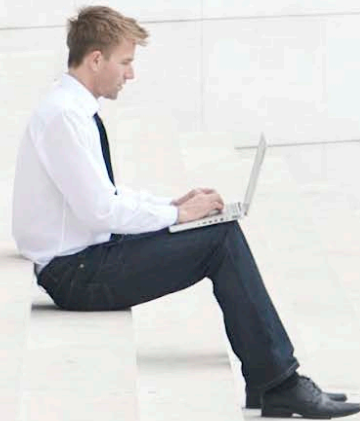




# RISK-BASED INTERNAL AUDIT





# Risk, Value Add and Internal Audit

# Risk, Value Add and Internal Audit

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

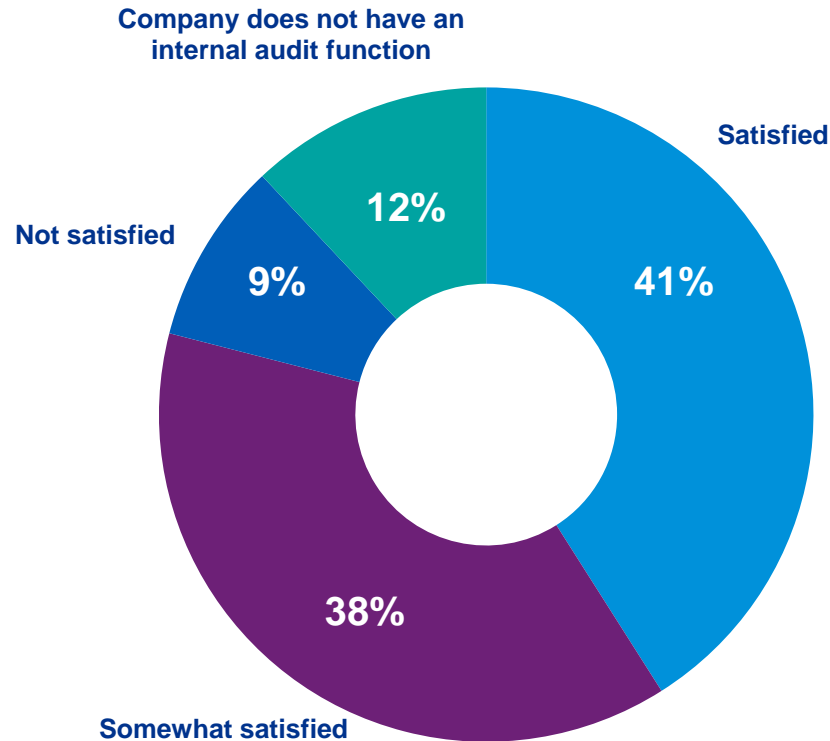
Definition of Internal Auditing, IIA

***“Internal Audit should be a crucial voice on risk and control matters – from financial reporting and compliance issues to key operational and technology risk”***

2015 KPMG Global Audit Committee Survey, *KPMG ACI*, 2015

# Risk, Value Add and Internal Audit

**How satisfied are you that your company's internal audit function delivers the value to the company that it should?**



Source: 2015 KPMG Global Audit Committee Survey, *KPMG ACI, 2015*



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# Risk, Value Add and Internal Audit

**What insights do companies receive from their IA today; what insights would be of most value?**



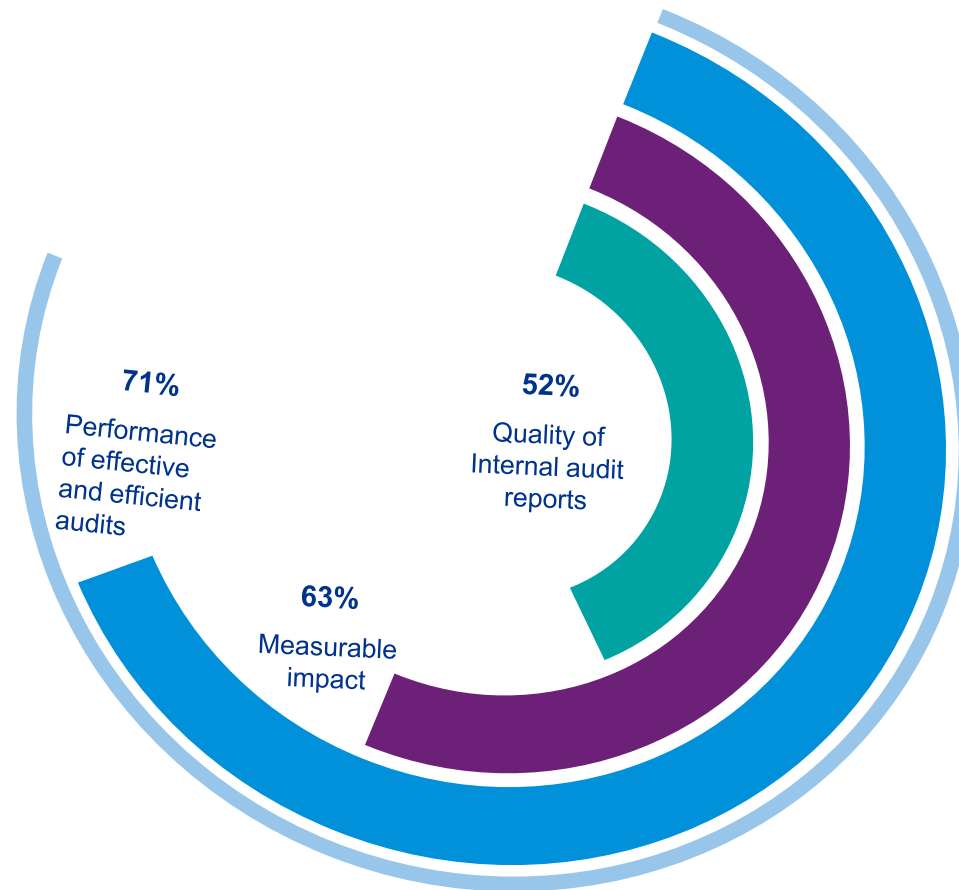
Source: Seeking Value through Internal Audit, *KPMG International, 2016*



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# Risk, Value Add and Internal Audit

How important are the following to CFO and audit committee chairs?



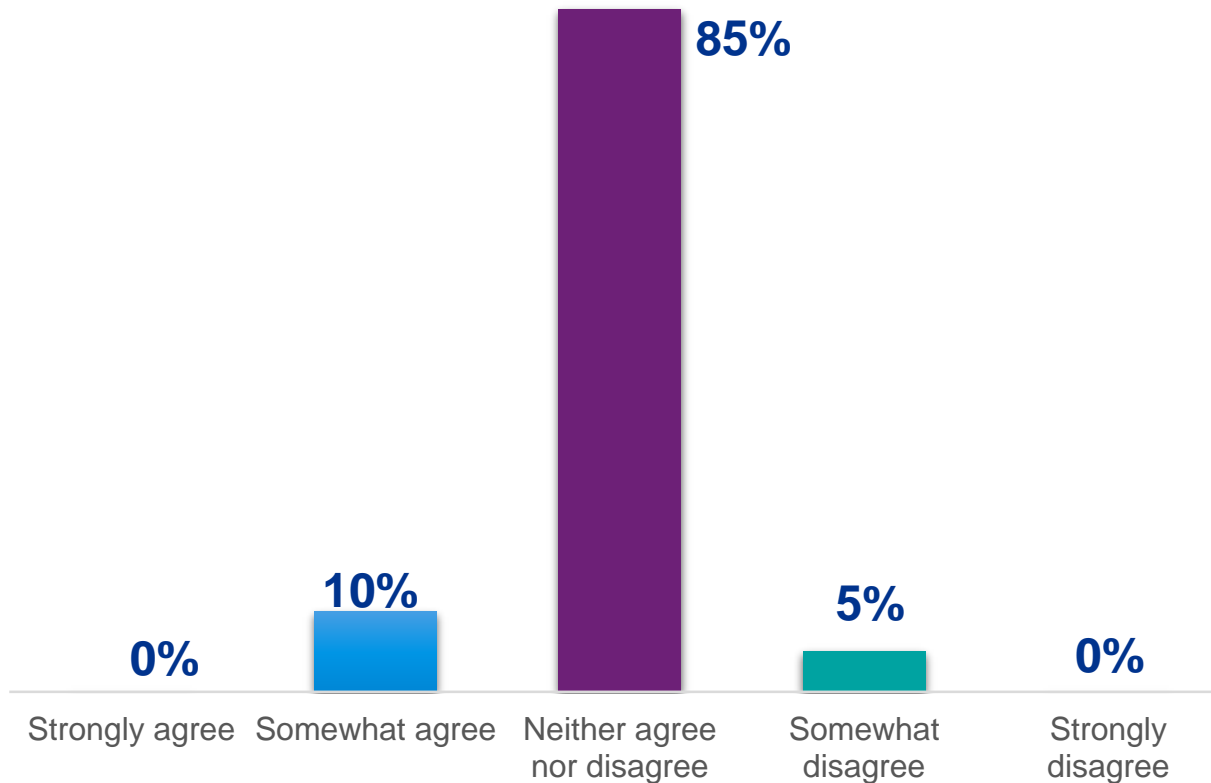
Source: Seeking Value through Internal Audit, *KPMG International*, 2016



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# Risk, Value Add and Internal Audit

**How strongly do companies agree or disagree that their IA function adequately identifies and responds to their emerging risks?**



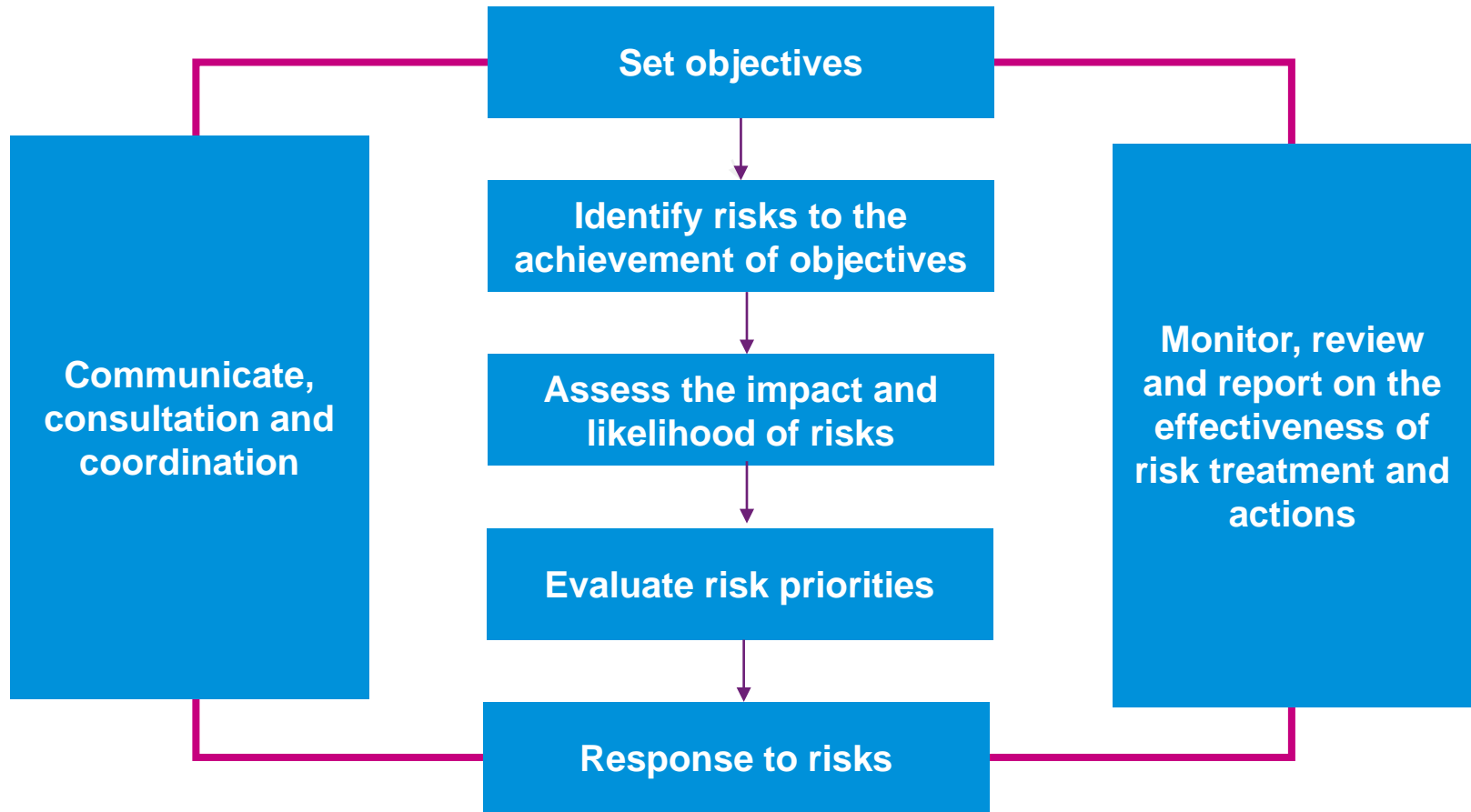
Source: Seeking Value through Internal Audit, *KPMG International, 2016*



# Risk Management



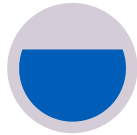
# Risk Management: The ERM Process



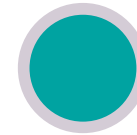
# Risk Management (cont.)



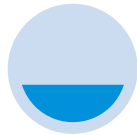
Align risk appetite and strategy



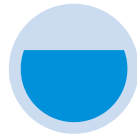
Link growth, risk, and return



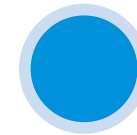
Enhance risk response decisions



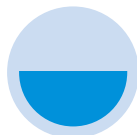
Minimize operational surprises and losses



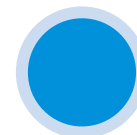
Identify and manage cross-enterprise risks



Provide integrated response to multiple risks



Seize opportunities



Rationalise capital



# Risk-Based Internal Audit

# Risk-Based Internal Audit

***“A methodology that links internal auditing to an organisation's overall risk management framework. RBIA allows internal audit to provide assurance to the Board that risk management processes are managing risks effectively, in relation to the risk appetite.”***

Risk Based Auditing (2014), *Chartered Institute of Internal Auditors*

# Risk-Based Internal Audit

The implementation of RBIA has three stages where collaboration with the RM is essential throughout the audit:

**Stage 1: Assess risk maturity**



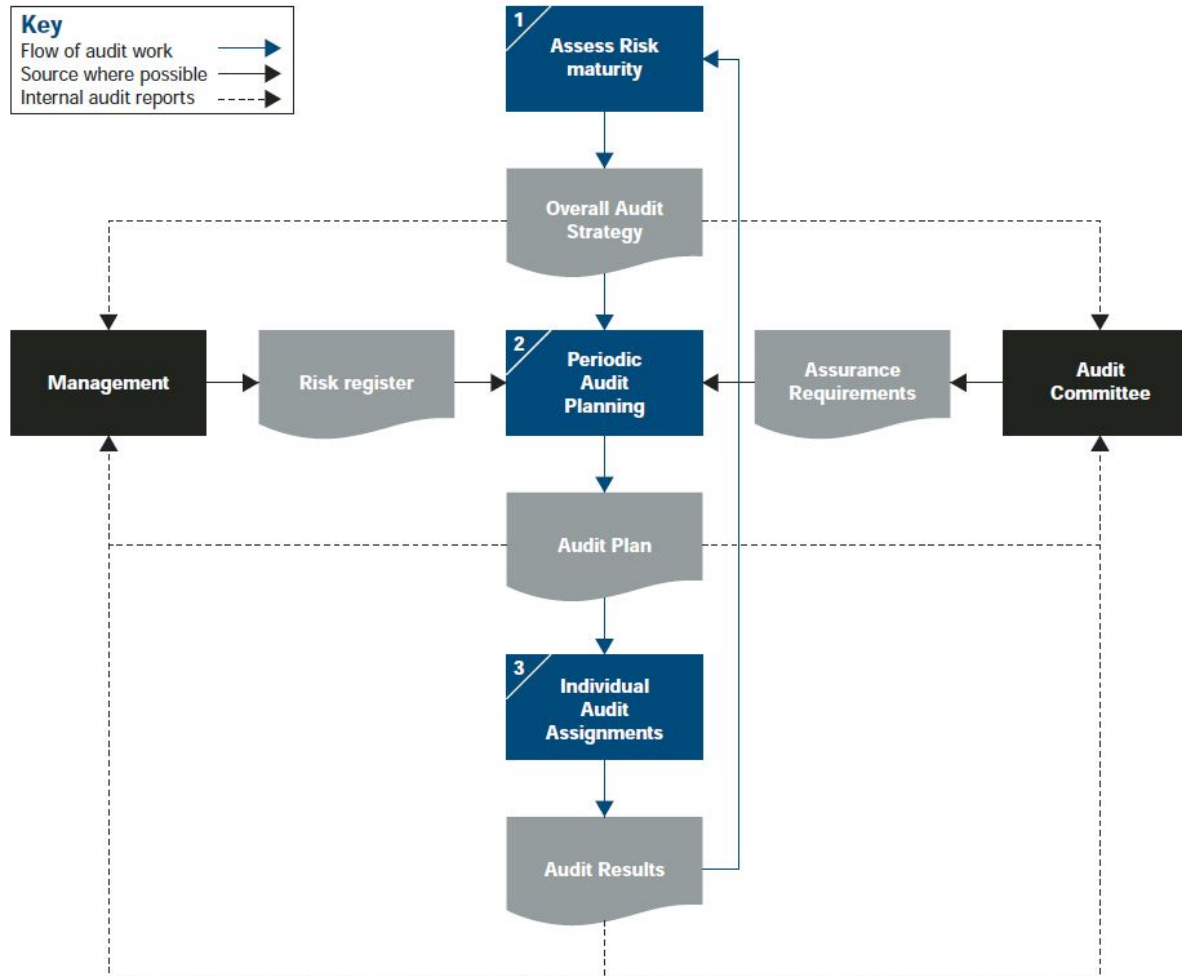
**Stage 2: Periodic Audit Planning**



**Stage 3: Perform IA assignments**

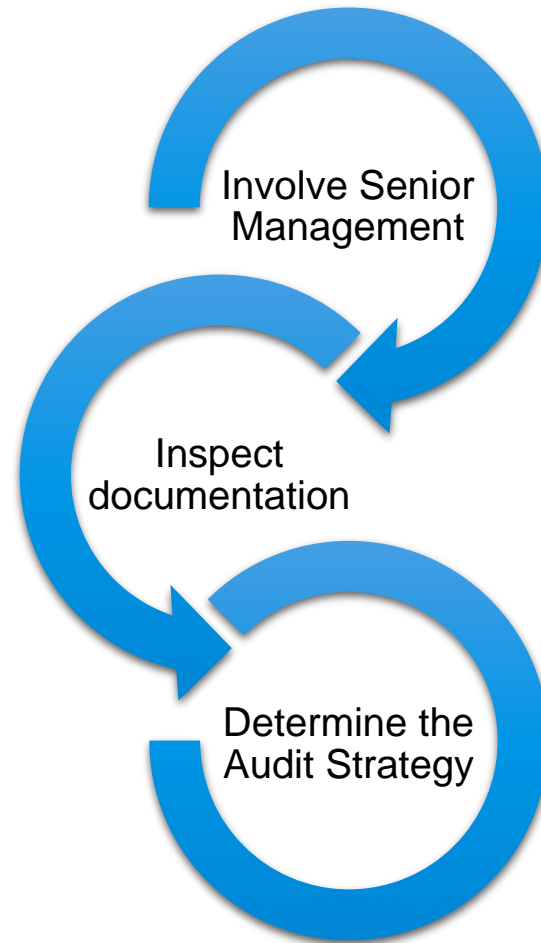


# Risk-Based Internal Audit: Overview



Source: Chartered Institute of Internal Auditors. Available at <https://www.iaa.org.uk/resources/risk-management/risk-based-internal-auditing/>

# Stage 1: Assess the Risk maturity



# Stage 1: Assess the Risk maturity (cont.)

Setting the audit strategy according to the risk maturity



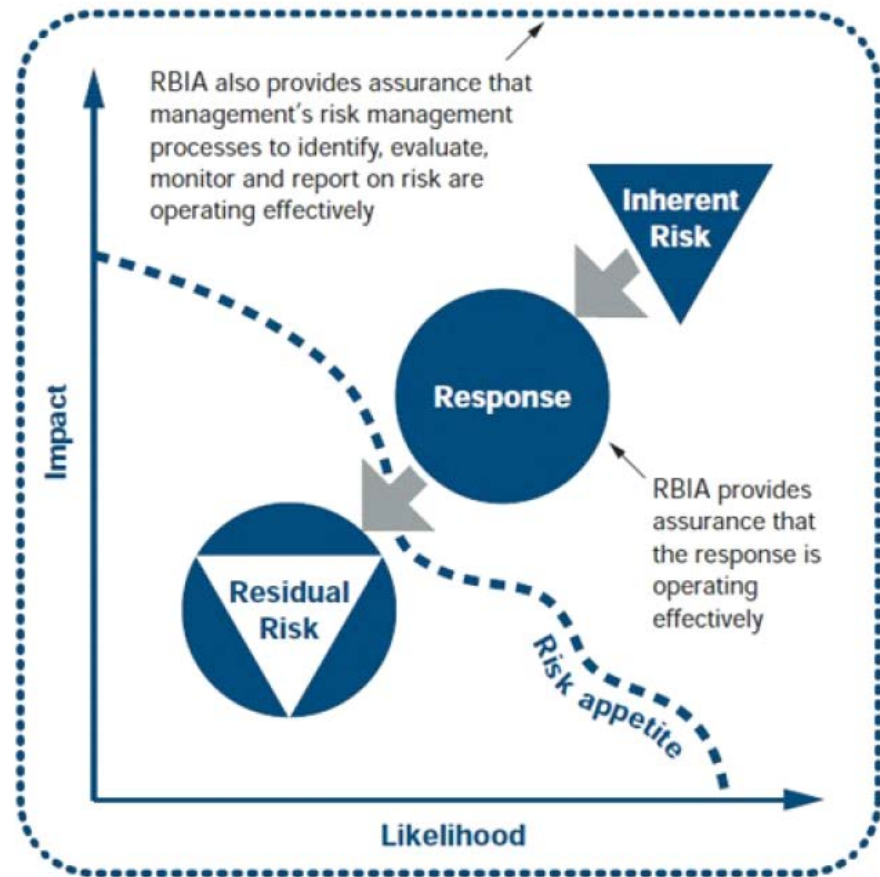


# Stage 2: Periodic Audit Planning

Risk-Based Internal Auditing is about auditing the management of risk and thus it focuses on the processes applied by the management team.

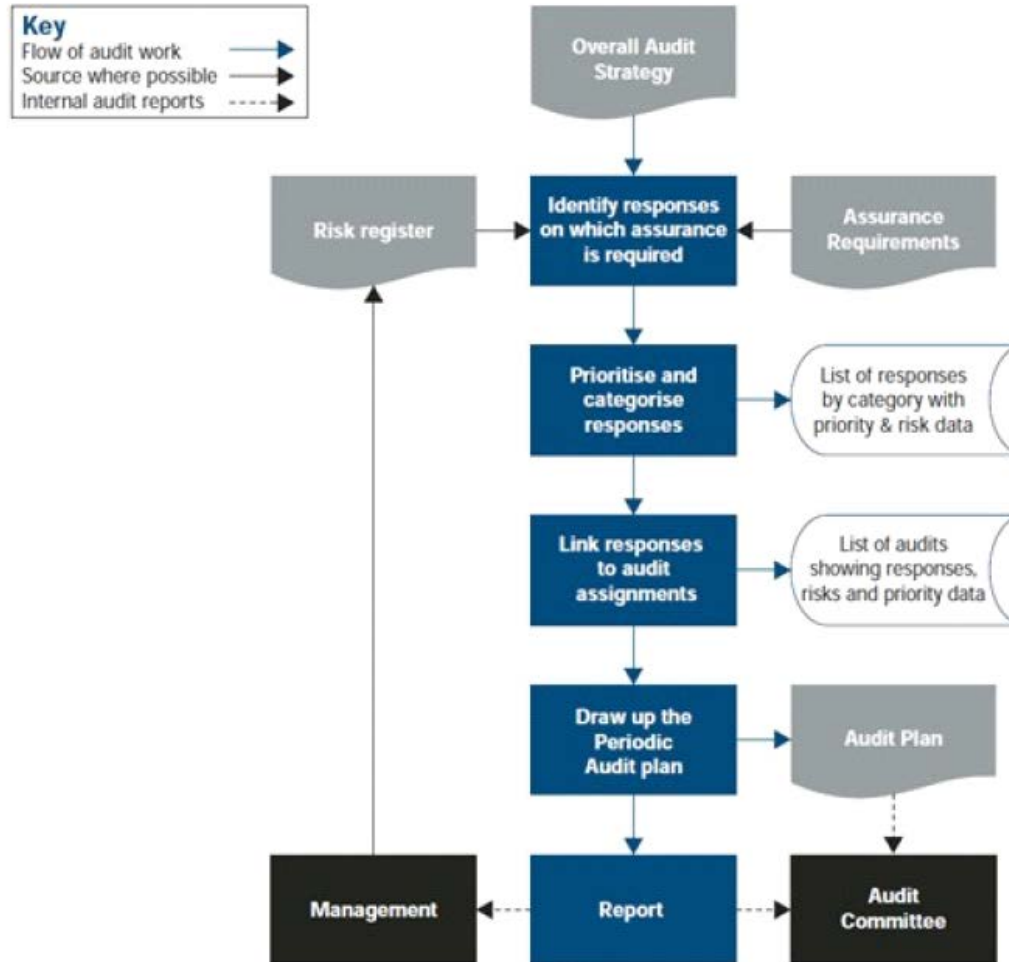
These include:

- Responses to individual risks
- Processes implemented to assess risks, decide on the responses of such risks, monitor the responses and provide recommendations to the board.



Source: Chartered Institute of Internal Auditors. Available at <https://global.theiia.org/standards-guidance/topics/Documents/201501GuidetoRBIA.pdf> /

# Stage 2: Periodic Audit Planning (cont.)



Source: Chartered Institute of Internal Auditors. Available at <https://global.theiia.org/standards-guidance/topics/Documents/201501GuidetoRBIA.pdf> /

# Stage 2: Periodic Audit Planning (cont.)

## Setting the Internal Audit Plan on the basis of the Risk Register and Risk Heat Maps.

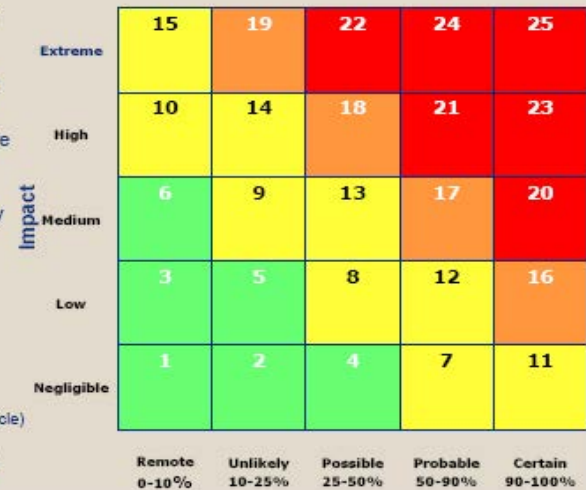
### Appendix C – Risk register (Part)

Business unit	Process	Process Description	Key risk to process	I	L	Inherent Score	E	O	A	Treatment (examples)	Monitoring (examples)	I
Purchasing	Define objectives	The objectives of the processes for purchasing are defined	The objectives will not deliver the organisation's objectives effectively and efficiently	5	5	25				The strategic objectives of the purchasing department are set out in a document, which is used in the induction of new staff and appears on the company's intranet site	The strategic objectives are approved by the board	5
Purchasing	Purchase raw materials	Purchase items to manufacture goods	The purchased items are unsuitable, too expensive or delivered late	5	5	25				Raw materials are specified exactly by formulation department. All cost changes over 5% must be authorised by the Sales Director. Late deliveries are highlighted by the supply system.	Quality Control check all deliveries. The buyer is informed of failed batches and late deliveries and the supplier is warned. The gross profit report will highlight excessive cost increases.	5
Purchasing	Purchase raw materials	Purchase items to manufacture goods	A major supplier of a vital raw material, not obtainable elsewhere, is not able to deliver	5	5	25				Vital raw materials are always sourced through two suppliers. In the few cases where this is not possible, additional stocks are held to cover one month's production	The planning department in manufacturing monitor all stock levels	15
Purchasing	Purchase assets	Purchase fixed assets	Assets are not required, not suitable or too expensive	4	5	20				The purchase of all fixed assets must be approved according to a defined authorisation list. Assets purchased over £1000 require additional cost justification.	The fixed asset system produces a report which shows variances of fixed asset expenditure against budgets.	12

Key: I = impact, L = likelihood, E = Terminate, O = Tolerate, A = Transfer

**Extreme** – Very material (>\$100m); may affect Mirant's ongoing existence.  
**High** – Material (\$25-100m); difficult to achieve multiple objectives.  
**Medium** – Significant (\$3-25m); more challenging to achieve some objectives.  
**Low** – Inconsequential (\$1-3m); may have some undesirable outcomes.  
**Negligible** – Trivial (<\$1m); no noticeable impact on objectives.

- Major Risks (annual audits)
- Key Risks (2 year audit cycle)
- Moderate Risks (3-4 year audit cycle)
- Minor Risks (5-7 year audit cycle)



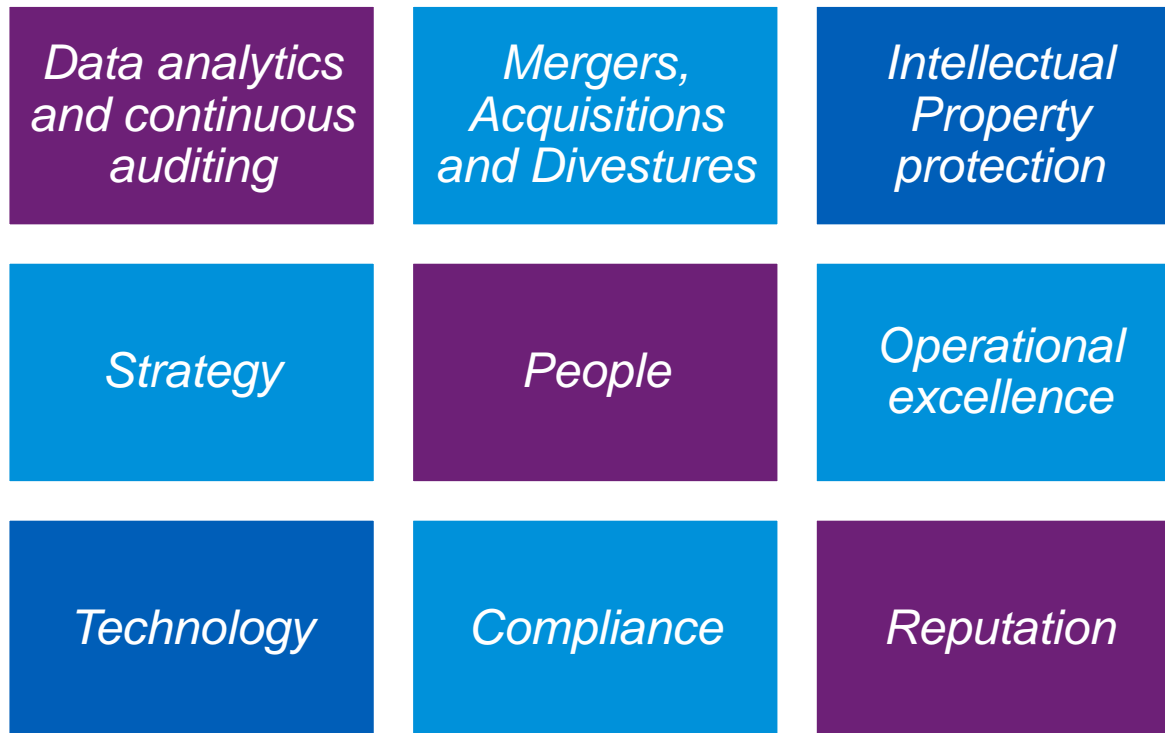
Progress Through Sharing

Likelihood

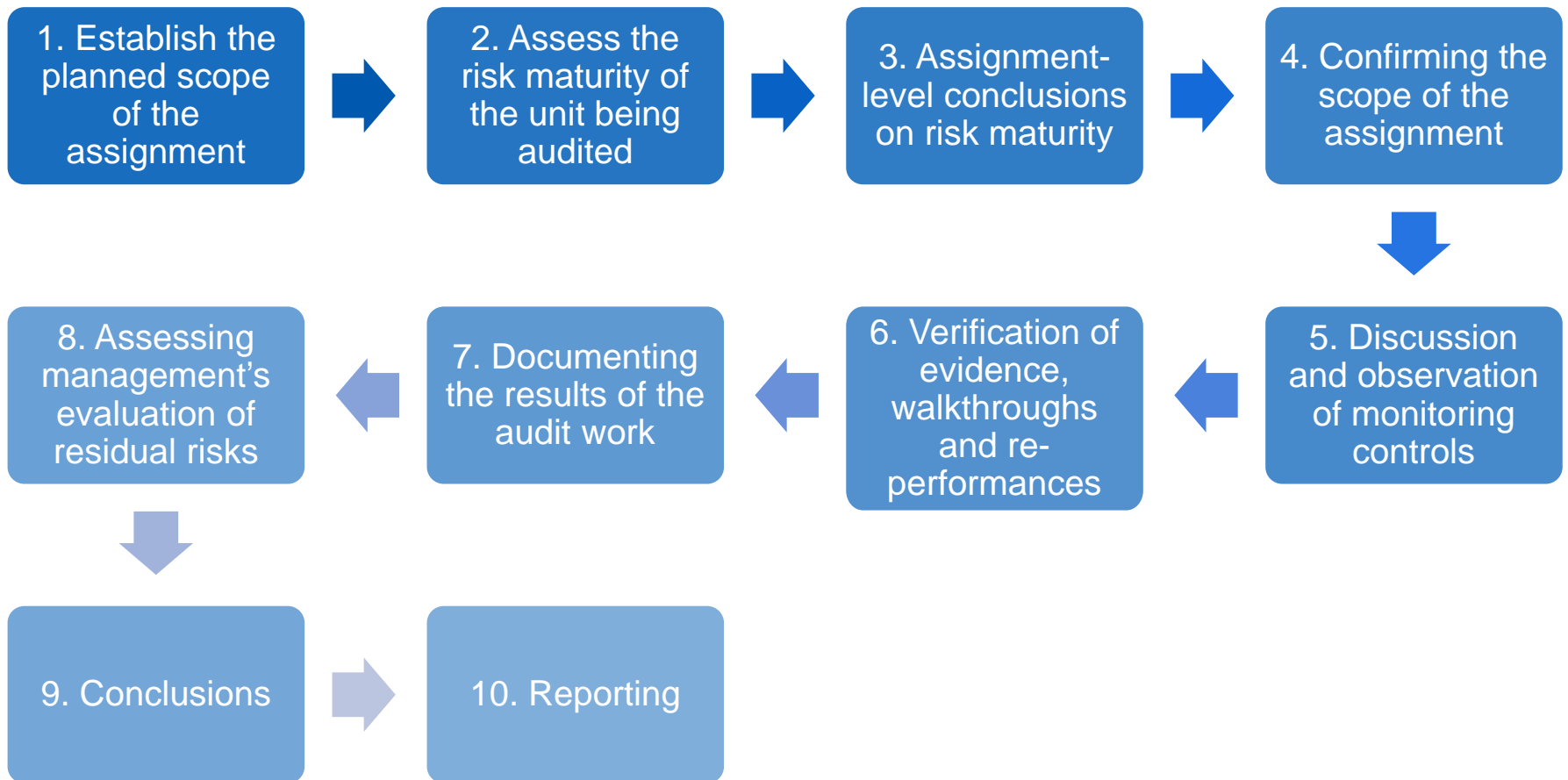
[www.theiia.org](http://www.theiia.org)

Source: the Institute of Internal Auditors

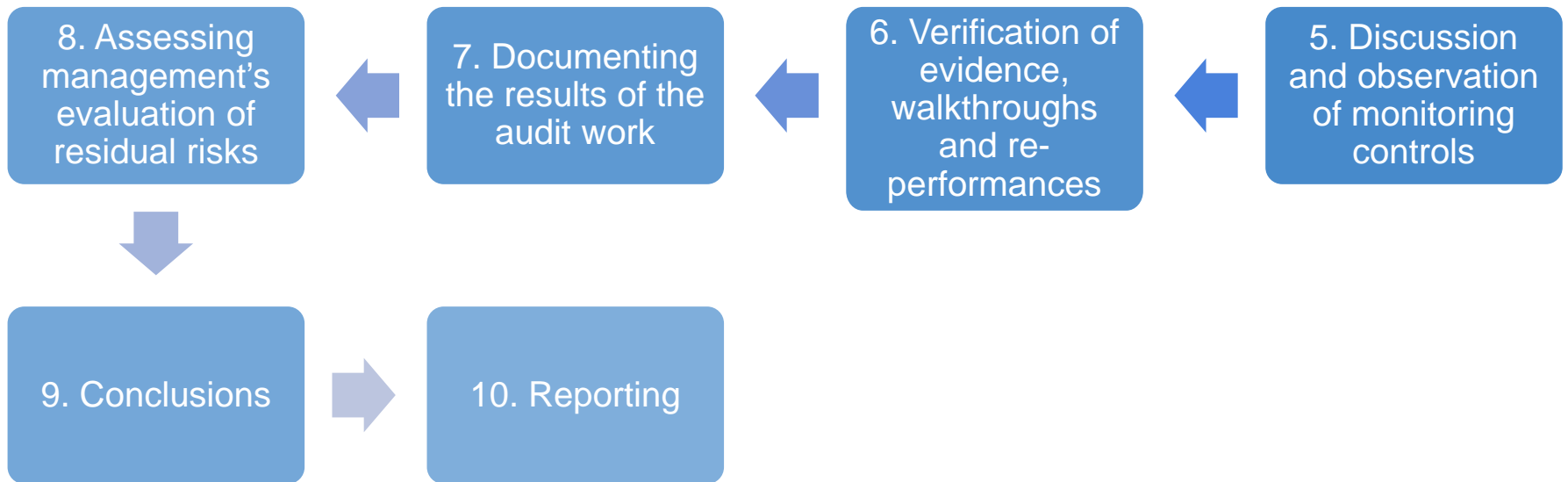
# Stage 2: Periodic Audit Planning (cont.)



# Stage 3: Perform the IA assignment



# Stage 3: Perform the IA assignment





# Challenges and Benefits

# Challenges and Benefits

Adding Value



Involvement of Management



Achieving IA targets



Determining resources



Staff expertise

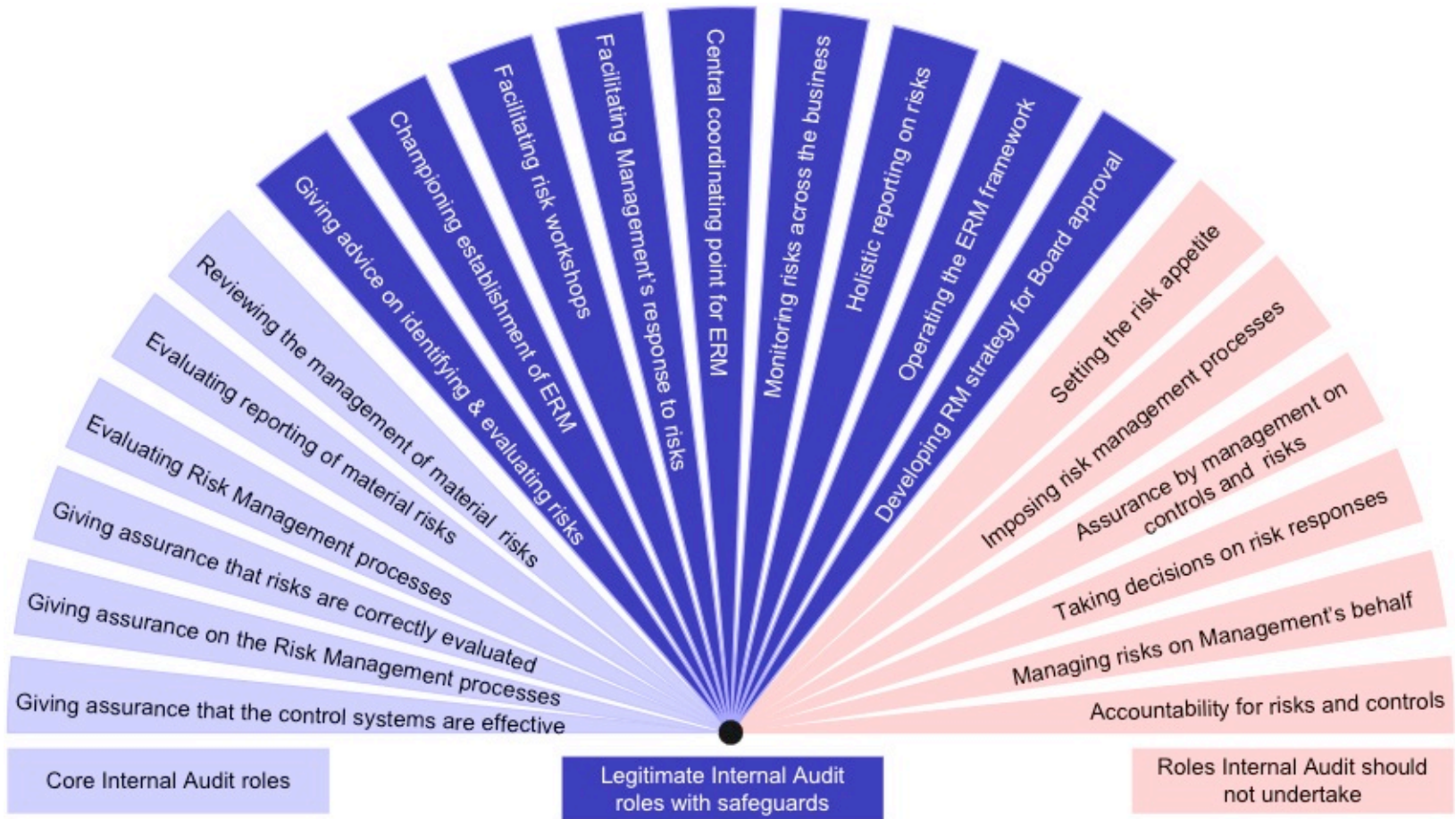






# The role of IA in Risk Management

# Role of IA in Risk Management



Source: IIA.



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Thank you



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