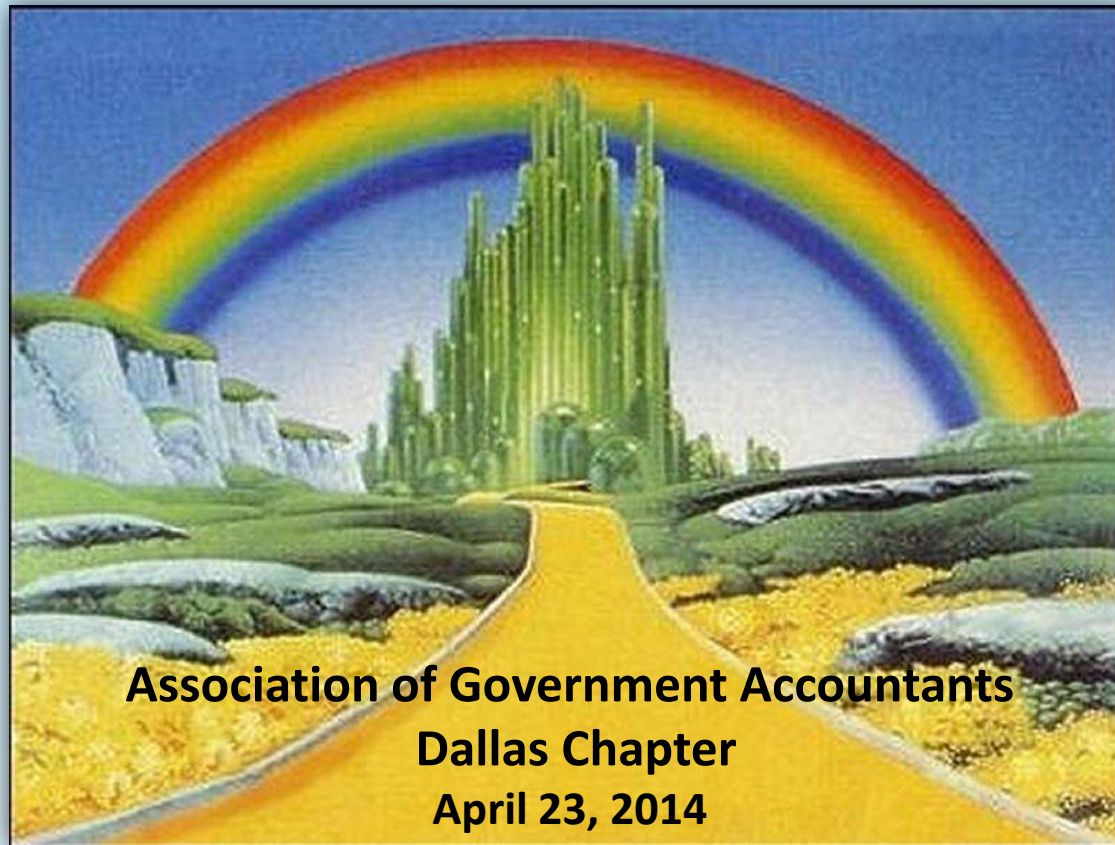


Follow the Yellow Brick Road...*Not the Rabbit Trail*...to an Effective Risk Assessment



**Association of Government Accountants
Dallas Chapter
April 23, 2014**

Objectives

After attending this presentation, participants will be able to plan and perform an audit in the most effective and efficient manner by:

- Identifying the professional standards relating to risk assessment.
- Discussing risks and different ways to gain an understanding of risks
- Utilizing the tools developed and given to participants to prepare a risk assessment for any type audit assigned
- Developing an audit program based on risk assessment
- Conduct a case study using the tools discussed by conducting a risk assessment on an internal audit department.

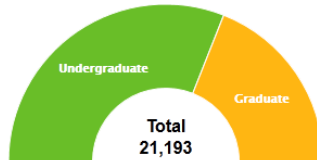
About UT Dallas

FAST FACTS

Founded: 1969

Color: Flame orange and eco green

Enrollment:



National Merit Scholars: 88 for fall 2013, 203 total

Faculty: 513 tenured/tenure-track

Student/faculty ratio: 21 to 1

Academic Programs:

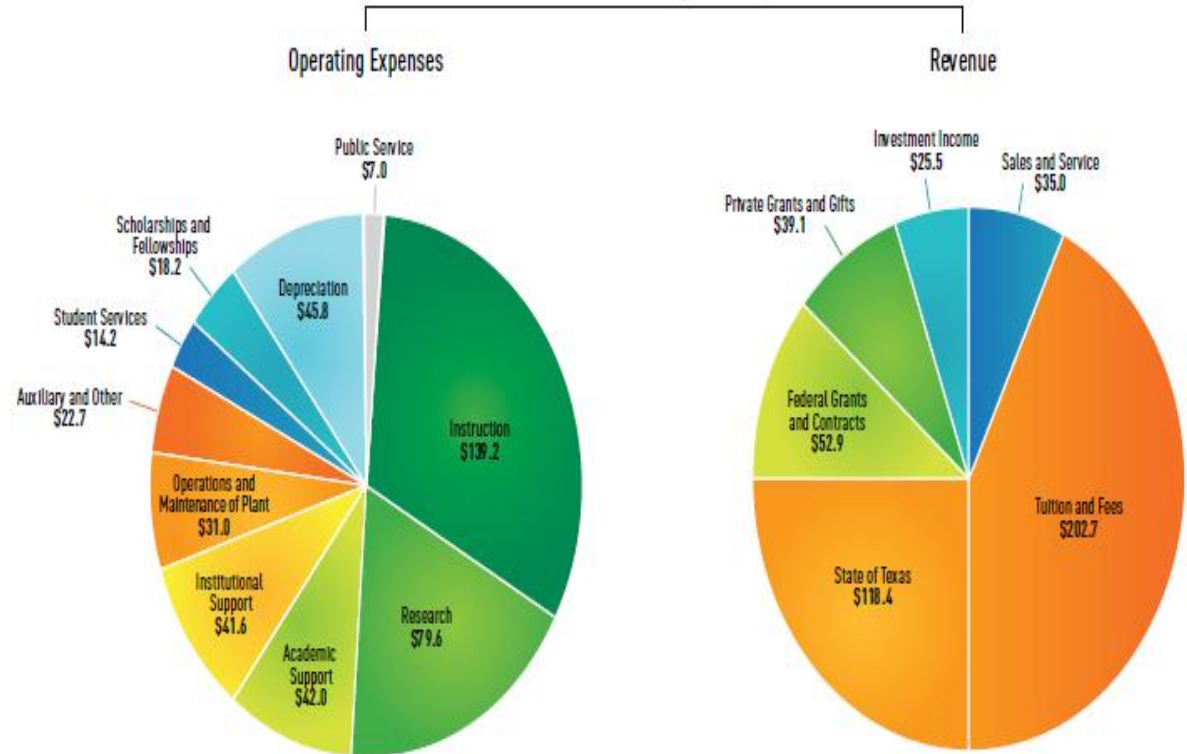
- 49 bachelor's degree programs
- 54 master's degree programs
- 29 doctoral programs
- 1 professional doctoral program

Seven Schools:

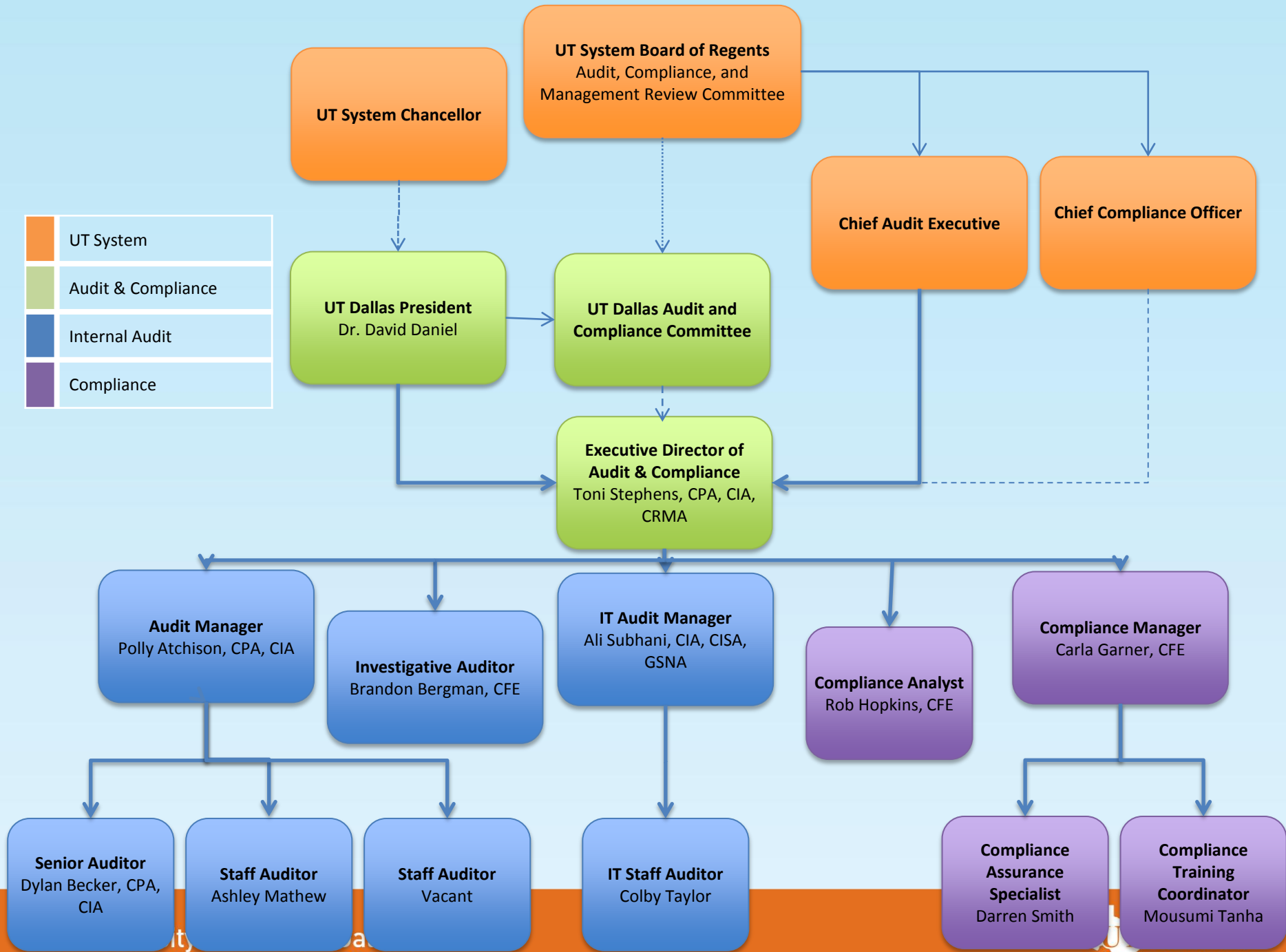
School of Arts and Humanities
School of Behavioral and Brain Sciences
School of Economic, Political and Policy Sciences
Erik Jonsson School of Engineering and Computer Science
School of Interdisciplinary Studies
Naveen Jindal School of Management
School of Natural Sciences and Mathematics

SOURCES AND USES OF FUNDS

Fiscal Year 2013 (In Millions)



	UT System
	Audit & Compliance
	Internal Audit
	Compliance



Our OTHER Staff: UT Dallas Internal Auditing Education Partnership Program



Callier Center
Departmental Audit



Contracting



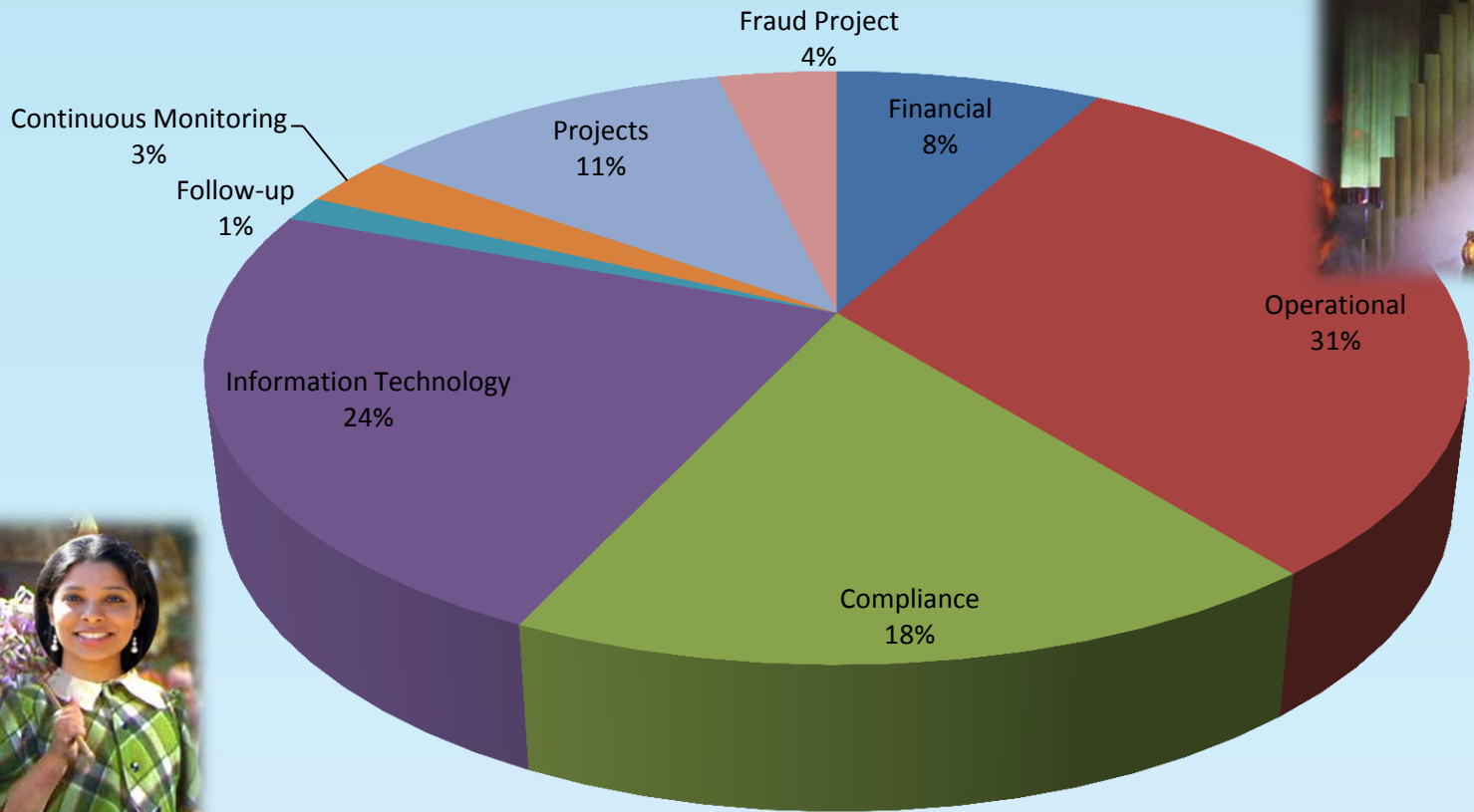
Data Centers



Parking

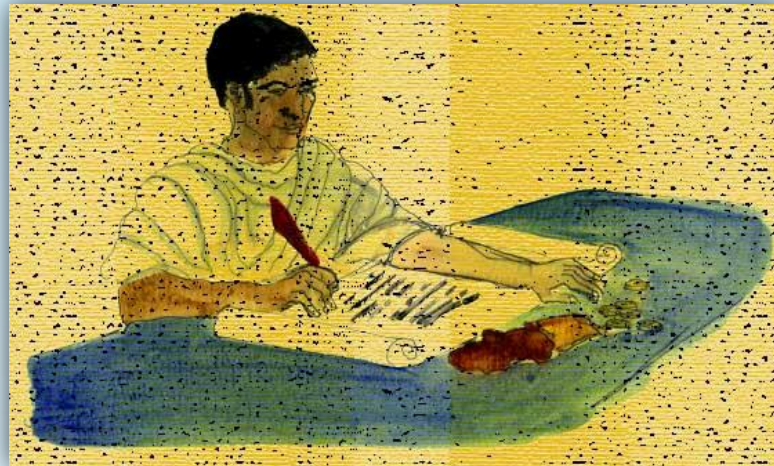


Lena Callier Trust



History 101: Audits & Risk

- When was the IIA established?
- Who is the father of modern Internal Auditing?
- How long have internal auditors been around?





Trivia Question:
How often is the word “Risk” used in the Standards?

Performance Standard 2201: Planning Considerations

In planning the engagement, internal auditors **MUST** consider:

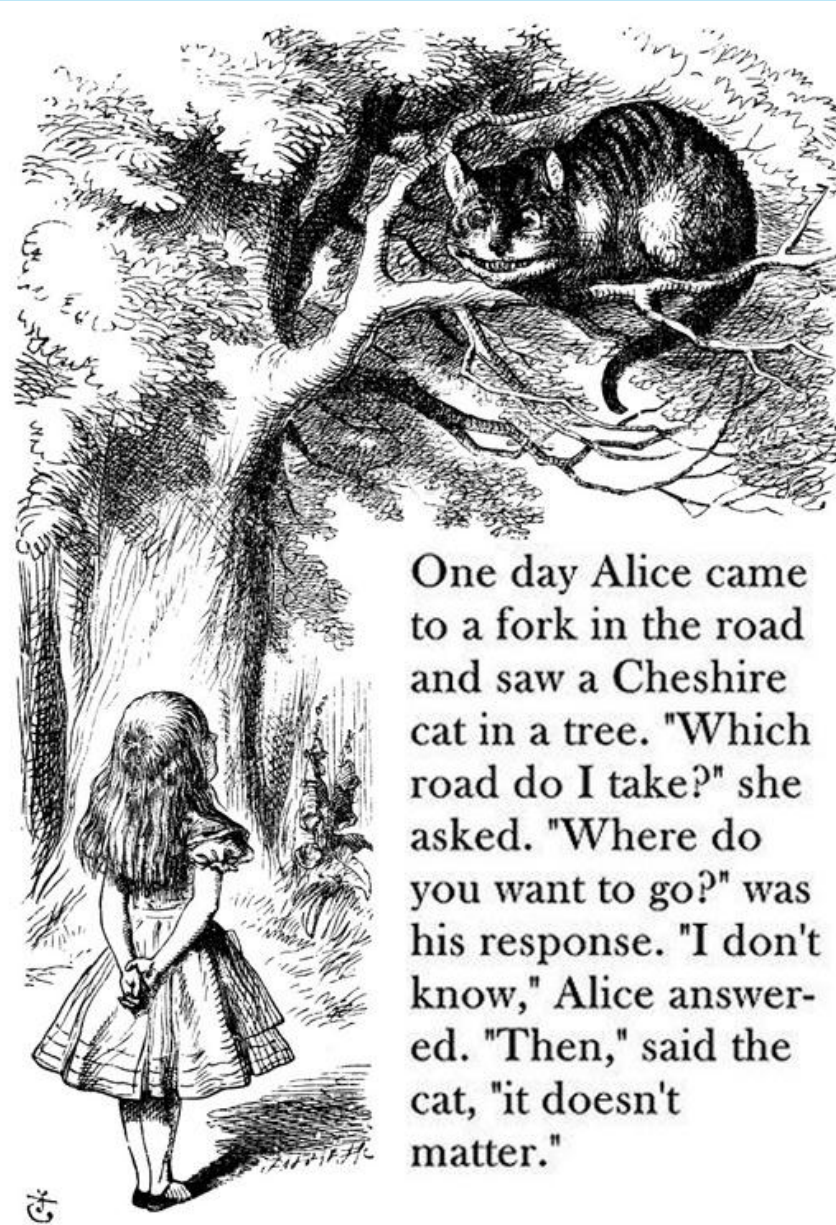
- The objectives of the activity being reviewed and the means by which the activity controls its performance.
- The **significant risks** to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity's **risk** management and control systems compared to a relevant control framework or model.
- The opportunities for making significant improvements to the activity's **risk** management and control systems.

That Was Then...



Why Did We Change Our Process?

- Inefficiencies, budget overages
- Turnover
- Students
- Ineffectiveness of research on audit entity
- Presentations to CAE
 - Risks were ranked as high when were really low – and low when they were really high!
 - Team didn't know the answers to basic questions
- Were the “old” auditors getting bored and just not thinking anymore?
- Using prior audit risk matrices
- Risk Assessment did not effectively tie to the Audit Program



One day Alice came to a fork in the road and saw a Cheshire cat in a tree. "Which road do I take?" she asked. "Where do you want to go?" was his response. "I don't know," Alice answered. "Then," said the cat, "it doesn't matter."

G*

In accordance with IIA Standards, internal auditors must consider the significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level. The adequacy and effectiveness of the activity's governance, risk management, and control processes should be considered.

Internal auditors must evaluate risk exposures relating to the governance, operations, and information systems regarding the:

- 1. Achievement of the strategic objectives*
- 2. Reliability and integrity of financial and operational information*
- 3. Effectiveness and efficiency of operations and programs*
- 4. Safeguarding of assets*
- 5. Compliance with laws, regulations, policies, procedures, and contracts*



Risk Assessment Process – Individual Audits



Procedures:

Step 1 - List Risks

1. Complete the gaining an understanding portion of the planning audit program.
2. Identify the risks of the activity being audited using the information gathered during the gaining an understanding portion of the planning audit program.
3. Brainstorm with the audit staff to determine potential risks.
4. Review the ACUA risk dictionary at www.acua.org for additional risks that may have not been considered.
6. Determine the significance of each risk to the function, process, or activity in terms of potential impact and probability of occurrence. Note dropdown menus for levels of risk, but auditor will have to add red/yellow/green highlights.

Step 2 - Risk Matrix

1. Consolidate these risks by homogeneous risk areas (e.g., human resources, environmental health and safety, fiscal management, etc.), then review and/or reprioritize the risk list to produce a prioritized list for each homogenous risk area. Note dropdown menus, and auditor will have to add highlights for red/yellow/green. Also note that impact is listed first, then probability.
2. Determine those risks that have the greatest impact upon the activity being audited, typically the red and yellow risks.
3. Determine the controls that are in place, and prepare the audit program to test the controls.
4. Prepare a list of weaknesses, hyperlinked to issues, for any significant risks that have no controls.
5. In most cases, if an issue is noted, you will not need to perform further testing. However, in some cases you may wish to perform additional work to provide documentation for your finding and recommendation.

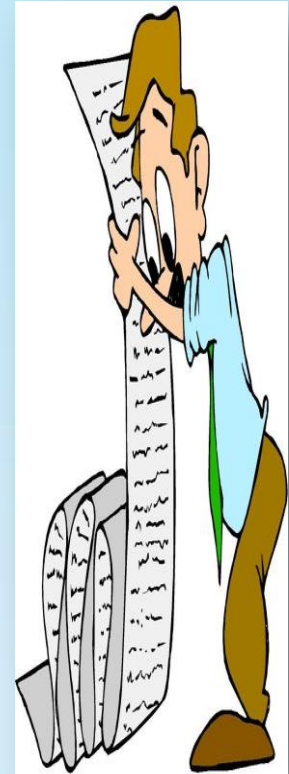
Step 3 - Prepare Audit Program

1. Prepare an audit program based on the risk matrix above, focusing on red and possibly yellow risks. If green risks are tested, explain why. In some cases, green risks may need to be tested, based on management request, auditor judgment, etc.

Step 4 - Obtain approval for audit program/plan

Step 1: List Risks

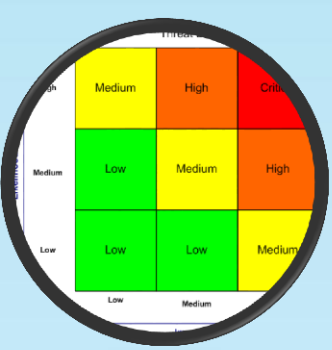
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#	Risks	Controls	References to Gaining an Understanding	Impact	Probability	Issue
1	Lack of segregation of duties over purchases	Sciqwest does not allow same purchaser and approver; AA purchases and department head approves. If purchase by department head, then President approves.	Interview, review of policies Audit and Compliance Manual	M	L	
2	Lack of written policies and procedures	Audit and Compliance Manual; Charter		M	L	
3	Noncompliance with audit standards	Peer review done at least every five years per IIA Standards	Interview, review of policies	H	L	
4	Auditors do not possess appropriate knowledge and skills	CAE and AA monitor to ensure 40 hours of relevant training achieved for staff	Interview, review of policies	M	L	
5	Fraudulent charging of vacation and sick leave reporting - abuse of time	CAE approves all staff; time reporting system used; President approves CAE	Interview, review of policies	H	L	
6	Noncompliance with Texas Internal Auditing Act	Peer review to be performed every three years; however, has not been conducted since January 2010	Interview, review of policies	M	H	ISS #1
7	Inappropriate/fraudulent expenses charged on purchasing card	AA expenses reviewed by department head; department head expenses reviewed by President	Interview, review of policies	H	L	
8	Noncompliance with travel policies	Staff expenses reviewed by department head; department head expenses reviewed by President; review of travel vouchers by Procurement Management	Interview, review of policies	M	L	
9	Unauthorized travel	Travel estimate work sheet prepared and submitted for approval by staff to department head; travel authorizations submitted for approval by department head; department head travel authorization submitted to President before travel	Interview, review of policies	M	L	
10	Confidential information not maintained in a secure manner	Policies and procedures exist	Interview, review of policies	H	L	
11	Compliance program does not follow seven elements of an effective compliance program.	Peer review process in place; quarterly monitoring prepared and submitted to UT System	Interview, review of policies	H	L	
12	Audit and Compliance Committee not effective	Charter; Responsibilities	Interview, review of policies	M	M	
13	UT Dallas employees do not receive compliance training in a timely manner.	Compliance training plan; monitoring of training completion	Interview, review of policies	M	M	
14	Lack of independence	Independence statements performed annually and on each audit.	Interview, review of policies	H	L	
15	Audit plan not completed	Quarterly monitoring and submission to UT System	Interview, review of policies, plans	M	M	
16	Client relations are weak	Surveys performed and monitored via performance metrics	Interview, review of policies	M	M	
17	Audits are not focused on risk.	Risk assessment performed	Interview, review of policies	M	L	
18	Lack of technical and other resources to perform work.	Budget prepared annually and presentation made to President and cabinet for approval	Interview, review of policies	M	L	
19	Accounts not reconciled in a timely manner	AA performs and department head reviews and approves Turnover documented in HR files and in Audit and Compliance Committee meetings	Interview, review of policies	M	L	
19	Employee turnover high resulting in work plans not being completed		Interview	M	H	
20	Compliance plan not completed	Quarterly monitoring and submission to UT System	Interview, review of policies, plans	M	M	



Good **planning** and **risk assessment** are the keys to the maze!



Step 2: Risk Matrix

1. Consolidate these risks by homogeneous risk areas (e.g., human resources, environmental health and safety, fiscal management, etc.), then review and/or reprioritize the risk list to produce a prioritized list for each homogenous risk area. Note dropdown menus, and auditor will have to add highlights for red/yellow/green. Also note that impact is listed first, then probability.
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Step 2: Prepare Risk Matrix

ACTIVITIES	Risk 1	Testing Reference	Risk 2	Testing Reference	Risk 3	Testing Reference	Risk 4	Testing Reference
Compliance with Policies and Procedures	Noncompliance with Texas Internal Auditing Act (6)	MH ISS #1	Noncompliance with audit standards (3)	HL audit program step 1	Compliance program does not follow seven elements of an effective compliance program (11)	HL audit program step 2	Noncompliance with travel policies (8)	ML
Fraud	Fraudulent charging of vacation and sick leave reporting - abuse of time (5)	HL audit program step 3	Inappropriate /fraudulent expenses charged on purchasing card (7)	HL audit program step 4				
Information Security	Confidential information not maintained in a secure manner (1)	HL audit program step 5						
Control Environment	Lack of independence (14)	HL audit program step 6	Audit and Compliance Committee not effective (12)	MM	Lack of written policies and procedures (2)	ML		
Employee Development	Employee turnover high resulting in work plans not being completed (20)	MH audit program step 7	Auditors do not possess appropriate knowledge and skills (4)	ML				
Financial Management	Lack of segregation of duties over purchases (1)	ML	Unauthorized travel (9)	ML	Lack of technical and other resources to perform work (18)	ML	Accounts not reconciled in a timely manner (19)	ML
Audit and Compliance Office Departmental Administration	Audit plan not completed (15)	MM	Compliance plan not completed (21)	MM	Audits are not focused on risk (17)	ML		
Customer Relations	Client relations are weak (16)	MM	UT Dallas employees do not receive compliance training in a timely manner (13)	MM				

Step 3: Prepare Audit Program

- Prepare an audit program based on the risk matrix above, focusing on **red** and possibly **yellow** risks.
- If **green** risks are tested, explain why. In some cases, green risks may need to be tested, based on management request, auditor judgment, etc.

Step 3: Prepare Audit Program

Audit Program Summary

Reference to Risk

1. Test for compliance with auditing standards by reviewing results of prior quality assurance reviews.	Noncompliance with audit standards (3)
2. Test for compliance with federal sentencing guidelines - seven elements of an effective compliance program.	Compliance program does not follow seven elements of an effective compliance program (11)
3. Test time reporting for fraud/abuse.	Fraudulent charging of vacation and sick leave reporting - abuse of time (5)
4. Test purchasing card transactions for fraud/abuse.	Inappropriate /fraudulent expenses charged on purchasing card (7)
5. Test confidential data procedures.	Confidential information not maintained in a secure manner (1)
6. Test to determine if independence statements are being prepared and reviewed.	Lack of independence (14)
7. Review turnover rates to determine reasons and if plan in place to reduce.	Employee turnover high resulting in work plans not being completed (20)



APPROVED

Are we there yet?



And the password is...

http://www.utdallas.edu/audit-compliance/about_us/



Contact Info

**Toni Stephens, CPA, CIA,
CRMA**

Executive Director of Audit &
Compliance, UT Dallas

tstephens@utdallas.edu

972-883-4876

