

Risk Management and Audit Risk Assessment:  
how do they converge?

Track B



# ERM & Audit Risk Assessments: Collaborating for Better Outcomes

Track B, Session B2  
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# Outline

- **Influences for change**
- **Implications for internal auditing**
- **IFAD's evolving experience**
- **World Bank Group experience including overall Internal Audit opinion**





# Influences for Change:

- Audit Committees demanding higher levels of assurance (positive assurance versus negative)
- Organizations, management investing in ERM
- Scarce resources, especially for 'overhead' activities; buy-in to audit plans needed, literally





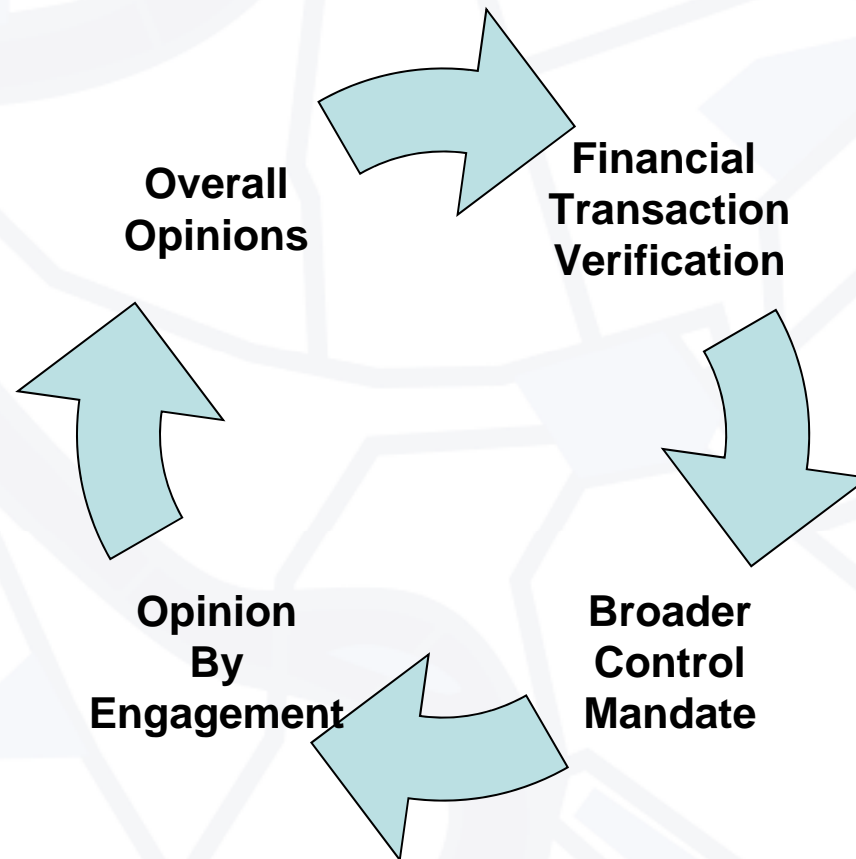
# More Influences:

- Management assertions building momentum
  - SOX-like processes raised the bar for ICFR
  - ICFR no longer sufficient
- Stakeholders investing where they see sound governance and risk management processes
- Increasing demands for transparency, access to Internal Audit results





# Internal Audit's Role Evolving:



**See also IA Capability Model: IIA Research Foundation**





## Recent RIAS\* Development: Draft Resolution

**Working Group established to review feasibility of promoting an assurance mechanism in each organization whereby:**

- 1. Executive head provides a justified management assertion on risk management, governance and internal control processes;**
- 2. Internal Audit provides assurance as to reliability of assertion;**
- 3. Organizations are urged to disclose such assertions and accompanying IA assurances to the public; and,**
- 4. All stakeholders and donors would be strongly encouraged to rely on such assertion.**

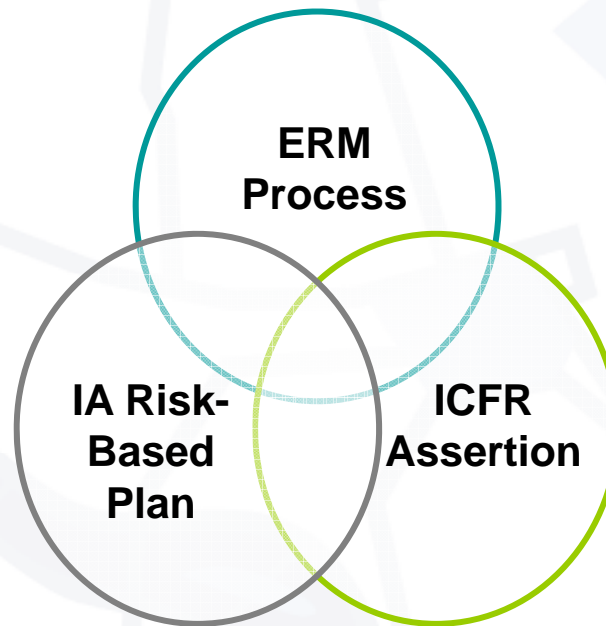
**\*RIAS: Representatives of Internal Audit Services of UN & IFIs**





# IFAD's Evolving Experience

**Management Leads  
Internal Audit (IA) Participates**



**IA Conducts  
Mgmt Consulted**

**Controller Leads  
IA Advises/Tests**





# IFAD's Evolving Experience

- Enterprise Risk Management Committee (ERMC)
- Risks and Controls Assessment Workshops focused on Corporate Results

## Typical Workshop Agenda:

10 min.	Introduction & context within ERM
60 min.	Risk identification by key results
60 min.	Discuss and identify mitigating strategies, processes, activities
30 min.	Assess impact and probability of risks
20 min.	Assess likelihood of achieving results





# IFAD's ERM Risk Formulation

- Because IFAD's lending instruments, products and lending terms are not flexible and, in some cases, competitive,
- there is the risk that demand for IFAD's services by intermediate and ordinary-term borrowers will fall,
- causing IFAD to not achieve its Program of Work targets.





# IFAD's ERM Workshop Result

## Key Result #1

## Cluster Focus Area

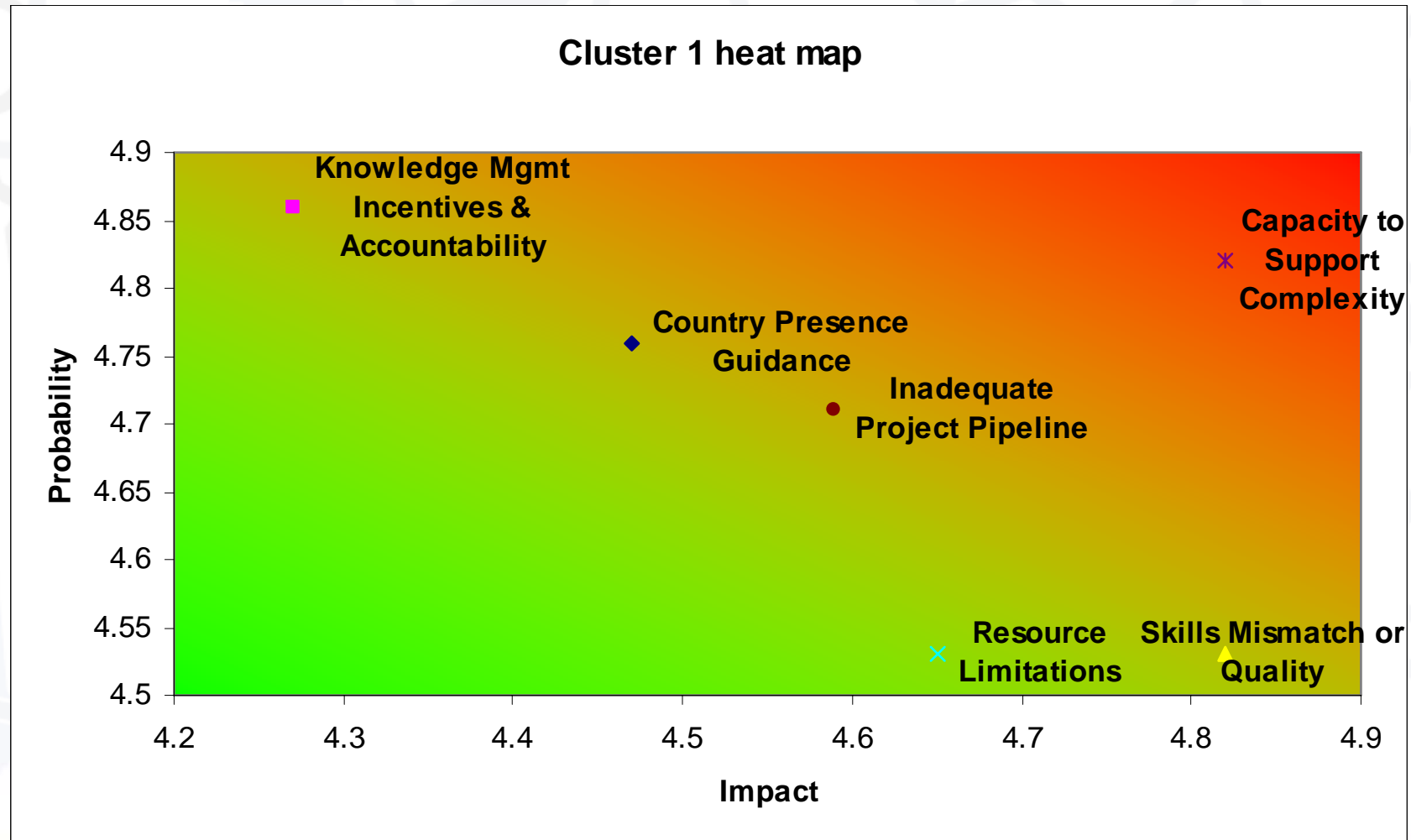
## Risk Mitigation Strategies

Expand the programme of projects and country strategies, and improve quality		
Key results 2010-12	Key risks	Risk mitigation strategies
<p>Result 1</p> <p>Expand the lending and grant programme (programme of work) to \$3 billion in the 2010-2012 period (CMR 1 and 2). The projection (not target- the target is for the three-year 2010-2012 period) is for \$800 million loans and grants in 2010, \$1 billion in 2011, and \$1.2 billion in 2012. Prepare country strategies in accordance with these programme needs.</p> <p><u>Likelihood of achieving result</u></p> <p>Mode: 4 and 6 Mean: 4.07</p> <p>Rank 1/9</p>	<p>Result 1 – Risk 1</p> <p><u>Because</u> IFAD's lending instruments, products and lending terms are not flexible and, in some cases, competitive, <u>there is the risk that</u> demand for IFAD's services by intermediate and ordinary-term borrowers will fall, <u>causing</u> IFAD to not achieve its PoW targets.</p> <p><u>Impact vote</u></p> <p>Mode: 5 Mean: 4.41</p>	<p><u>Risk mitigation strategies</u></p> <ol style="list-style-type: none"> <li>Working group on lending terms (chaired by FAD). Proposal being sent to AP/FAD addressing: frequency for update of interest rates; recommendation on single currency lending. Focus is on tactical improvement</li> <li>FAD/PMD – Possible study on single currency lending</li> <li>Policy paper on MICs to EB in 2010</li> </ol> <p><u>Probability vote</u></p> <p>Mode: 4 Mean: 4.19</p> <p><u>Impact * Probability = 18.48 (rank 11/21)</u></p>





# IFAD's Risk Heat Map (6 Risks)





## **IFAD Audit Risk Assessment Sources**

- **OA's results-based divisional management plan**
- **Materiality - 2009 Budget and 2008 General ledger**
- **Corporate Risk Register**
- **Audit committee and Senior Management meetings**
- **Investigation/audit experience and specific requests**
- **Gap analysis of previous audit work**
- **Major institutional initiatives (8<sup>th</sup> replenishment)**
- **Areas from OA experience**
- **Management risk assessment & Interviews**





# OA Audit Universe

Dept / Division	Recent audit coverage	Impact on IFA D objectives	Dept. feedback	Risk indications	Appropriate timing	TOTAL
	20	10	35	15	5	85

Percentage weight

INSTITUTIONAL GOVERNANCE							
CORPORATE STRATEGY & POLICIES							
Strategic planning	FS	85	69	100	15	67	65
Institutional policy definition and implementation (non-operational)	FA D	74	23	-	-	67	20
Launching and terminating corporate initiatives	OP V	63	-	13	-	67	20
Enterprise risk management	OP V	74	63	-	15	50	26
Ethical framework and adherence to IFAD values	OP V	81	-	13	-	83	25





# World Bank Group Experience

## Internal Auditing Department (IAD) FY08 Annual Report

Including Overall Opinions on  
Governance, Risk Management, and Controls  
For IBRD/IDA, IFC, and MIGA

<http://go.worldbank.org/UFMLY4H1D0>





## Ideally...

- Management assertion on internal controls over financial reporting (ICFR), operations and compliance
- External auditor attestation and opinion on financial reporting (ICFR)
- Internal Auditor attestation and opinion on all internal controls

## Actually...

- Management assertion on internal controls over financial reporting with external auditor attestation (reliance on IAD testing)
- Management assertion on IDA operations/compliance with Independent Evaluation Group attestation (reliance on IAD)
- Internal Auditor opinion on overall internal controls





## Testing Internal Controls for Financial Reporting: Why should Internal Audit functions invest?

- WBG IAD conducted ICFR compliance testing for management (4+P/Ys, IBRD only)
- Reduced external audit fee (greater reliance by external auditor)
- Increased IAD knowledge of financial impact of operations, and year to year changes
- Results can offset or substitute internal audit testing for other engagements
- Informs IAD overall opinion





## WBG FY08 Risk-Based Audit Planning: 7 Steps to Positive Assurance

1. Review Audit Universe: (140 processes; 50 HQ Units; 70 Field-Based Units; 8 IT Processes aligned with COBIT)
2. Assess Impact and Likelihood of Significant or Pervasive Deficiencies in Processes & Units
  - Process/Activity/Unit Risk Assessment Support Papers
3. Identify processes/units with High Risk Ratings (All high risk included in work plan)





# WBG FY08 Risk-Based Audit Planning Process to Support Positive Assurance

4. Obtain Input and Feedback from Key Stakeholders
  - Audit Committee Chair, WBG Senior Management, other Control/ Evaluation units & External Auditors
5. Analyze Coverage Adequacy to Support Overall Opinion
6. Estimate Level of Effort to Deliver the Proposed Work Program (Audit Concept Notes developed for work program elements)
7. Review the Draft Work Program with President & Audit Committee; approval by Board

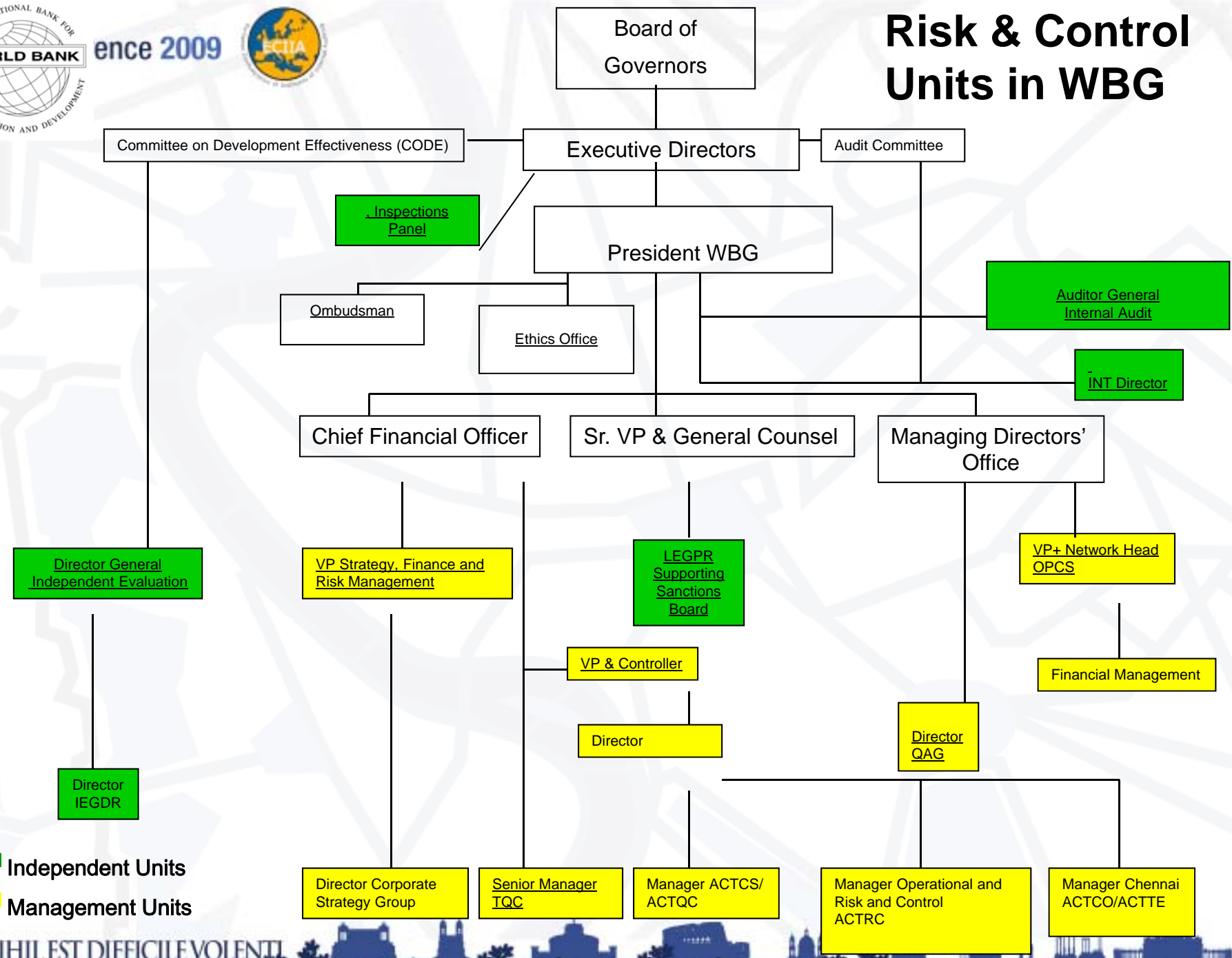




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# Risk & Control Units in WBG



- Independent Units
- Management Units



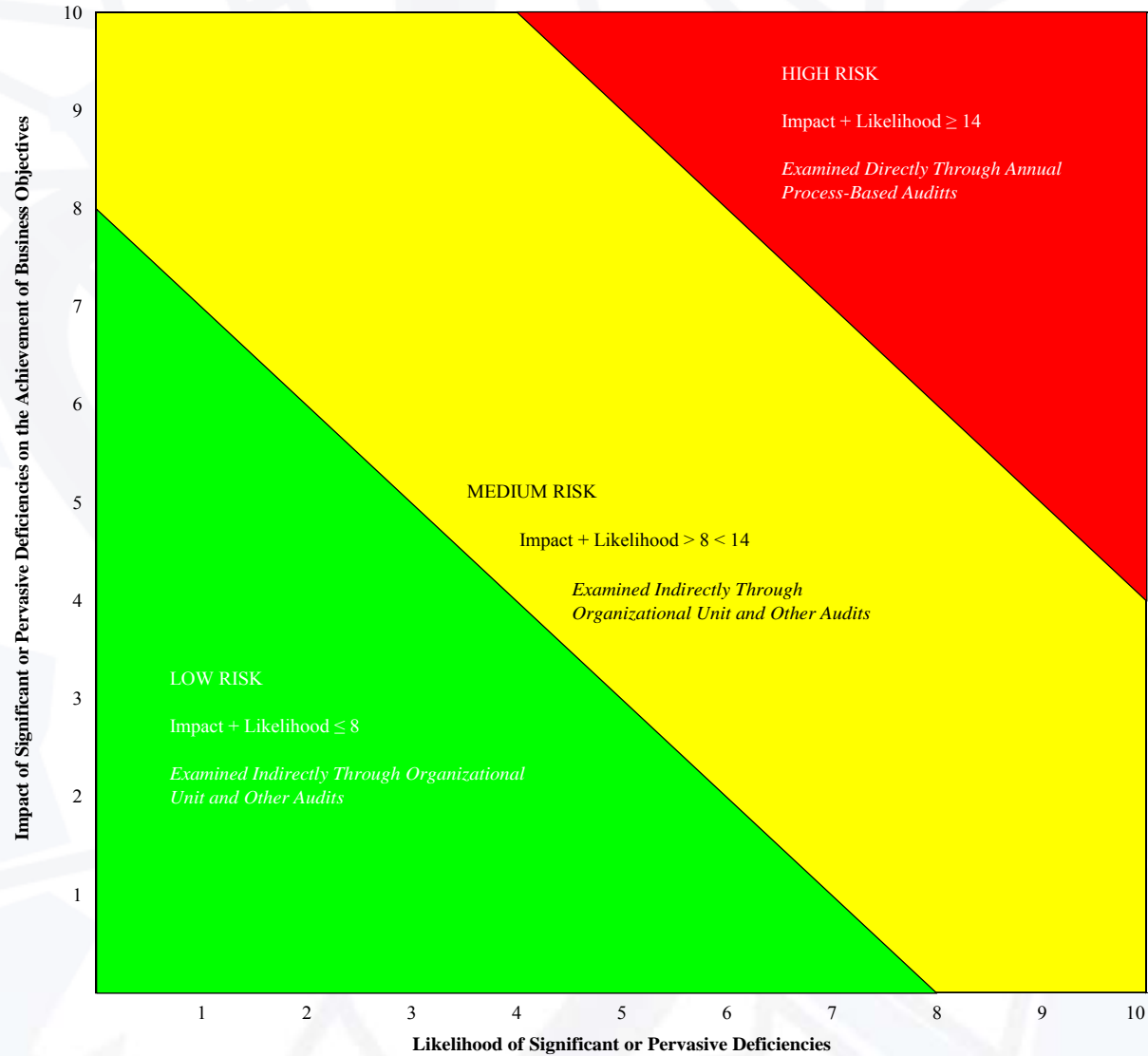
## **WBG Risk & Control Units Involved or Consulted during IAD Risk-Based Planning**

- **Independent Evaluation Units**
- **Institutional Integrity Department**
  - Consulted on instances of fraud, corruption, misconduct
- **Trust Funds Quality Control Unit**
  - Consulted to identify vulnerabilities in donor-funded operations
- **Quality Assurance Group**
- **Operational Risk & Control Unit**
  - Major annual workshop-based process for ERM





# FY08 Risk Map: Line on the move...





# Assessment of Coverage Adequacy

High Risk Business Process	Regions	Network Anchors	Other Operational Units	Financial Units	Administrative Units	Corporate & Other Units
1-Process aa	X		X			
2-Process bb	X		X			
3- Process cc	X		X			X
4- Process dd	X	X	X			
5- Process ee	X	X	X			X
6- Process ff	X	X	X			X
7- Process gg	X	X	X	X		X
8- Process hh	X	X	X	X	X	X
9- Process ii				X		X
10- Process jj	X	X		X		X





## Methodology Changes to Support Positive Assurance

- Standardized Risk Matrices developed
- Disciplined approach to each audit project with links between process and unit audits (alternating yearly)
  - Deficiencies in unit audits used to identify process targets for subsequent year
  - Deficiencies in process audits used to identify unit targets for subsequent year
- On-line audit manual developed with links to current templates used during audit life cycle
- Results presented according to the COSO ERM objectives & components





## Internal Reviews Strengthened

- Audit approaches reviewed by Management Team and agreed prior to TOR issuance
- Audit results discussed by Management Team; final ratings agreed for consistency
- Presentations by audit teams at monthly department staff meetings for sharing approaches, results, and lessons learned
- Internal quality assurance processes reviewed and formalized
- All audit staff received COSO and QA training





## Streamlined Reporting for Clarity & Efficiency

Audit Rating & Report Length	Definitions	Distribution to President & AC (All Summarized in 1/4ly Report)	Follow-Up Frequency
Satisfactory 1-2 Pages	Reasonable assurance provided Opportunities may exist	On request only	Next Audit
Needs Improvement 2-3 Pages	Deficiencies exist Reasonable assurance at risk	President Routinely; Audit Comm. on request	Annually Prior to risk assessment
Unsatisfactory 4-5 Pages	Significant or pervasive deficiencies exist Reasonable assurance cannot be provided	President & Audit Comm. routinely	Quarterly





## Conditions Supporting Overall Positive Assurance Opinion by IA

1. Internal Audit has been mandated to do so.
2. Coincidence exists between needs of governing body and systems/process owners and managers.
3. IA's scope encompasses risk management, governance and controls for the whole entity.
4. IA has adequate resources for sufficient coverage within a reasonably current period to support the opinion.
5. Opinion is supported by adequate, competent evidence in accordance with IIA *Standards*.
6. Opinion can be expressed as at a point in time.
7. Opinion provides reasonable positive assurance.





## Forming a Positive Assurance Opinion

- Analyzing adequacy of coverage
- Identifying limitations or exclusions (areas not adequately or currently covered)
- Assessing degree to which issues identified have been addressed since audit (follow-up critical)
- Identifying outstanding issues that rise to a level of significance for the entity (are deficiencies of such importance or pervasiveness that achievement of objectives may be affected)
- Deciding on form of opinion (unqualified, with exceptions and/or limitations, qualified)





## Lessons Learned

- Manage expectations
- Control environment is fundamental
- Know when to stop consulting, just do it
- Do not underestimate required effort
- Engage the audit staff
- Set aside dedicated, experienced resources
- Revise processes to facilitate later decision-making
- Communicate, communicate, communicate





## FY08 IBRD/IDA Opinion

- **High Risk Inadequate Coverage (ie. Scope Limitations)**
  - Ten areas listed where audit work was incomplete, more than two years old, or deferred to FY09
- **Basis of the Opinion**
  - Risk-based audit plan covering 136 entities in the audit universe
  - 55 engagements concluded FY07; 41 concluded, 7 sub. concluded FY08
  - IAD follow-up of action plans to correct deficiencies reported
  - ICFR testing results on behalf of management
  - IDA Controls Review, applicable also to IBRD
- **Significant Deficiencies Reported for IBRD/IDA**
  - Key Fiduciary Controls
  - Entity-level Controls
  - Project Performance Reporting
  - IT Controls (governance, business continuity, security, monitoring)
  - Fraud and Corruption Controls





**Thanks!**

**Questions?**

