BRINGING REAL VALUE

Management Objectives vs Audit Objectives

Who is this intended to help?

◦New Auditors

◦Struggling or Frustrated Auditors

◦Old Dogs needing new tricks

Poll Question #1

Which type of auditor are you?

- A. New auditor
- B. Struggling or Frustrated Auditor
- C. Old Dog needing new tricks
- D. Totally got it down
- E. Not sure

Agenda

- **Definition of an audit objective – IPPF Standard 2210**
- **Differentiating audit objectives from management objectives – IPPF Standard 2120**
- **First things first - Never start with risks in a Risk Assessment**
- **You must involve management! – IPPF 2210.A3**
- **Using risk tolerance to develops the audit testing. - IPPF 2240**
- **Getting the value everyone wants!**

What does management think of auditors?

An auditor is a man who watches the battle from the safety of the hills and then comes down to bayonet the wounded. *Sir Charles Lyell, 1797 - 1875, American accountant.*

The word 'audit' comes from 'auditory' which means 'to hear bad news coming...'

"Following our thorough and extensive cost savings audit, our recommendation is that you spend less on auditors."

Definition of an audit objective (IPPF 2210)

2210 – Engagement Objectives

Objectives must be established for each engagement.

GAO defines audit objectives:

6.08 The objectives are what the audit is intended to accomplish.

2210 – Engagement Objectives

Objectives must be established for each engagement.

2210.A1 – Internal auditors must conduct a preliminary assessment of the **risks** relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

Poll Question #2

Which part of the Audit Cycle runs throughout the audit?

- A. Planning
- B. Performing
- C. Communications
- D. Monitoring
- E. Quality Assurance

Audit Cycle


Planning
Performing
Communicating
Monitoring
Quality Assurance

Preliminary Risk Assessment

- Tell me the five most important reasons your department/process exists. (Why does Senior Management believe you are valuable?)

- If there were no controls in place, what are the two biggest risks to accomplishing each objective.

- Describe the control procedure(s) that mitigates the identified risk and how do you know the control is working?

What are management objectives?

2120 – Risk Management

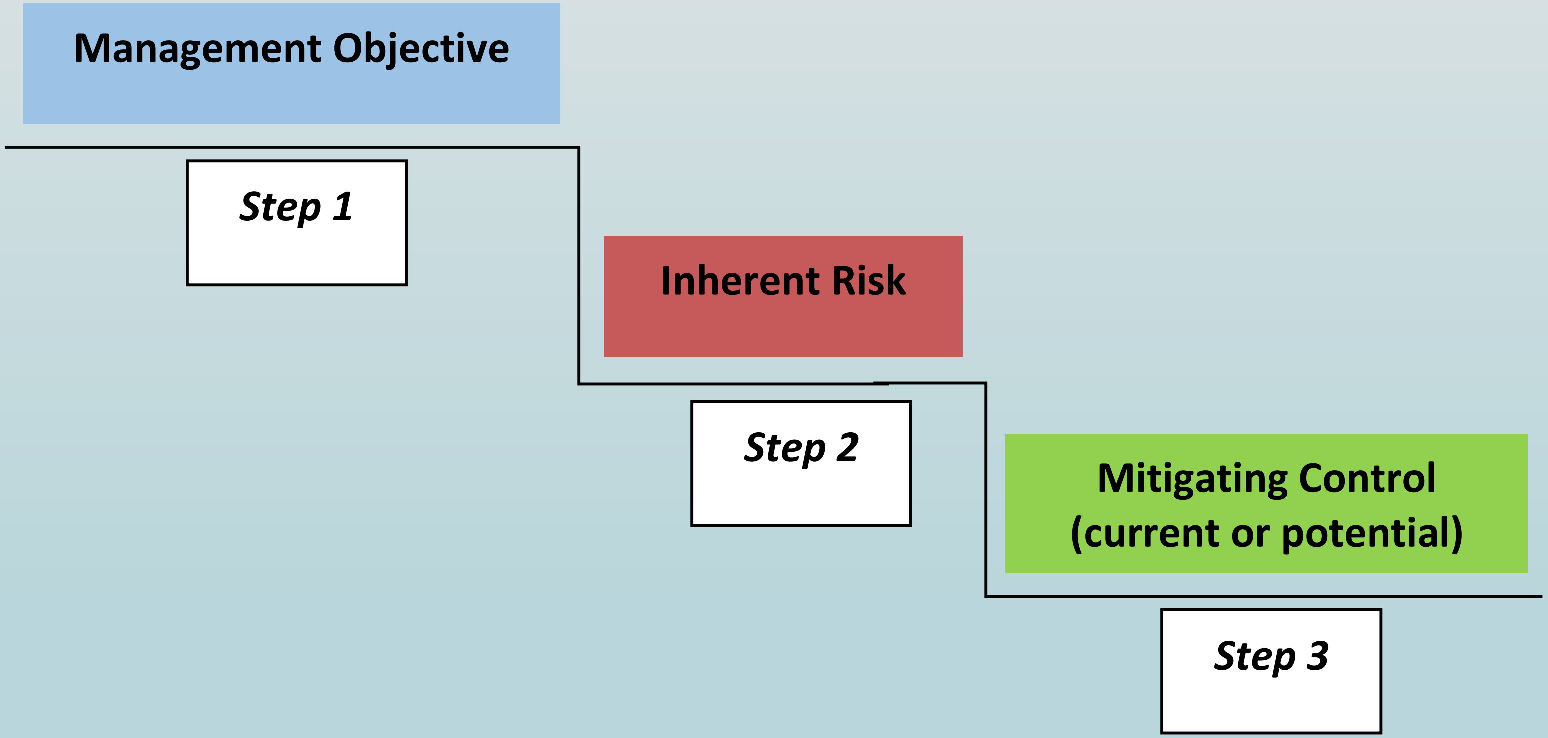
The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation: Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- **Organizational objectives support and align with the organization's mission.**
- **Significant risks are identified and assessed.**
- Appropriate risk responses are selected that align risks with the organization's risk appetite.
- Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.

First Things First…

Fig. 1 – Objective/Risk/Control flow



You must involve management!

2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation: Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- Organizational objectives support and align with the organization's mission.
- Significant risks are identified and assessed.
- **Appropriate risk responses are selected that align risks with the organization's risk appetite.**
- Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.

Poll Question #3

What should be done if management accepts a higher level of risk than the auditor believes is prudent?

- A. Accept the level of risk they have established because it is their risk appetite.
- B. Provide information to management about the possible impact of the risk.
- C. Demand that management reduce the risk level to the auditor’s risk appetite.
- D. Notify Senior Management (or Board) of the level of risk being accepted and the possible impact of that risk.
- E. Not Sure

Risk Appetite and Risk Tolerance

- **Risk appetite**: A target level of loss exposure that the organization views as acceptable, given business objectives and resources

- **Risk tolerance**: The degree of variance from the organization's risk appetite that the organization is willing to tolerate

IPPF 2600 – Communicating the Acceptance of Risks

Developing the audit tests

- 2210.A3 – Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established **adequate criteria to determine whether objectives and goals have been accomplished.** If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.

The Value Proposition

Your value proposition tells your clients why they should be excited to work with you and makes the benefits of your services crystal clear from the outset.

Getting the value everyone wants!

Poll Question #4

What does “getting what you want” look like?

A. The audit client just does what they are told without question after the report is issued.

B. The audit client does what they think is important and ignores the rest of the audit results.

C. The Board forces management to take corrective actions even though management objects.

D. Management helps design the corrective actions to align with achieving their goals and enacts them even before the audit report is issued.

E. Not Sure

Wrap Up

- Definition of an audit objective – IPPF Standard 2210
- Differentiating audit objectives from management objectives – IPPF Standard 2120
- First things first - Never start with risks in a Risk Assessment
- You must involve management! – IPPF 2210.A3
- Using risk tolerance to develops the audit testing. - IPPF 2240
- Getting the value everyone wants!

Any Questions?