



SECTION D.3 – INTERNAL AUDIT ACTIVITY RISK MANAGEMENT

Introduction

Every organization will experience control breakdowns. Often times when controls fail or frauds occur, someone will ask: “Where were the internal auditors?” The internal audit activity could be a contributing factor due to:

Factor	Manual Section containing steps to address
<ul style="list-style-type: none"> Not following the <i>International Standards for the Professional Practice of Internal Auditing</i>. 	Internal Audit Manual as a whole
<ul style="list-style-type: none"> An inappropriate quality assurance and improvement program, including procedures to monitor auditor independence and objectivity. 	Section J
<ul style="list-style-type: none"> Lack of an effective risk assessment process to identify key audit areas during the strategic risk assessment, as well as areas of high risk during the planning of individual audits – as a result, failure to do the right audits and/or time wasted on the wrong audits. 	Sections G.1, I.1
<ul style="list-style-type: none"> Failure to design effective internal audit procedures to test the “real” risks and the right controls. 	Section I.1
<ul style="list-style-type: none"> Failure to evaluate both the design adequacy and the control effectiveness as part of internal audit procedures. 	Section I.1
<ul style="list-style-type: none"> Use of audit teams that do not have the appropriate level of competence based on experience or knowledge of high risk areas. 	Sections D.1, D.2



Factor	Manual Section containing steps to address
<ul style="list-style-type: none"> Failure to exercise heightened professional skepticism and extended internal audit procedures related to findings or control deficiencies. 	Sections H.3, I.2
<ul style="list-style-type: none"> Failure of adequate internal audit supervision. 	Section J
<ul style="list-style-type: none"> Making the wrong decision when there was some evidence of fraud – e.g., “It’s probably not material” or “We don’t have the time or resources to deal with this issue.” 	Sections H.3, I.2, I.7
<ul style="list-style-type: none"> Failure to communicate suspicions to the right people. 	Sections H.3, I.5, I.7
<ul style="list-style-type: none"> Failure to report adequately. 	Sections I.5, I.7
<ul style="list-style-type: none"> Misinterpretation of internal audit role when internal audit staff are loaned to assist with implementation of new systems and processes. 	Section B

As part of the overall management of the internal audit activity, the Head of Internal Audit must understand and manage the risks of internal audit failure.

Ref:	Policy and Practice Requirements	IIA Standards references
D.3-1	<p><u>Policy:</u> The Head of Internal Audit shall conduct an overall risk assessment of the internal audit activity they manage, in order to understand and manage risks of “internal audit failure”.</p>	<p>Practice Advisory 2120-2: Managing the Risk of the Internal Audit Activity</p>



D.3-1:1	Practice requirement: The CGIAR Internal Audit Unit Director shall include a risk assessment for its operations in the Unit's triennial business plans.	
D.3-I:2	Practice Requirement: The Head of Internal Audit shall periodically undertake a risk assessment of the operation of their Unit as part of the annual internal quality assurance program, and shall include the results of that assessment in the reporting of the program.	
D.3-I:3	Practice Requirement: To the extent that an internal audit activity experiences a significant failure, the Head of Internal Audit shall review the nature of the event and gain an understanding of the root causes, to identify any necessary remedial action. Discussion: <ul style="list-style-type: none">• This analysis provides insight into the potential changes to be considered in the internal audit process or control environment to mitigate future occurrences.	