



# Annual Planning: Creating a Risk-Based Annual Audit Plan

Presented by: Erica Smith

# Course Objectives



- Provide an approach to organizational audit planning that focuses an OIG's efforts on those risks that pose the most serious challenges for government entities in maintaining fiscal integrity and operational effectiveness.
- Identify audit activities through which the OIG can add value not provided by other agencies/units.

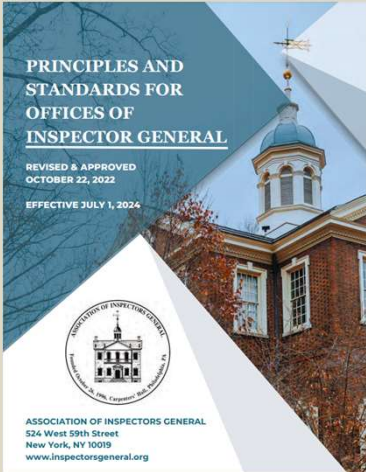
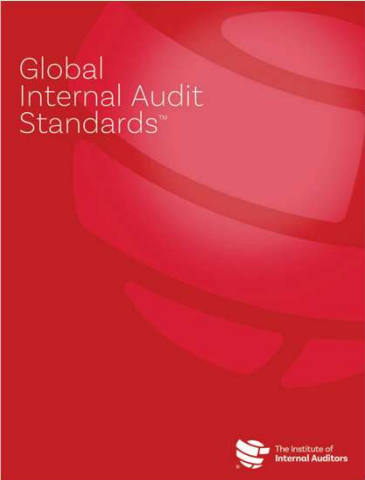
~~*Magic Formula!*~~



## Important to remember:

- No two inspector general functions are exactly the same
- No two inspector general audit functions are exactly the same
- Many flavors of inspector general functions

# Professional Standards



# GAGAS – Yellow Book

**Government Auditing  
Standards**

2024, Revision  
(Supersedes GAO-21-368G)

GAO-24-106786 | February 2024

**5.51 The audit organization should establish a quality objective that addresses the acceptance, initiation, and continuance of engagements as follows:**

**The audit organization accepts, initiates, and continues engagements only if it**

- a. complies with professional standards, independence requirements, and applicable legal and ethical requirements;**
- b. acts within its legal mandate or authority; and**
- c. has the capabilities, including time and resources, to do so.**

**5.52 An audit organization may operate with limited resources [and] may consider its workload in determining whether it has the resources to perform quality engagements over the range of work. To achieve this, an audit organization may develop systems to prioritize its work in a way that considers the need to maintain quality.**

# IIA – Red Book



## Standard 9.4 Internal Audit Plan

**The CAE must create an internal audit plan that supports the achievement of the organization's objectives.**



**The CAE must base the internal audit plan on a documented assessment of the organization's strategies, objectives, and risks. This assessment must be informed by input from the board and senior management and the CAE's understanding of the organization's governance, risk management, and control processes. The assessment must be performed annually.**

# IIA – Red Book



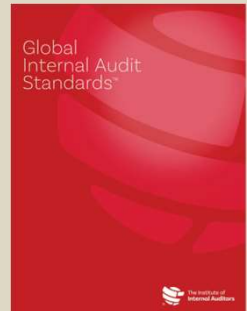
## Standard 9.4 Internal Audit Plan

The internal audit plan must...

- Be dynamic and updated timely in response to changes in the organization's business, risks operations, programs, controls, and organizational culture.

The CAE must communicate the rationale for not including an assurance engagement in a high-risk area or activity in the plan.

# IIA – Red Book



## Standard 9.4 Internal Audit Plan - Considerations for Implementation

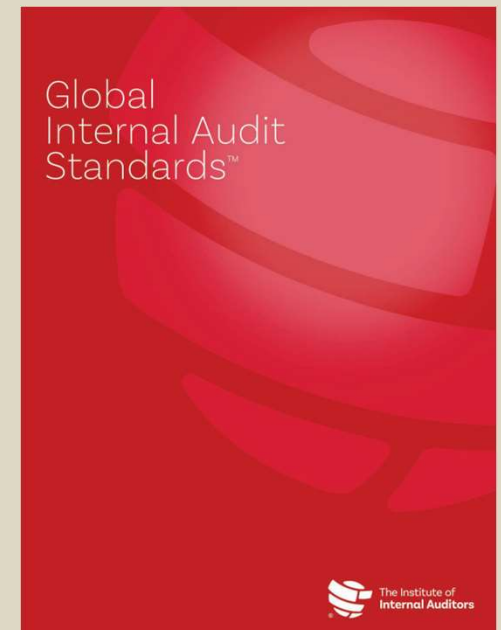
The standard requires an organization wide risk assessment to be completed at least annually as the basis for the Audit Plan. However, the CAE should keep continuously apprised of risk information, updating the risk assessment and internal audit plan accordingly.



# Definitions

**Risk – The positive or negative effect of uncertainty on objectives.**

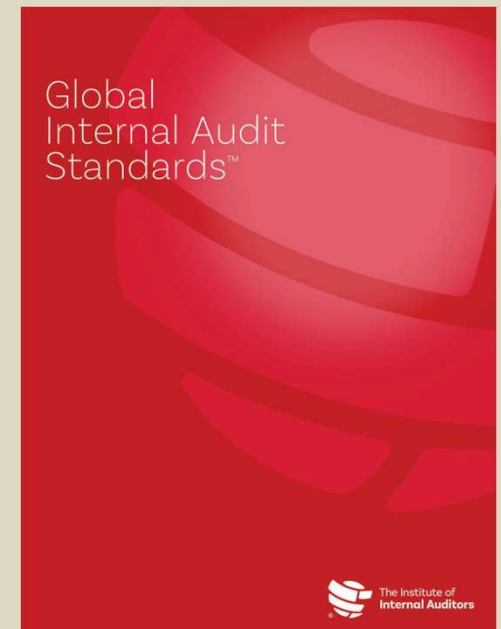
**Risk assessment – The identification and analysis of risks relevant to the achievement of an organization’s objectives. The significance of risks is typically assessed in terms of impact and likelihood.**



# Definitions

**Risk management – A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization’s objectives.**

**Risk appetite – The types and amount of risk that an organization is willing to accept in pursuit of its strategies and objectives.**



# What is a Risk Assessment?

**Process of identifying areas within an entity where there is risk of fraud, waste, abuse, inefficiency, and/or ineffectiveness.**

- practical
- sustainable
- easy to understand

# Basic Assumptions

Audits must add value, *monetary or non-monetary*

Audits enhance the *effectiveness* and *efficiency* of an agency

Audits improve the quality of *outputs* and/or *outcomes*

*= Return on Investment*

# Why do you need a plan?

1. Maximize OIG efficiency and effectiveness
2. Transparency
3. Induce anticipatory correction by agencies
4. Credibility

# OIG as a Glass House



- **Make prudent use of limited resources**
  - Personnel hours, dollars, ROI
- **Prioritize**

*Maximize OIG efficiency and effectiveness*

# Is This Familiar?

You are picking on us!

No

You are using audits for your own agenda!

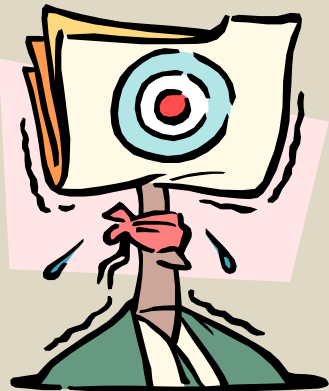
No

Your audits are politically motivated!

No

You are trying to make us look bad!

No



*Transparency*

# Spur Pre-emptive Correction



- The OIG auditors are coming!
- Let's fix everything! Maybe then they won't come. Or at least we'll get a clean audit.
- That other unit is getting audited!  
Let's fix ours fast.

*Anticipatory Correction*

= easy ROI



# Planning Can Help Avoid These Questions

Where was the IG?

What was the IG doing instead?

***CREDIBILITY***

# Risk-Based Audit Selection Process

Logical

Reasonable

System-Driven

Information-Driven

Quantifiable

Defensible

*No one size fits all.*

***CREDIBILITY***

# What to audit?

## Government Auditing Standards

2024 Revision  
(Supersedes GAO-21-368G)

GAO-24-106786 | February 2024

The decision on what to audit generally occurs through one or more of the following methods: (GAGAS 5.52 Application Guidance)

1. Legal mandates
2. Request by legislative/oversight bodies
3. Audit organization discretion
4. Risk assessment approach





# Risk Assessment in Annual Audit Planning

## Is...

- A tool for setting audit priorities
- A tool for communicating and justifying audit priorities

## Is not...


- Determination of agency risk appetite
- Risk management
- Risk response

*Agency management's responsibility*

## GAO's Standards for Internal Control in the Federal Government (Green Book) 2014:

“External auditors and the office of the inspector general (OIG), if applicable, are not considered a part of an entity’s internal control system. While management may evaluate and incorporate recommendations by external auditors and the OIG, responsibility for an entity’s internal control system resides with management.” (OV2.15)

# Risk Assessment Process

- Step 1: Understand the Universe** 
- Step 2: Identify risks**
- Step 3: Develop assessment criteria**
- Step 4: Assess risk and risk interactions**
- Step 5: Prioritize risk**
- Step 6: Develop and execute the risk-based audit plan**

Adapted from: Committee of Sponsoring Organizations of the Treadway Commission, *Risk Assessment in Practice*, By Deloitte & Touche LLP, October 2012.

# Step 1: Understand the Universe

1. Know your jurisdiction



2. Develop Audit Universe



# Audit Universe

Consider:

## Qualitative

- Critical processes and functions
- Quality of life

## Quantitative

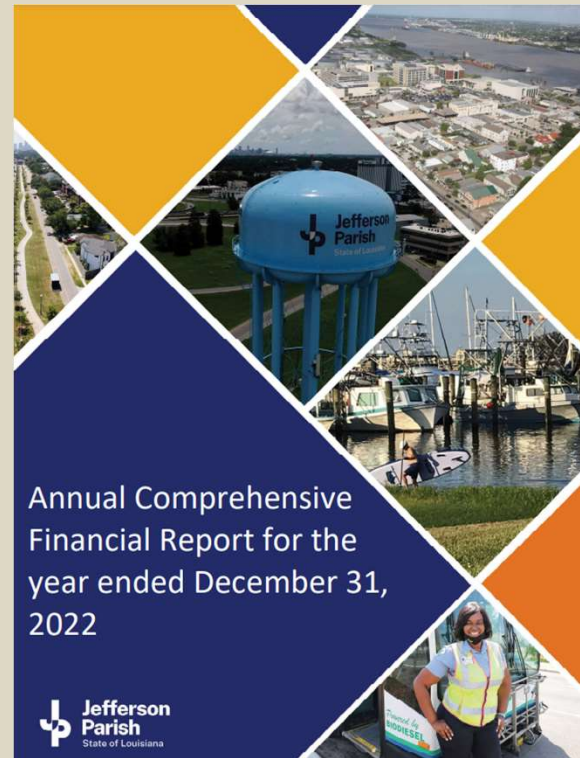
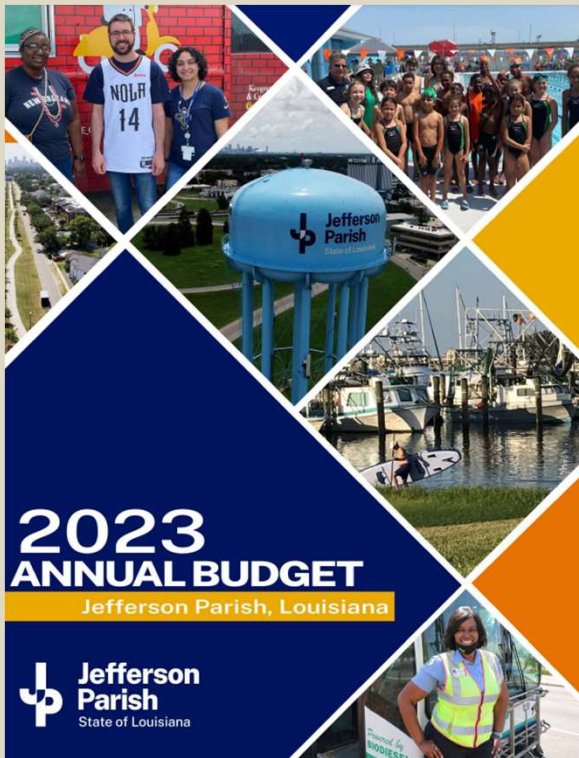
- Dollars and Cents



Consider carefully the correct unit of assessment for your needs: agencies, departments, programs, sub-programs, vendors, grants?



# In Practice



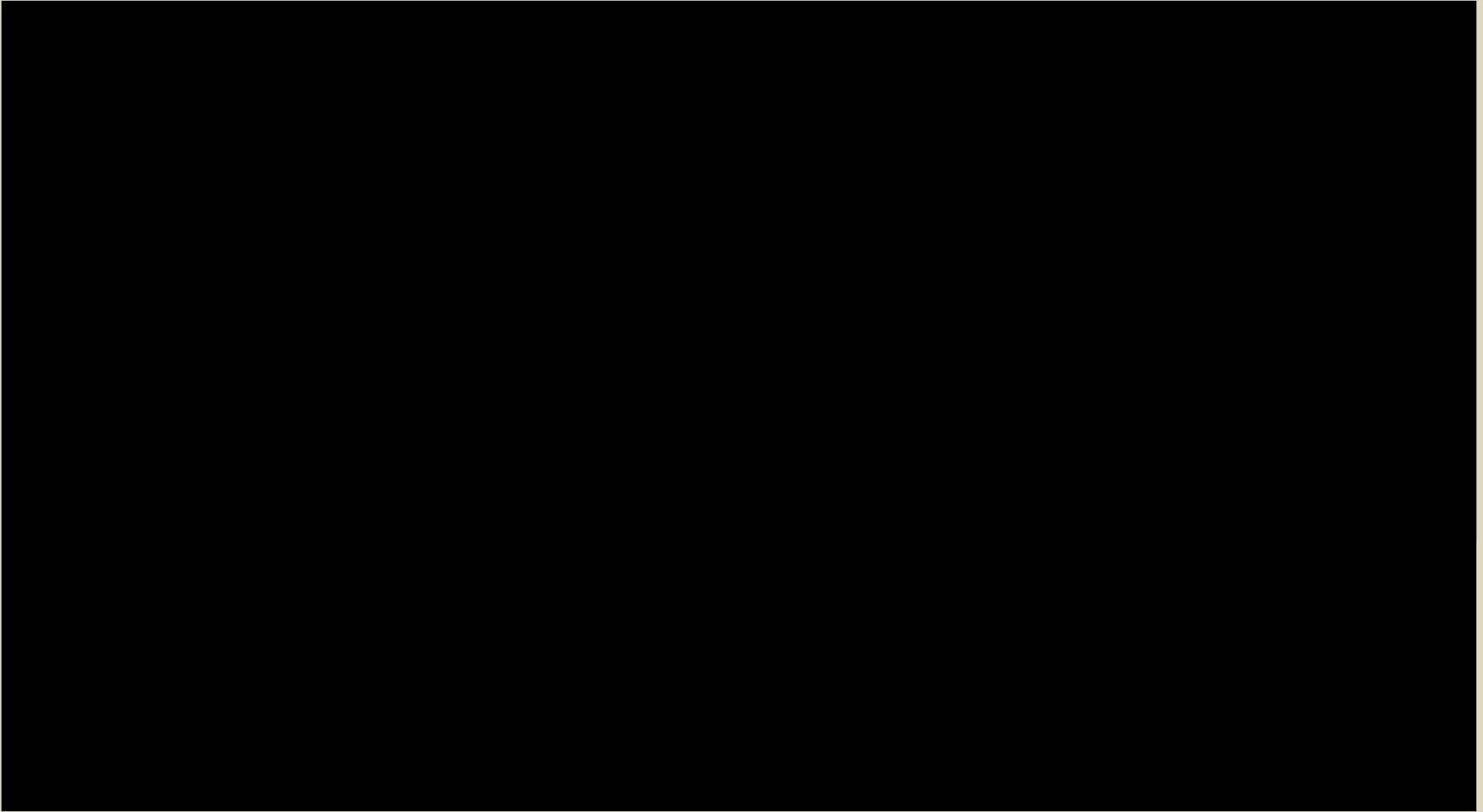
## Step 2: Identify Risks

- **Prior audits**
- **Audits in other jurisdictions**
- **Investigations**
- **Tipline**
- **Mission statements**
- **Budget and financial plan**
- **Strategic plans**
- **Media articles**
- **Hearings and proceedings**
- **ACFR**
- **GAO's High Risk List**
- **Management or employee questionnaires**
- **Informational interviews with agency heads**

# Obtain an Understanding!



# Wiley E. Coyote V. Road Runner



# What's the strategy?

Make and execute  
a plan for  
**knowledge**  
management.



- Who
- How
- When
- Where

*Ask: How will future staff or my future self be able to find and use this information?*

# Questionnaires

If you use questionnaires, consider different questionnaires for different audiences

- Management
- Elected or appointed officials
- Front-line employees
- Public



Plan for effective questionnaire design

- How to maximize responses?
- How to efficiently analyze responses?
- How write questions that elicit decision-useful information?

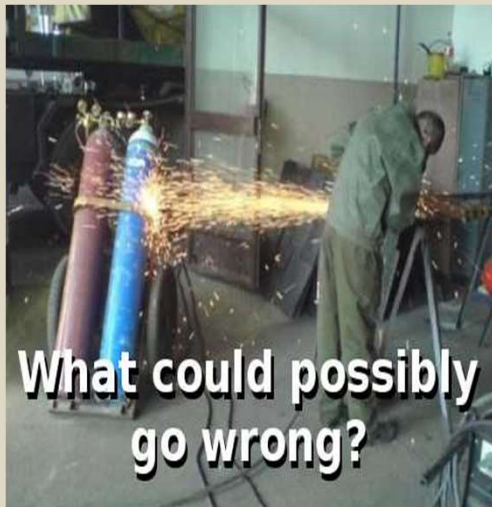


# Examples of Questions

- What is the Purpose/Mission/Objective of your work unit?
- What are the primary strengths of this unit?
- What obstacles do you see that affect your goals and objectives?
- If you had additional resources to help you achieve your objectives, what would they be?
- What is the worst thing that could happen in your unit?
- What is the worst thing that has already happened in your unit?
- What are some other units that are critical to your mission, and which give you the most concern (and why)?

# Step 3: Develop Assessment Criteria

Risk Factor



Likelihood



Impact





# Definitions

## Risk Factor

- A condition or characteristic that increases the probability or severity of a negative outcome.



## Likelihood

- The probability of a negative outcome occurring.

## Impact

- A negative outcome that would impair an agency's ability to achieve its objectives.

*Risk of what?*



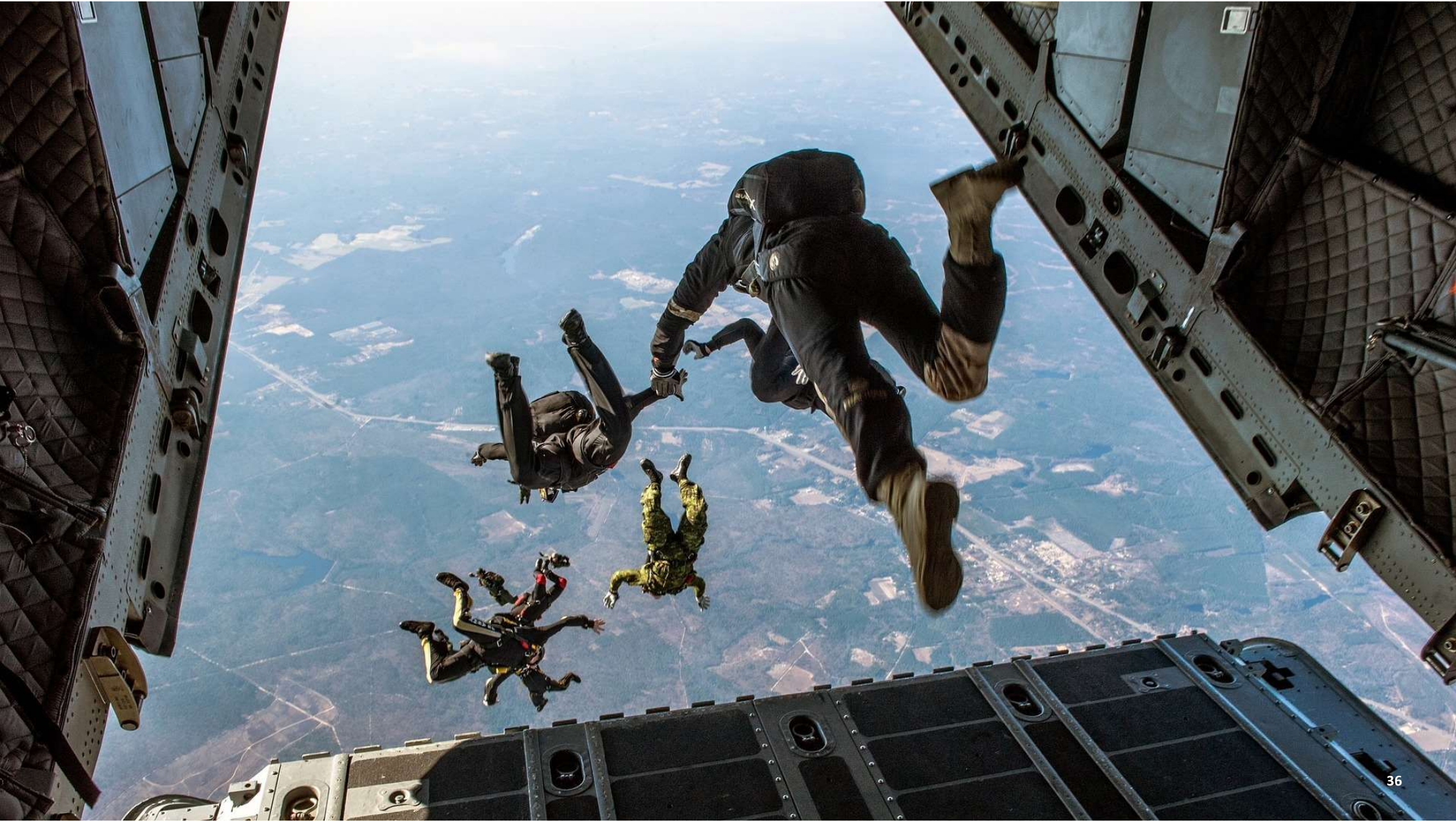
High Risk  
Area!!!

*Risk to whom?*

# Consider inherent and residual risks

**Inherent risk - Nature of the entity and its environment, absent any internal controls**

- Sky diving
- Climbing Mount Everest
- Large sums of cash payments



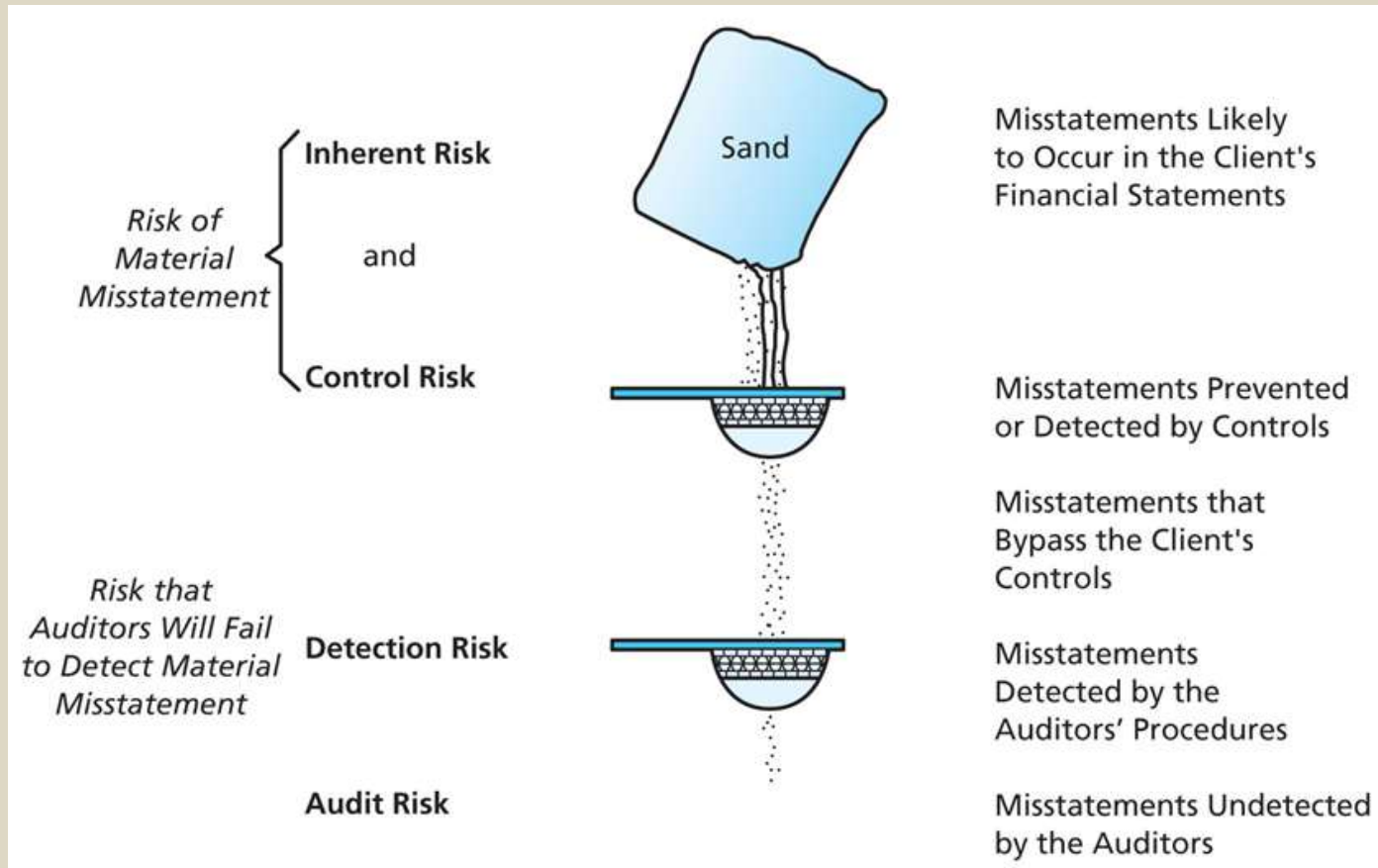
# Consider inherent and residual risks

**Residual risk - Remaining after agency's action/inaction (if controls effectively designed and implemented)**

- **Given an effective parachute**
- **Guided by experienced Sherpas**
- **If controls are properly designed and operating effectively**



# Consider inherent and residual risks



## Examples of Risk Factors



- High volume of financial transactions, or large amount of money involved
- Weak security system
- Numerous prior audit findings not corrected
- Recent leadership change
- No performance measurement
- Weak supervisory structure
- Lax recordkeeping
- New IT systems
- Very large or very small number of personnel



# Risk Factor Identification

Identify and select a manageable number of risk factors most likely to lead to risk consequences, based on the entity's objectives.

High Level Category	Risk Factor	Indicator Definition
Financial Risk	Financial Risk	The risk of financial insolvency or instability, or fraud, waste, or abuse involving the financial transactions or reporting of the entity.
	Fraud Risk	The risk of theft, fraud, or corruption within the entity.
	Physical Asset Risk	The risk that physical assets of the entity are not adequately managed, maintained, or safeguarded.
Compliance Risk	Legal/Compliance Risk	The risk that the agency is not complying with local, state, or federal laws, regulations, or professional standards.
Operational Risk	Management Risk	The risk that the organization has improper or insufficient management/oversight.
	Process Risk	The risk that the entity lacks updated, well-documented policies and procedures to achieve the entity's mission.
	Staffing Risk	The risk that the entity does not have the right people in the right places with the right skills to achieve the entity's mission.
	Technological Risk	The risk of technological failures within an entity.
Reputational Risk	Political Change/Strategic Planning	The risk that the political climate and/or legislative changes may have adversely affected the entity and lack of strategic plan and/or the inability to effectively implement strategic planning initiatives.

# Define Assessment Criteria

## Likelihood



Define and assign points for each impact

Low	1 point
Medium	5 points
High	10 points

Risk factor: **Technological Risk**

## Likelihood

Low = Last upgrade < 1 year ago

Medium = Last upgrade 1-5 years ago

High = Last Upgrade > 5 years ago

# Define Assessment Criteria

## Impact

Define and assign points for each impact



<b>Minor</b>	<b>1 point</b>
<b>Moderate</b>	<b>5 points</b>
<b>Extreme</b>	<b>10 points</b>

Risk factor: **Technological Risk**

### Impact

Minor = Disruption of services for one day or less

Moderate = Disruption of services for 2-7 days

Extreme = Disruption of services greater than 7 days

# Step 4: Assess Risk & Risk Interactions

1. Assign a likelihood and impact score.
2. Assign a weight to each factor to reflect relative importance.
3. Rate each auditable unit, including an adjustment based on staff judgment, experience, or additional information if appropriate.

	Likelihood		Impact		Score		Weight		Weighted Score
<b>Financial Risk (30%)</b> (Monetary and Asset Values)	5	x	10	=	50	x	30%	=	15.00
<b>Compliance (20%)</b> (Legal and Regulatory)	10	x	10	=	100	x	20%	=	20.00
<b>Operational (40%)</b> (Processes, Management, Staffing, and Technology)	10	x	10	=	100	x	40%	=	40.00
<b>Reputational (10%)</b> (Political environments, and Community Outreach Strategies)	5	x	5	=	25	x	10%	=	2.50
							<b>Total Score</b>		<b>77.50</b>

# Step 5: Prioritize Risk

Rank it!

Sheet Name	Agency Name	2017 Actual Budget	2017 FTEs / Budgeted Positions	2018 Adopted Budget	Financial (30%)	Compliance (20%)	Operational (40%)	Reputational (10%)	Total
1 OPSO	OPSO	Unknown	Unknown	\$ 53,188,976.00	30	20	40	10	100
2 SWB	Sewerage and Water Board	\$ 327,105,015	1300-1800	\$ 287,277,088.00	30	14	40	10	94
3 SWB. Rev	Sewerage and Water Board- Revenue	\$ 327,105,015	1300-1800	\$ 287,277,088.00	30	14	40	10	94
4 OPCD	Orleans Parish Comm. District	\$ 15,596,960	143	\$ 16,431,113.00	21	14	40	7	82
5 Public Works	Public Works	\$ 45,827,888	202	\$ 53,116,255.00	15	20	40	2.5	77.5
6 OPCD. Rev	OPCD- Revenue	\$ 15,596,960	143	\$ 16,431,113.00	21	14	20	10	65
7 Sanitation. Service Charges	Sanitation - Service Charges	\$ 36,834,237	N/A	\$ 34,165,170.00	21	6	28	7	62
8 NOEH. Rev	NOEH- Revenue	\$ (10,602,965)	160	\$ (6,102,666.00)	21	10	20	10	61
9 IT and Innovation	ITI	\$ 11,396,579	53	\$ 11,805,517.00	15	10	28	5	58
10 Red Signal Light	Red Signal Light/Camera Enforcement - Fines a	\$ 24,000,000	N/A	\$ 25,200,000.00	14.7	7	28	7	56.7
11 Finance.Finance	Finance - Finance	\$ 8,336,748	8	\$ 2,609,593.00	21	7	19.6	3.5	51.1
12 Finance.Procurement	Finance - Procurement	\$ 494,565	10	\$ 520,278.00	10.5	14	19.6	7	51.1

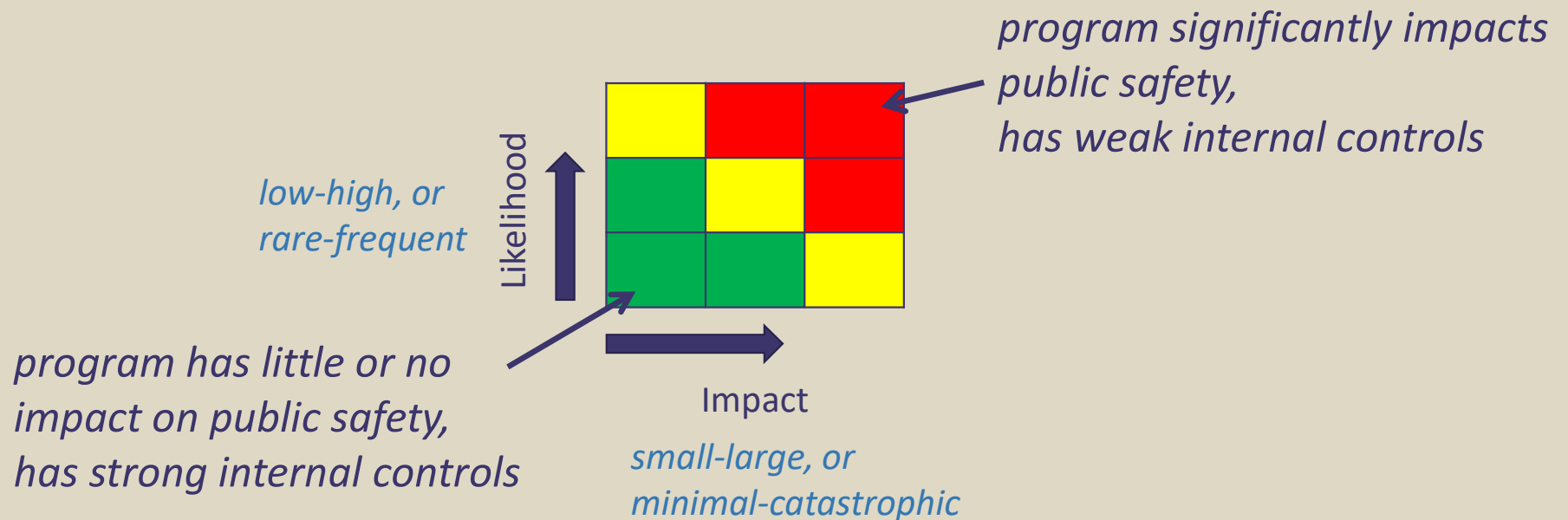
### Score Ranking

Low (1-30)
Medium (31-69)
High (70-100)

# Risk Matrix

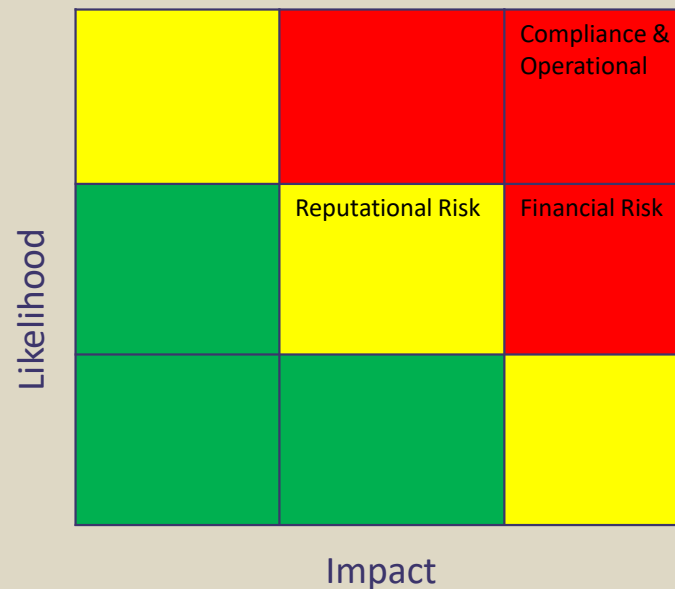
Plot it!

*Where to focus?*



# Risk Matrix, contd.

You may wish to illustrate where specific risks fall by plotting them according to their specific impact & likelihood scores.



*Likely to prioritize topics that are high risk*

# Step 6: Develop the Risk-Based Audit Plan

## Process:

- Gather ideas
- Review risk assessment
- Hold planning meeting (with audit staff, leadership, IG, others?...)
- Draft plan
- CAE, IG, audit committee, approves plan



Share plan (with your staff, board, agency, public?...)



# Step 7: Execute the Plan

Can we do something not on the plan?

What if we don't do everything on the plan?

What if the agency already fixed the problem?

Remember why you have a plan:

- Maximize OIG efficiency and effectiveness
- Transparency
- Induce anticipatory correction by agencies
- Credibility

# You need more than Risk Scores...

## Consider other prioritization criteria:

- High public interest/concern
- High concern to public officials
- Agency requested
- Will help OIG gain knowledge of a new area
- Ensure coverage across all areas
- OIG is uniquely positioned to audit it  
(e.g., access to information not available to other entities)

*Where will OIG add value?*



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Reports and Memorandums

02-01-2024

**AUDIT: Live Oak Manor Volunteer Fire Company JPOIG #2022-0024**

[JPOIG 2022-0024 Live Oak Manor Volunteer Fire Company Final Report JPOIG 2022-0024 Live Oak Manor Volunteer Fire Company Overview ...](#)

Reports and Memorandums

01-18-2024

**AUDIT: Marrero Harvey Volunteer Fire Company #2022-0029**

[JPOIG 2022-0029 Marrero Harvey Volunteer Fire Company Final Report JPOIG 2022-0029 Marrero Harvey Volunteer Fire Company Overview ...](#)

# 2024

# ANNUAL WORK PLAN



Jefferson Parish  
Office of Inspector General

# Always Planning

Planning is continuous, not once a year

Always be gathering new audit ideas

- Research & communication
- Effective knowledge management

Write up the ideas

- Use a template
  - What we know, what we don't know, preliminary risk score
- Compare new ideas to plan: what's next?



# Final Questions To Ask In Audit Selection Process



Will the audit identify monetary or non-monetary benefits?



Will the audit help the agency attain its objectives?



Do we have the necessary staff resources/expertise?



What is the return on investment?

# Questions? Comments?



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