

Audit Plan Development: Linking Risk to Resources

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Today's Topics

- We're discussing audit planning and risk in two main areas:
- First, the process of audit planning on an annual basis, where risks and issues are identified and resources are linked to audit topics.
- Second, the process of audit planning on an individual audit/assignment basis, where staff time is linked to audit objectives.

Initial Overview of Planning

- “Macro” or annual level:
 - Based on **Risk**
 - Tied to audit plan
 - Topic selection approved by Audit Committee
- “Micro” or assignment level:
 - Based on **Resources** and staff time (staff hours)
 - Tied to specific audit production
 - Planned by staff and management

Essential Postulates of Risk

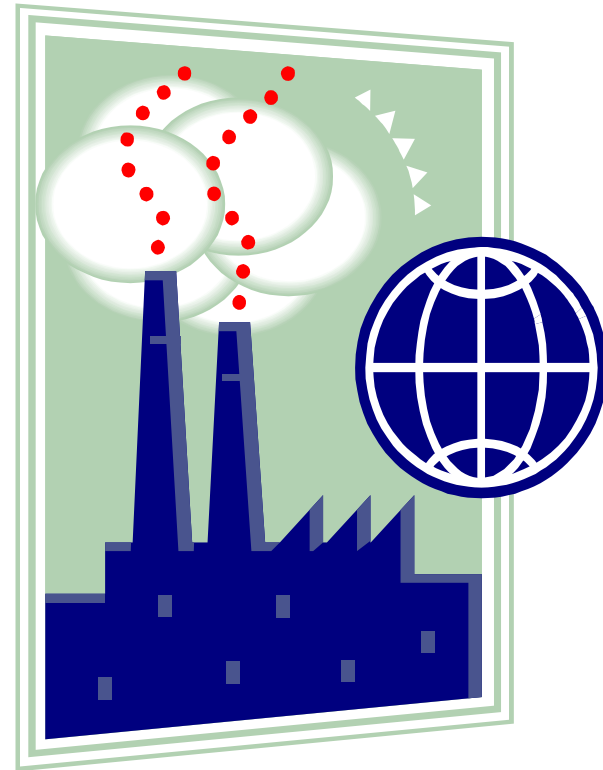
- Audit time is a limited resource.
- Audit time should be leveraged to match the organization's **risks** and **risk appetite**.
- Audits should happen when and where they reduce risk and help the organization achieve its goals.
- Audits shouldn't happen when the audit topics are not connected to the organization's goals.

Today's Outline

- Overview and Risk Postulates
- Macro Audit Planning
- Micro Audit Planning
- Examples
- Next Steps
- Questions

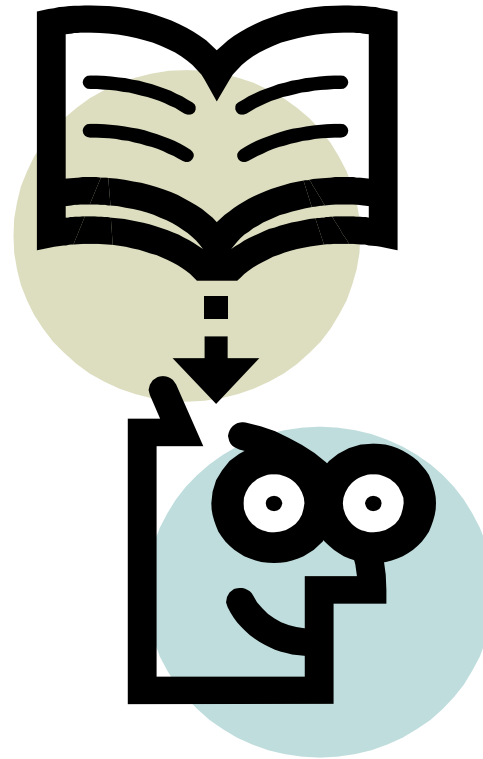
Why Risk?

- Risk is “the possibility of loss or injury” – Webster’s
- Risk is the likelihood that the organization will fail to meet its goals.
- Given limited audit resources, auditors should focus on risk.



Managing Risk with Auditing

- Auditing is designed to assess the risks that the organization won't achieve its mission.
- Management and auditors should pay attention to core risks.



Planning and Risk Recognition

Audit plans – at both the annual (macro) level and the assignment (micro) level – can alert management to risk, even before audits are completed!



When the Committee Asks “So What”?



- Audit committees and audit directors should ask how each risk can impact the mission.
- No impact should mean no audit!

How Risk and Plans “Hit Home”

Risk should be explained to the Audit Committee and elected officials in ways that link each risk to the core objectives of the organization.



Macro Audit Planning

- For annual plans, auditors need to consider the organization's risks and the organization's risk appetite.
- Key factors might include issues core to the organization's mission.
- Hint: Audits of payroll, travel claims, and internet use might not be “core” issues linked to the organization's mission.

Tools for Macro/ Annual Planning

- Annual plans should be based on reviews of the major issues facing the organization.
- Consider matching audit resources to specific risk areas or organization areas.
- For example, if 50% of your organization's time and budget are spent on construction, you may want to spend 50% of your audit time and budget on auditing construction.

Developing the Annual Plan

- Once risks are identified, assign audit budget to each risk and audit topic.
- Buy-in from management/Audit Committee is critical.
- A strong Audit Charter or legal authority is vital to the audit organization's success.
- Distribute the plan to key managers and staff. Consider posting on Internet, Intranet or in a newsletter.

Annual Plan Establishment

- Use vital phrases that speak to the key risk as audit titles.
- For example, a health organization's use of the audit title, "vaccine audit" is less effective and less descriptive than the title, "audit of vaccination efficiency and effectiveness" or "Are we vaccinating the right population at the right time?" as audit title descriptors.

Annual Plan Budgeting

- Each full-time employee has a base time budget of around 2,080 hours per year (40 hours per week X 52 weeks per year)
- Excluding leave, holidays, training, and other overhead, many auditors are 60%-75% “billable” or efficient. At a 72% rate, we budget 1,500 hours per auditor per year of audit-productive time.
- 3 full-time employees = 4,500 hours/year.

Annual Plan Example (1)

- Internal audit unit in a manufacturing company has 4,500 available hours.
- Risk assessment process identified three major risks:
 - Failed finishing processes may cause higher costs per unit,
 - Slow shipping may hurt cash flow and impact customer satisfaction,
 - Company may not be reacting to causes of customer dissatisfaction.

Annual Plan Example (2)

- For manufacturing:
 - 4,500 audit hours available:
 - Audit of Failure Rate Compared to Cost per Unit: 2,500 hours
 - Audit of Causes of Delayed Shipping: 1,000 hours
 - Audit of Causes of Customer Dissatisfaction: 1,000 hours

Micro Audit Planning

- Within each audit, we should use risk to allocate audit time and focus within the budget.
- Let's take the audit of "Causes of Delayed Shipping" – planned for 1,000 hours.
- Many organizations divide the budget into phases: Survey/Planning, Field Work, and Reporting.

Micro Audit Planning

- Within the time allowed, a rule of thumb is to allocate:
 - 25% to planning and survey (includes defining specific scope/objectives and planning all field work, preparing documentation),
 - 50% to field work, and
 - 25% to reporting (includes the written report, exit conferences, briefings, etc).

Examples

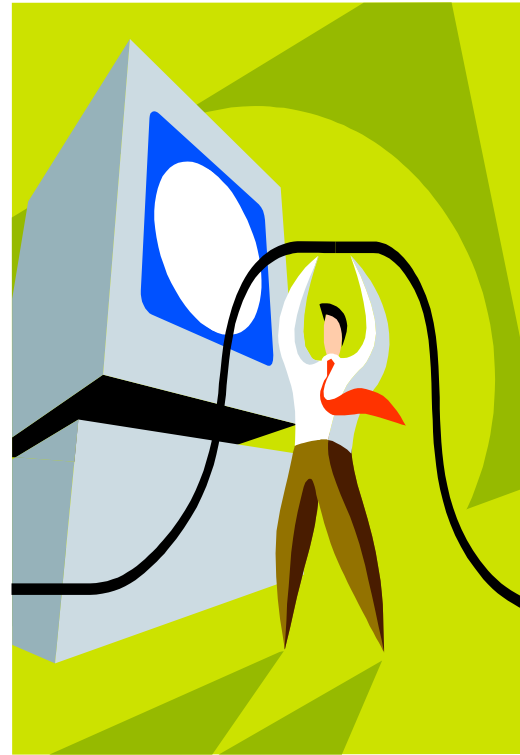
- Planning for a manufacturing audit might include risks causing slow production or low production.
- Planning for a service organization audit might include risks causing poor customer relations or poor communication.
- Planning for a health care audit might include risks causing disease or injury.

Next Steps

- Link core risks to planning process
 - Macro
 - Micro
- Ensure that Audit Committee and other important stakeholders understand the concepts and processes
- Develop risk-based planning and resource allocation to link resources to mission!

Questions?

- Let's discuss any questions, concerns, or remaining issues!



Thank You!



- Please contact City of Portland Audit Services with questions or suggestions.

Contact Information

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