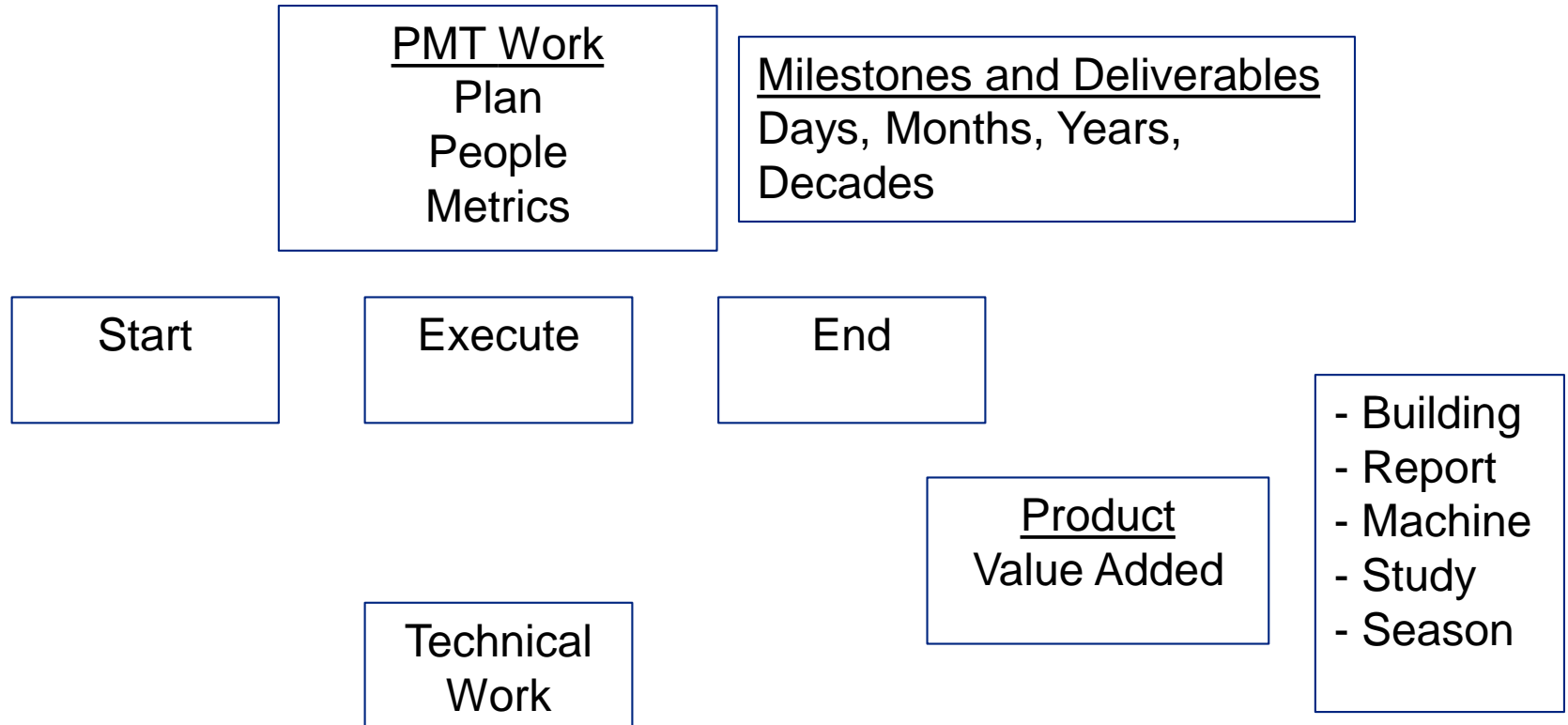# Project Management Techniques, for Internal Auditors

Topics

- Overview of PMT
- Adding Value, Purpose, Objectives
- Work Breakdown
- Initial Tips
- The Right Internal Controls
- The Risk Matrix
- Still More Tools

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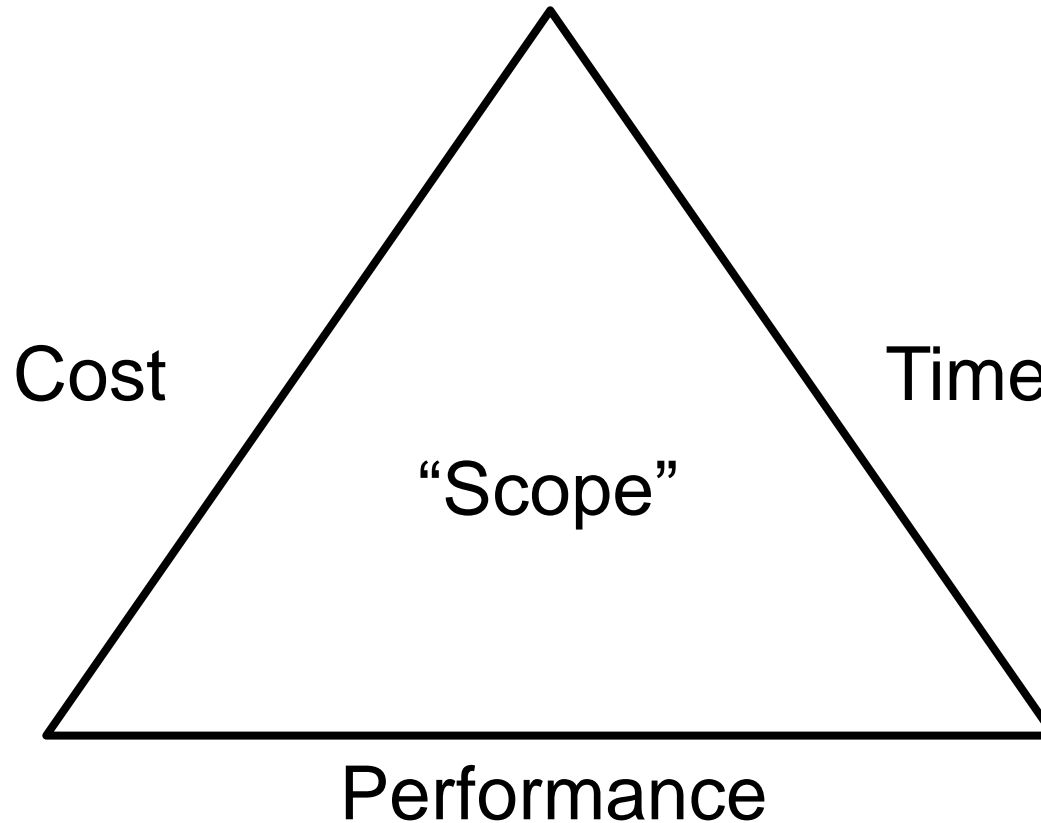
Project Management

PMT Work
Plan
People
Metrics

Milestones and Deliverables
Days, Months, Years,
Decades

Start

Execute

End

Technical
Work

Product
Value Added

- Building
- Report
- Machine
- Study
- Season

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Adding Value

How does your audit project "add value"?

Project Management Decisions

Cost   "Scope"   Time

Performance

Scope, Cost, and Time are the primary focus, not performance.

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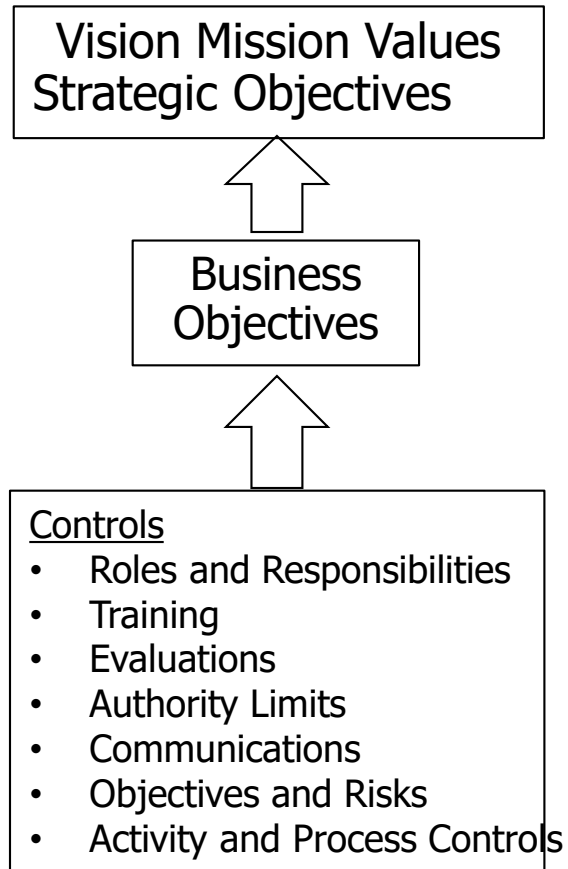& Associates

What are You Auditing?

The Control System - policies, procedures, guidelines, rules, instructions, training, and monitoring done to help workers do the right things to complete the job

The Work System – The tasks required to do the job

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Why? Purpose of the Audit

Vision Mission Values
Strategic Objectives

⬆

Business
Objectives

⬆

Controls
- Roles and Responsibilities
- Training
- Evaluations
- Authority Limits
- Communications
- Objectives and Risks
- Activity and Process Controls

Audit Objectives – CHOICES:
1. Ensure management controls are designed adequately (by comparing to COSO) and operating effectively to achieve Business Objectives
2. Ensure management controls are designed adequately (by comparing to Best Practices) and operating effectively to achieve Business Objectives
3. Ensure management controls are designed adequately (by identifying risks) and operating effectively to achieve Business Objectives
4. Ensure management is achieving their Business Objectives
5. Be sure policies and procedures are followed
6. Review transactions for accuracy and support
7. Do an audit.

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Sample WBS for Audit Engagement

Design Review	**Effectiveness Review**	**Report**
- Interviews	- Interviews	- Audit Issues
- Risk Assessment		
- Process Documentation	- Audit Program	- Final Report
- Process Walkthrough	- Testing	- Closeout

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Conducting an Audit

Plan (2200)	Execute (2300)	Report (2400)
"Preliminary Assessment"	"Fieldwork"	"Reporting"

----------- Develop Audit Findings ------------

Prepare Audit Report

Announce Audit

Determine Scope and Objectives of Audit

Audit Engagement Plan

Develop Work/Audit Programs

Evaluate Operational Effectiveness of Internal Controls

Perform Audit Tests

Identify Management Controls

Map Controls to a Framework

Evaluate Design Adequacy of Internal Controls

Draft Audit Report

Final Audit Report

Prepare Risk and Controls Matrix's

-------------------------------- Audit Workpapers -------------------------------

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Initial Project Control Tips

- RACI Charts

- Communications plan

- Team calendar

- Workpaper indexing from the start

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What are You Auditing?

The Control System - policies, procedures, guidelines, rules, instructions, training, and monitoring done to help workers do the right things to complete the job

The Work System – The tasks required to do the job

Right Internal Controls

How does an IA know the right controls are in place?

Who is COSO?

- *Internal Control – Integrated Framework* – 1992
- *Enterprise Risk Management – Integrated Framework* – 2004
- *Internal Control Over Financial Reporting – Guidance for Smaller Public Companies* – 2006
- *Guidance on Monitoring Internal Control Systems* – 2009
- Updated *Internal Control - Integrated Framework* – 2013
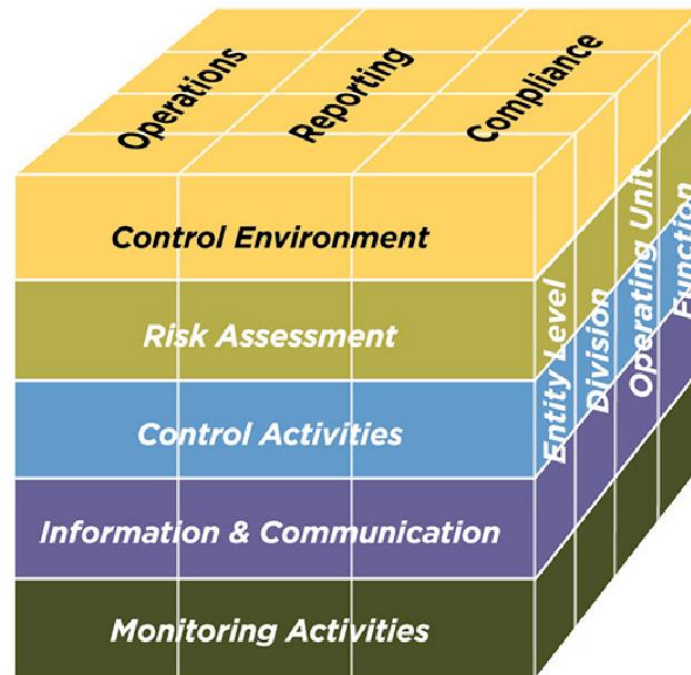
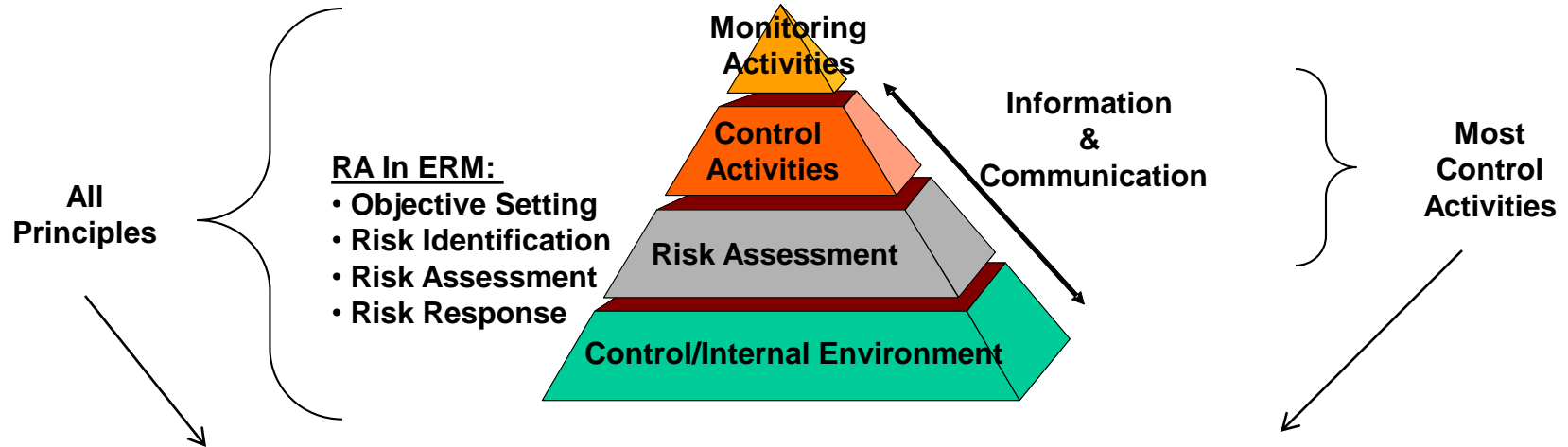# Parts (Components) of Internal Control
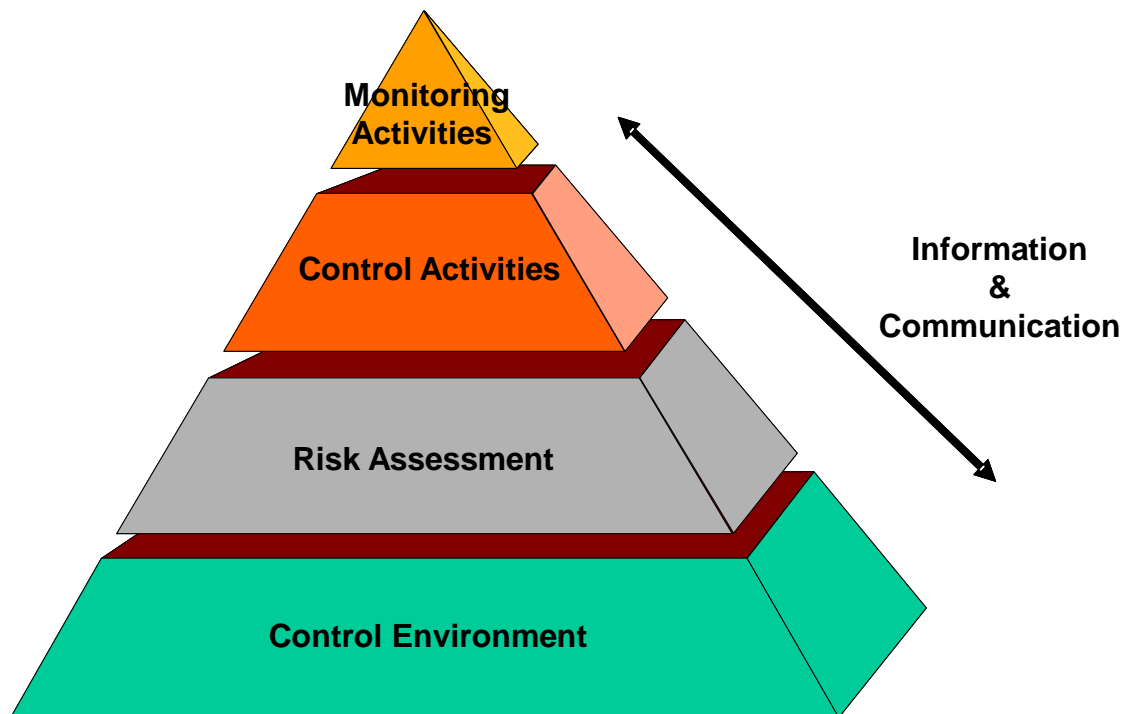
COSO IC Cube

Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

Components of Control

Categories of Objectives

COSO Pyramid

All Principles

RA In ERM:
• Objective Setting
• Risk Identification
• Risk Assessment
• Risk Response

Monitoring Activities

Control Activities

Risk Assessment

Control/Internal Environment

Information & Communication

Most Control Activities

Entity-Level = People

Activity-Level = The activities done by People

Generic – for any level or type of entity
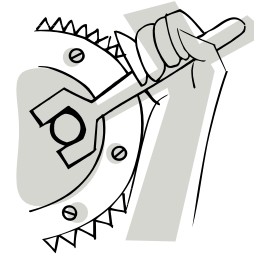
Specific – to the activity being performed

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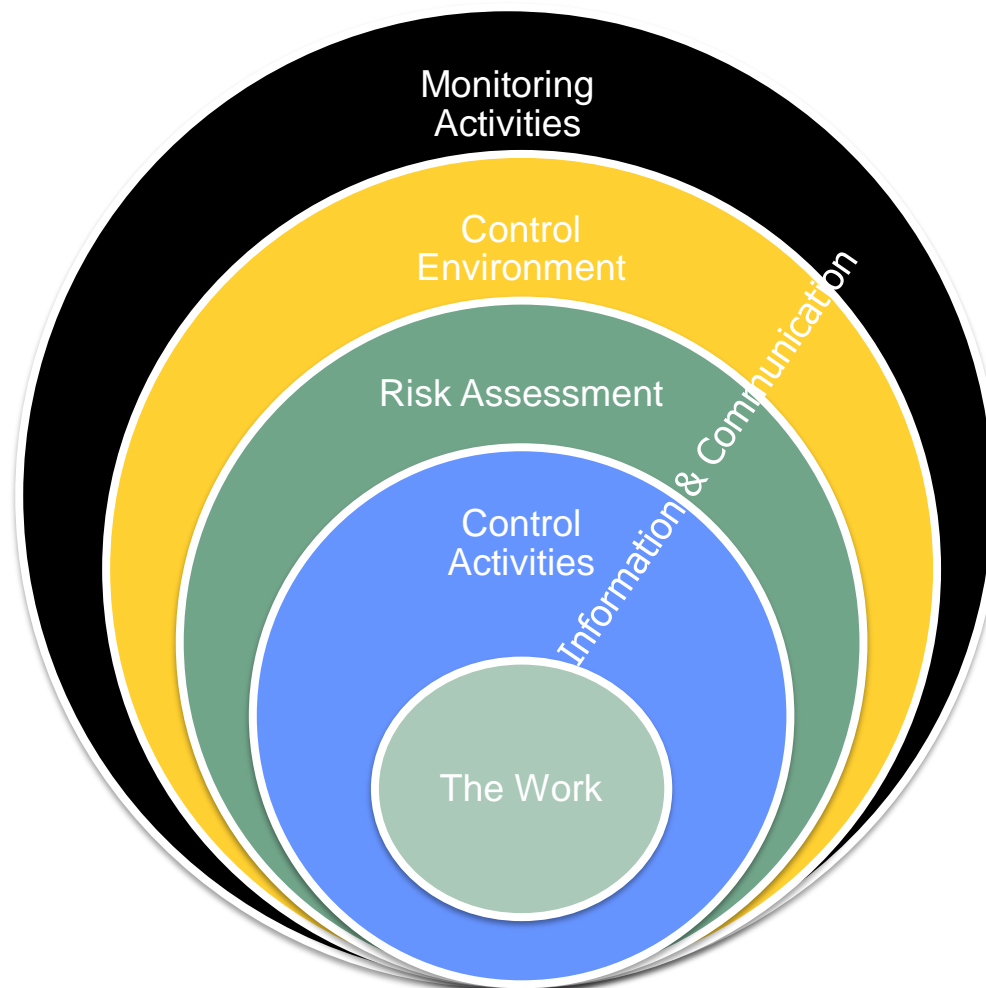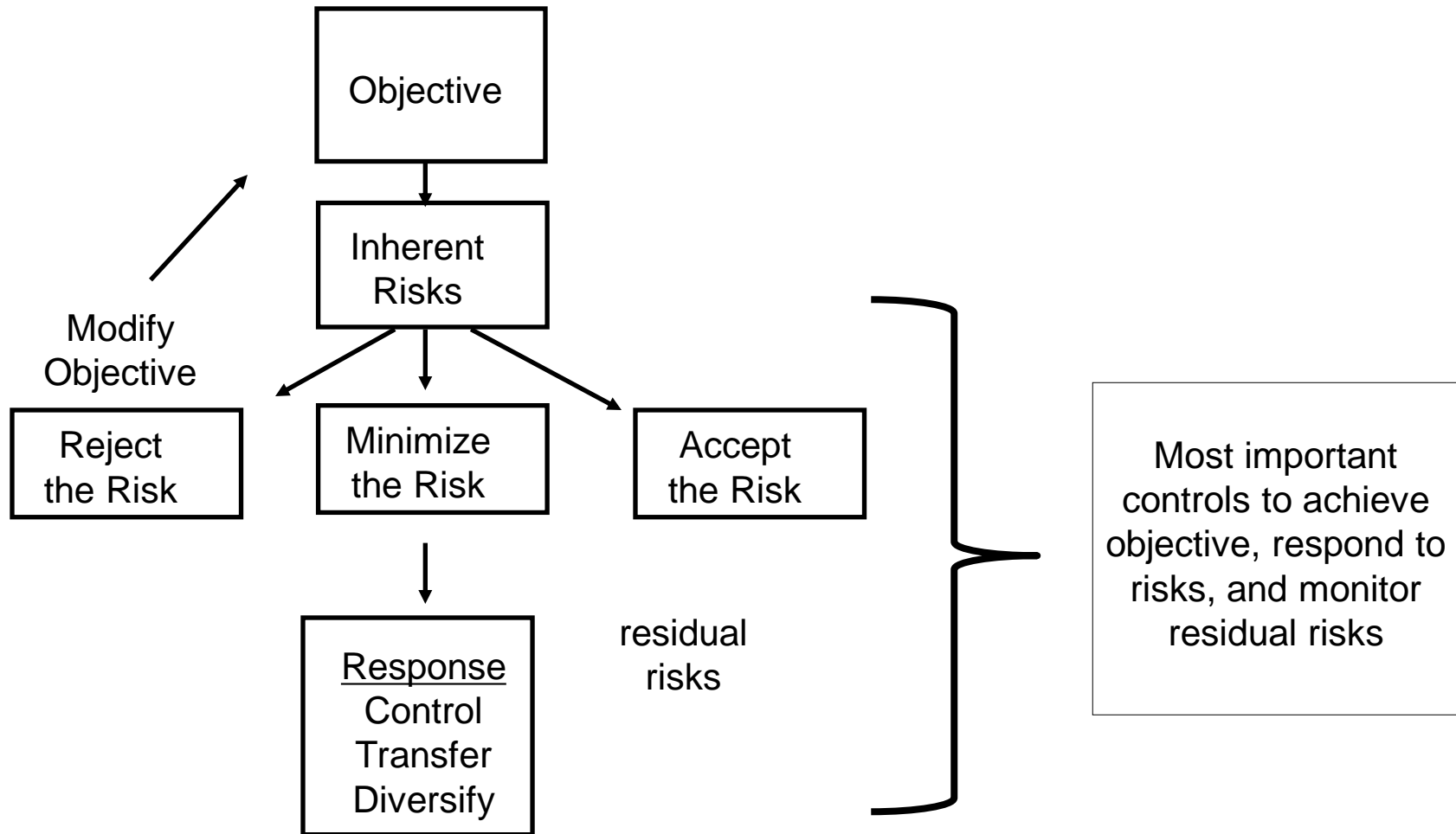& Associates

Another View of COSO

Control help ensure the work is done correctly,
by mitigating risks to achieving objectives

Monitoring Activities

Control Environment

Risk Assessment

Control Activities

Information & Communication

The Work

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Inherent Risk Assessment (IRA)

```
                    ┌──────────────┐
                    │  Objective   │
                    └──────┬───────┘
                           │
                           ▼
                    ┌──────────────┐
          ↗         │  Inherent    │
   Modify           │  Risks       │
   Objective        └──┬────┬────┬─┘
                       │    │    │
         ┌─────────────┘    │    └──────────┐
         ▼                  ▼               ▼
  ┌────────────┐    ┌────────────┐   ┌────────────┐
  │  Reject    │    │  Minimize  │   │  Accept    │
  │  the Risk  │    │  the Risk  │   │  the Risk  │
  └────────────┘    └─────┬──────┘   └────────────┘
                          │
                          ▼
                   ┌────────────┐
                   │ Response   │        residual
                   │ Control    │        risks
                   │ Transfer   │
                   │ Diversify  │
                   └────────────┘
```

Most important controls to achieve objective, respond to risks, and monitor residual risks

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Residual Risk Assessment (RRA)
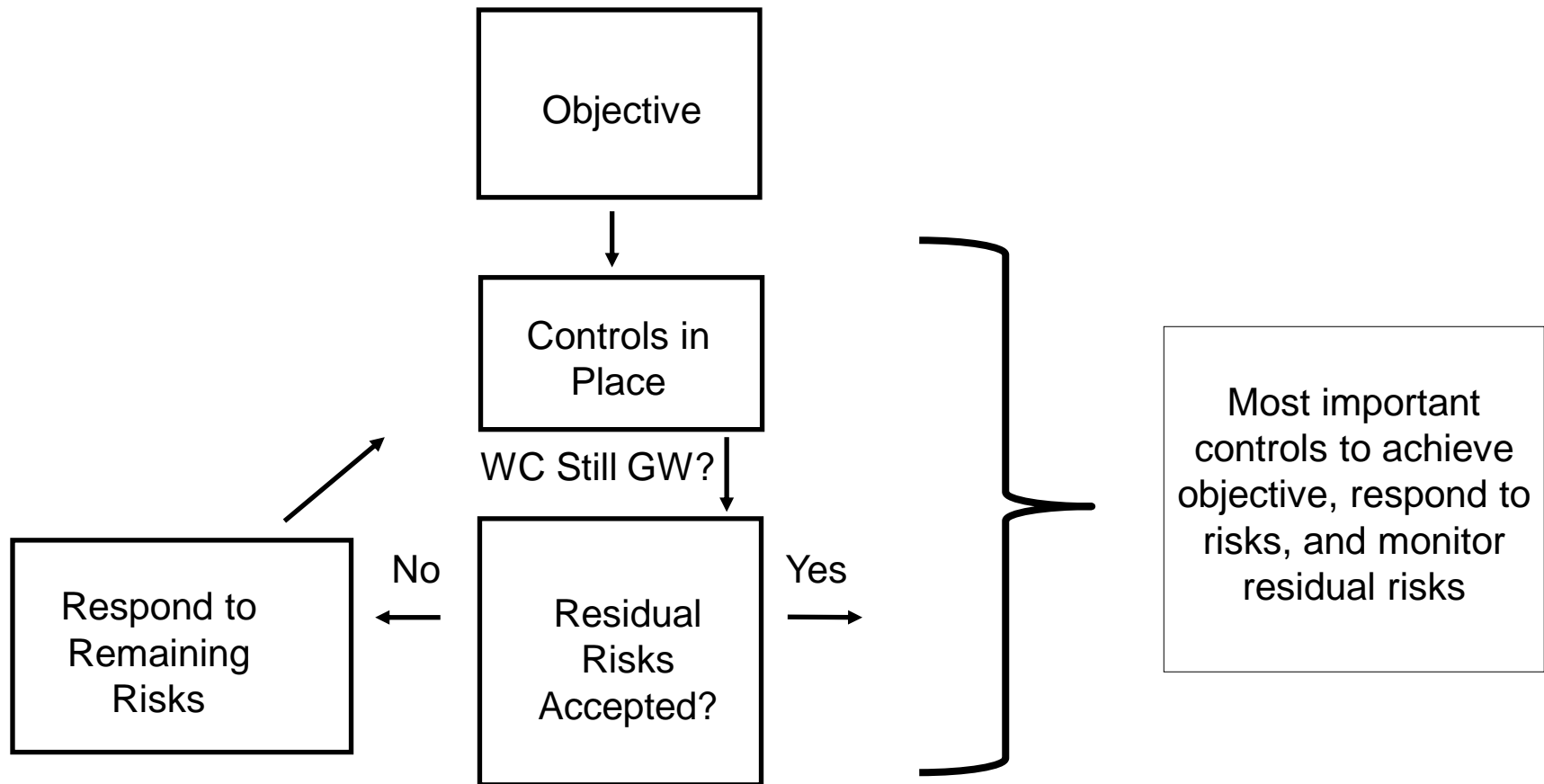
Risk Mapping

Inherent or
Residual Risks

Risk 2

Risk 1

Risks to
Address

Hi

Med

Lo

Impact/Effect

Lo   Med   Hi

Risk 3

Probability/Likelihood

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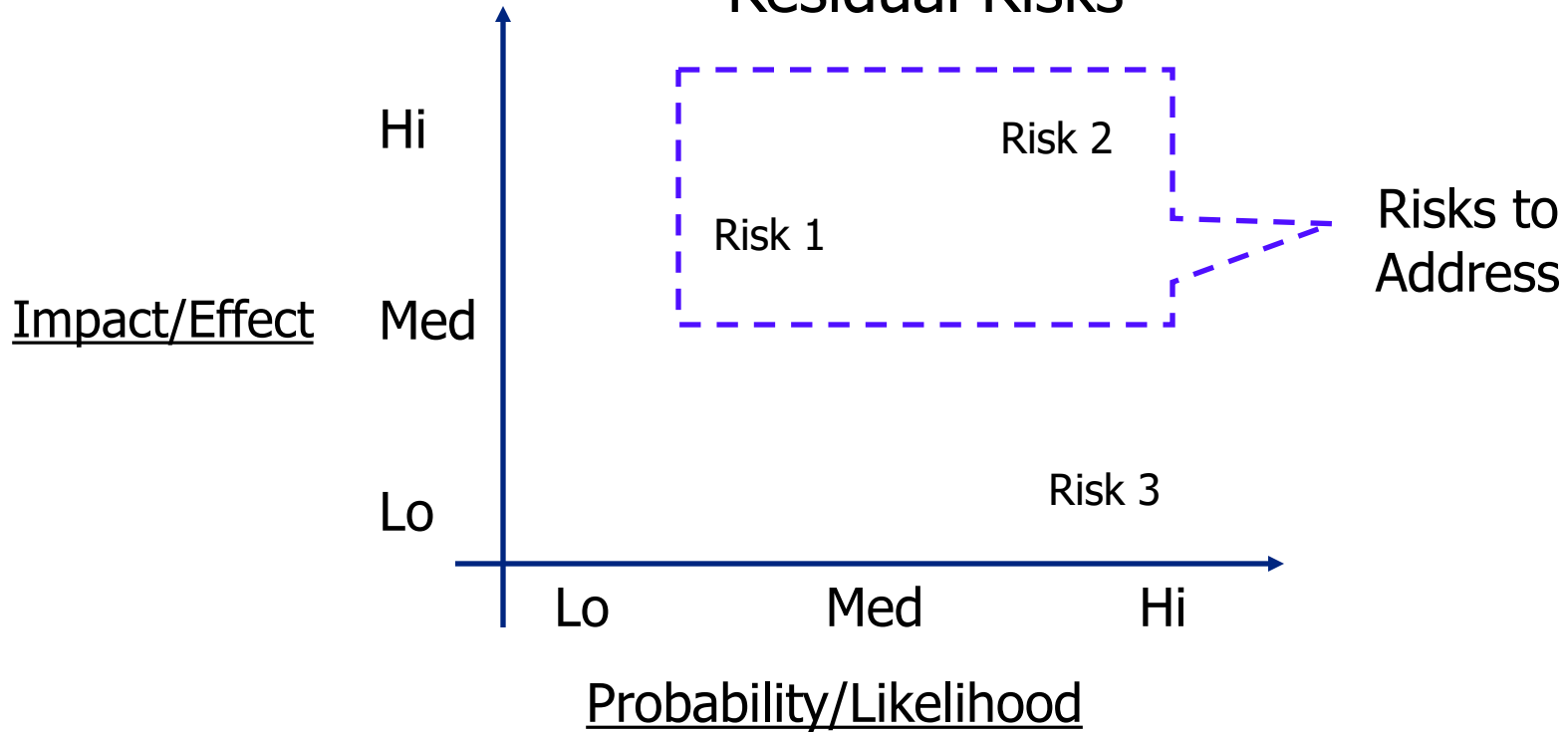
Inherent Risk Matrix or Register

Activity:
Business Objective:

Risks	Risk Rating (H,M,L)	Response to Risk	Design Adequate?

Residual Risk Matrix

Activity:

Business Objective:

<u>Controls Presently in Place</u>

- – Control 1

- – Control 2

- – Control 3

- – Control 4

<u>What could still go wrong (WCGW)</u>   <u>Other Controls</u>

- – Risk 1   Control 5 (exists now)

- – Risk 2   Control 6 (new control)

- – Risk 3   Control 2 (exists now)

- – Risk 4   Accept this risk

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And, Another Matrix

Activity _____

Business Objective _____

Controls → In Place	Control 1	Control 2	Control 3	Control 4	Control 5
Risk 1	x				
Risk 2	x				
Risk 3		x	x		
Risk 4	x				
Risk 5				x	
Risk 6				x	
Risk 7	x				x

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Phases of an Audit Project

"Preliminary Assessment"   "Fieldwork"   "Reporting"

Understand the   Perform tests to   Prepare Audit
business and   evaluate   Report
determine   operational
Scope and   effectiveness of
Objectives of   internal controls
Audit

                          Evaluate Design
                           Adequacy of
                          Internal Controls

1   **2**

Prepare Risk and   Identify Existing
Controls Matrix's   Controls

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Phases of an Audit Project

"Preliminary Assessment" "Fieldwork" "Reporting"

Understand the business and determine Scope and Objectives of Audit

Perform tests to evaluate operational effectiveness of internal controls

Prepare Audit Report

Evaluate Design Adequacy of Internal Controls

(1) (2)

Identify Existing Controls and Compare to COSO Principles

Prepare Risk and Controls Matrix's

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More Tools

- Establish habit of asking "show me where you are in your work" not just "is everything going OK".

- Set standard that any over budget situations must be discussed well before the budget is expanded.

- Use "To Do" lists, project calendars, and coaching notes to document conduct of the audit project.

- In status meetings, ask each auditor to send you results of the meeting within one hour of your discussions.

- Establish a discussion bulletin board, Wiki page, FaceBook-like group that everyone on the team can use to stay in touch.
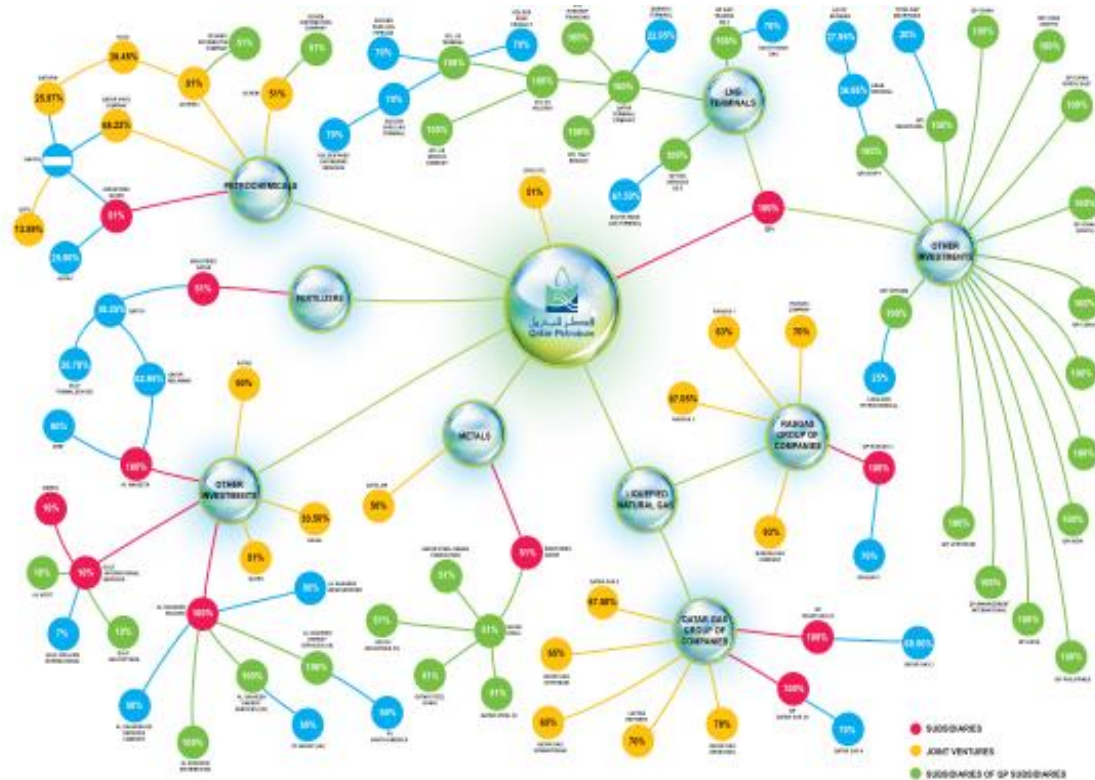
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And Still More

- Use an email group list to send emails to everyone on the team (but a group discussion board is better).

- Get potential findings into hands of the client/auditee as soon as possible.

- Use Microsoft OneNote, or EverNote, to contain notes, files and other documents instead of separate folders and directories.

- Cut and past emails into OneNote, or some other common location, so all correspondence is in the workpapers, not separate email files.

- Keep a "Log of Involvement" that highlights major milestones and events on the audit.

- Use the Five Elements of an Audit Finding (Criteria, Condition, Effect, Cause, and Recommendation) to analyze audit issues.

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What if?

What if you only had two hours, in an area completely unfamiliar to you, to get the highest level of assurance that everything was being done right, what would do in those two hours?

For instance, if you wanted to know if the consolidated financial statements of the entity represented by the below company diagram were OK, what would you do?

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