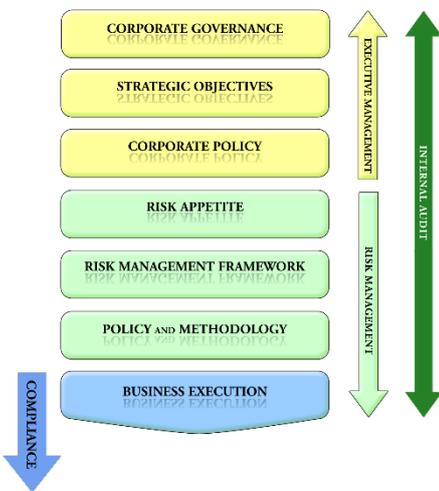


Internal Audit Service



The role of internal audit within the modern firm is reasonably well-known, understood and agreed – essentially that of an independent unit tasked with oversight and periodic *testing* of controls, compliance and the achievement of business objectives.

There are various approaches to internal audit, with probably the most common being based on the concept of “*risk-based auditing*”. Under this approach, the audit process focuses on specifically identified risks within the business, assessing the strength, completeness and effectiveness of the controls which have been established to counter the risk, as well as evaluating the completeness and effectiveness of any other form of risk transfer or mitigation program. Whereas non-risk-based approaches tend to focus on the process and issues relating to the process, the risk-based approach focuses on the risks which affect the process or which may result in the business failing to meet its business/strategic objectives and in complying with internal governance and external oversight requirements.

However, there is usually no need for the internal audit group to undertake the full risk identification/risk assessment process, as this is typically undertaken under the *risk and control self assessment* (RCSA) process implemented by most forward looking firms under their operational risk programs. The typical RCSA programme gets each business to identify its risks, link these risks to relevant controls and then to assess the residual exposure to the risks, often within the context of specific processes. The problems for internal audit come from trying to map the audit entity *universe* and the audit risk universe to the organisation structure and risk *taxonomy* used within the business and by the operational risk management team.

The issue around universe is typically a difficult issue to resolve, as internal audit may wish to review a process end-to-end across business unit boundaries, whereas operational risk management typically focuses within the boundaries of the business unit. However, this can be overcome by limiting *audit findings* to individual business units.

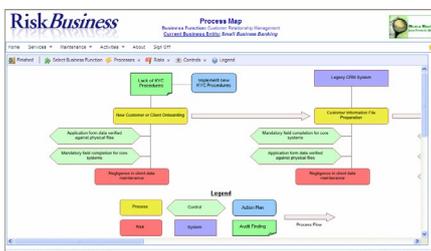
The issue of risk taxonomy can be addressed by agreeing a common taxonomy structure – RiskBusiness suggests that this be driven by the operational risk management team, in consultation with representatives from credit, market, liquidity, business, environment and strategic risk, as the risk and risk-related element classification requirements of the risk disciplines tend to be greater than those of internal audit. Examples of comprehensive taxonomies are provided in the RiskBusiness Taxonomy Service.



To minimise redundancy of effort and to facilitate the sharing of risk information across the organisation, information on risks and controls identified and assessed during the RCSA process and information relating to the organisation's processes, policies and procedures should be shared with the internal audit team, while issues identified during the internal audit process should be shared with the relevant risk and compliance disciplines.

RiskBusiness thus advocates that internal audit findings make reference to the organisation's common repository of processes, risks, controls, policies, procedures, systems, products and organisation structure, thereby allowing audit reports to be linked to risk reports. To facilitate this, RiskBusiness has introduced its RiskBusiness Internal Audit Service, which:

- Allows for the creation of audit reports with one or more audit finding;
- Allows for the linkage of audit findings to specific business entities, risks, controls, processes, systems, policies, procedures and/or products (audit findings can be graphically observed on a process flow diagram within the RiskBusiness Process and Controls Service);
- Provides facility for business management to respond to audit findings;
- Allows for the workflow management of an audit report and its associated audit findings from draft to complete to published and eventually to closed status, with e-mail notification of relevant users;
- Allows for the establishment of action plans, with the ongoing monitoring and management of action plans;
- Supports, along with the RiskBusiness Scheduler, the planning of annual audit iterations;
- Allows for the linking of audit findings to specific *risk points* within the RiskBusiness Risk Profiling Service; and
- Allows for the linking of audit findings to specific internal loss events, scenarios or public loss events, when used with the RiskBusiness Internal Loss Data Service, the RiskBusiness Scenario Library or the RiskBusiness Newsflash Service.



Sample of a Process Flow with Audit Findings and Action Plans

Audit Reports and individual audit findings can be maintained in a separate audit tracking tool, with individual audit findings imported into the RiskBusiness Internal Audit Service using the specifically provided software development kit, alternately the RiskBusiness Internal Audit Service can be used for all audit purposes. The RiskBusiness Internal Audit Service is web-based and uses PKI-technology to safe-guard the organisation's data. The Service also accepts file uploads in XML and csv formats to assist in data interchange.

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For more information on the RiskBusiness Internal Audit Service, please contact RiskBusiness Services Limited through our website or email us at info@RiskBusiness.com.