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# Audit Objectives and Program Development

Thursday, September 3, 2009

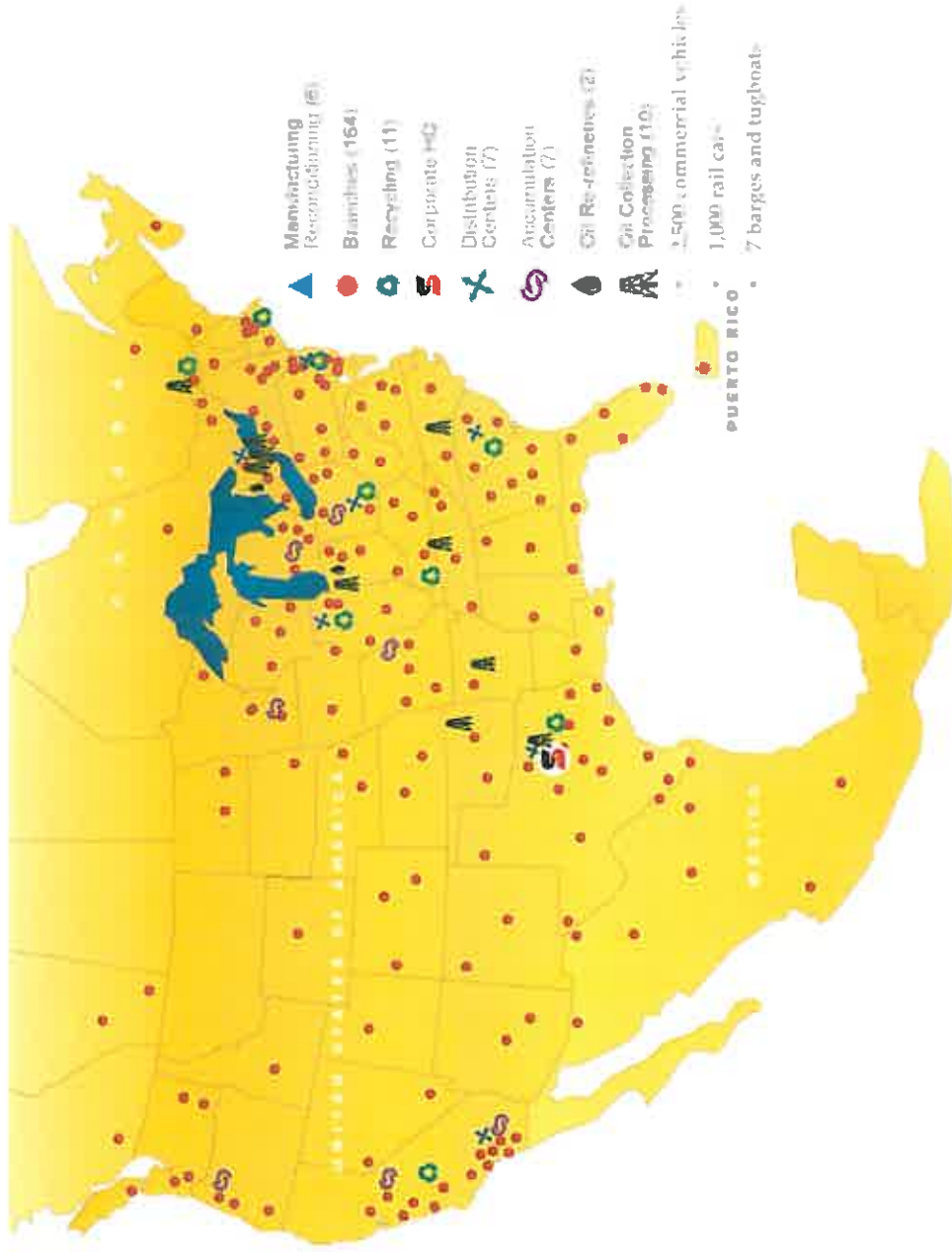
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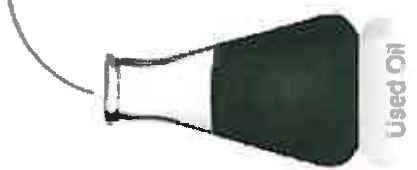
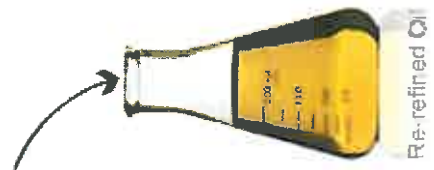
**Frank Caliri**

*VP Internal Audit*



# Safety-Kleen, Inc. Infrastructure





Refinery

Used Oil

Re-refined Oil



# Creating Value

While working methodically on these....

- Scoping, Timing, Resources etc
- Risk Assessment
- Program Development

We want them to think....

- Those guys are key business advisors
- They really understand the business
- I need to ask for their help more often

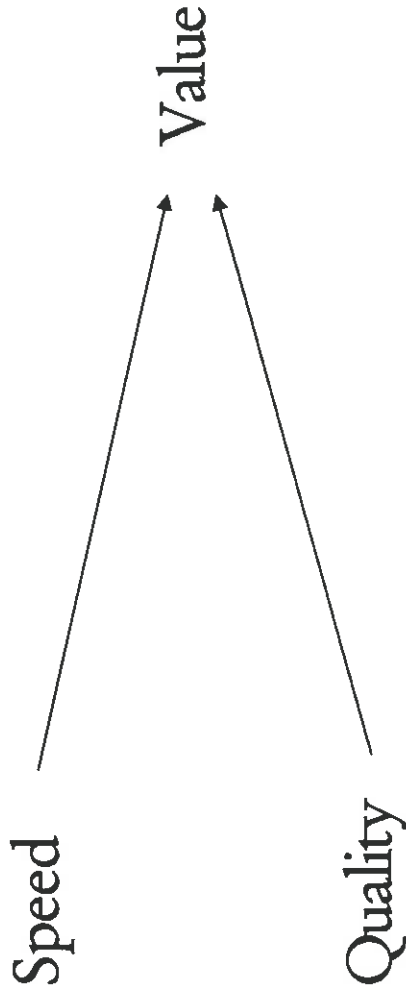
Our customer may be thinking.....

- Absolutely nothing about internal audit
- What value am I receiving from this experience?
- How does this align with Corporate strategy?

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# Creating Value

The truth is, the customer is not receiving any value until we tell them something specific, actionable and new. Therefore, speed is imperative for timely information, and quality is imperative for accurate and actionable information.



# Eng. Objectives - Standards

1. Establish engagement objectives to address the risks associated with the activity under review
2. The risk assessment during the engagement's planning phase is used to further define the initial objectives and identify other significant areas of concern

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# Eng. Objectives - Issues

- Objectives address risk – yet we haven't performed the audit yet, nor planning or project risk assessment
- Initial objectives can change based on newly discovered facts
- Often, processes are changing on the fly while we attempt to audit
- Sometimes, staff follow the manager into battle only to find out later the manager didn't understand the objective either!
- Often, staff don't know "why" they are doing what they are asked to do

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# Strategies for Action

- Always know the objective before expending effort
- Be able to state the objective in one or two sentences
- Talk to your manager or CAE. He/she should have already identified the macro-risks by way of building the Work Plan
- Recognize the difference between macro-risks and detailed process risks
- Don't be afraid to ask what the objective is, or how this or that procedure will help our understanding



# Risk Assessment - Standards

1. Consider management's assessment of risks relevant to the activity under review
2. Obtain or update background information about the activities to be reviewed to determine the impact on the engagement objectives and scope
3. If appropriate, conduct a survey to become familiar with the activities, risks, and controls to identify areas for engagement emphasis, and to invite comments and suggestions from engagement clients
4. Summarize the results from the reviews of management's assessment of risk, the background information, and any survey work

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# Risk Assessment - Issues

- Most management risk assessments are either disguised as strategy documents, contained within the executive's mind, or embedded in processes
- Risk appetite is often very difficult to ascertain - no two people have the same perspective on risk appetite; nor risk tolerance
- Many auditors stay below the radar, interviewing only managers and staff who may be in the trenches and can't see the broader risks
- Most department's don't have written documents that highlight important aspects of their *recent* history
- Often, auditors obtain selective evidence rather than a broader set of evidence

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# Strategies for Action

- Recognize there are i) known knowns, ii) known unknowns, and iii) unknown unknowns
- Build relationships way ahead of the game, at all levels
- Know intuitively what questions to ask; be a conversationalist
- Share a common goal; don't "interview" or "interrogate," and limit note taking
- Make sure you begin with the EVPs, SVPs, VPs and Directors. Don't assume your manager has already done this
- Focus on the process, not the department, so that you don't miss the opportunity to see across the organization

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# Strategies for Action

- Utilize strategy documents, corporate initiatives, major system implementations
- Perform a “thorough” risk assessment and focus on critical issues
- Use an automated survey tool such as [www.zoomerang.com](http://www.zoomerang.com). But keep it simple and perform a QA test prior to sending
- Ask why, then ask why again. And finally, ask why!
- Stop! - if the issues that prompted the project are mitigated, or if management has considerable resources applied to the risk

# Program Dev. - Standard

1. After identifying the risks, determine the procedures to be performed and the scope (nature, timing, and extent) of those procedures. Engagement procedures performed in appropriate scope are the means to derive conclusions related to the engagement objectives
2. Plan and conduct the engagement, with supervisory review and approval. Prior to the engagement's commencement, prepare an engagement program
3. The CAE should require a level of formality and documentation (e.g., of the results of planning meetings, risk assessment procedures, level of detail in the work program, etc.) that is appropriate to the organization

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# Program Dev. - Issues

- Determining procedures from a text book is often an unfortunate choice
- Sometimes its unclear as to what's important to add to the program and what's not
- One project program may need to be specific, while another general
- The need to adjust specificity based on staff experience levels
- Review and approval is sometimes seen as a trust issue, rather than QA

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# Strategies for Action

- Consider whether the work will be relied upon by others (e.g., external auditors, regulators, or management)
- Think about whether the work relates to matters that may be involved in potential or current litigation
- Consider the experience level of the internal audit staff and the level of direct supervision required
- Mull over the value of documentation (e.g., whether it will be used in subsequent years)
- Consider supervisory review as a way to demonstrate your skills, and provide quality work to your customer

# Strategies for Action

- Be flexible in program development (one size does not fit all)
- Clarity is much more important than length
- Focus on the value and content of the documentation vs. form
- State the objective of the procedures as well as the risk relationship
- State the nature and extent of testing required (I, O and R)
- Focus on practical procedures related to your company's processes, not textbook theory
- Modify, as appropriate, during the engagement with the approval of the CAE, or his or her designee



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# Resource & Effort Plan

## - Standard

1. Determine the other engagement requirements, such as the period covered and estimated completion dates

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# Resource & Effort Plan - Issue

- This requires a forecasted resource and effort plan
- Often, staff try to develop a detailed plan, by hour, with a focus on accuracy when the focus should be on preparedness and communication
- Often the plan is never revisited while performing the project
- Or, often the manager is spending too much time “updating” the plan rather than identifying project obstacles and moving people forward

# Resource Availability Plan

	August	Sept	Oct	Nov	Dec	Jan	Hours
<b>Mike Jones</b>							
Key Financial Controls	170	130	130	140	0	100	670
Privacy Risk Assessment	0	0	40	0	0	80	120
EHS Compliance Review	0	0	0	0	150	0	150
H/V/S	0	40	0	30	20	10	100
	170	170	170	170	170	190	1,040
<b>Projects</b>							
Key Financial Controls	510	370	510	290	160	340	2,180
Oil Measurement	0	0	60	160	360	130	710
Privacy Risk Assessment	170	140	110	0	0	0	420
EHS Compliance Review	0	0	0	0	0	120	120
Other	0	50	0	100	0	50	200
H/V/S	0	120	0	130	240	40	530
	680	680	680	680	760	680	4,160

# Resource Project Plan

	August	Sept	Oct	Nov	Dec	Jan	Hours
<b>Oil Measurement Project</b>							
<b>Planning</b>							
Conduct Scope Meeting	0	0	5	0	0	0	5
Conduct a Kick-Off Meeting	0	0	5	0	0	0	5
Obtain process understanding	0	0	20	0	0	0	20
Conduct risk assessment	0	0	30	0	0	0	30
Flowchart the process	0	0	0	60	0	0	60
Develop Risk / Control Matrix	0	0	0	20	0	0	20
Develop a Scope Memo	0	0	0	10	0	0	10
Obtain VP sign-off	0	0	0	5	0	0	5
Issue Engagement Memo	0	0	0	5	0	0	5
<b>Fieldwork</b>	0	0	60	100	0	0	160
<b>Reporting</b>	0	0	0	50	340	100	490
<b>Total</b>	0	0	60	160	360	130	710

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# Strategies for Action

- Keep it simple, focus on future resources and task assignments
- Measure in half-day and full-day increments, not by the hour
- Consider no detailed plan, but rather provide milestones only to measure achievement
- Utilize a forecasting tool to align actual progress with original estimates
- Remember: late information is useless
- Never miss a deadline!

# Engagement Communications

1. Inform those in management who need to know about the engagement, conduct meetings with management responsible for the activity under review, summarize and distribute the discussions and any conclusions reached from the meetings, and retain the documentation in the engagement working papers
2. The CAE determines how, when, and to whom engagement results will be communicated. Document this and communicate it to management, to the extent deemed appropriate, during the planning phase of the engagement. Communicate to management subsequent changes that affect the timing or reporting of engagement results

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# Engagement Comm. - Issues

- Sometimes an engagement letter will arrive at the CAE desk without an addressee identified
- Sometimes, the audience will slightly change as issues are uncovered (we don't know what we don't know until we know it)
- Often, planning documents are brought to the attention of the CAE at the last minute, even after fieldwork has begun
- Often, the "facts" get in the way of the message
- Often, the use of adverbs indicates we haven't gotten to root cause but are relying on the auditors "feelings" and perspective to communicate issues

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# Strategies for Action

- Know your audience up-front and keep them in mind throughout the project
- Consider writing the report background up-front and include addressees
- As soon as issues are discovered, vet them out internally so that the CAE can begin the process of socializing
- Know the chain-of-command of the person you are working with before meeting with them (all the way up through the CEO)
- Focus on the message while allowing the “facts” to speak for themselves
- Look for adverbs in your documentation and ask yourself, how can I replace this with facts?



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# Final Thoughts

1. Be relevant, not redundant
2. Thoroughly know your industry, company and people
3. Provide timely, new information that adds the most value
4. Perform quality reviews to increase confidence
5. Use a flexible approach to increase speed
6. Be free rather than dangerous 😊