

A New Internal Audit Function

A HOW-TO GUIDE FOR THE START-UP OF AN
AUDIT DEPARTMENT

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Learning Objectives

Gain an understanding of how to set up, or revamp, an internal audit department (IAD)

- Know the Elements that need Consideration for a New IAD
- Work the Steps from Concept through Audit Engagements
- Other Noteworthy Items

About Me

- Director of Audit and Consulting Services at Essilor of America
- Internal Controls Project Manager at Ecom Trading
- Consultant

- Part of the start-up of four Internal Audit Departments:
 - as staff auditor
 - as CAE
 - as consultant
 - as all of the above

Things to Consider ...

❖ Administration

❖ Audit Universe

❖ Risk Analysis

❖ Approach

❖ Resources

❖ Audit Plan

❖ Budget

❖ Others

Administration

❖ AUDIT DEPT. CHARTER

❖ Audit Manual

❖ Filing and W/P # Schema

❖ Time Reporting Mechanism

❖ Work Templates

❖ Management Reports

❖ Audit Programs

➤ ***Should Have ASAP***

- While there's love
- Before issues arise
- Saves rework and catch-up
- Uniformity of purpose

➤ **... invest the time, but do not seek refuge.**

Audit Universe

Auditable Entities, by

- ❖ Location / Geography
- ❖ Operational / Functional Line
- ❖ Business Unit / Division
- ❖ Financial Segment
- ❖ Legal Organization
- ❖ Executive Reporting Line

**beginning of the
risk database**

Risk Analysis

- ❖ ERM
- ❖ Broad Categories
(business environment, financial, management, audit)
- ❖ Sources
(public and internal reports, literature, discussions)
- ❖ Objectivity is KEY
- ❖ Input into database

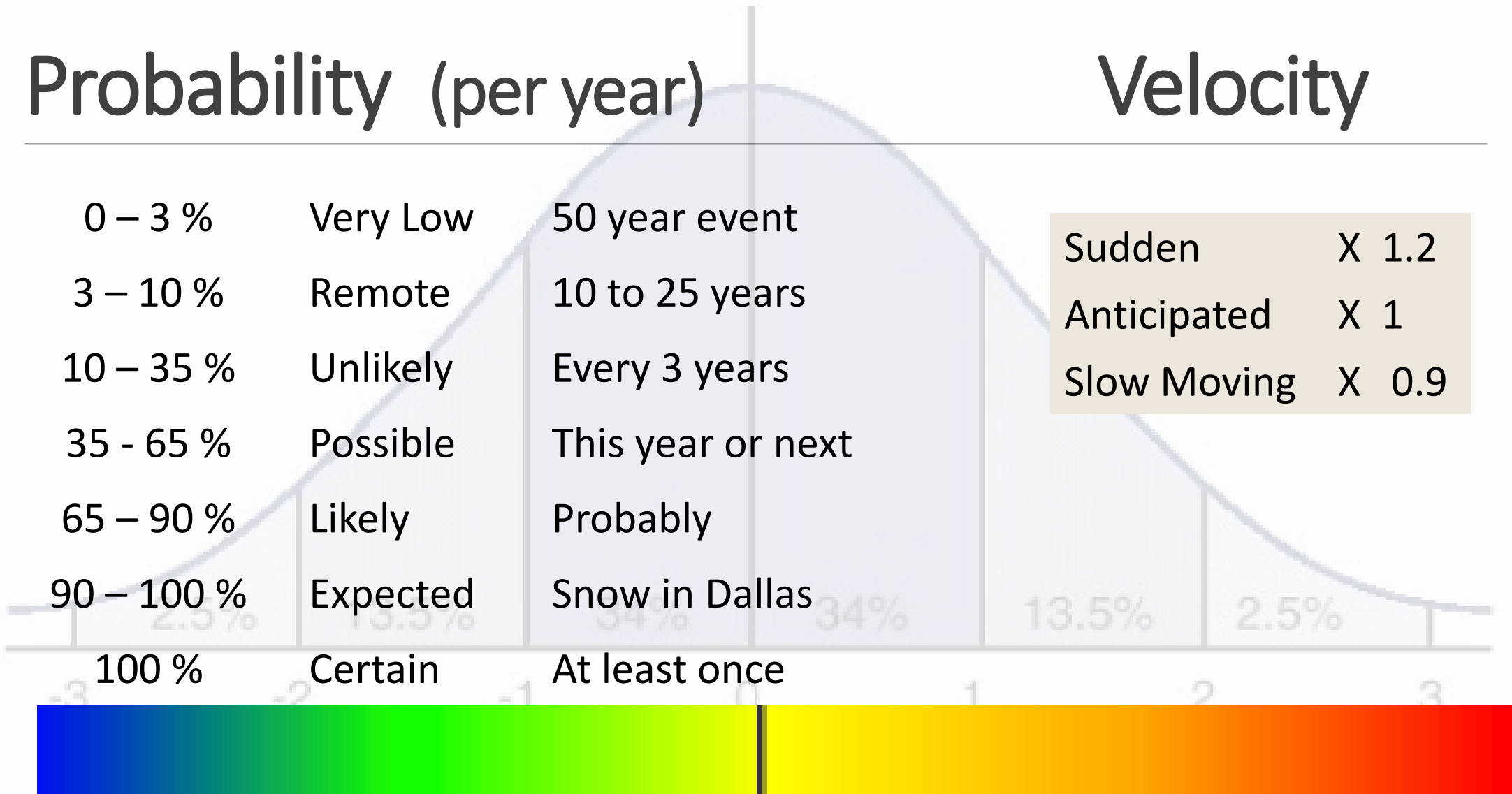
**What do I know?
I just got here!!**

Risk Analysis

Business	Market conditions, Industry economics, Competitive pressures, Complexity or volatility of activities, Governmental regulations, IS integration, Geographical dispersion, Recent development, Stability
Financial	Materiality, Transaction volume, Liquidity of assets, Asset size, Financial performance, Accuracy of estimates, IS concerns, Recent changes in systems
Management	Turnover of personnel, Sufficient resources, Control environment, Integrity / Management Override, Recent changes in exec managers, Recent change in philosophy, Use of KPI and systems, Close supervision, Pressure to meet objectives,
Audit	Date of previous audit, Results of previous audit, Acceptance of findings, External auditor presence, Control (self) assessment, Newly acquisition, Operational management concern, Audit concern

Probability (per year)

Velocity

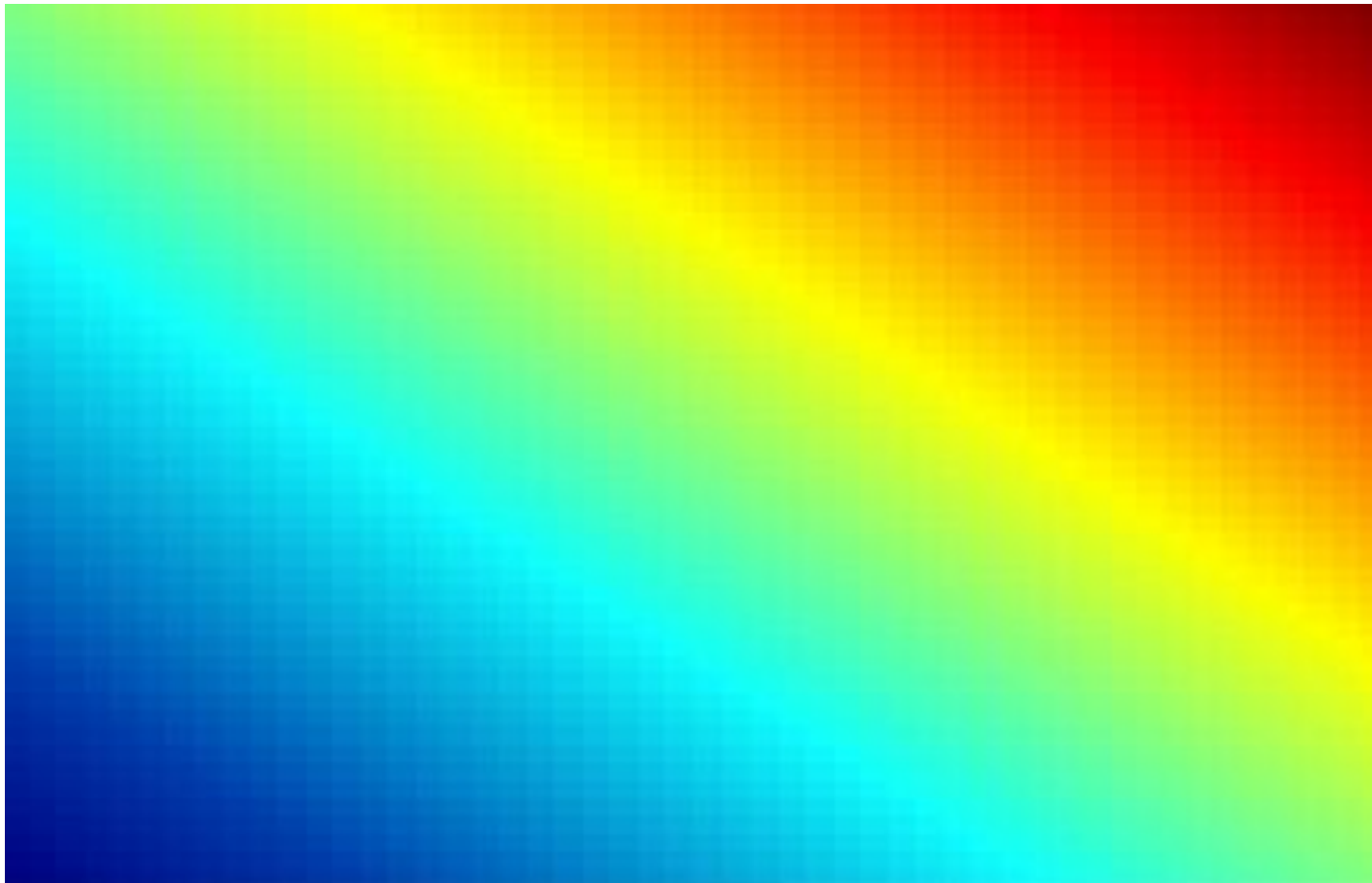


Impact (event and daily) & Duration

Insignificant	\$ 5,000	Ephemeral	1 day
Minor	\$ 30,000	Short Lived	1 Week
Moderate	\$ 125,000	Temporary	1 to 3 Weeks
Significant	\$ 475,000	Disruptive	21 – 91 days
Major	\$ 1,350,000	Intermediate	3 – 6 Months
Critical	\$ 6,000,000	Long-Term	6 - 12 Months
Catastrophic	\$ 15,000,000	Permanent	1 Year or More



Risk Analysis - Heat Map



**(Suggested)
Audit Frequency:**

Audit Now

Current Year

Every 3 years

Every Five years

Every eight Years

Do not Audit

Approach

- ❖ Siloed –
separate teams for SOX, Financial, Operational, and IT
- ❖ Functional Auditing –
each auditable entity has internal control, accounting /
finance, operational, and IT components in varying degrees
- Use a Proof of Concept Whenever Possible
- Perform an ERM at the Onset

**Approach Addresses Risk
- and - Drives Resources
and Tools Requirements**

Resources

- ❖ Does the Audit Schedule Drive the Resource Requirements?
- OR -
Do the Resource Availability Drive the Audit Schedule?

$$\text{Resources} = \frac{\text{Universe X Risk}}{\text{Coverage}}$$

Audit Plan (year one considerations)

- Driven by the Risk Assessment
- Ensure success, especially for early engagements
- Plan on Rotation
- Limited by Resource and Tool Availability

Budget

- ❖ Schedule = Time = FTEs
- ❖ Allow for Recruitment, Training and Admin
- ❖ Factor Inefficiencies and Down Time
- ❖ Include Travel, Tools and Outside Help
- ❖ Negotiate for positive results
- ❖ Mention Funding in Charter

Other Considerations

- ❖ Meet and Greet
- ❖ Present to the Management Committee
- ❖ Learn and Deliver ... Simultaneously
- ❖ IPPF vs. Reality



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