Audit planning for internal audit, by James C Paterson

For the past 12+ years I have been running a course on Auditing planning. When you start thinking about the planning process, many audit teams approach the plan in similar ways; for example:
"Consult managers and the audit committee",
"Considering areas of concern arising from business objectives and regulatory interest,"
"Consider priority areas from prior audits and incidents,"
However, when you benchmark what other teams do, you can find important differences in approach, from:

- "Cross-check the plan against key ERM risks" to "We can't rely on the risk register;" and/or
- "We co-ordinate with second line functions" to "We do our most of our plan independent of others;" and/or
- "We focus on key risks and don't have an audit universe," to "We base all the plan on our audit universe," and/or
- "We regularly do advisory (consulting) assignments," to "We never do consulting work" and/or
- "We change our plan every 3-6 months," to "We normally work to a 2–3-year plan and don't make changes unless we have to."

Some of these differences may be reasonable, depending on the circumstances, but it is worth noting that many External Quality Assessments against the IIA standards find significant problems with the audit plan. Some areas to look at include:

Having a clearly documented planning process that ties back to IIA standards.

IIA standards now, and in the new GIAS, expect CAEs to have proper processes and procedures. However, it is surprisingly common to find there is no explicit, step by step process written out for the audit plan and agreed by key stakeholders. The table below sets out an indicative *high-level* audit planning process:

Risk & Assurance approach to the Audit plan
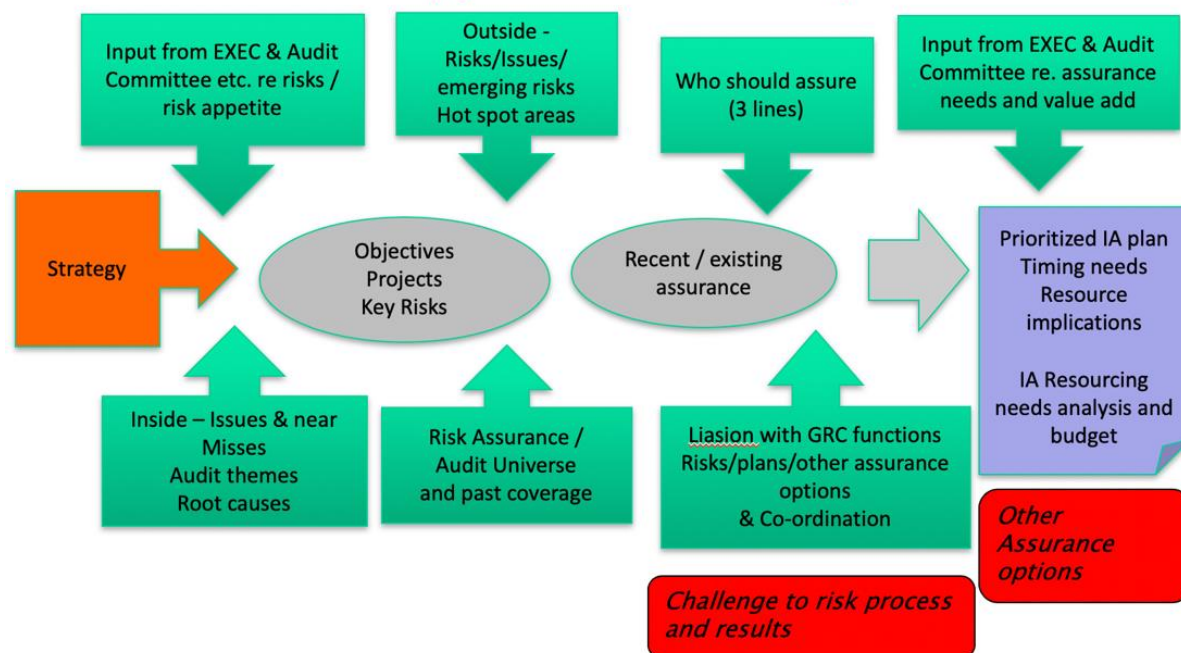
Here it is worth noting that:

- A good planning process should regard an audit universe *as one input to the planning process*, *not as the driver of the plan*, because the IIA standards DO NOT explicitly require an audit universe;
- *Other assurances are a crucial ingredient*: after-all what is the point of auditing an area that is already being checked by someone else, especially if that someone else has high standards and can be relied upon? This means having an assurance map is an important component of a good audit plan, (see the further comments below);
- *The role of IA (as the third line) is key because auditing known areas of concern, is a common trap.* This may seem rather controversial, but it's the easiest thing in the world to audit a known area of concern, that's not actually that important, and will not really add much value. After all, it's the job of management (line 1) and other functions (risk, compliance, Finance, and IT etc.) to deal with such issues;
- *Don't be afraid to propose different types of assignments where this is appropriate*, and make this explicit to stakeholders, e.g., through audits, reviews, and advisory assignments. After all the IIA standards (and GIAS,) use the word 'audit engagements,' highlighting different types of assignments are reasonable.

**Consider two key stages when doing audit planning.**

My advice is to have a two-stage audit planning process. First a high-level audit plan that clearly explains the link between audit work and key risks/objectives, then *a more detailed plan with a list of specific assignments, with their ranking (e.g. P1, P2, P3) and the time allocated to each assignment. The benefits of this approach are:*

- So that audits on the plan can be easily postponed (P2), or even cancelled (P3) and so it is also clear which must be done that year (e.g. P1, for regulatory reasons).

- So that audit coverage against key risks etc. is clear, thus allowing the head of audit and other key stakeholders, to evaluate whether audit resources are adequate or not (IIA standard 2020). This applies to both the quality and the quality of resources.
- So that any no-go areas are explicit (see the black holes in the following diagram).

Note that using this approach, you will find that you start planning to audit risks *across several departments* (where key issues might be about how these departments work together, or not), *not simply auditing individual locations/departments* (which is more common when you focus on the audit universe.)

High level audit plan, mapped to key risks
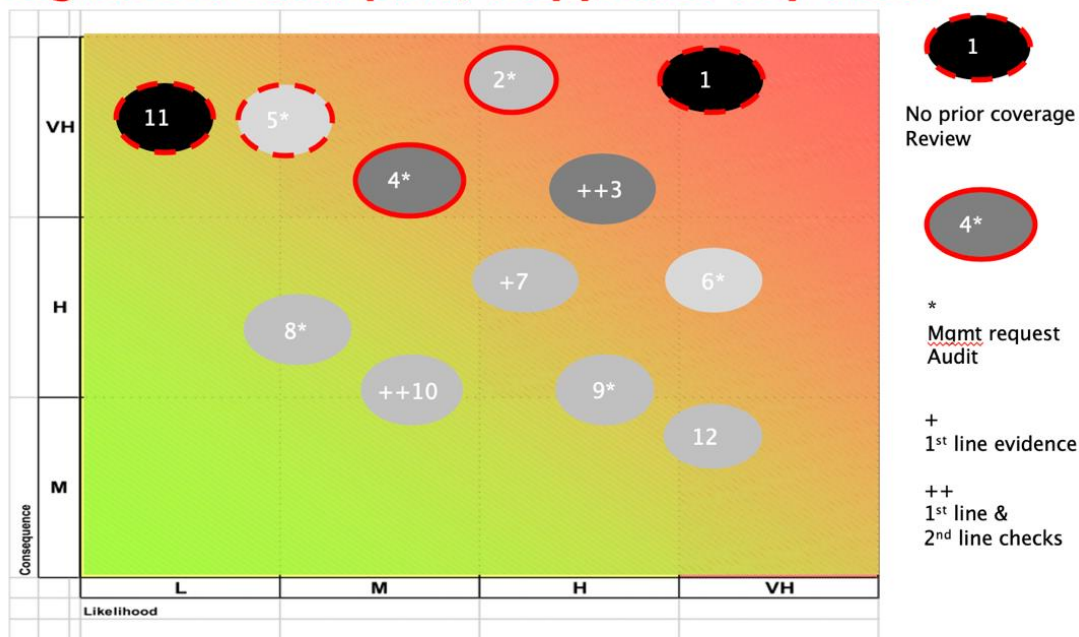
Resource issues / no go zones are transparent

Assurance co-ordination and mapping

Remember that with IPPF standard 2050 and in the new GIAS, *reliance on others is something we need to explicitly consider in the audit planning process* (not just assuming we can't reply on anyone). This is important in the current era because organisations often dislike over-auditing without a good reason.

Create a flow from the plan to assignments

Another good practice, that matches closely with IIA expectations, is to ensure that the audit plan flows into assignment plans. The next table gives an indication of how this can be done with explicit statements about the assignments planned, the scope and objective (i.e. exam question), timing, depth and breadth and a priority rating. Such a template allows IA teams to have a clear link between the IA planning process and the assignment scoping process.

Planning insights drive assignment plans

Name	Exam question	Depth/breadth	Resource	PRIORITY	Delivery date	Sponsor
Process X	Continuity	AUDIT Focus on 3rd party workings	30 days	P2	Q2	
Compliance	GDPR	AUDIT Especially departments A & B	40 days	P1	Q2	
Project A	Benefits realization on track	REVIEW Within $1m	20 days	P1	Q2	
Project B	New process design	REVIEW (DESIGN) Including RACI	20 days	P1	Q2	
Financial	Anti-fraud	REVIEW Including roles between Procurement and Finance	20 days	P2	Q3	
Project C	UAT	REVIEW QC of testing	20 days	P2	Q3	

Concluding comments

Based on the above it should be clear that there is more to a good audit plan than meets the eye and it is easy to do the audit plan in a comfort zone that has not been cross-checked against what others are doing (including the IIA standards).

It should also become clear that if you ensure you have a good audit planning process it will showcase what audit can do and build closer relationships with key stakeholders and reinforce the message that internal audit is there to add value to senior managers and the board, not just to 'tick off' assignments against an agreed audit cycle.

We will look at these points and a range of other points in more detail at the forthcoming course on internal audit planning for the IIA Belgium on 21-22 February 2024. Places are still available.

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