

# Auditing at the Speed of Risk



**Nearman**  

---

**Maynard • Vallez**  
Certified Public Accountants

# About Us

Since 1979 our mission has been to provide quality, efficient, professional services to the credit union industry.

“ Ranked 4th in the national market share ranking of CPA firms of total credit unions with over \$40 million in assets served. ”

Callahan & Associates'  
2008 Guide to Credit Union CPA Auditors

Click here to download the latest on the Share Insurance Fund Impairment



This mission means more than just providing services for our clients; it means we have an unparalleled commitment to the industry.

# Speaker Bio

## Jennifer N Hoskins, CPA, MPA, CAMS, Partner

- ▶ Bachelor's Degree in Business Administration with a major in accounting
- ▶ Master's Degree in Professional Accounting
- ▶ Certified Anti-Money Laundering Specialist
- ▶ Network Administrator – maintain and enhance the technology used by the firm, keeping up-to-date with changes in the industry
- ▶ Plan and coordinate various projects as well as all phases of audit engagements

# “Auditing at the Speed of Risk”



“Risk-based auditing should look to the future in keeping with management’s focus on what’s happening now and, more important, what’s coming up.”

## The Speed of Risk

- ▶ Richard F. Chambers



# Risk

“...the possibility that events will occur and affect the achievement of strategy and business objectives.”

COSO

*Two dimensions of risk*

		Impact →				
		Negligible	Minor	Moderate	Significant	Severe
Likelihood ↑	Very Likely	Low	Moderate	High	High	High
	Likely	Low	Moderate	Moderate	High	High
	Possible	Low	Low	Moderate	Moderate	High
	Unlikely	Low	Low	Moderate	Moderate	Moderate
	Very Unlikely	Low	Low	Low	Moderate	Moderate

# Risk Categories

- ▶ Established Key Risks
- ▶ Emerging Risks
- ▶ Non-Standard / Exceptional Risks

# Risk Measurement

## ▶ Inherent Risk

- Theoretical description of what could go wrong if there were no controls in place.
- Applied to define the potential magnitude of risks and threats.

## ▶ Residual Risk

- Remains after management takes action to reduce the impact and likelihood of a risk event occurring.



# Inherent Risk Levels

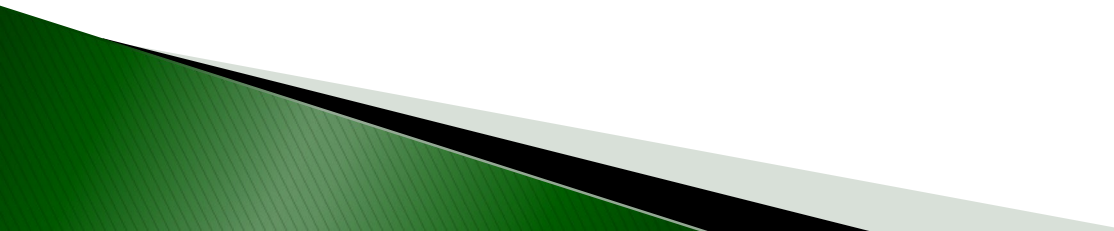
Important to understand the potential magnitude of risks and threats.

- Especially true for atypical and emerging risks

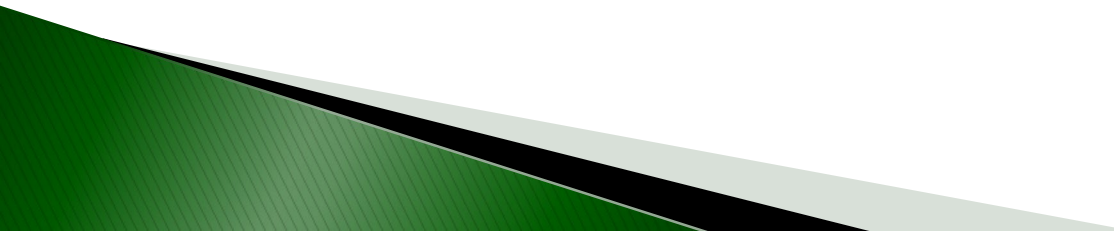
# Stages of Risk

- ▶ Recognize
  - ▶ Explore
  - ▶ Develop
  - ▶ Maintain
- 

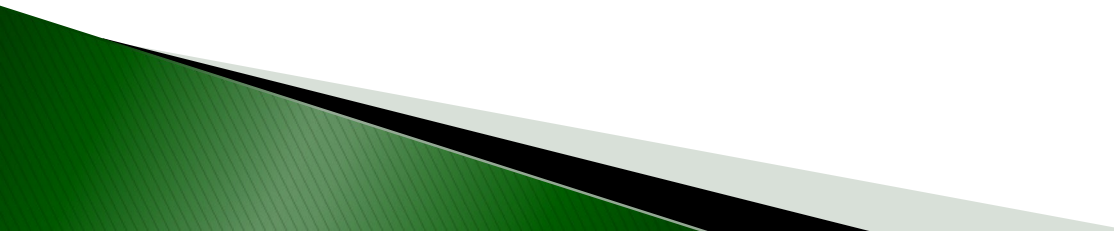
# Recognize

- ▶ Emerging and knowledge is low
  - ▶ Controls are not implemented
  - ▶ Monitoring processes have not been contemplated
  - ▶ Inherent risk levels are not well understood
- 

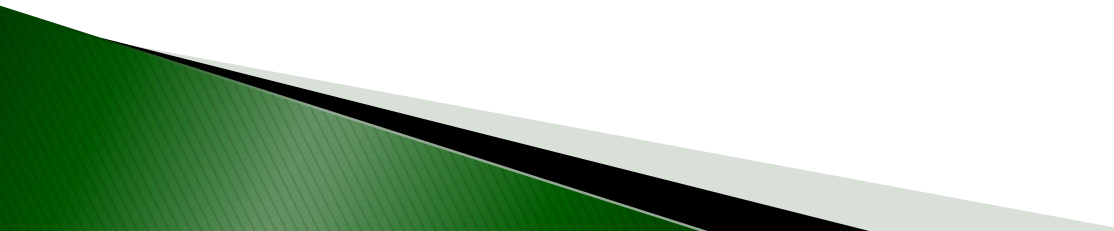
# Explore

- ▶ Knowledge is expanding
  - ▶ Perceived as emerging or dynamic
  - ▶ Controls are contemplated but not implemented
  - ▶ Monitoring processes have not been contemplated or are not implemented
  - ▶ Inherent risk levels are understood
- 

# Develop

- ▶ Knowledge is high
  - ▶ Controls are in place or are in process of being deployed
  - ▶ Monitoring processes are contemplated but not implemented
  - ▶ Residual risk is understood
- 

# Maintain

- ▶ Risk is well understood and is not perceived to be changing
  - ▶ Controls are in place
  - ▶ Monitoring is in place
  - ▶ Residual risk level is understood and considered to be at an acceptable level
- 

“...Majority of audit committees are looking to internal audit to focus on the critical risks to the business, including key operational risks and related controls – not just compliance and financial reporting risks. They also want the audit plan to be flexible and adjust to changing business and risk conditions.”

## 2017 Global Audit Committee Pulse Survey

▶ KPMG

# Risk Assessment

- ▶ Systematic process of evaluating the potential risks
- ▶ Enterprise wide
- ▶ Input from
  - Management
  - Audit Committee
- ▶ Current
- ▶ Continuous





# Logical Techniques

- ▶ Formal methods
- ▶ Shoe-leather assessments
- ▶ Bird's-eye view



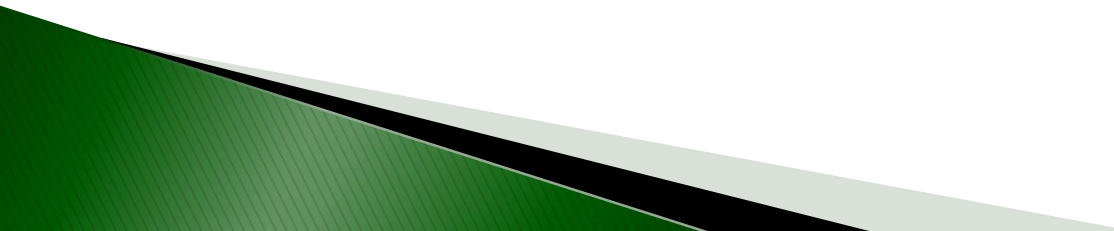
# Risk Areas

- ▶ Cyber Security
- ▶ Bank Secrecy
- ▶ Vendor Management
- ▶ Fraud
- ▶ Health & Safety
- ▶ Remote Workers
- ▶ Loan restructurings
- ▶ Commercial Loans

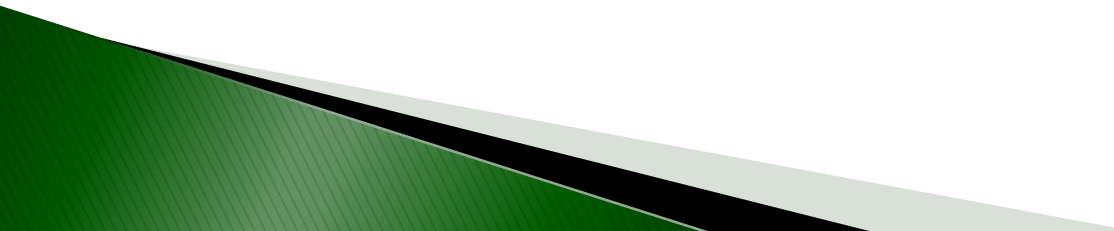
December 2019

March 2020

# Audit Plan

- ▶ Prepared each year
  - ▶ Must be able to change on the fly
  - ▶ Dictated by the risk assessment
- 

# Audit Processes

- ▶ Risk assessment
  - ▶ Audit planning
  - ▶ Testing / Documentation
  - ▶ Reporting
  - ▶ Monitoring and follow-up
- 

# Audit Planning

- ▶ Risk assessment is the primary basis for determining objectives, scope, and tests
- ▶ Leverage the expertise from management and employees in the area under audit
- ▶ Design for efficiency



# Testing/Documentation

- ▶ Sampling
- ▶ Flowcharting and process mapping
- ▶ Regression analysis
- ▶ Interviews

**Fight the temptation to  
over audit**

# Reporting

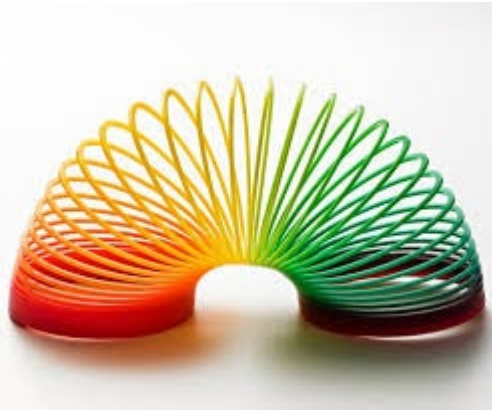


# Communication

- ▶ Continuous
- ▶ Inclusive
- ▶ Positive
- ▶ Knowledgeable



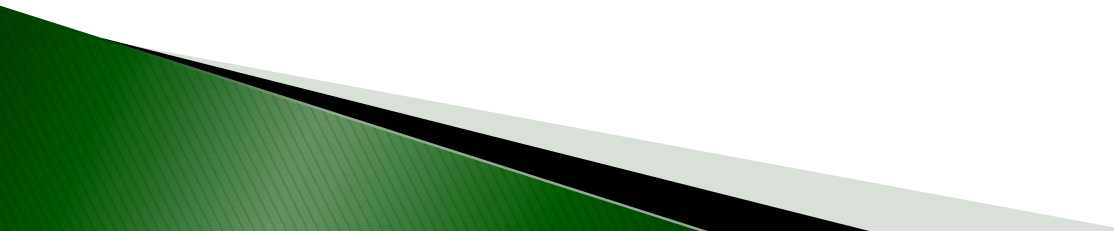




**TIME TO ADAPT**



# References

- ▶ On Risk – A Guide to Understanding, Aligning, and Optimizing Risk 2020 (Institute of Internal Auditors)
  - ▶ The Speed of Risk (Richard F. Chambers)
- 

# Resources

- ▶ <https://blog.protiviti.com/2020/01/16/next-gen-internal-audit-what-do-we-mean-when-we-talk-about-agile-audit/>
- ▶ <https://blog.protiviti.com/2020/01/27/agile-internal-audit-how-to-audit-at-the-speed-of-risk/>
- ▶ <https://na.theiia.org/Pages/IIAHome.aspx>

# Contact Information

Email: [jhoskins@nearman.com](mailto:jhoskins@nearman.com)

Phone: 305-537-5179