

Chapter 18

RISK ASSESSMENT AND AUDIT PLANING

| <u>Section</u> | <u>Contents</u> | <u>Page</u> |
|----------------|--------------------------------|-------------|
| 1800 | Purpose of the Risk Assessment | 18-1 |
| 1801 | Risk Assessment Methodology | 18-1 |
| 1802 | Audit Plans | 18-2 |

1800. Purpose of the Risk Assessment

Audit and Management Services will perform an annual risk assessment update. The purpose of the risk assessment, which is required by the Division of State Internal Audit (Directive 1-99) and the Institute of Internal Auditors (Performance Standard 2010.A1), is to ensure that operations of the University are appropriately examined on a sufficiently frequent basis. In addition, the risk assessment provides an objective means to allocate personnel resources and determine whether the existing resources are sufficient to maintain an effective program. Specifically, the risk assessment provides:

- a structured approach to identifying high risk areas;
- an objective justification for establishing audit frequency; and
- a basis for allocating audit resources to the areas with the greatest amount of risk.

Risk is defined as the probability that an event or action may adversely affect the University. Examples of adverse events include financial loss, the inappropriate disclosure of data, and other forms of embarrassment. Such events may occur due to the absence of internal controls, the ineffective use of resources, or errors.

1801. Risk Assessment Methodology

The frequency of audit coverage will be determined by evaluating the level of risk for each audit area. More specifically, the Risk Calculation Worksheet (Exhibit 18-1) and Explanation of Risk Factors (Exhibit 18-2) will be used to calculate risk scores for audit areas. The higher the total risk score assigned to a given activity, the greater the audit frequency. The risk scores will be updated at the conclusion of audits or when significant changes occur within audit areas. In addition, risk assessment results for all areas will be periodically re-evaluated.

The Risk Score Table below will be used as a guideline to determine audit frequency; however, the frequency of certain audits may be changed due to auditor judgment. Also, risk scores will not be calculated for information technology areas. All information technology audits will be placed on a three-year cycle based on Virginia Information Technologies Agency (VITA) requirements.

| FREQUENCY | RANGE | RELATIVE RISK |
|------------------|---------------|----------------------|
| 12 MONTHS | 244.0 – 300.0 | HIGH |
| 24 MONTHS | 216.0 – 243.9 | HIGH |
| 36 MONTHS | 187.0 – 215.9 | MEDIUM |
| 48 MONTHS | 158.0 – 186.9 | MEDIUM |
| 60 MONTHS | 127.0 – 157.9 | LOW |

The estimated time required for each audit project will be determined based on previous audits, the audit area's total risk score, known problems or weaknesses, size of the unit, and professional judgment. After determining the frequency and hours required to perform each audit, the total hours required to complete all audit projects within a five year audit cycle will be determined.

1802. Audit Plans

The results of the risk assessment will be utilized to create the Long-Range Plan and Resource Analysis, which will include an analysis of the total hours available for audit projects, the estimated staffing requirements needed to complete the audit projects within a five-year cycle, and a five-year audit plan. After completing the Long-Range Plan, the Annual Audit Plan will be developed. In addition, the plans will be submitted to Vice Presidents in order to obtain their input and inform them that they may request our assistance throughout the year.