RISK BASED INTERNAL AUDITING AND RISK ASSESSMENT PROCESS

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ABSTRACT: Financial crisis that emerged in the international markets and accounting abuses as Enron, Worldcom in the U.S.A. that brought out the need of detection of the risks that organisations will encounter in the future and the management of these risks. Organisations to use risk management as an auxiliary tool in order to reach the stated targets raised management’ expectation about adding value of internal auditing. Risk based internal auditing which is the present latest stage of internal auditing and which brings to create achievement that having expected from internal auditing place the retrospective point of view the conventional control mentality on one side and had focused on risks that organisations will encounter. As to achieve success in the risk based internal auditing is possible with an effective risk assessment studies performed within this period. Risk findings obtained as a result of risk assessment studies constitute an important support to internal auditors at the stage designing of planning. In this study, risk based internal auditing which constitutes of today’s internal auditing mentality is tried to explained and risk assessment studies which are this process’ the most important stage has been considered within the scope of internal auditing units performed studies.

KEYWORDS: Internal Auditing, Risk Management, Risk Based Internal Auditing, Assessment of Risk

INTRODUCTION

Perspectives of organisations to the risk in today's dynamic competitive environment have changed with globalization and now, taking advantage of the returns of risky activities has become one of the priorities of organisations. However, the global economic crisis required that risks are managed by the organisations. These developments revealed the auditing of risky activities incurred by organisations, in other words, the risk-based internal auditing (RBIA) approach. RBIA approach is separated from the other internal audit approaches with its features such as focusing on fields exposed to high risk rather than the financial field and creating much value. Risk-based internal auditing selects the high-risk fields determined by risk assessment as a focal point and provides time and cost saving in the audit. Now, internal auditors do not only supervise the control activities, but also contribute to the development of the risk management processes by defining the universe of risks and continuously monitor the
risk status of business. (Lindow and Race, 2002). RBIA orientation to the future’s risks is the main difference between this new model of audit and the traditional one that looks backwards, presenting to the entity’s management only the past risks. RBIA improves the economic activities providing the maximum of efficiency. (Danescu, Muntean and Sandru, 2010)

The purpose of the study is to describe the changing nature and the last point of internal audit with general lines and to discuss how the risks are identified and measured and how the risk-based internal auditing plan is affected from this assessment by examining risk assessment study which is the most important stage of this progress. In addition, assessment regarding the implementation of the RBIA in organisations was made as an example

**LITERATURE REVIEW**

**Risk Based Internal Auditing: Conceptual Framework**

In recent years, obstacles on the free movement of capital gradually decreased with increasing global developments and financial mobility has increased with help of its interaction and the convergence of markets. Presence of multinational companies parallel to the emergence of technological developments as a gripping force has further hardened the competition. Achieving a sustainable competitive advantage for the businesses has become dependent on eliminating the negative effects of risks occurring in this changing environment.

All these developments and especially developments after the important corporate scandals in the world have necessitated the risk management in terms of organisations and have made the role of internal auditing in this process more prominent. In this context, assessing the organisation risks by determining risk management and risk-based auditing understanding and managing it in a good way have become imperative. In parallel with all these transformations, internal audit has moved through risk management, corporate governance and Risk based approach based on adding value from the control-oriented approach. In other words, audit approach assessing business risks provided the auditors in the audit process to go to the change and these changes have brought a Risk based approach in internal audit practices today. The risks that have low, medium and high effect can exist at the beginning and until the end of an audit process. If these risks materialize, this shall affect the operation of process and the quality of the control. Identification and assessment of these risks in the audit process and removing the present audit deficiencies or development of new controls will improve the quality of audit activities. (Ozaydin, 2010).

Risk based internal auditing (RBIA) is the methodology which provides assurance that risks are being managed to within the organisation’s risk appetite. (IIA)
Three major developments on RBIA can be listed as below. (Ozsoy, 2004)

- Technological developments with financial theory and practices have widened the scope of business activities.
- The diversity seen in the derivatives markets along with the popularization of derivative products and other complex structured financial products has dramatically changed the financial system.
- The consolidation of the U.S. banking industry from the 1990s has led to the emergence of an increasing number of large banks. Therefore, banking resources has intensified in fewer and larger banks.

RBIA was applied firstly in the banking sector together with these development and it began to be implemented in other sectors. These developments dramatically change the risk characteristics of businesses and brought a rapid change in the risk profile.

Internal audit formerly referred to error examination and studies on a specific activity, and today, it emphasises on better management in the future rather than the assessment of past activities of businesses with the Risk based approach. (Keskin, 2010) Developments in markets, corporate bankruptcies (Enron, Parmalat, etc.), developing technology and business environments at the beginning of the 2000s showed that many risks are faced to achieve the objectives. With the development of risk management and risk management models, the necessity for consideration of the risks in the internal audit processes has emerged. With Risk based approach in internal auditing, auditors began allocating the resources to high-risk areas and performing audits. Thus, the internal auditing has undergone a drastic change in the 2000s. RBIA is to concentrate the audit resources to the areas where the composition of probability of occurrence and impact of risk is highest.

The important point is to identify the business risks. If the risks are not identified and assessed, then the internal auditor is required to cooperate with business management to provide information on this subject. (P.Griffiths, 2005)

RBIA is an audit approach on the basis of determining the risk profiles of the businesses, shaping the audit progress according to the risk profile of the business and allocating the audit resources according to this profile to improve the efficiency of the audit (Keskin, 2010). RBIA selects the high-risk fields as focal points in audit by using the outputs of risk management processes. Thereby the efficiency in audit is increased and cost and time savings are provided (Kishali and Pehlivanli, 2006).

The aforementioned approach also brings some assumption. (Baspinar, 2006) Some of these assumptions are as follows:
- Audit resources are not unlimited.
- Unit activities to be audited are faced with different risks.
- Risks have relatively different degrees of importance.
Primarily the risk status will be discovered on RBIA and issues such as scope, content, timing of internal audit activities and the allocation of resources are shaped according to the risk status. The risk-based internal audit plan is prepared by determining and assessing the risks to be exposed by the businesses. As a result of the risk assessment, high-risk fields for business are identified and the audit is performed in accordance to these areas. (Aksoy, 2006) As this approach is through determining the risky areas and transferring the resources to these areas, understanding the business strategies of the businesses are also important in terms of top management's competence, risk-taking tendencies, the company's financial condition and future status assessment. (Kurnaz and Cetinoglu, 2010).

**Why Risk Based Internal Auditing?**

The retroactive perspective of the internal audit has changed with RBIA and the internal auditors have started considering all risks which may prevent the achievement of the objectives of businesses by focusing on events that may occur in the future. According to the definition made by International Institute of Internal Auditors (IIA); traditional internal audit is "an independent evaluation function which examines the activities created for serving the business within the business and reports the inspection results" (www.theiia.org). Control-oriented audit which we refer to as traditional internal audit is positioned as an element of internal control. Internal auditors constantly monitor and report the internal control structure existing in businesses on behalf of management. (Bozkurt,1999) When analyzed within the historical process, internal audit is initially focused on observation and counting. Increase in the number of documents and records to be examined as a result of the growth of businesses has led to the use of sampling methods instead of the examination of all documents and records. (Kishali and Pehlivanli, 2006) Commonly usage of sampling methods provided the understanding of the importance of internal control to increase and the internal audit has turned into control-focused internal audit by 1940.
Why Risk Based Internal Auditing?
The retroactive perspective of the internal audit has changed with RBIA and the internal auditors have started considering all risks which may prevent the achievement of the objectives of businesses by focusing on events that may occur in the future. According to the definition made by International Institute of Internal Auditors (IIA); traditional internal audit is "an independent evaluation function which examines the activities created for serving the business within the business and reports the inspection results" (www.theiia.org). Control-oriented audit which we refer to as traditional internal audit is positioned as an element of internal control. Internal auditors constantly monitor and report the internal control structure existing in businesses on behalf of management. (Bozkurt, 1999) When analyzed within the historical process, internal audit is initially focused on observation and counting. Increase in the number of documents and records to be examined as a result of the growth of businesses has led to the use of sampling methods instead of the examination of all documents and records. (Kishali and Pehlivanli, 2006) Commonly usage of sampling methods provided the understanding of the importance of internal control to increase and the internal audit has turned into control-focused internal audit by 1940.

When the traditional internal audit concentrates on past activities and tries to uncover faulty operations in the past, RBIA tries to prevent the occurrence of incorrect operations. This is done by the risk assessment. The purpose of the RBIA to contribute and support all relevant sides, primarily the top management, to reach the business to its goals and objectives by being helper and director in accurate capturing and decreasing the risks. (Yurtsever, 2009) As the traditional internal audit focuses on the internal control, the auditor makes recommendations whether the internal control system is achieved and the auditor searches answers for questions such as if the risks were diversified?, the risks were avoided?, they were shared?, or transferred? (KIr, 2010).

It should be noted that it was determined that one of the most important reasons why many businesses, which recently failed in the commercial sense, came to this point is the internal audit structures which do not meet the business structures and are not effective enough for minimizing the existing risks. Effective and efficient business operations, reliability of financial reporting, compliance with laws and regulations constitute the main purposes of the businesses. For reaching these main purposes, the businesses began to use RBIA approach in the internal audit applications of internal audit units of large businesses to provide assurance for the sustainability of the corporate development by leaving the traditional internal audit definition (Kurnaz and Cetinoglu, 2010, Deloitte Academy- Risk Based Internal Audit Notes, 2011).

Contributions of Risk Based Internal Auditing
On the base of RBIA activities, which aim effectiveness, efficiency and specialization in audit, there is the determination subject whether the internal control and risk management systems of the businesses work adequately, whether they are reliable and the current weaknesses. (Kurnaz and Cetinoglu, 2010) RBIA carries a meaning beyond any method of internal audit. It is a comprehensive approach that encompasses all internal audit and examination techniques including the traditional internal audit and examination techniques as well as requiring a new audit activity by determining the future aspects of the risk level and
risks. The point which may be considered as the most important in internal audit is the value that it creates. To summarize, if the internal audit is made in the manner which it used to be made before, it cannot go beyond complying with law, legislation and procedures. If the risk management progress is created in the business and the business has a certain risk management maturity, then the internal audit provides control assurance and begins to add value. However, the main thing is to ensure continuity of the value added by the internal audit. (Griffiths). Contributions of risk-based internal audit to the business can traditionally be grouped under four headings.

**Strategic benefits:**
- It helps for easier adaptation to changing conditions by developing a consistent and comprehensive approach for the risk management.
- It provides a better understanding and management of the risks.

**Performance:**
- It helps increasing the risks of opportunity by reducing negative risks.
- It provides the risks to be identified correctly and the existing management and internal control to ensure the best performance.

**Aligning the Resources:**
- It creates ability to use resources most efficiently and creates the opportunity to get rid of unnecessary costs.
- It eases the alignment between sources.

**Managing the Unexpected:**
- It creates the ability to give the correct answer to unexpected demands and challenges in the face of deviations from targets.
- It eases to understand the risks waiting the business and their actual effects.

**Implementation of Risk Based Internal Auditing (RBIA) in Organisations**

RBIA is a comprehensive approach which can be taken into consideration by the organizations in the internal audit. Every organisation is different, with a different attitude to risk, different structure and different processes. Experienced internal auditors need to adapt these ideas to the structures and processes of their organisation in order to implement RBIA. If the risk management framework is not very strong or does not exist, the organisation is not ready for RBIA. More importantly, it means that the organisation’s system of internal control is poor. Internal auditors in such an organisation should promote good risk management practice to improve the system of internal control. (IIA, 2013).

With the simplest form (Anil Keskin, 2010), it is consistent of "Risk Assessment", "Preparation of Audit Plans and Programs Appropriate to the Risk Structure", Implementation of the Review Processes" and "Reporting the Results". When the internal auditors apply the risk-based internal auditing approach, they should pay attention whether this approach is in harmony with the nature of the business. There are several approaches to improve a parallel internal control structure to the risk management processes in organisations. This flexibility provides the auditors to refrain from repeating the processes already carried out by the management and to question management processes and decisions. (IIA UK and Ireland, 2003). According to David Griffiths (Griffiths, 2006), RBIA is referred to as an interconnected process in the form of;
1 - Evaluation of risks maturity of organisations,
2- The establishment of risk and audit universe and preparation of risk-based internal auditing plan,
3- Completion of the audits and reporting them to the audit committee
The risk-based internal auditing process includes the following steps according to OCC. (Tahir Ozsoy, 2004).

Table 1: Risk-Based Internal Auditing Process

<table>
<thead>
<tr>
<th>Steps</th>
<th>Reporting</th>
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</thead>
<tbody>
<tr>
<td>1 - Understanding the business environment</td>
<td>1 - General information about business</td>
</tr>
<tr>
<td>2 - Risk assessment</td>
<td>2 - Preparation of risk matrix</td>
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<td>3 - Risk Valuation</td>
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<td>3 - The internal audit activity planning</td>
<td>4 - The internal audit plan</td>
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<td></td>
<td>5 - Review program</td>
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<tr>
<td>4 - Determination of the internal audit activity</td>
<td>6 – Determination of internal audit coverage in writing</td>
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<td></td>
<td>7 - Functional modules views</td>
</tr>
<tr>
<td>5-Reporting of the results</td>
<td>8 - Review report</td>
</tr>
</tbody>
</table>

**Source:** Mehmet Tahir Ozsoy, 2004.

Before starting the RBIA process in the organisations, the internal auditor should analyze the business’ objectives and existing risk management processes in a good way. A detailed risk assessment to be made by internal auditors in this process supports the internal auditor to identify high-risk areas which should be given priority when preparing internal audit plan and helps to shape the next phase of the audit.

**1st Step - Understanding the Business Environment**

It is necessary to well recognize the organisation for an effective and efficient risk assessment and to develop a risk model. This situation firstly requires the understanding of the business, its objectives and processes. (Deloitte Academy- RBIA Notes, 2011). Risks emerge as a result of conditions that obstacle reaching the goals, so they do not occur independently. Therefore the internal auditor should well recognize the business and continuously collect information about operations and processes. Emergence reason of the business, goals, objectives, business plans, operational processes, competitors, industry structure and the provision of regulations which it is subject to are among the issues to collect information about.
Table 2. Investigation of Business Environment

<table>
<thead>
<tr>
<th>Information</th>
<th>Focus</th>
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</thead>
<tbody>
<tr>
<td>Internal Corporate Strategies and Targets, Work Plans and Targets</td>
<td>• What is the existence reason of the business?</td>
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<td></td>
<td>• What is the place where the business want to be in the future (vision)?</td>
</tr>
<tr>
<td></td>
<td>• What are the general strategic targets of the business?</td>
</tr>
<tr>
<td></td>
<td>• What are the objectives and the business plans of the business?</td>
</tr>
<tr>
<td>Internal Work Progresses</td>
<td>• What are the most important work progresses of the business and how these progresses support the business to realize its plans and targets?</td>
</tr>
<tr>
<td></td>
<td>• Where are the main operations of the business?</td>
</tr>
<tr>
<td>External Sector, Regulation and Regulating Authorities, Competition Structure</td>
<td>• What are the important developments, subjects and attempts in the business?</td>
</tr>
<tr>
<td></td>
<td>• What are the important changes, subjects due to the regulating authorities that may affect the work of the business?</td>
</tr>
<tr>
<td></td>
<td>• How is the competition structure in the sector? What is the level of the business against its opponents?</td>
</tr>
</tbody>
</table>

Source: Deloitte Academy, Risk Based Internal Audit Notes, 2011, p.43

2nd Step - Risk Assessment

RBIA covers all of the works of an organisation regardless of borders and is based on risk assessment. These activities also cover the identification of the risks facing the organisation and determination of the efficiency on struggle against these risks and these risks include the following elements. (ECIIA, 2005).

- Operational and financial information may be unreliable, inaccurate or incomplete;
- Operational activities may be inefficient and may not be effective;
- Financial and other assets such as assets and information as well as human may be rigged or removed from the business;
- Business may breach laws, regulations or internal policies;
- Job moral culture may support illegal or improper conducts.

Risk-based internal auditing activity is an activity that offers recommendations on the most suitable solutions to senior management by rating and defining the risks mentioned here. Although the organisations face similar risks, these risks are affected in different ways because they have different risk dimensions. Therefore, implementation of the same audit activity for every organisation would be wrong. In the RBIA, the situations of the businesses must be determined by determining the most risky areas to transfer resources to these areas and risk assessment in accordance with the risk status must be made. (P. Griffiths, 2005). Auditors must focus on management structure, business objectives, organizational changes, areas that was determined to be high-risk by audit committee and concerns of the management regarding the risks and results when assessing risk. Risk assessment must be considered at all levels within the organizational structure of the business as well as the activities of operating subsidiaries.
3rd Step - Determination of Risk Maturity Level of the Organisation

Risk maturity is "ability and level on adaptation and implementation of a healthy and strong risk management by the organisation in every level of the business for determination, identification and reporting of attitudes against opportunities and threats effecting the organisation goals and objectives." (Madendere, 2005). The business must have a high level of maturity for the implementation of risk-based internal audit approach. In the businesses with low risk maturity at this point, the internal auditor acts as an advisor for raising this level. Internal auditors must decide about the risk maturity of the business by examining all kind of documents which may provide information on business objectives, risk assessment results, risk appetite level, databases that contain records of risks, activities used for determining important risks by the management and the business' risk management. (D. Griffiths, 2006).

England Institute of Internal Auditors ranked the businesses according to their risk maturity in the following order (IIA UK & Ireland 2003)
- Businesses that are unaware of the existence of risk
- Businesses that are aware of the existence of risk
- Businesses that have defined the risk
- Businesses that managing the Risk
- Businesses that holding the risk under control

Businesses that are unaware of the risks do not have risk management approaches. At this point, internal auditors must promote risk management and use their own risk assessment. From the perspective of businesses that are aware of the risk, there are unstructured approach to risk management. In this case, the internal auditor must promote corporate risk management. However, when we look at the other levels, the internal auditor does not its own risk assessment but uses the management's risk assessment. In summary, it is important to be aware that all businesses do not start the work from the same maturity level on establishing the risk-based internal auditing. Therefore, the first step reveals the situation in the company's risk management maturity. Approach taken into consideration by the internal audit varies according to this situation of the business. (Samaratuna, 2004).

4th Step – Preparation of the Risk Based Internal Auditing Plan

After the areas which constitute high risk are determined by means of constantly measuring and evaluating the risks organisation may be exposed to, internal auditing plan and program should be prepared. (www.idkk.gov.tr) The aim of the RBIA plan is to allocate the audit sources according to the business priorities by means of focusing on the areas with high effect. In other words, it is focusing of the audit sources on the areas where the combination of the impact and likelihood of the risk is the highest. (Eşkazan, 2005) In internal audit, the audit strategy of the organisation directs the planning activities. The audit strategy is the main source about the person to do the activities and ways to follow. The audit strategy affects the view of the top management to the internal audit unit, the responsibility frame of the internal audit in terms of risk management and the consultancy and security services of the internal audit. (Pehlivanlı, 2010).

At the planning stage, the auditor performs the following processes. (P. Griffiths, 2005)
• He/she determines the audit universe.
• He/she provides the risk register with a strong source of information by collecting data about all subjects regarded important by the management.
• He/she determines the security level required by the management.
• He/she determines the auditing frequency that may be accepted by the audit committee and top management.
• He/she combines all information in order to determine the auditing priorities.

5th Step - Preparation of the Risk-Based Mission Plan
At the step of mission plan (IIA), the auditor should focus on:
• The goals of the unit to be controlled and the means to control his/her own performance,
• The important risks about the goals and activities of the unit and the ways to keep these risks at an acceptable level,
• The risk management of the unit and the efficacy and activity of the control systems,
• The risk management in the activities of the unit and the opportunities to have a great development in control systems.

The internal audit manager determines the necessary sources to reach the goals of the mission in terms of money and time. The assignment of the auditing personnel is specified by regarding the mission quality, complexity, time limits and available sources. (Pehlivanlı, 2010) The main element of an efficient risk based mission plan is to specify the goals about the activity. The best way to achieve this for the auditor is to record the goals that determined by brainstorming at the planning step. These goals specified by the auditor should be shared with the managers of area/activity later. The auditor should collect basic information about the activities to be examine in order to determine the possible effects on the mission. If necessary and seen appropriate, a questionnaire study should be done in order to be familiar to the activities, risks and controls, to specify the areas and subjects important for the mission and get the comments and suggestions of the supervised ones. The auditor begins to constitute his mission plan by gathering the results from the basic information he collect and his evaluation about risks. The persons to be assigned should be determined by regarding the mission quality, complexity, time limits and available sources. After the necessary sources are provided, the mission programs should be produced.

6th Step – Preparation of the Risk Based Internal Auditing Report
The internal audit manager periodically presents reports about the aim, authorities, duties and responsibilities of the internal auditing activity and success/performance to the audit committee, management and top management. (IIA, 2010) The internal audit activity is completed when the internal audit report is presented to the related persons. The audit reports are prepared at the last step of the audit study and in the report, there are the results reached during the auditing. In the risk based internal auditing, the goals of preparing the internal audit reports are these: (P.Griffits, 2005)

• The true reflection of the cases occurring during the audit,
• To give security at a reasonable level,
To make suggestions about the internal control system and risk management processes,
To make suggestions about the risk and control balance.

The Process of Risk Assessment
The process of risk assessment is the most important stage of the RBIA. The point that must be take into account is that it is important to have an effectively functioning risk management system in business in order to both obtain the required effect from RBIA and do the risk assessment activities more consistently. The data obtained from the risk management system will be used in the RBIA and so that more reliable information will be possible.

Because the risk assessment constitutes the foundation of the RBIA, it is important to examine this process carefully. This process consists of the below stages: (Kurnaz, 2010)

- The identification and classification of the risks,
- The evaluation of the likelihood and impact of the risk scales,
- To determine the severity of the risk scales and calculate the weighted risk number,
- The classification of the risk scales (low-medium-high),
- To determine the activities which will be controlled according to the risk scales and report by specifying the suggestions,
- the last stage is to rank the auditable areas by comparing the risks belonging to each auditable area.

The Identification and Classification of Risks
One of the most critical stages of RBIA is identification of the risk that organisation faced about the area. (Yılancı, 2006) In order to identify the risk in the organisation, firstly a pro-risk scanning system should be created. The setting of scanning system makes the identification of risk process more concrete. At that stage, danger and opportunities which are exposed to the business and auditable unit should be determined. When the risks are identified in any process, firstly the goal clearly should be presented. After setting an objective, the situation and danger should be determined that prevent the accruing of this goal, and then the risk should be identified. (Özaydın, 2010) At that stage studying of risk inventory activity makes this process easy. An inventory can be made for the internal and external risk which can occur in case of the business achieving the goals.(Yılancı, 2006) At that point, another important subject is classification of risks. It is impossible to make risk classification which applies in all organizations. (IRM, 2010). Auditors should act with managers making risk classification of the organisations and measuring those risks. Auditors regularly argue with managers about those many risk classes and measurements. Internal auditors should prepare auditing program
which contains an area that risks are made classification inclusively every point. What and how the method which will be used the classification of risks will be, depends understanding of auditor the goals and quality of organisation. It should be taken into consideration that determining the how the business is big, its quality, activity fields and region, and many factors like this. (Deloitte Academy)

Risk Measurement: Impact and Likelihood
The risks should be measured after the risks are completed at the level of business and activity. The risks should be measured generally according to the possibility of occurring and when they occurred how much they affected the organisation. COSO report suggests such a way in the measuring risk;

- Estimate the importance of a risk,
- Evaluate the possibility of occurring risk,
- Pay attention to how manage the risk.

Risk measurement states the whole methods provide to be understood extensively the risk in the strategic decision about changeable which is handled. It is based on either input estimation. The risks should be measured in terms of impact-likelihood with the help one of the quantitative-qualitative methods or mixed which will be used in the evaluation. And then the risks measured are ranged with the help of risk matrix. (Pehlivanlı, 2010)
There can be more than one result of an event and it can affect occurrence the different job goals. The importance of the risks level should be occurred with the coming together of impacts and likelihood. (TUSİAD, 2008)

Impact (or consequence) refers to the extent to which a risk event might affect the enterprise. Impact assessment criteria may include financial, reputational, regulatory, safety, security, environmental, employee, customer, and operational impacts. Likelihood represents the possibility that a given event will occur. Likelihood can be expressed using qualitative terms (frequent, likely, possible, unlikely, rare), as a percent probability, or as a frequency. When using numerical values, whether a percentage or frequency, the relevant time period should be specified such as annual frequency or the more relative probability over the life of the project or asset. (Curtis and Carey, 2012) While the likelihood of risk quite simply is categorized low, medium, high, similarly the impact of risk is categorized as light, medium, heavy. It is about how the risk measurement evaluates sensitively. (Pehlivanlı, 2010) A classic risk evaluation makes a measurement combining impact and likelihood. At the result of that high effect but the risks which are rare can occur. Many levels of likelihood are shaped the risk which did not occur at the past cannot occur in the future too. But this situation makes a handicap, in this sense, internal auditors and the people who work in risk management should make an effort for measurement of risks correctly. (Roth&Espersan, 2002).

The risk measurement should be made on identified risks. At that point, the risk measurement should be identified. Risk or the process of the risk states that the risk can measure or observe. In other words, the risk is the criteria used at the level of determine of risk. (www.idkk.gov.tr) Many differences can be made for the risk measurement. For example, Budget Size, Trading Volume, and staff – the Complexness of Activities, Intensity of Statue-

Arranging and Prioritization of Risks
The final stage of risk assessment is to determine the priority or classification of risk. Generally the unit component which are audited are ranged as low, medium and high risky. This arrangement is called as risk level also. These levels are: (Central Bank of the Turkish Republic of Northern Cyprus , 2010).

High risk Level: High risk level states where there is a high risk activities, risk status, which is big according to business sources, where a large number of transactions and / or activities which the structure of activities are the complex. At this risk level, the changes which occur in the risk measure, the possibility to affect the operation capital and income negatively is high.

Medium risk Level: Medium risk level states risk situations, depending on the state of enterprise resources at a reasonable level, with reasonable volume of transactions, the quality of the activities from the normal activities.

Low risk Level: occurring damage will be small and limited.

After determining the level of risk, each auditable area is rated based on risk criteria. According to the results of rating, the audit areas expressed as of high, medium or low risk area according to the rating scale:

After the statement risk areas table prepared, the effects of each risk area on the business which have higher initial risk assessment- detailed measurements to be done-, is determined by risk assessment carried out in detail. (Treasury Board of Canada Secretariat, 2003) Detailed risk assessment continues with the measurement and prioritized of risk in terms of likelihood and impact and finally ends with the preparation of a risk matrix.

Creating the Risk Matrix
Assessment of each area of assessment results according to the risk level is placed in a risk matrix. While higher levels of risk are in the "unacceptable risk" group, lower risks are located in the “acceptable risk” group. (Kishalı and Pehlivanlı, 2006)

![Risk Matrix](image)

Figure:1. Risk Matrix according to internal audit
Risk Matrix is a flexible and dynamic analysis tool showing enterprise’s risk status on the basis of each activity, the effectiveness of risk management systems, net risk level and changes in the risk level (BRSA, 2003). While risks having a low level of risk (acceptable risk) are not evaluated in risk-based internal audit, the risks with high level risk (unacceptable risk) is subjected to detailed examination. (Treasury Board of Canada Secretariat, 2003) After detailed examination of the processes belonging to risks above the limit of acceptable risk to reduce or to terminate is decided. Remaining risks between these two risk groups are included in the closest risk group. The aim here is to decide which risk treated as a priority depending on the results of risk measurement. Top priority risk is the most urgent and important risk and needed to be resolved first. The highest degree risk is required to have to be addressed as a top priority in reduction activities. (Fikirkoca, 2003)

**Preparation of Risk Assessment Report**

Strengths and weaknesses of the enterprise in risk management and audit area, its opportunities and threats, and in the field of are set forth in the risk matrix with all the details. The risk matrix is followed by "Risk Assessment Report" prepared based on risk matrix in order to be explanatory and guiding. Issues to be included in the report are:

- Explanation of all of the risk elements in the risk matrix, the most important business activities, activity areas and business units, business strategies and other factors that may affect the risk profile of the enterprise,
- The deviation from the risk matrix and risk assessment reports prepared in prior periods, and the reasons
- The existing risk management approach of the enterprise, the tools used, the techniques used in risk measurement and assessment of the effectiveness of the risk management center,
- The assessment of the adequacy of the internal control environment in relation to risk exposure,
- The relationship between probability and impact of the risks identified using various assay methods,
- If necessary, changes in personnel in key positions in internal audit units and assignments. (Mc Name, 1997)

**CONCLUSIONS**

Along with developments in economic and social life in the world increased work intensity and work rate, but also the volume of business has expanded greatly. Furthermore, to control each process in terms of both time and resources has been difficult, and this has raised the cost of the audit. These changes led to the risky activities become inevitable and foreseeable, detection and mitigation of risks that may occur has become a necessity. From 2000s risk nature of the business significantly changed, after accounting tricks and the problems experienced in large organisations, such as Enron, WorldCom and Parmalat. This case made organisations more vulnerable to the risks that made various methods to measure and manage risks mentioned necessary. The traditional internal audit approaches used until that day became inadequate to satisfy the needs of organisations. At this point, by modifying the structure of internal audit, it has been directed towards internal audit systems that focus on risk on the risks with the methods focus of the systems, policies and activities.
The internal audit and risk management activities which were the two concepts that are considered independently of each other in the past are becoming to enter into interaction with each other and use each other's outcomes intensely nowadays. For this reason, in many organisations, the internal audit adopts a risk-based approach and internal audit plans are developed in this framework. Risk-based internal auditing, is an audit approach based on the basis of the determination of risk status of enterprise, the audit process in accordance with the risk status of enterprise and to allocate audit resources accordingly and is aimed at the audit efficiency. With Risk-based approach to internal audit’s perspective on risk and audits changed and internal auditors have been offered an opportunity to create more value.

In this context, risk status will be discovered primarily in the risk -based internal auditing and issues such as scope of audit activities, content, timing, the allocation of resources is shaped according to the risk. The most important step in risk -based internal auditing approach is risk assessment. Risk assessment is a work that should be seriously considered as component of internal control and enterprise risk management reports issued by the COSO at the same time as part of the internal audit planning stage on internal audit standards. It is not correct to qualify risk assessment as a single activity. It’s a systematic process comprising the steps of identification of risks, measurement in terms of impact and likelihood and then creation of a risk matrix by prioritizing.

In order for an enterprise's risk-based internal audit approach to benefit a high level from the risk -based internal auditing, a high level of risk maturity is required. Internal audit only provides assurance to existing risk management framework. Basically the existence of an efficiently functioning risk management (enterprise risk management) system is desirable. Priority risks identified risk assessment done in this context, poses as source for the risk -based internal auditing, if the risk management system is inadequate in the enterprise, internal control should provide support in encouraging this system in this aspect. Here the subject should be considered is this; if an effectively functioning risk management system is not present in the organisation or healthy results cannot be obtained from the system of assessing the risk, internal audit unit in the risk-based internal audit process will apply its own risk assessment methods. But, in terms of the risk assessment to give more consistent results and resources can be concentrated on the most significant risks, internal control and risk management systems must work in an interactive format. Thus, in the light of the risk results obtained in both studies, a healthier audit is conducted and cost-benefit balance is achieved.

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