



Office of Internal Audit Monthly Internal Control Tip

“Why Me!?! Why was my department, function or process selected for an audit?”

A frequently asked question that we as auditors receive is, “Why me?” Usually the question is posed with a hint of excitement and hopefulness. Other times the question is posed with a hint sorrow and dread. Either way, the audit client usually wants to know why their department, function or process was selected for an audit. At the beginning of each fiscal year the Office of Internal Audit (OIA) issues an Annual Audit Plan that includes a schedule of audits expected to be completed during the fiscal year. The steps included below describe the process for creating the Annual Audit Plan.

Step 1: Identify Louisville Metro’s Audit Universe. All auditable processes, functions and departments within Louisville Metro Government are identified. These units constitute the audit universe for Louisville Metro Government. The identification is achieved using a variety of sources including financial system data, enterprise policies and procedures, budgetary documents and input from key stakeholders.

Step 2: Stratification of the Audit Universe. In an effort to avoid duplication of efforts, all units expected to be covered by other auditors (i.e., external, state, federal) are removed to create the Office of Internal Audit’s Audit Universe.

Step 3: Risk Assessment. OIA performs an assessment of the risk related to each unit in the Office of Internal Audit’s Audit Universe. Eight different risk factors are used to assess each audit unit in the universe. The factors are detailed below.

1. **Financial Risk** – This is the risk that the units may incur loss of financial resources.
2. **Operational Risk** – This is the risk of loss resulting from inadequate or failed internal processes; people and systems or from external events.
3. **Compliance Risk** – This is the risk that the unit is operating outside of applicable laws and regulations.
4. **Process Complexity** – This is the risk that the unit may not achieve its objectives due to the intricacy of the business process (i.e., extent of automation, complexity of calculations, etc.).
5. **Historical Problems** – This is an assessment of recent issues or problems noted within the area.
6. **Degree of Change** – This is the risk that the unit may not achieve its objective due to the complexities of a changing business environment whether internal or external driven.
7. **Current Control Environment** – This is an assessment of the control environment within the process, which includes control activities such as policies and procedures, adequate supervision, appropriate skills within the department, etc.
8. **Quantitative Factor** – This is an assessment of the degree an error or mistake could affect the financial statements or ability to continue as a viable entity.

The units are ranked as high, medium or low risk based on the aforementioned factors.

Step 4: Audit Plan Completion. All units ranked as high are subject to inclusion in the Annual Audit Plan based on the capacity and capabilities of the OIA during the fiscal year. A limited quantity of units is able to be included in the plan each fiscal year. The remaining units are included in a long range audit plan and reassessed periodically.

This tip is brought to you by the Office of Internal Audit. Previous Monthly Internal Control Tips can be found on the Office of Internal Audit’s webpage located [here](#).