Audit universe
Chartered Institute of Internal Auditors

Should internal audit maintain an audit universe?

The International Standards do not require internal audit activities to maintain an audit universe. The head of internal audit can choose whether or not to create and/or maintain an audit universe based on factors such as the organisation's geographical reach, market sector volatility, activities, risks and the assurance requirements of the audit committee, board and other senior stakeholders.

Implementation Guide 2010 on planning says that:

The Chief Audit Executive’s (CAE’s) preparation usually involves reviewing the results of any risk assessments that management may have performed. It goes on to say that:

This review of the organisation's approach to risk management may help the CAE decide how to organise or update the audit universe, which consists of all risk areas that could be subject to audit, resulting in a list of possible audit engagements that could be performed.

The audit universe includes projects and initiatives related to the organisation's strategic plan, and it may be organised by business units, product or service lines, processes, programmes, systems or controls or by risk category/prioritisation.

However, is it worth the time and effort to identify and keep up to date all the possible audits that can be done, when this may change from year to year, and when assurance is meant to be focused upon the most significant risks facing the organisation?

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Benefits of having an audit universe

One of the advantages of having an audit universe is that it enables the audit activity to be clear about the extent of coverage of key risks and other risk areas each year. It can also provide a degree of rigour around areas not being audited.

This means that for those audit committees and senior managers who value a degree of cyclical assurance, the audit universe could be used to inform this.

The benefits of an audit universe could also be extended to organisations with a network of retail outlets, depots, branches, regional operations, subsidiaries where managers are mitigating risks on
a day to day basis at the front line of service provision.

In these situations, individual engagements in the audit plan, drawn from the audit universe, can be organised to address the top risks to the organisation focused on those aspects managed at the location.

The important issue here is making sure regular or cyclical audit reviews result in auditing the management of significant risks rather than risks that have little or no significance.

Thus, entities or areas within the audit universe with a lower risk ranking would be audited at a different frequency than those with a higher risk rating. Indeed it is possible that some areas within the audit universe will never be audited, highlighting the importance of other assurance providers for those areas (i.e. assurance from the first and second line of defence).

An audit universe can be a useful aid to help communicate the amount of coverage of the organisation by internal audit, which can be invaluable during resourcing discussions. The table below shows one example of planned coverage by audit against the total audit universe (in this case ranked into tiers 1, 2 and 3, linked to their risk impacts).

| Tier 1 | • High Risk  
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<th>• High or Full Coverage</th>
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| Tier 2 | • Medium Risk  
|        | • Medium Coverage               |
| Tier 3 | • Low Risk  
|        | • Low or No Coverage             |

In practice, other considerations may override the simplified tier classification. Those include, but are not limited to:

1. Board/senior management requested review(s)
2. Regulatory requested review(s)

In these circumstances, those considerations would be incorporated into the risk assessment and therefore form part of the risk rating to facilitate tier classification.

The audit universe can be valuable to assist a head of internal audit consider all of the relevant areas in forming an “overall audit opinion”. It can also be helpful when considering the whole assurance framework or assurance map for the organisation, since it can be a tool (if shared with other assurance providers) through which different roles can be mapped and assurances
consolidated (it is beyond the scope of this guidance note to set out in detail how this can be done, further details can be found within our guidance on Coordination of assurance).

Finally, an audit universe can be a crucial component when considering coordination. **Standard 2050 Coordination and Reliance** tells us the head of internal audit should share information, coordinate activities and consider relying upon the work of other internal and external assurance and consultancy service provider’s to ensure proper coverage and minimise duplication of effort.

The audit universe and the audit plan can be a good starting point for discussions with those parts of the organisation that form the second line of defence, for example risk management and compliance teams, so as to establish which line of defence is providing assurance in which area.

The above illustrates possible overlaps and gaps in assurance as well as opens a wider debate about the nature and extent of the assurance the various providers perform. In this regard, internal audit should include undertaking audits of other assurance providers so as to enable an assurance to be provider as to the reliability of their work.

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**Building an audit universe**
If an audit universe is judged to be of value, there is no “one size” approach to developing this, but components for building an audit universe include:

**Internal components**
- Corporate objectives/strategic goals
- Business model
- Major business projects
- Legal entities and geographic locations
- Risk profile and appetite
- Internal reviews – 1st and 2nd lines of defence
- Resource and skill set of the internal audit team

**External components**
- Regulatory compliance obligations and statutory returns
- External reviews
- Competitor activities
- Industry trends

The structure of the audit universe should be refined, easy to understand and tracked, as such, there are criteria that could be implemented to help differentiate the audits; examples include:

**By objectives**
- Business audit: reviews that focus on business process and controls.
- IT audit: reviews that focus on IT components and controls.
- Integrated audit: reviews with a focus of both the business and IT elements.

**By frequency**
- Ad hoc audit: ad hoc requests from senior management or regulator.
- Annual audit: normally high risk areas that requires assurance on an annual basis.
- Reoccurring audit: areas with enough importance to be revisit once a few years.
- Follow up audits: normally high risk areas to ensure recommendations have been implemented to
mitigate risk.

**By type**

- **Full audit**: assessment of the design effectiveness and the operational effectiveness of key controls.
- **Design or operating effectiveness**: assessment of the effectiveness of the design of control and/or the operating effectiveness of control.
- **Limited scope or agreed upon procedure**: assessment of specific key controls within a process to mitigate specific risks identified, usually with a defined scope which is required specifically by management or regulator.

Depending on the organisation, other considerations could be incorporated as well, for instance, by location (regional or global audit).

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**Linking the audit plan to risk**

Although the audit universe is optional, the IIA Standards require the head of internal audit to establish a risk based internal audit plan (Standard 2010 Planning). However, the maturity of the organisation's risk management process influences the ease with which this can be done.

Where the organisation is risk 'enabled' or risk 'managed' (risk maturity assessment), there is a high likelihood risks will have been identified, assessed and responses chosen at various levels within the organisation - strategic, operational and project. In this situation internal audit will normally provide assurances on four areas:

1. Risk management processes, both their design and operating effectiveness.
2. Management of those risks classified as ‘key’, including the effectiveness of the controls and other responses to them.
3. Reliable and appropriate assessment of risks and reporting of risk and control status.
4. Risk acceptance, management’s acceptance of risk and whether or not it is appropriate.

Assuming that enterprise wide risk management is applied effectively and comprehensively by management, risks recorded within registers, bother strategic and operational risks, become the focus of attention for internal audit planning.

In other words, the risk universe is a key foundation of any audit universe, with limited additional work for internal audit other than identifying the specific auditable entities or processes relevant to the key risks.

There is not necessarily a one to one relationship between risks and audits so the risk and audit universes do not need to be the same list exactly. It may be convenient to group several risks into a single audit.

The converse may also be the case where for logistical reasons or reporting reasons it may be more convenient to break a risk, particularly a strategic risk, into several audits. It all depends on the structure of the risk universe and the level of detail.

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**Appreciating and improving risk maturity**
There are circumstances where a list of auditable areas is both useful and necessary. For instance, where risk registers do not exist or cannot be relied upon.

In the absence of any meaningful risk information, it makes sense for the head of internal audit to perform an assessment of priorities using a list of auditable areas and a set of risk factors. Typical risk factors might include materiality, degree of change, known problems, date of last audit etc.

The danger with this of course is that internal audit is making judgements on behalf of management about the nature and seriousness of risks. In organisations with less risk maturity, impressions may be formed that internal audit owns the risk management process or owns the risks. In these situations, consultation with senior managers and audit committee members about the internal audit’s role of performing assessment of risks is important. Reference to internal audit’s role in these circumstances should be included in the Internal Audit Charter which should be approved annually, by the Audit Committee.

This can also form a foundation for management’s efforts to develop a better risk management framework. It is therefore in internal audit’s interests to encourage management to take ownership of and develop a risk management framework.

If the risk management process in the organisation is still developing, internal audit may assess the risk maturity level, report that assessment to the audit committee with a view to improving risk management processes and determine whether the risk based audit plan would benefit from the creation of an audit universe.

However, internal audit should be mindful of the implications of such assessment; as the Approach to Implementing Risk Based Auditing points out:

‘In reporting your conclusions and their implications, you should note that a risk maturity of risk naïve or risk aware implies that the organisation’s system of internal control and the board’s ability to assess it may be ineffective.’

Thus, helping an organisation to develop an effective risk management approach through internal audit’s consultancy role may therefore be a far better use of time than routinely auditing areas in the audit universe.

**Conclusion**

Every organisation is different with regards to structure, processes and risk maturity.

While an audit universe can be consistent with a risk-based approach, internal audit should not take for granted that listing all auditable areas to form an audit universe will always be necessary or the right thing to do. It would be beneficial to review, on a regular basis, whether you currently have or decide to develop an audit universe, the purpose and value an audit universe adds to the planning process and the outcomes.

**Further reading**

International standards:
2010 Planning

Implementation guide:
2010 Planning

Position paper:
The Role of Internal Auditing in Enterprise-wide Risk Management

Guidance:
How to derive an IT audit universe