DETERMINATION OF RISKS IN RISK BASED INTERNAL AUDITING APPROACH AND A SAMPLE CASE STUDY

Abstract

Internal auditing is an independent practice that is aimed towards controlling business activities and it examines past period activities. In order to compete with rivals, enterprises which has enlarged through globalization endeavor to find out more information and they are obliged to calculate risks. Since traditional internal audit techniques fail to respond these troubles, apprehensions like corporate governance and internal control has arisen, management of risks has gained significance. The aim of this study is to introduce features of risk based internal auditing and necessary processes for controlling plus management of risks. Practical risk matrix and risk evaluation report of a bank operating in finance sector is provided in the study as well.

Keywords: Risk, Risk Matrix, Risk Based Internal Auditing

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RISK TABANLI İÇ DENETİM YAKLAŞIMINDA RİSKLERİN
BELİRLENMESİ VE BİR VAKA ÖRNEĞİ

Öz

Anahtar kelimeler: Risk, Risk Matriksi, Risk Tabanlı İç Denetim

1. INTRODUCTION

Concept of internal auditing gained importance following accounting scandals occurred in different countries, it lead to rise of corporate risk management, control and governance models. In the light of these occurrences, internal auditing lefted the approach that is past oriented and measuring compliance with legislation. It passed into a risk oriented, future scoped approach. Risk based internal auditing rests on the essential which is assigning auditing resources and auditing tools into audit targets by determining risks in auditing processes. In today’s markets comprised of an immense level of global competition, it is highly significant that companies identify potential risks they can face in future and performing adequate risk management. Business executives are supposed to protect companies’ resources from value losses and bring in more value. Method of risk based internal auditing developed resting on corporate risk management approach and it covers personnel from all levels in enterprises. Thus, it entails an entire adoption of risk management approach. In this method audit targets are determined more effectively resulting in a saving by means of time and costs. Keeping trace of business activities constantly and taking precautions before risks come true gives rise to minimizing losses in probable risk conditions.

In the paper an exemplary risk matrix of a bank is illustrated; risk evaluation report is prepared by identifying high - medium - low risk levels, accordingly targets of auditing are put forward and rotation frequencies are indicated.

2. INTERNAL AUDITING

The obligation imposed on the modern-day enterprises in where fierce competition takes place and information technologies are intensely utilized to restructure themselves, modernize themselves in organizational terms and reinforce and bolster their capital structures increase the significance of the internal auditing activities. Because, in the above cited enterprises, the role of internal auditing is quite explicit and clear in the determination of whether the operations and activities are performed in accordance with the determined objectives, in line with the
enterprise policies and strategies or not and whether optimal efficiency is yielded from the enterprise resources or not.

Internal auditing is an independent objective assurance and consultancy activity pursuing the goal of adding value by means of developing and improving the activities and operations of an enterprise. The major contribution of such an audit is to bring a systematic and disciplined approach with the objective of assessing and improving the efficiency and effectiveness of the risk management, control and corporate management processes of enterprises and therefore assisting them to achieve their objectives and purposes (International Standards of Internal Auditing, 2008; Uzay, 2015:199). As the internal auditors, conducting the internal auditing activities, are generally the own personnel of the enterprises, they can fulfill their internal auditing function within the framework determined by the senior management as long as they maintain their objectivity. Planning of the audit, reviewing and assessment of the data obtained, reporting the audit outcome to the senior management and monitoring are the core functions in the internal auditing system. Therefore, internal auditing involves the inspection and analysis of the compliance, efficiency and performance measurement of the activities and operations of each unit of the enterprises in terms of legislation and accounting and reporting the entire data and information to the senior management (Uzun and Ergüden, 2010: 343).

Fulfillment and execution of the activities of the internal auditors as they are supposed to in a reliable and creditable manner depends on their ability and capability to maintain and preserve their objectivity, their position and the authorities they are vested with. (Tuan and Sağlar, 2004: 2). Thus, performance and execution of the internal auditing function in a sufficient and effective manner creates an assurance for the realization of the management’s objectives and goals. A substantial internal auditing ensures the healthy functioning of the control mechanisms in the enterprise and therefore contributes and providing assistance to enhance and increase the efficiency and competitiveness of the enterprise by preventing and hindering the occurrence of operational risks, fraud and income losses (Cömert, 2002: 37).

As it is evident from these explanations; the intended audience of the internal auditing conducted in order to execute the operating activities healthier and more efficiently, increase the competitiveness in the sector where the activities and operations are performed and to prevent the flaws, fraud and corruption is the management. However, factors such as globalization, changes in administrative mentality, economical developments, etc. have created opportunities also leading to certain risks. Such situation revives risk-based internal auditing.

2. RISK-BASED INTERNAL AUDITING

Internal control is the controlling of the efficient and effective execution of the operating activities. Internal auditing yet, is a process ensuring reliability of financial statements and reasonable assurance regarding the compliance thereof with the legal regulations. Internal auditing is an assurance activity performed to measure the efficiency of the corporate management and internal control and risk management activities in accordance with the prepared plan and in order to take precautions and measures against existing risks. The enterprise, with an effective internal control, focuses on the existing risks and is able to reveal flaws, errors, fraud and corruptions and thus protecting the enterprise against risks. (Türedi, 2015: 2).

It is highly significant for the enterprises to ascertain the presumptive risks that can be encountered. In conventional auditing process, only financial statements of the enterprises are
subject to be reviewed and examined retrospectively. However, prospective data and information are not presented by the internal control process of the enterprise. (Yereli and Kara, 2013: 42).

Internal control mechanisms in the enterprises cannot provide a guarantee alone in terms of realization of success. Risk-based internal auditing approach requires management towards identification and minimizing of risks instead of assessments, records and previous controls obtained only by the internal audits (McNamee, 1997: 22).

2.1 The Scope and Features of Risk-based Auditing

When the enterprises perform their internal auditing activities, they are required to determine the risks that can be encountered and take the necessary precautions and measures in line with their objectives and goals. Risk should be maintained within acceptable levels and the responsibilities related to the risk management should be communicated with the management and assigned within the organization (COSO, 2004).

COSO (The Committee of Sponsoring Organizations), consisting of five independent professional organizations in the US, made a major contribution for the internal control to become a standardized structure. COSO Internal Control Model, worldwide, has emerged as a model ensuring the designing of the method and techniques required to control the activities and operations and to control the activities and operations on a regular basis in order to achieve the operating objectives and goals, managing the risks and continuously keeping the operating activities under control. (Türedi, 2015; 6).

COSO sets forth a structure consisting of five fundamental components in order to realize the effectiveness and efficiency of the internal control activities. These components, also known as COSO cube, are consisting of control environment, risk assessment, control activities, information and communication and monitoring activities. The above-cited components are summarized as follows (COSO, 2013);

- **Control Environment**: Integrity and ethical values, the supervision responsibility of the board of directors of the internal control activities, determination of assignment of authority and responsibility, incentives and training provided to the employees, authority and responsibilities, execution of the internal control structure of an enterprise are the fundamental elements for achieving the operating objectives and goals. The enterprise is required to demonstrate an integrity and commitment to ethical values. The Board of Management is responsible and in charge of developing and improving the internal control and increasing the efficiency. The enterprise is required to bring competent individuals into conformity with objectives and goals and to adhere to development and retention commitments.

- **Risk Assessment**: constitutes a basis for the determination of identification of the risks and how to manage the risks accordingly. In risk assessment, the processes of the risk analysis and provision for contingencies shall be assessed and risk tolerances of acceptable risk levels shall be determined. There are four fundamental principles for the realization of the risk assessment. Primarily, the risks related to objectives are defined and objectives with sufficient qualifications are then defined. The enterprise performs a basic analysis related to the risks regarding achieving the objectives and goals throughout the organization. Besides, evaluates the possibility of fraud in realization of these
objectives and defines the changes and amendments that can substantially influence the internal control system.

- **Control Activities:** Those are the actions performed taking into consideration the policies and procedures determined in order to ensure the implementation of the management decisions to reduce the risks in the path of achieving the objectives and goals. Control activities are realized on every level of the organization, various stages within business processes and on technological environment. The control activities contributing to the reduction of the risks for the objectives and goals to reach to the acceptable levels are required to be selected and developed.

- **Information and Communication:** Information and communication are in a substantial position in order for the realization of the internal control responsibilities. Successful implementation of the internal and external communication results in the acquisition of the information required for daily internal activities of the organization. Producing the right information at the right time ensures the implementation of efficient and effective internal control activities within the complex organizations of the enterprises.

- **Monitoring Activities:** This is used for the determination and identification whether each and every one of these five components are current and functioning or not. Findings and deficiencies obtained are continuously communicated in a timely manner and reported to board of management. It queries where the flaws are originating from and why and ensures the communication of the process to the appropriate personnel. Continuous assessments are included within the routine operations and realized on a real-time basis. Monitoring activities are the communication of the internal control deficiencies and shortcomings to the parties in charge of performing corrective actions including the senior management and the board of directors.

The difference of the risk-based internal auditing from the conventional internal auditing is the monitoring of the continuous supervision intended for the determination, identification and prevention of the foreseeable risks instead of historical approach and intermittent supervision. Cost benefit analysis intended for the internal control is coming into prominence in conventional internal audit while digressing from this approach in the risk-based internal audit and embracing the approach of diversification and distribution of the risk and transferring it to the relevant units. Performance of the risk management with the main board of directors is a situation in where the internal audit is detached from its independent nature (McNamee and Georges, 1998).

There is a risk in both auditing type as in conventional and risk-based internal auditing. However, conventional auditing activities reveal only the risks generating from the accounting auditing and the risk-based internal auditing takes the operating risks into consideration. While the conventional auditing focuses on planning of the auditing activities, auditing, technical and internal control endeavors, the risk-based internal auditing places emphasize on identification of the operating processes, revealing of the operating risks and managing these risks. The conventional auditing utilizes internal auditing tests and revealing previous period errors and the risk-based internal auditing aims to prevent these errors prior to their emergence. Therefore, risk-based internal auditing is a systematic approach including the entire auditing and inspection.
techniques in order to determine the risk focuses of the enterprises and the future trends of the risks. (Ergin et al. 2008:21).

The scope of the risk-based internal auditing is defined as (Pehlivanoğlu, 2014; 148):

- Reviewing and assessment of the competence and effectiveness of the internal auditing system,
- Reviewing of the risk management methods and the implementation and effectiveness of the risk assessment methodologies,
- Revision of the administrative and financial information systems including the electronic information system provincial electronic services,
- Reviewing of the accuracy and reliability of the accounting records and financial statements,
- Auditing of both transactions and functioning of the certain internal control system,
- Reviewing of the abidance and compliance with the implementation of legal and regulatory authorities’ conditions, codes of conduct, policies and methods,
- Controlling of the accuracy, reliability and timely preparation of the regulatory reporting.

2.2 Risk Assessment Process

The stages related to the assessment of the risk in internal auditing processes can be sorted as follows (COSO, 2013):

- Definition of the risks by the management organization in a sufficient explicitness related to the objectives and goals and in an accessible fashion
- Planning of the management of the risks defined intended for the objectives and goals determined and set within the organization
- Reviewing of the fraud potential that can be emerged during the risk assessment
- Defining and assessing the changes by the management organization that can substantially influence the internal control system.
Figure 1. Risk Assessment Process

Source: (Adiloğlu, 2011; 66)

Figure 1 summarizes the determination of the operating risks in the risk assessment process and the development of the strategies for the management of the controllable risks in accordance with the operating objectives and goals. The enterprise, upon determining the controllable risks, can prevent the emergence and occurrence of these risks or minimize the damage to be sustained by means of policies and plans to be prepared. Revealing and the analysis of the risk shall be procured through the control procedures created as an outcome of this planning made. Finally, the outcome obtained from the performed assessment shall be presented to the board of management.

Upon identifying and analyzing the risks in the internal control risk assessment, the connection is required to be established with the financial reporting objectives. Afterwards, it should be determined which risks are more likely to be finalized with material errors in the financial reporting. It should be determined for each element supports a reliable financial reporting individually and collectively (Beasley, 2007).

-Risk Focuses

Risks emerge in all operating areas. In order to execute a successful risk management, first of all risks are required to be extensively identified and the assessment of the identified risks is required to be performed accurately. Risks are generally classified as follows (Göğüş, 2012; 25);
Market Risks: Acknowledgment that any development to be formed in the market in the following period shall be an element of risk for the enterprise.

Financial Risks: Consisting of direct or indirect financial risks created by the financial instruments in the market.

Risks Originating from Corporate Management: Risks originating from the management approach, organizational culture, skills and motivations of the employees.

Manufacturing and Logistic Risks: Risks originating from the manufacturing process and manufacturing factors, errors and flaws in product or raw material and activities carried on in order to fulfill the customer requirements.

Risks Emerging Through Utilization of Information Technologies: Risks originating from the inability of the enterprises to adapt the rapid changes.

Political, Legal and Social Risks: All sorts of changes in political, legal responsibility and the society structure that poses threat for the enterprises and influencing the operating activities constitute this risk group.

Environmental Risks: Risks emerging due to competition and technological advancements in the market.

-Benefits of Risks Assessment

Risk assessment is to ensure that scarce resources are efficiently distributed within the organization and performance of the synchonous risk analysis due to continuous monitoring of the databases. Accordingly, it aims to prevent the errors and corruption by changing the auditor priorities prior to the emergence of a substantial loss. Risk assessment lends assistance to the auditors to determine the unnecessary control procedures by means of comparing the cost of controls and prospective losses. Thanks to information transfers, the directors are able to seize the opportunity to decide upon seeing the risks within their own areas. Because reporting the magnitude and extent of the risks are the most effective method to warn the directors in terms of revealing the significance of the matter (Adiloğlu, 2011; 70).

2.3 Risk Matrix

Risk matrix reviews the risks based on their intensity according to the possibility criteria and as a result realizes gross risk assessment.

Figure 2. Schematic Risk Matrix

<table>
<thead>
<tr>
<th>Risk Score</th>
<th>Extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probability</td>
<td>Negligible</td>
</tr>
<tr>
<td>Very Low</td>
<td>Insignificant</td>
</tr>
<tr>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Very High</td>
<td>Low</td>
</tr>
</tbody>
</table>
As it can be seen on the figure above, the ultimate danger is located at the lower right in where the possibility of the realization of and the extent of the risk is quite high. Because, the possibility of the emergence of the risk and the trouble it can create for the enterprise is quite high. In addition to this, an insignificant risk extent is identified on the first row in where with the lowest possibility of occurrence and the slightest loss. The realization possibility and the danger of the risks to the enterprise on the above-cited matrix are moving towards to hazardous extent and magnitude as moving from left to right.

Risk matrix enables the construing of the loss that can be sustained by the risk and the possibility of the occurrence of the risk together. Risk matrix is divided into two areas while utilized by the risk management. An area involves the risks that are acceptable for the enterprise and other one includes the unacceptable risks. The purpose of the risk management and principle of the sustenance of the enterprise is to render the unacceptable risks as acceptable through the precautions and measures taken. Therefore, different risk strategies exist in the risk management such as not assuming, accepting, diminishing the risk and transferring it to someone else. The enterprise, prior to the process of rendering a decision related to the risk, determines an acceptance line on the risks determined. The level of this acceptance line varies for each enterprise and is determined by the management (Göğüş, 2012; 77).

2.4 Literature Review

The study conducted by Spira and Page in 2002 reviews the changing role of the internal auditing systems together with the corporate management changes in the United Kingdom. In this study, changes in the sociological perspective towards the risk concept are discussed and it is enlightened how the internal auditing evolved into risk management in the historical process. Furthermore, it is also mentioned how the facilitations presented in the corporate management reporting reflect on the internal auditing on behalf of risk and risk management.

Allegrini and D’Onza have reviewed the internal control and risk assessment in the major Italian corporation in the empirical study conducted in 2003. Implementation of the risk assessment activities and risk-based auditing were polled as general opinions towards the implementation of the internal auditing in the surveys conducted in 100 biggest Italian corporations with the shares listed on the stock exchange. Findings revealed that conventional internal auditing was predominant in around 25% of the corporations and the auditor was perceived as the overseer conducting compliance auditing; the auditors appointed in around 67% of the corporations have involved to the risk management processes and adapted the COSO (Committee of Sponsoring Organizations) model and the auditors in the rest of the corporations have assumed the duties as consultants and contributed in the strategic management.

Sarens and DeBeelde, in their study dated 2006, polled the perceptions of the internal auditors regarding the risk management. In this study, Belgian and US corporations were compared and qualitative research method was utilized. The study was conducted with the audit supervisors in 10 different corporations. Findings indicated that the auditors’ objective assessment and opinions in the USA contributed to the requirements set forth in Sarbanes Oxley Law and the presence of the internal auditors within the risk management increase the value of the internal auditors in Belgium.
Castanheira, Rodrigues and Craig surveyed the risk-based internal auditing in 2009 and revealed the factors that are specific to the enterprise associated with the utilization of this method. In this study conducted on the internal audits of Portuguese corporations, it was discovered that the risk-based internal auditing system was further acquired statistically in the annual audits of the international corporations. Furthermore, it was discovered that the corporations implementing risk-based internal auditing were in private sector and there was a positive relation between the fact that these corporations perform their activities in the finance sector and their size.

Koutopis and Tsamis have researched the risk-based internal auditing in 2009 by a case study conducted on the banks in Greece. In this study, it was observed that credit risk and compliance based audits in conducted in accordance with the law dated 2002 were insufficient in terms of risk auditing and most of the Greek banks, excluding the banks headquartered in the USA and the United Kingdom were failed to abide and comply with the policies such as Basel Committee and COSO initiative risk management.

3. CASE STUDY

In this part of the paper an exemplary risk matrix of a bank indicated and risk based auditing report is explained. Taken bank pays attention to corporate governance applications and enlisted in BIST Sustainability index.

To perform risk based internal auditing, potential auditing fields should be determined at first. Risk that can be categorized as significant ought to be identified and they should be made focus of internal audit. Subsequent to mutual work between executive board and audit committee; financial statements, strategic plans, budgets, policies and procedures are examined in comparison with industrial information. In the result of these works risk matrix can be put together. Following figure illustrates a sample risk matrix.
As it can be observed in Figure 3, mentioned bank categorizes its risks according to their importance levels into three groups that are low, medium and high risk levels. In high risk zone there are troubles which have an financial impact potential more than 5 million $, long-term commitments of stakeholders, operational impact challenging organization importantly, considerable existence of physical injuries and losses of life, significant or multiple events of fine, fraud or legal action, complete system crash with loss of critical data, inability to recruit, retain staff to operate and long-term labour disruptions. High risk zone has at least medium level risk score even in low probability of occurrence.

Financial impact potentials lower than 5 million $, short-term stakeholder faith impacts, operational impact requiring extensive management effort, significant injuries occurred once or more, medium term labour disruption, system crash during a peak period and difficulties in recruiting and retaining staff constitute medium risk zone. Altering with occurrence probability it has low, medium and high risk scores.

Yet in the low risk zone, there are risk groups including financial impact potentials lower than 500,000 $, concerns raised by stakeholders due to short-term media focus, operational impact requiring some management effort, threats by civil or criminal actions, system failures during non-peak periods, complaints or minor labour disruptions. Although occurrence probabilities are high in low risk zone, risk scores can't reach high risk groups and stay in medium level.

Through risk matrix created, annual auditing plans is prepared; risk matrixes of subsidiaries, risk levels of activities, risk indicators and dynamic risk evaluations are transferred into

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**Figure 3. Sample Risk Matrix**

![Risk Matrix](http://www.bulentsenver.com/AD477/AD477.pdf)
annual assessment report along with feedbacks from executive board, audit committee, and top level members.

Auditing cycle/area, risk levels derived from risk matrix and auditing rotations are included in the mentioned report.

Figure 4. Risk Assessment Report

<table>
<thead>
<tr>
<th>Audit Cycle / Area</th>
<th>Aggregate Risk from Risk Assessment Matrix</th>
<th>Audit Frequency (1, 2, or 3 year rotation)</th>
<th>Year - 1</th>
<th>Year - 2</th>
<th>Year - 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>LENDING OPERATIONS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Loans</td>
<td>M</td>
<td>2</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Consumer Loans</td>
<td>M</td>
<td>2</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate Loans</td>
<td>M</td>
<td>2</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Credit Administration</td>
<td>H</td>
<td>1</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Secondary Marketing</td>
<td>L</td>
<td>3</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TREASURY MANAGEMENT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities</td>
<td>M</td>
<td>2</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Cash Management</td>
<td>L</td>
<td>3</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset/Liquidity Management</td>
<td>M</td>
<td>2</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Wire Transfer</td>
<td>H</td>
<td>1</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Automated Clearing House</td>
<td>H</td>
<td>1</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Borrowings and Repurchase Agreements</td>
<td>L</td>
<td>3</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACCOUNTING AND FINANCIAL REPORTING</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Accounting</td>
<td>M</td>
<td>2</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Financial Reporting</td>
<td>M</td>
<td>2</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DEPOSIT OPERATIONS</td>
<td>M</td>
<td>2</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>BRANCH OPERATIONS</td>
<td>M</td>
<td>2</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BANK ADMINISTRATION</td>
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<td></td>
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<tr>
<td>Human Resources</td>
<td>M</td>
<td>2</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Payroll</td>
<td>L</td>
<td>3</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchasing</td>
<td>L</td>
<td>3</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance Coverage</td>
<td>M</td>
<td>2</td>
<td>X</td>
<td>X</td>
<td></td>
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</tbody>
</table>

As shown in above figure, results of risk assessment matrix of commercial loans, consumer loans and real estate loans include medium risk levels and they have audit rotation of two years. However, credit administration ranked in high level risk zone accordingly necessitating a single year audit rotation.

Securities and asset/liquidity management include medium risk levels, whereas cash management include low level of risks. On the other hand, wire transfer and automated clearing house have high levels of risk thus entailing one year frequency for audit rotation. General accounting, financial reporting, deposit and branch operations plus bank administration are ranked in medium risk group.

4. CONCLUSION

In terms of examining economic structure, enterprises around the world are observed with a stronger financial asset than most of the countries. As a result of this phenomenon, investors started to invest not only in entities in their home countries but also businesses operating internationally. However looking from international investors and other information users perspective, a reliability issue has arisen due to lack of opportunities to check international enterprises activities. With usage of internal auditing, this trouble has been figured out partially and financial statements providing reasonable assurance are produced.
Yet, internal auditing practices carried out by using traditional auditing techniques lack sufficiency to assess risks by means of providing investors future focused information. At this point, the approach of risk based internal auditing has arisen, the process of identifying, assessing and managing risks started to be employed in order to achieve targets of executive board.

Most distinctive factor that distinguishes risk based auditing from traditional audit approach is forming an audit plan that is generated from calculated risk assessments. Thus, necessary precautions are taken in advance to these risks occurrence and an audit approach focusing on risky audit areas is adopted. This recently developed auditing approach should be evaluated in an additional structure to traditional methods by conceiving, covering and enhancing them.

In the application part of the paper, an exemplary risk matrix of a bank operating in financial sector is provided so as to illustrate planning of risk based internal auditing and risk assessment report is explained. From the findings, items with high level risks are detected and strategic plan is formed to determine areas that auditors should prioritize. Risk based internal auditing activities of enterprises from different sectors can be discussed and effectiveness of internal auditing can be measured by comparing generated risk matrixes with past period data for further development of studies in this field.

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