

Internal Audit - Information Technology Audit
Risk Evaluation Form

Date: _____

Division: _____

Department: _____

Business Function: _____

PURPOSE OF THE RISK EVALUATION

The purpose of the risk evaluation is to identify the inherent risk of performing various business functions. Audit resources will be allocated to the functions with the highest risk. The risk evaluation will directly affect the nature, timing and extent of audit resources allocated.

The two primary questions to consider when evaluating the risk inherent in a business function are:

- * What is the probability that things can go wrong? (the **probability** of one event)
- * What is the cost if what can go wrong does go wrong? (the **exposure** of one event)

Risk is evaluated by answering the above questions for various risk factors and assessing the probability of failure and the impact of exposure for each risk factor. **Risk** is the probability times the exposure.

The risk factors inherent in business include the following:

- * access risk
- * credit risk
- * data integrity risk
- * float risk
- * legal and regulatory risk
- * business disruption risk
- * customer service risk
- * financial/external report misstatement risk
- * fraud risk
- * physical harm risk

These risk factors cause potential exposures. The potential exposures include (but are not limited to):

- * financial loss
- * legal and regulatory violations/censorship
- * negative customer impact
- * loss of business opportunities
- * public embarrassment
- * inefficiencies in the business process

The evaluation should **NOT** consider the effectiveness of the current internal control environment. The evaluation should focus on the risks and exposures inherent to the function being evaluated. However, while performing the risk evaluation, the auditor should consider what controls are needed in order to minimize, if not eliminate, the risks and exposures.

DEFINITION OF SCOPE OF THE BUSINESS FUNCTION UNDER EVALUATION

Provide a definition of the scope of the risk evaluation.

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BUSINESS DISRUPTION RISK	Probability	Exposure
Business disruption risk considers the impact if the function or activity was rendered inoperative due to a system failure, or a disaster situation. Consideration is given to the impact on Company customers as well as other Company operations.	<input type="checkbox"/> High	<input type="checkbox"/> High
	<input type="checkbox"/> Medium	<input type="checkbox"/> Medium
	<input type="checkbox"/> Low	<input type="checkbox"/> Low
	<input type="checkbox"/> N/A	<input type="checkbox"/> N/A

Rationale

CREDIT RISK	Probability	Exposure
Credit risk considers the potential that extensions of credit to customers may not be repaid. There is an element of credit risk in each extension of credit. When setting lending policies and procedures, the company must consider what level of credit risk is acceptable. Extension of credit includes the use of debit cards and credit cards by customers to make EFT purchases.	<input type="checkbox"/> High	<input type="checkbox"/> High
	<input type="checkbox"/> Medium	<input type="checkbox"/> Medium
	<input type="checkbox"/> Low	<input type="checkbox"/> Low
	<input type="checkbox"/> N/A	<input type="checkbox"/> N/A

Rationale

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CUSTOMER SERVICE RISK	Probability	Exposure
Customer service risk considers the likely impact on customers if a control should fail. A customer may be external or internal to the company. For example, the line units are customers of the support units. When the customer is internal, assessment of customer service risk should also consider how problems with internal services will likely impact the level of service offered to the outside customer.	<input type="checkbox"/> High	<input type="checkbox"/> High
	<input type="checkbox"/> Medium	<input type="checkbox"/> Medium
	<input type="checkbox"/> Low	<input type="checkbox"/> Low
	<input type="checkbox"/> N/A	<input type="checkbox"/> N/A

Rationale

DATA INTEGRITY RISK	Probability	Exposure
Data integrity risk addresses the impact if inaccurate data is used to make inappropriate business or management decisions. This risk also addresses the impact if customer information such as account balances or transaction histories were incorrect, or if inaccurate data is used in payment to/from external entities. The release of inaccurate data outside the Company to customers, regulators, shareholders, the public, etc. could lead to a loss of business, possible legal action or public embarrassment.	<input type="checkbox"/> High	<input type="checkbox"/> High
	<input type="checkbox"/> Medium	<input type="checkbox"/> Medium
	<input type="checkbox"/> Low	<input type="checkbox"/> Low
	<input type="checkbox"/> N/A	<input type="checkbox"/> N/A

Rationale

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FINANCIAL/EXTERNAL REPORT MISSTATEMENT RISK

Financial/external report misstatement risk is similar to data integrity risk. However, this risk focuses specifically on the company's general ledger and the various external financial reports which are created from the G/L. Consideration of Generally Accepted Accounting Principles and regulatory accounting principles is an important factor in evaluating financial report misstatement. This risk includes the potential impact of negative comments on the external auditor's Notes to Financial Statements or Management Letter.

Probability	Exposure
<input type="checkbox"/> High	<input type="checkbox"/> High
<input type="checkbox"/> Medium	<input type="checkbox"/> Medium
<input type="checkbox"/> Low	<input type="checkbox"/> Low
<input type="checkbox"/> N/A	<input type="checkbox"/> N/A

Rationale

FLOAT RISK

Float risk considers the opportunity cost (lost revenues) if funds are not processed or invested in a timely manner. This risk also addresses the cost (additional expenses) if obligations are not met on a timely basis. Receivables, Payables and suspense accounts are subject to float risk.

Probability	Exposure
<input type="checkbox"/> High	<input type="checkbox"/> High
<input type="checkbox"/> Medium	<input type="checkbox"/> Medium
<input type="checkbox"/> Low	<input type="checkbox"/> Low
<input type="checkbox"/> N/A	<input type="checkbox"/> N/A

Rationale

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FRAUD RISK

Both internal and external fraud risks need to be considered. Internally, employees may misappropriate company assets, or manipulate or destroy company records. Externally, customers and non-customers may perpetrate a fraud by tapping into communication lines, obtaining confidential company information, misdirecting inventories or assets, etc.

Probability	Exposure
<input type="checkbox"/> High	<input type="checkbox"/> High
<input type="checkbox"/> Medium	<input type="checkbox"/> Medium
<input type="checkbox"/> Low	<input type="checkbox"/> Low
<input type="checkbox"/> N/A	<input type="checkbox"/> N/A

Rationale

LEGAL AND REGULATORY RISK

In evaluating legal and regulatory risk, consider whether the product, service, or function is subject to legal and regulatory requirements. regulatory requirements may be federal, state or local. The relative risk level of an objective may be high if the related law/regulation is currently on the most dangerous violation list. Legal risk also considers the likelihood of the company being sued under a civil action for breach of contract, negligence, misrepresentation, product liability, unsafe premises, etc.

Probability	Exposure
<input type="checkbox"/> High	<input type="checkbox"/> High
<input type="checkbox"/> Medium	<input type="checkbox"/> Medium
<input type="checkbox"/> Low	<input type="checkbox"/> Low
<input type="checkbox"/> N/A	<input type="checkbox"/> N/A

Rationale

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PHYSICAL HARM RISK

Physical harm risk considers the risk of harm to both employees and customers while in the Company premises or while performing company business. This risk also applies to company assets such as computers or other equipment which may be damaged due to misuse or improper set-up and storage, or negotiable instruments and other documents which may be damaged or destroyed.

Probability	Exposure
<input type="checkbox"/> High	<input type="checkbox"/> High
<input type="checkbox"/> Medium	<input type="checkbox"/> Medium
<input type="checkbox"/> Low	<input type="checkbox"/> Low
<input type="checkbox"/> N/A	<input type="checkbox"/> N/A

Rationale

OTHER CONSIDERATIONS

Consider the impact of all other relevant factors on risk. Consider, for instance, the transaction volumes (items and dollars), and financial impact on the balance sheet and income statement.

Probability	Exposure
<input type="checkbox"/> High	<input type="checkbox"/> High
<input type="checkbox"/> Medium	<input type="checkbox"/> Medium
<input type="checkbox"/> Low	<input type="checkbox"/> Low
<input type="checkbox"/> N/A	<input type="checkbox"/> N/A

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OVERALL RATING	Probability	Exposure	Overall Risk
Based on the evaluation of: What can go wrong ? (probability); and what is the cost if what can go wrong, does go wrong ? (the exposure); evaluate the overall magnitude of the risk in the area/function. Evaluate the Probability and Exposure, then combine the two for an estimate of Overall Risk of business mission failure.	<input type="checkbox"/> High	<input type="checkbox"/> High	<input type="checkbox"/> High
	<input type="checkbox"/> Medium	<input type="checkbox"/> Medium	<input type="checkbox"/> Medium
	<input type="checkbox"/> Low	<input type="checkbox"/> Low	<input type="checkbox"/> Low

Rationale

AUDIT APPROVALS

Prepared by: _____ Date: _____

Approved by: _____ Date: _____

CLIENT APPROVAL

Approved by: _____ Date: _____