

Risk Criteria Definition

Internal Audit Risk Assessment Document

1. Objective

To provide a standard definition and scoring system for risk criteria used in Internal Audit Risk Assessments, enabling consistency, transparency, and objectivity in risk evaluation across audit engagements.

2. Risk Criteria

Criteria	Description
Impact	Potential consequence on the organization if the risk materializes (e.g., financial loss, regulatory breach, reputational damage).
Likelihood	Probability that the risk will occur within a defined period.
Control Effectiveness	Assessment of existing controls' ability to prevent or detect the risk.
Exposure	Extent to which the organization is exposed or vulnerable to the risk.
Velocity	Speed at which the risk could impact the organization, once triggered.

3. Risk Scoring Matrix

Rating	Impact	Likelihood
High (3)	Severe financial/regulatory/reputational consequences	Likely to occur within the audit period
Medium (2)	Moderate impact; manageable consequences	Possible but not frequent within the period
Low (1)	Minor or negligible consequences	Rare occurrence

4. Risk Assessment Process

1. Identify auditable areas and relevant risks.
2. Assess each risk's Impact and Likelihood using the predefined criteria.
3. Evaluate effectiveness of controls and residual risks.
4. Calculate Risk Score: **Impact x Likelihood**.
5. Prioritize audit areas based on risk scores and organizational objectives.

5. Documentation & Review

- All risk assessments and scoring to be documented in the audit working papers.
- Review criteria annually or when significant environmental/organizational changes occur.
- Criteria to be approved by Chief Audit Executive or equivalent authority.

Important Notes

- This document forms a foundational part of the audit planning process and should be tailored to organizational context.
- Consistent risk criteria support objective and defendable audit prioritization.
- Periodic review of risk criteria ensures continued relevance and effectiveness.
- Detailed documentation enables transparency and supports audit quality assurance.