

New approaches to identifying risk

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What is risk?

Risk...

“the effect of uncertainty on objectives”

... can be either negative or positive.

Objectives and uncertainty

Objectives have different aspects
(financial, health and safety, and environmental goals)
and can apply at different levels
(strategic, organisation-wide, project, and processes)

Risk is often expressed as a combination of the **likelihood** of
an event and the **consequences** should it occur

Uncertainty is related to lack of knowledge

Source: ISO Guide 73:2009

The objectives of the Appointed Auditor

1. Identify & assess the **risks of material misstatement** in the **financial statements** through understanding the entity, its environment and internal controls;
2. identify & assess the risks of material misstatement in the **service performance report**.....;
3. maintain alertness that public resources are applied **effectively and efficiently**; organisations **comply with statutory obligations; minimise waste**; conduct business with due regard to **probity**; and act in a **financially prudent** manner.
4. Understand control so the OAG can report to Parliament.

Areas of Broader Audit Risk

AG ISA (NZ) 315

- Major changes to existing programmes.
- New legislation and regulations or directives.
- New programmes, products or services.
- New performance measures.
- New systems for recording financial and non-financial information.
- Political decisions such as relocation of operations.
- Increased public expectations.
- High public interest, which may lead to expectations to meet output targets.
- Changes in ownership arrangements.
- Changes in political leadership.
- Public private partnerships.
- Outsourcing of government activities.
- Higher than normal expectations to meet budget.
- Budget overspending due to weak budgetary controls.
- Programmes without sufficient allocated resources and funding.
- Indications of non-compliance with statutory obligations.
- Indications of a lack of effectiveness or efficiency, waste, a lack of probity or financial prudence.
- Operations subject to special investigations.

Procurement and Contract Management

Asset Management

Project Management

Risk Management

Conflict of Interest

Governance

Financial Sustainability

How do we think about risk?

Risk assessment tools

Multiple choice questions
with commentary

Scored answers to derive a
risk rating

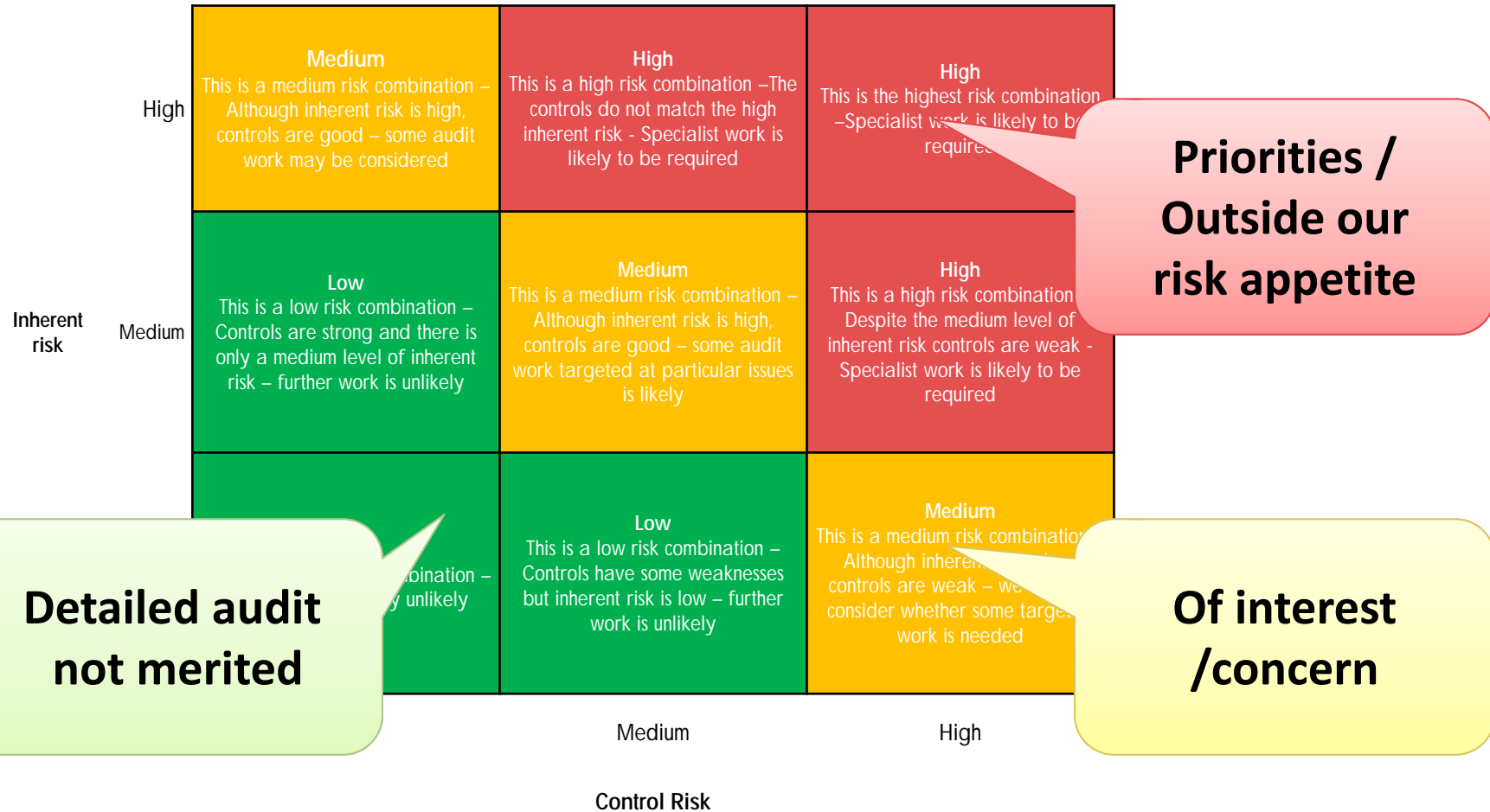
More “risky” answers =
high risk rating

How risky is the
environment?

What are would good
controls look like?



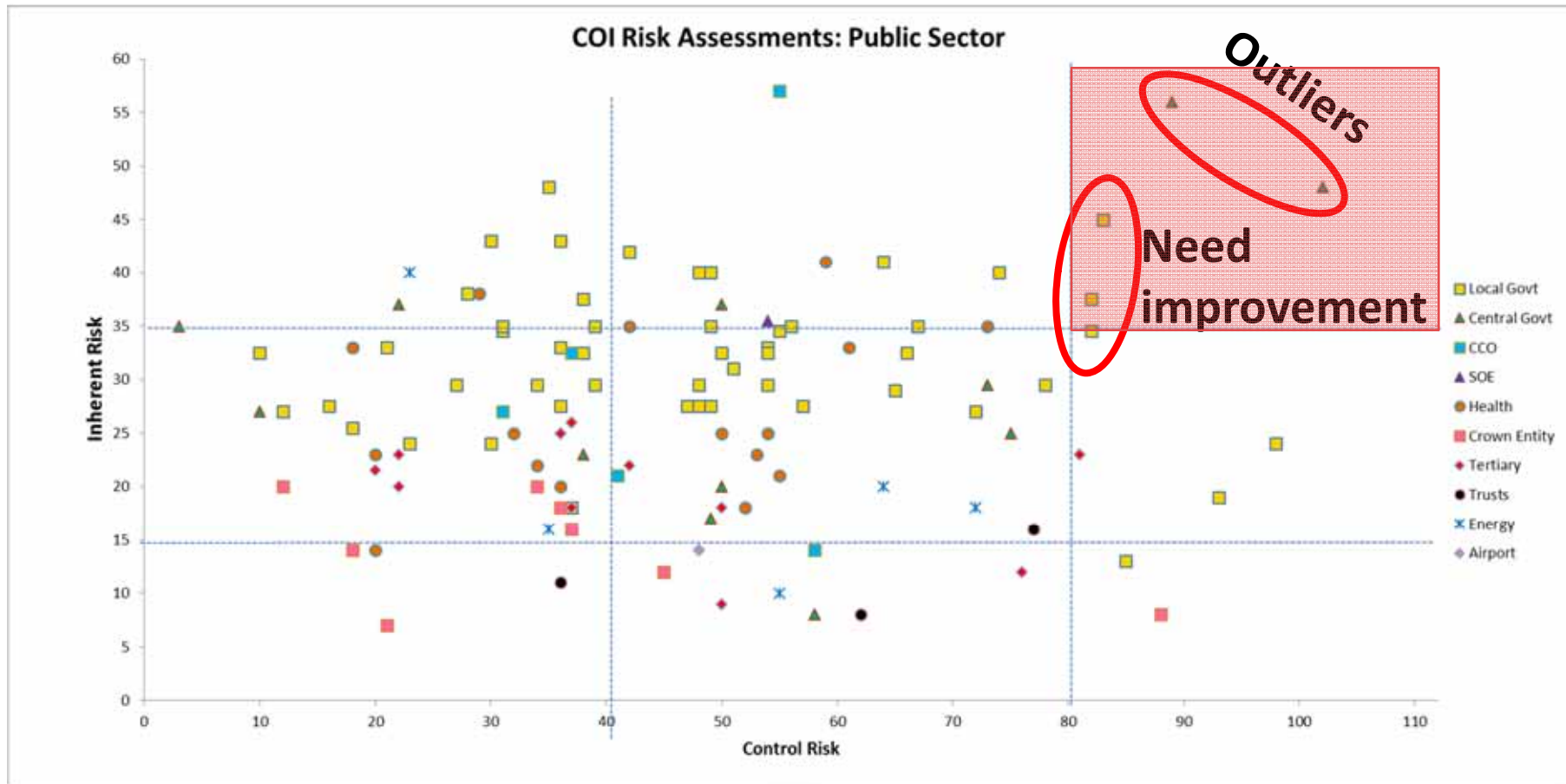
A heat map



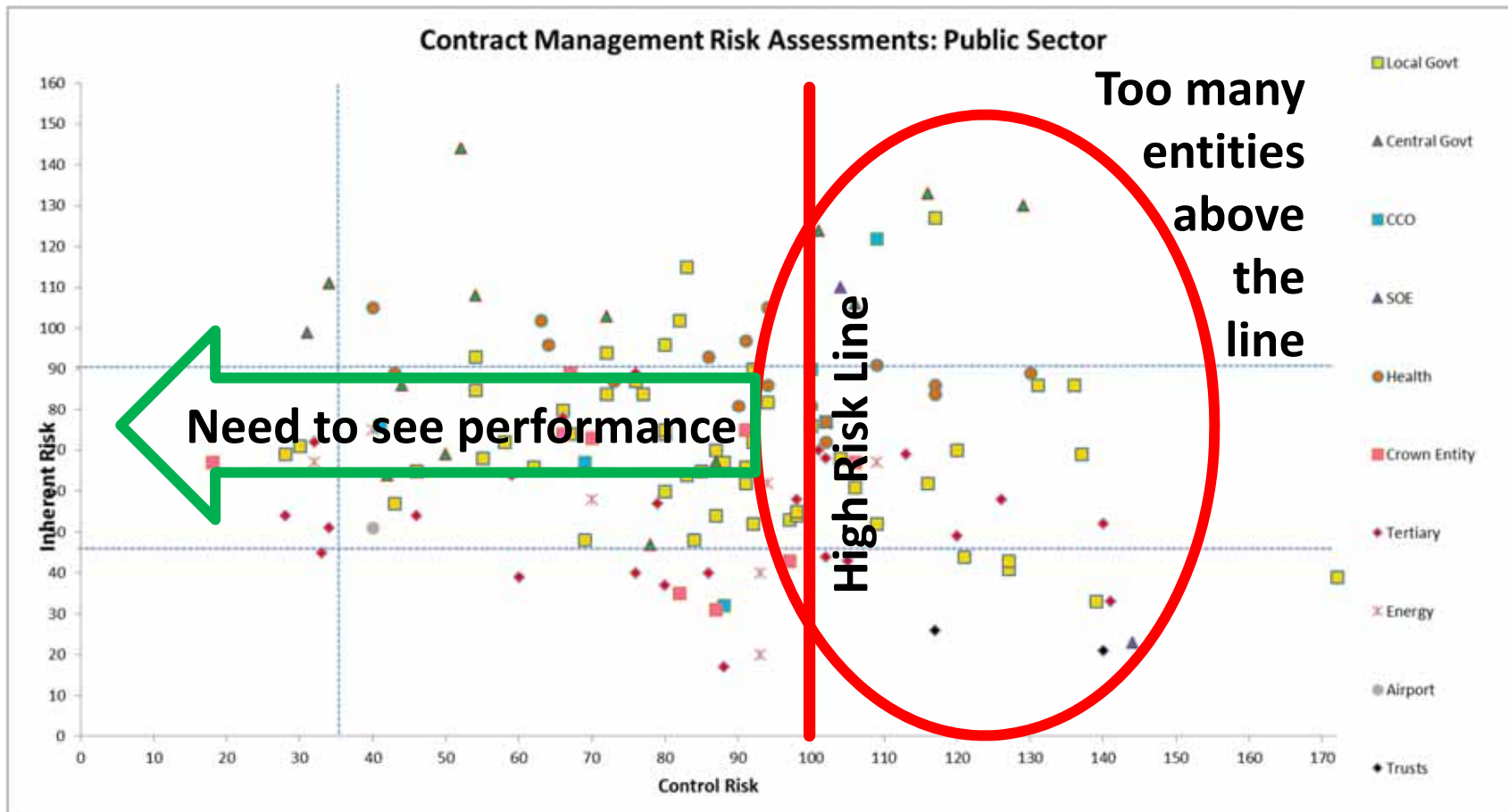
What's the data telling us?



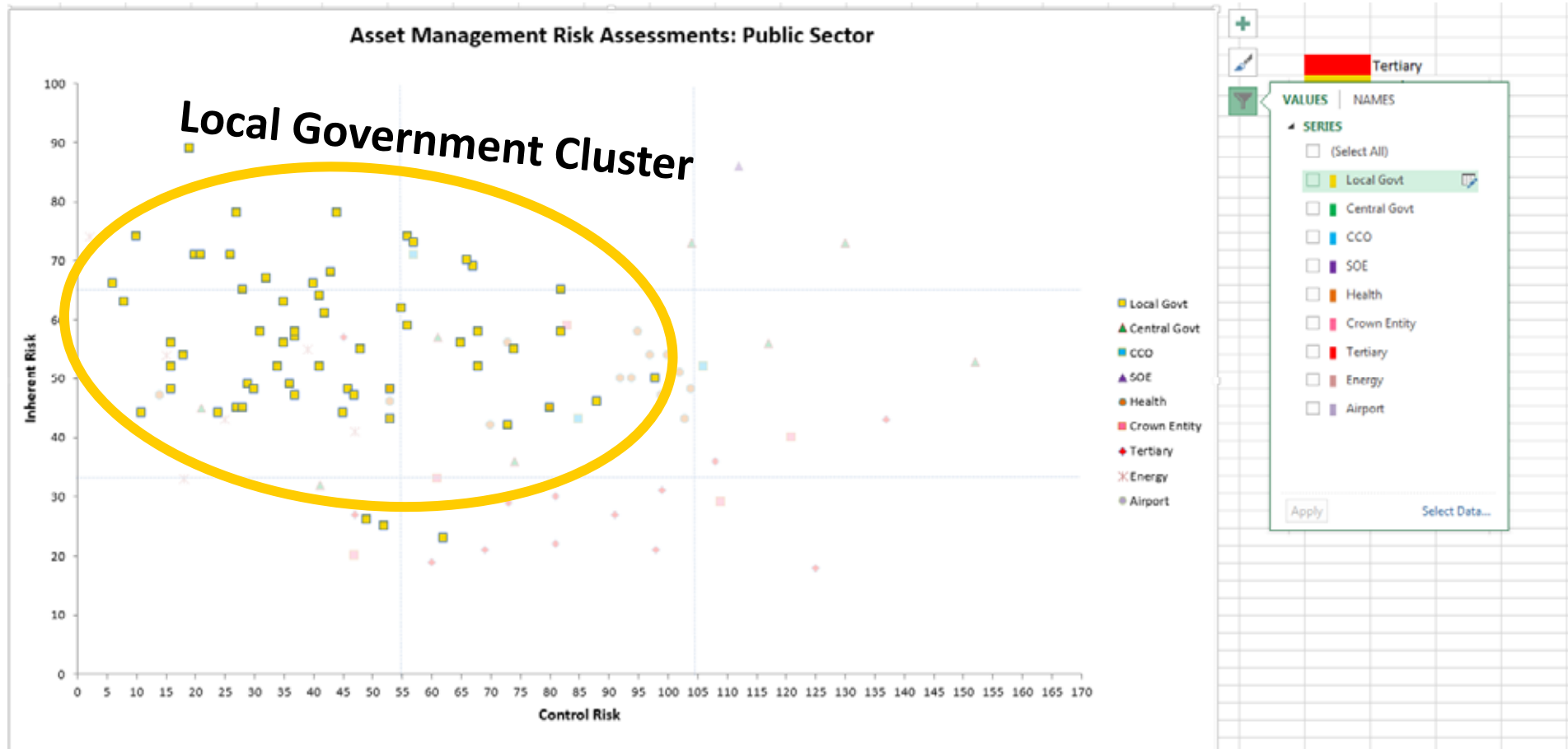
Identify priorities for audit



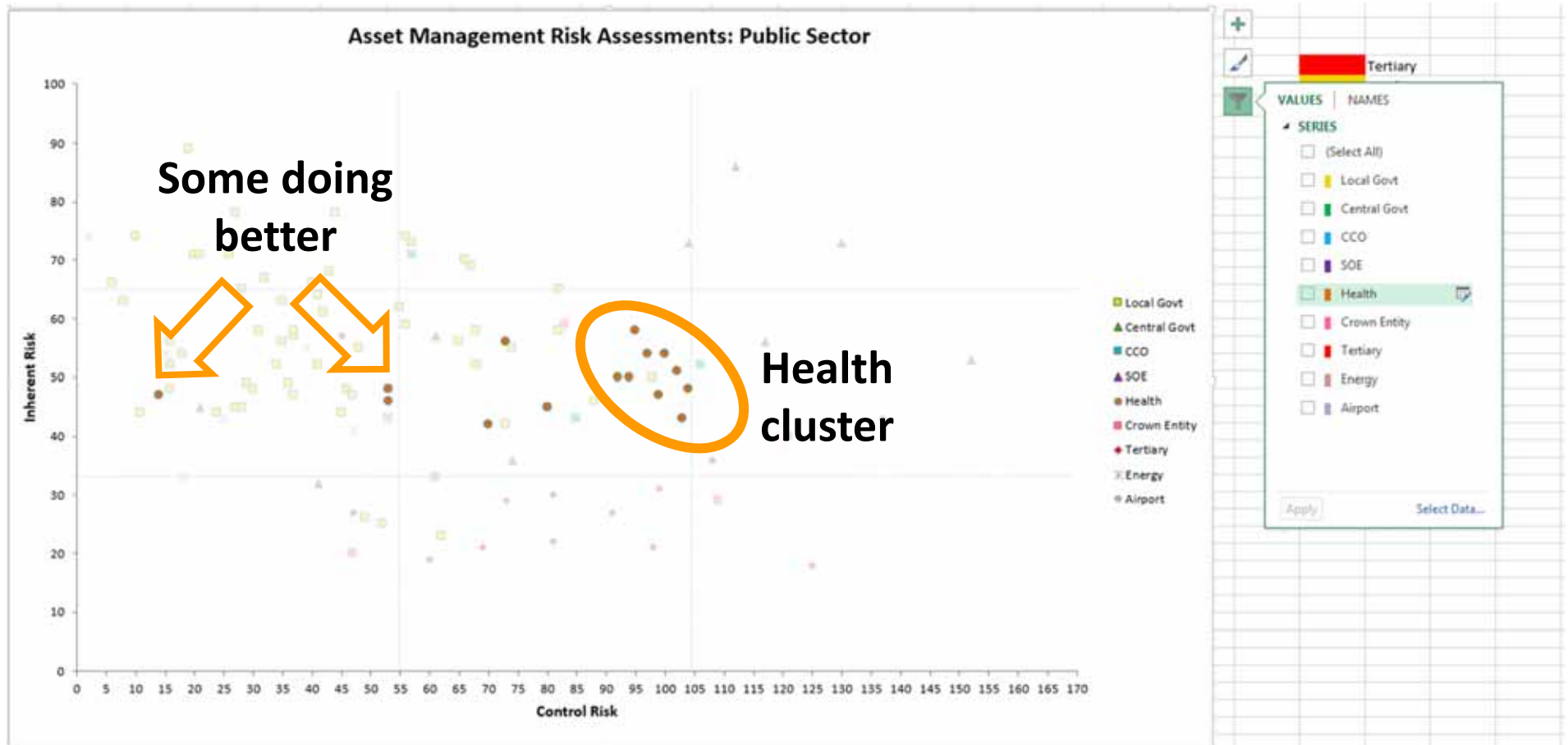
Identify the riskiest and track performance over time



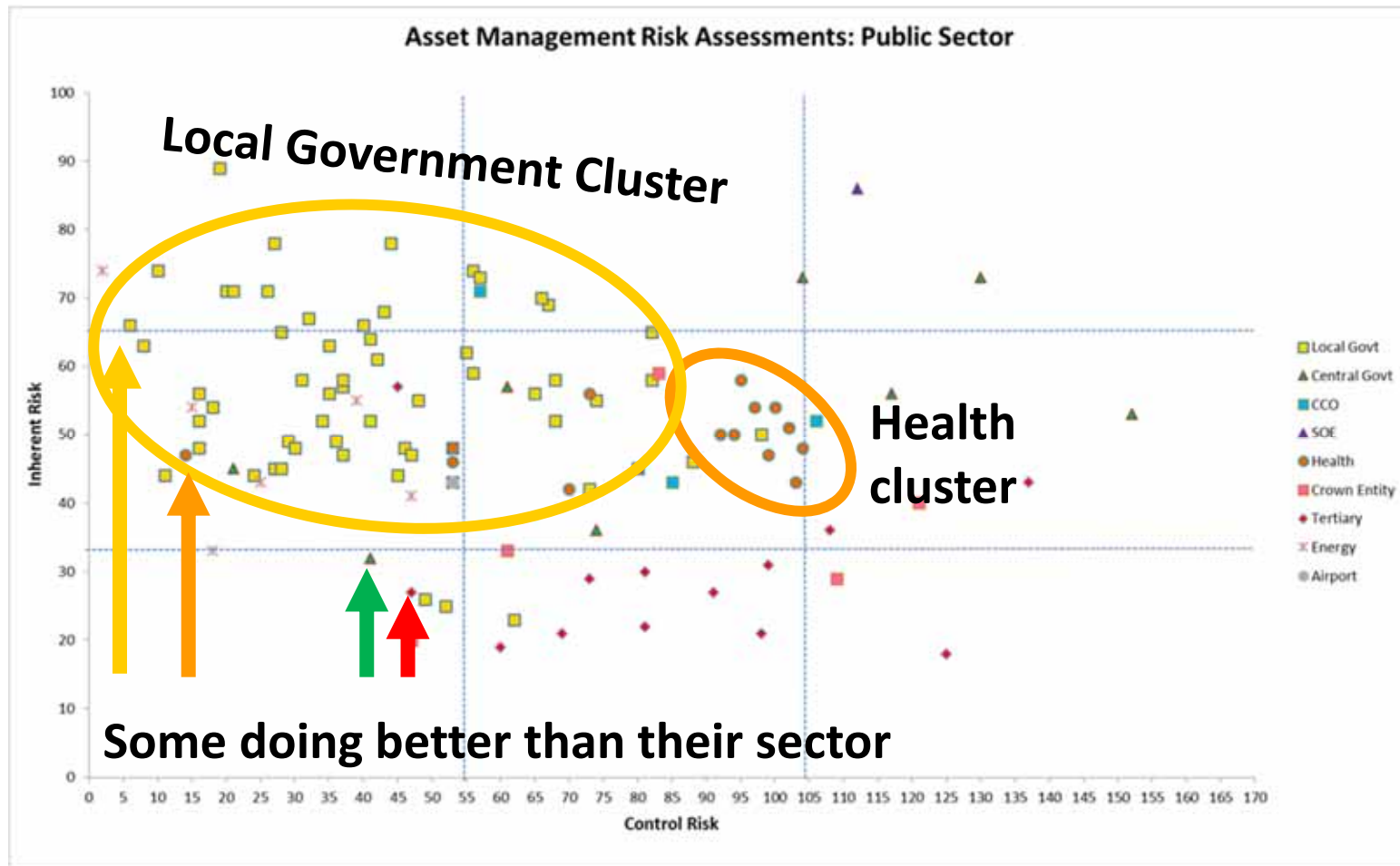
Compare across and within sectors



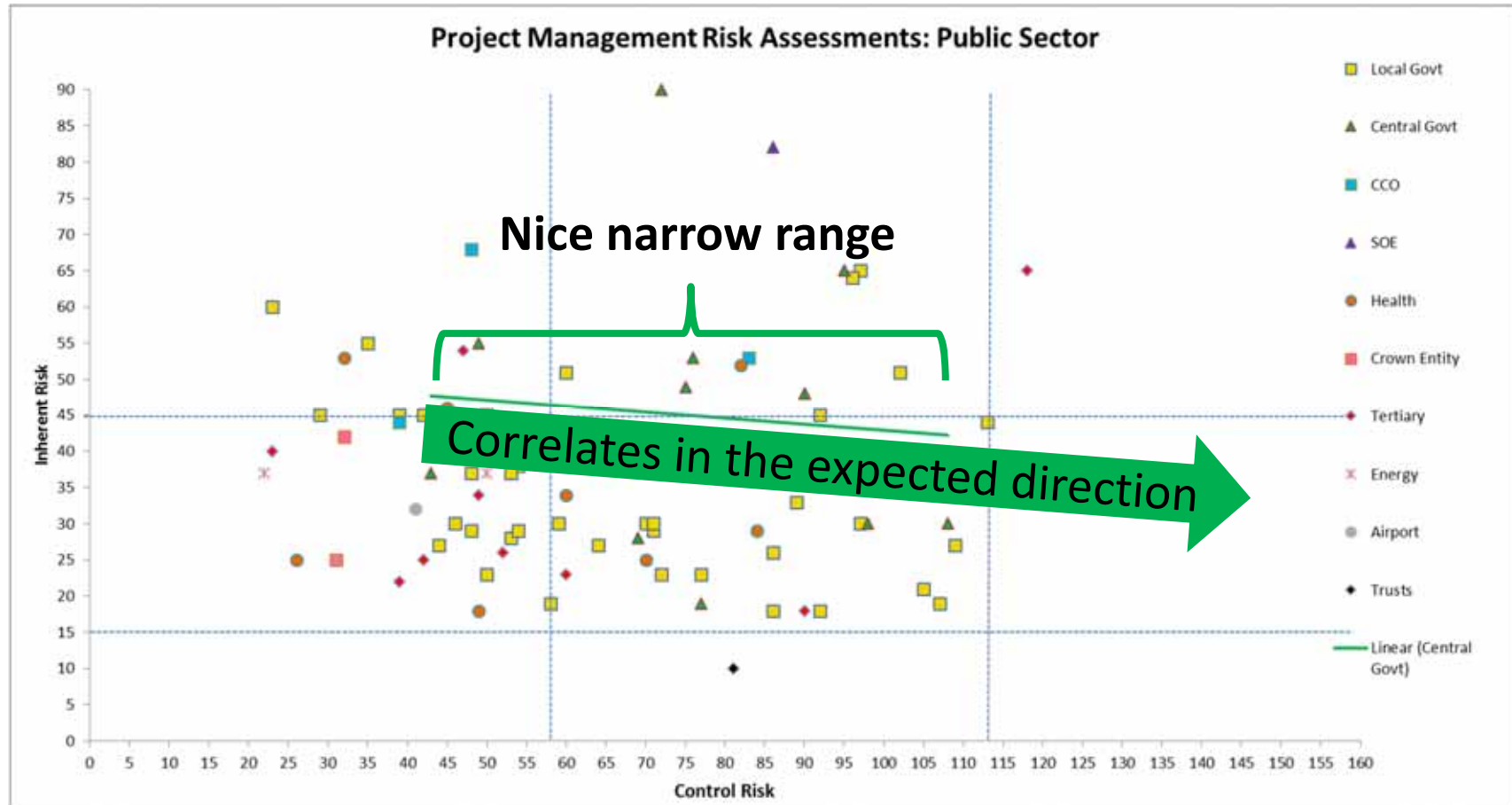
Compare across and within sectors



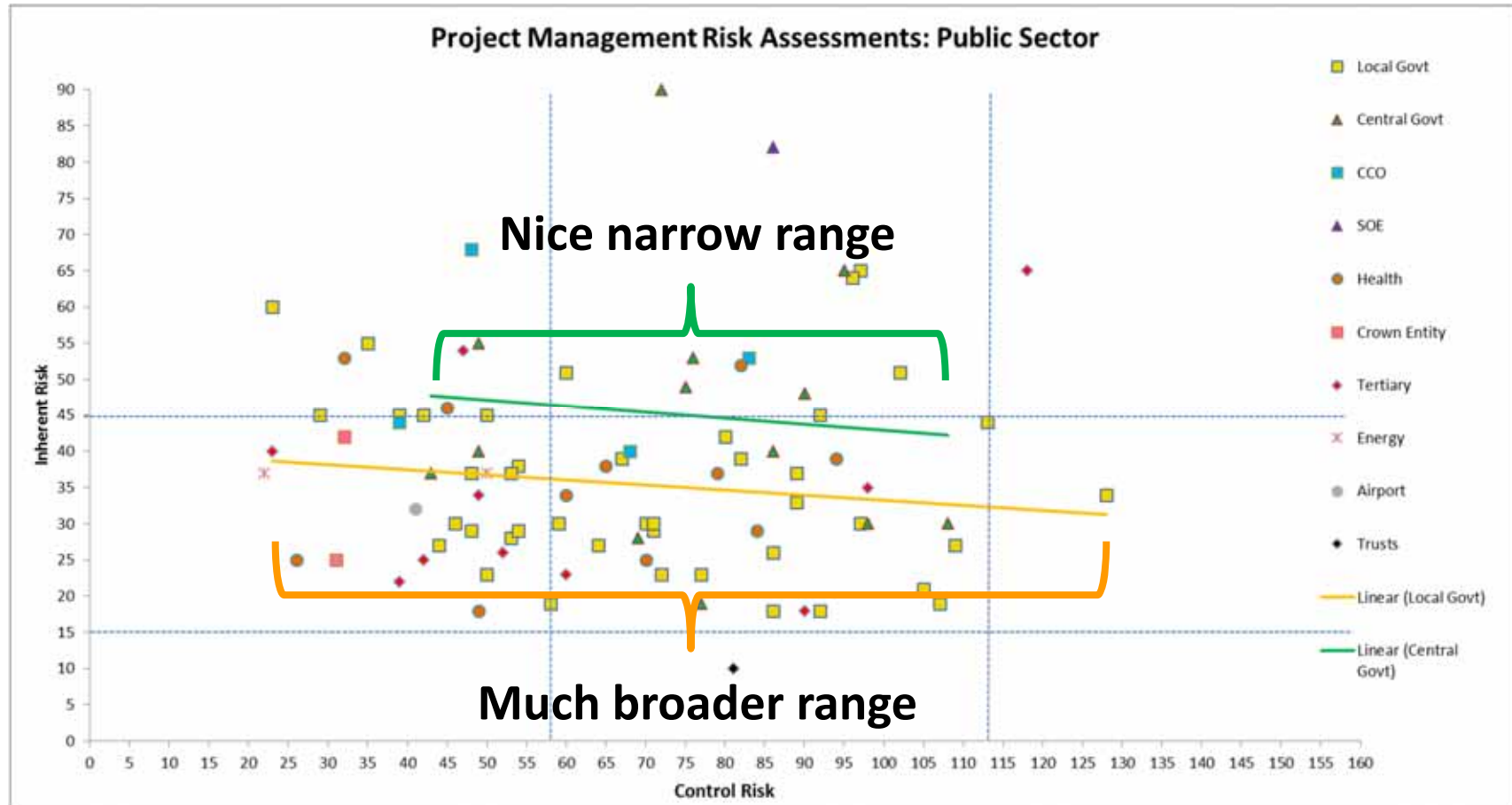
Compare across and within sectors



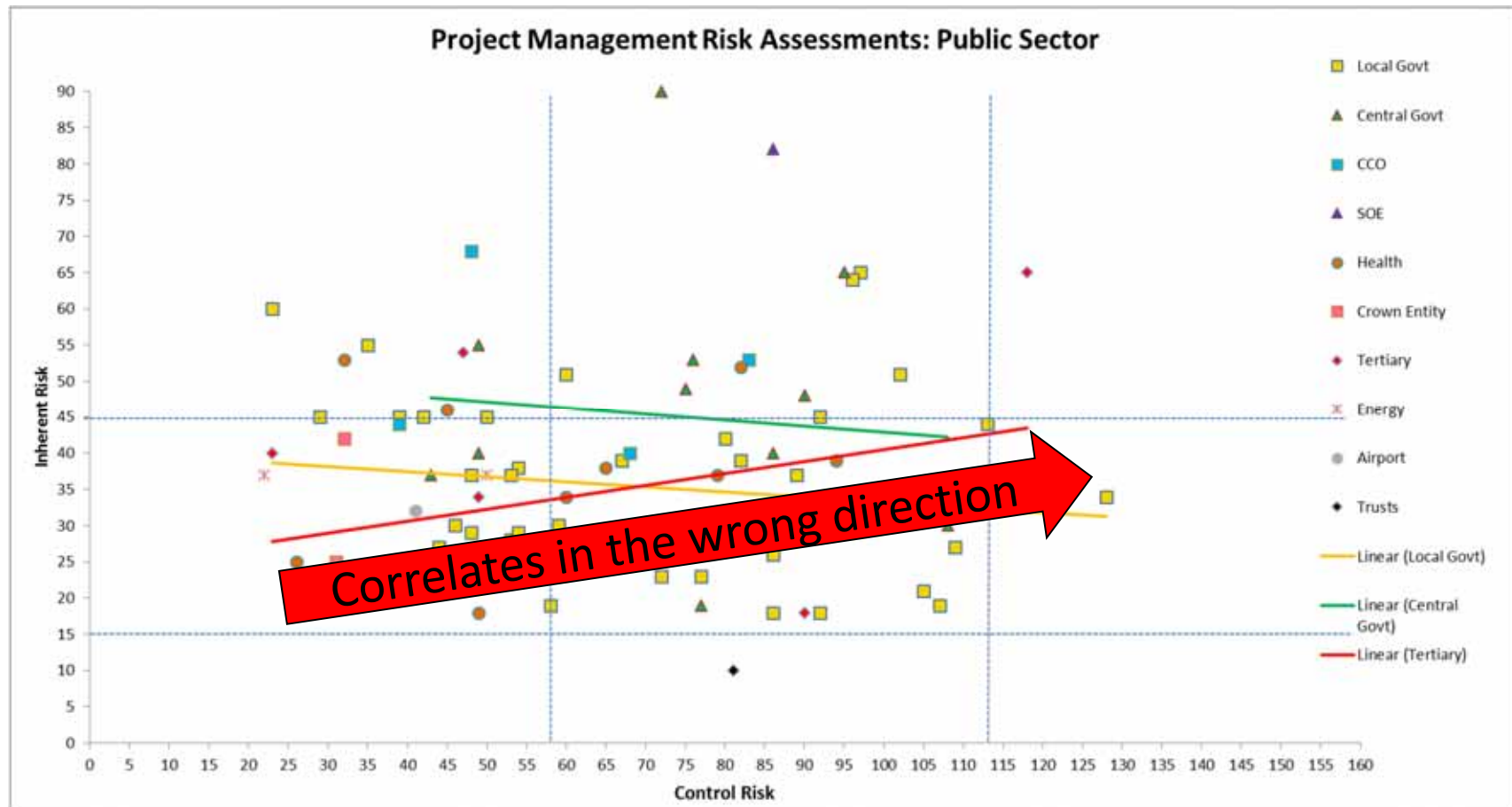
Look for correlations and trends



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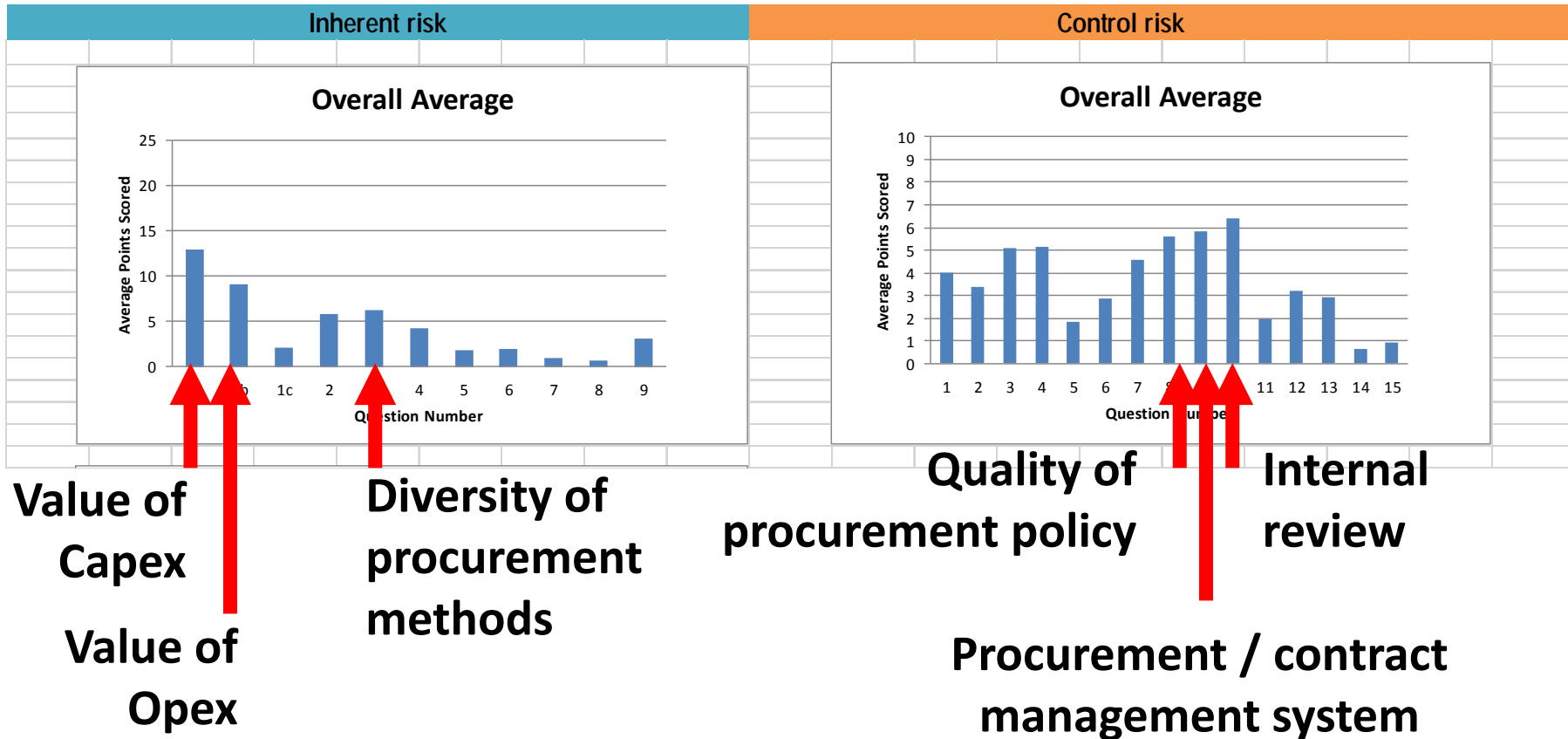


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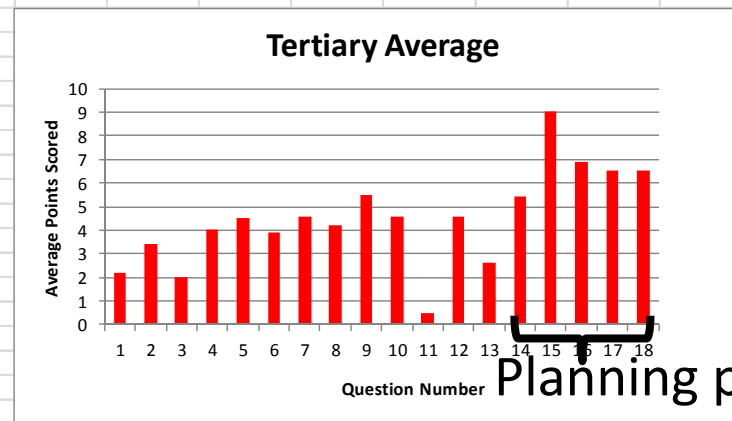
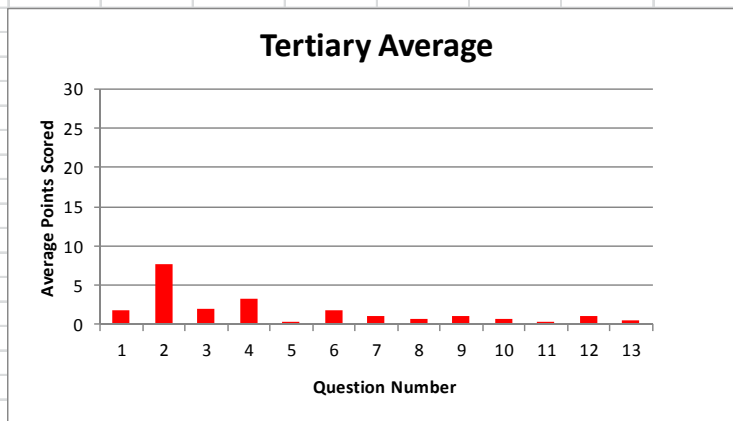
Identify Risk drivers

Procurement risks

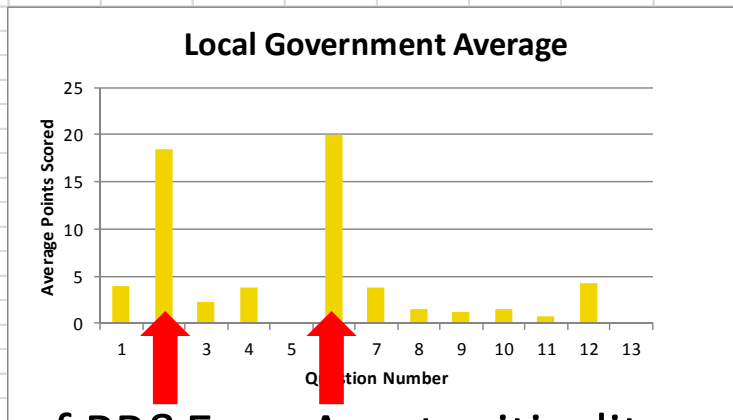


Differences between sectors

Asset Management risks

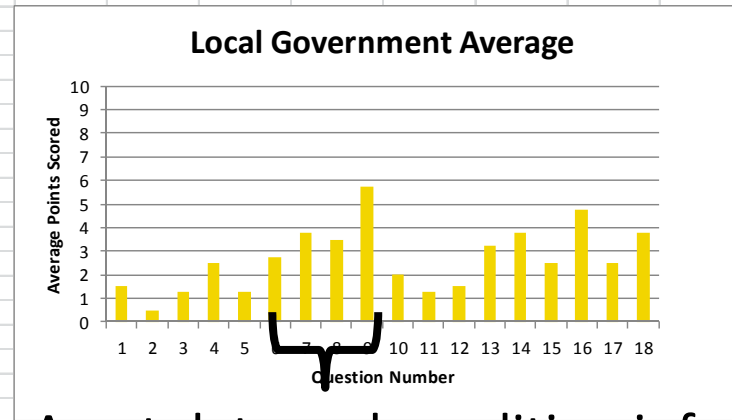


Planning process



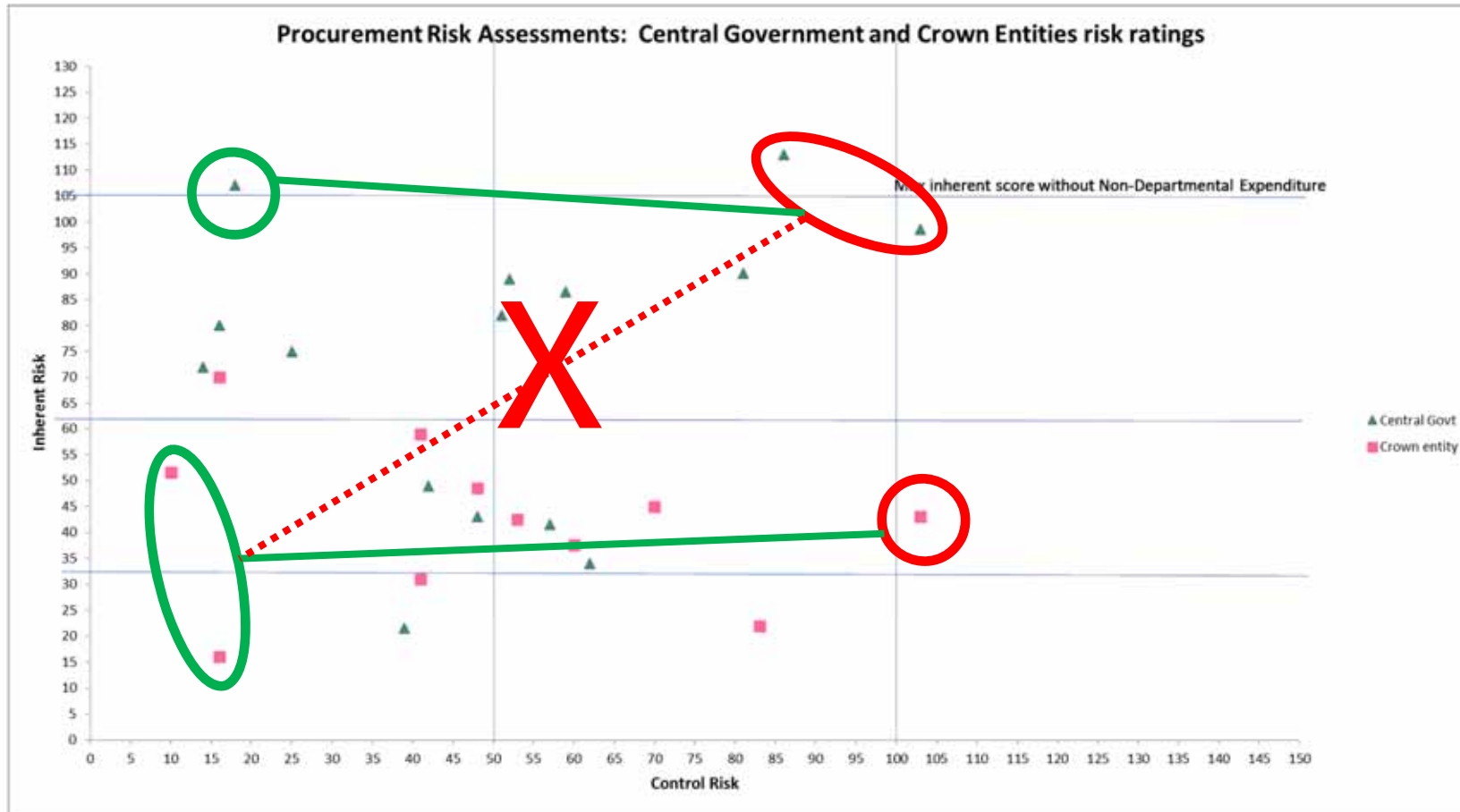
Value of PP&E

Asset criticality



Asset data and condition info

Matchmaking



Some key questions for you

- **What's driving your inherent level of risk?**
- **Do your management controls match your challenges?**
- Is your approach to risk clear?
- Have you decided on your risk appetite - or do you just know it when you see it?
- How are you making risk management real?
- Are you ready to take opportunities?
- How can your auditor add value?



Summary

Risk is defined as ‘The effect of uncertainty on objectives’

We need to **understand** your issues and how you manage them

We **plan** our work on the basis of risk

We can **identify** trends, issues, differences and similarities

We can suggest who to **talk** to and possibly **learn** from

“Our vision is that our audit and assurance work improves the performance of, and the public’s trust in, the public sector.”