

# Identifying risk

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What is risk?

# Risk...

“the effect of uncertainty on objectives”

... can be either negative or positive.

# 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.

# How do we think about risk?

7 Risk assessment tools  
Multiple choice questions

How risky is the  
environment?

What are good controls?

Scored answers → risk  
rating

More “risky” answers =  
high risk rating



Procurement and Contract  
Management

Asset Management

Project Management

Risk Management

Conflict of Interest

Governance

Financial Sustainability

# Say what?

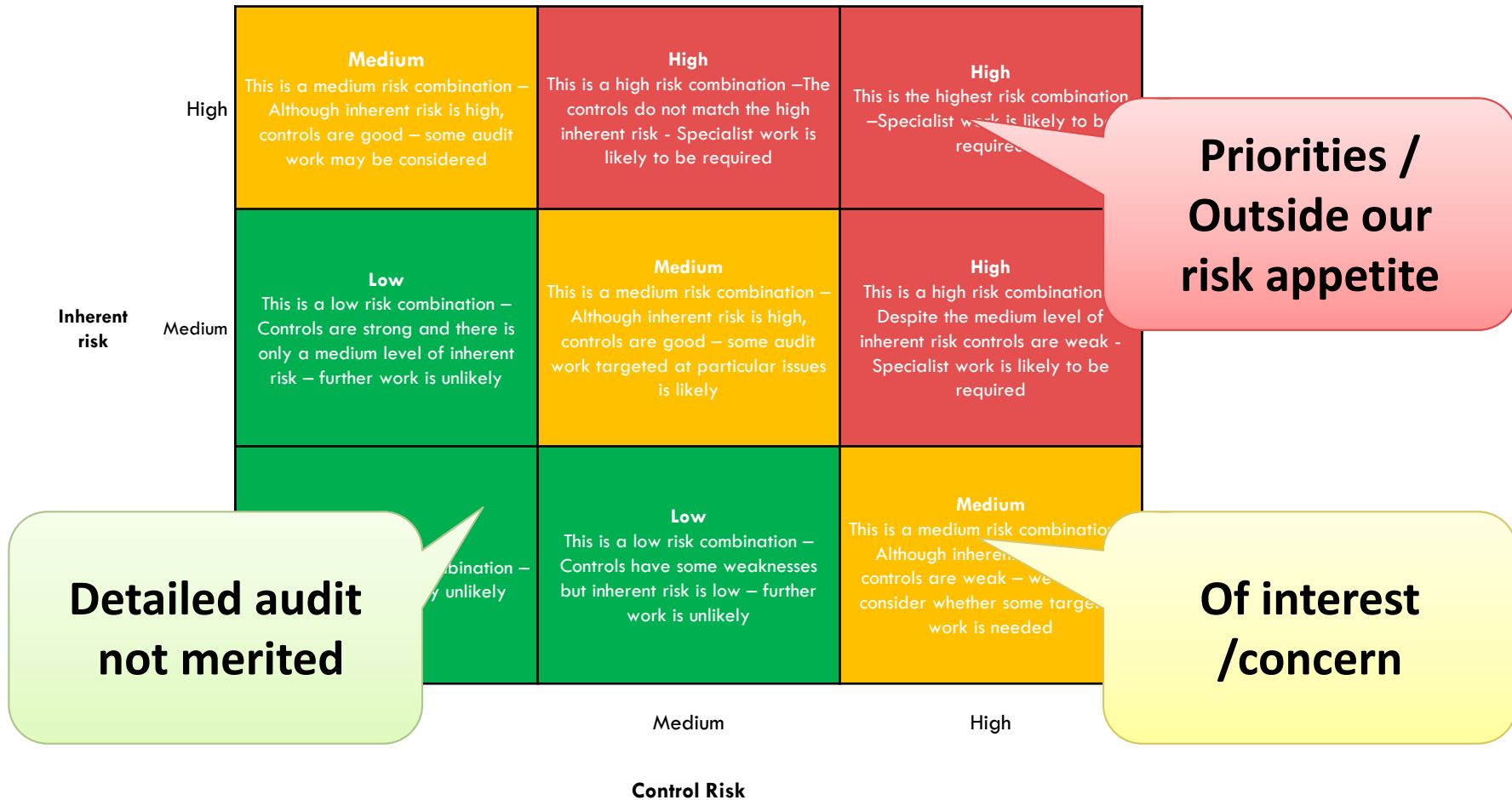
Some  
feedback

- **The auditor's view**
- “Helped me to **identify issues** with risk management and project management for my client. Provided us with some **added value** points.”

From last  
year

- **Your views**
- “Who knew audit risk would be this **interesting**”.
- “**Really enjoyed** presentation and great to understand how Audit NZ identifies risk areas. Would love to see the results for my organisation and what questions drives the scores”.

# A heat map

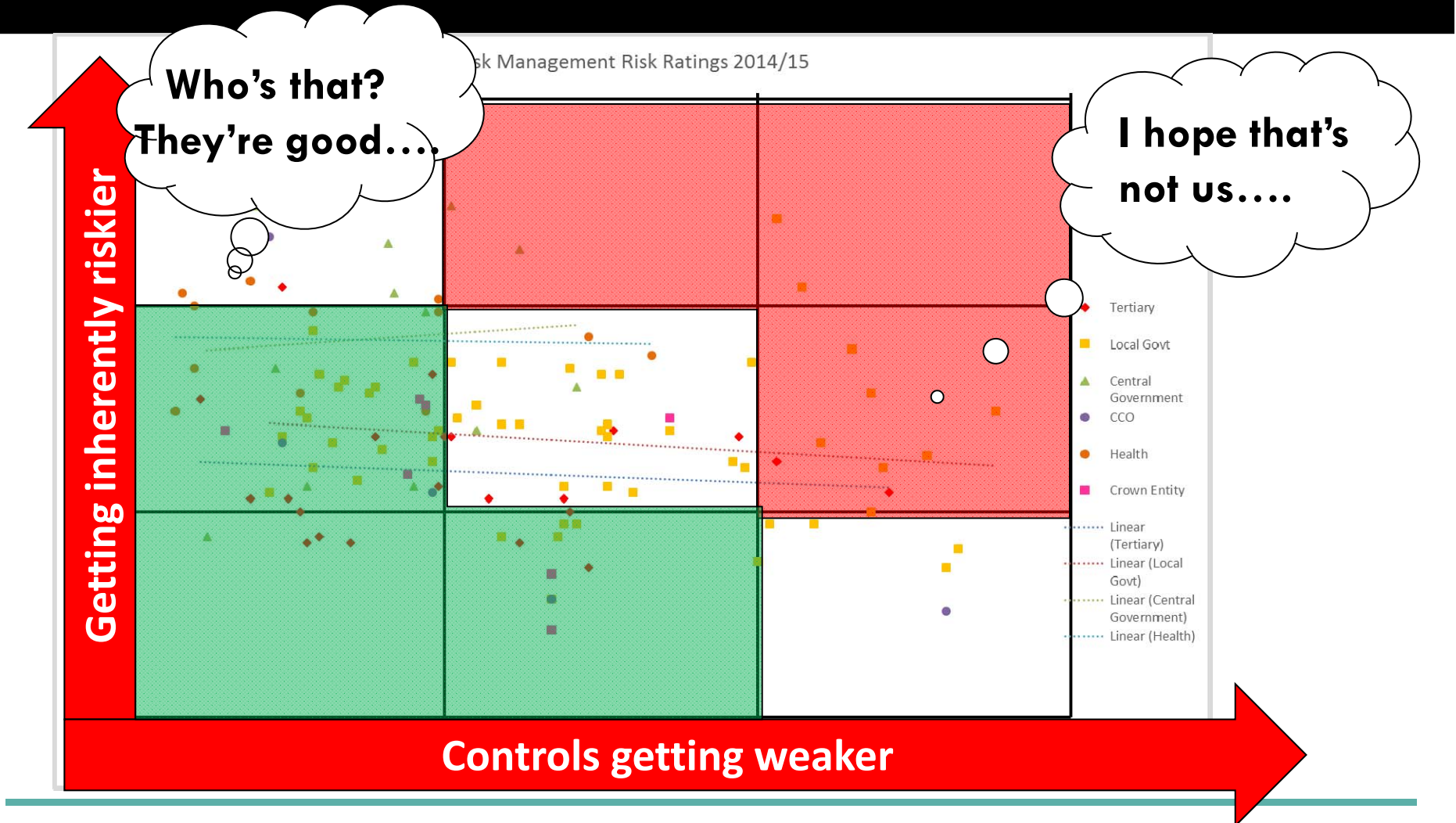


# Broader Audit Risks

## The Big Three

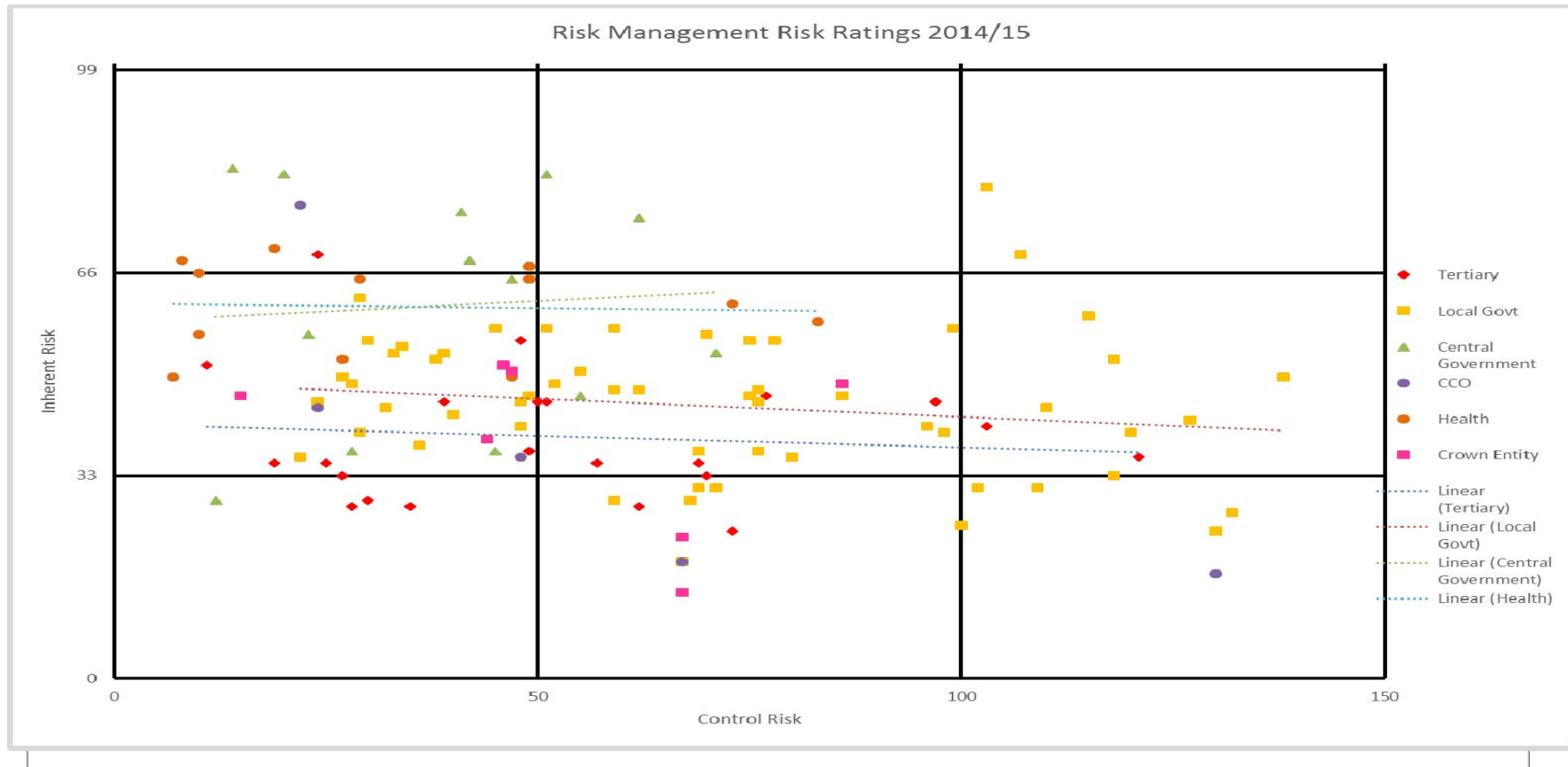


# What's the data telling us?

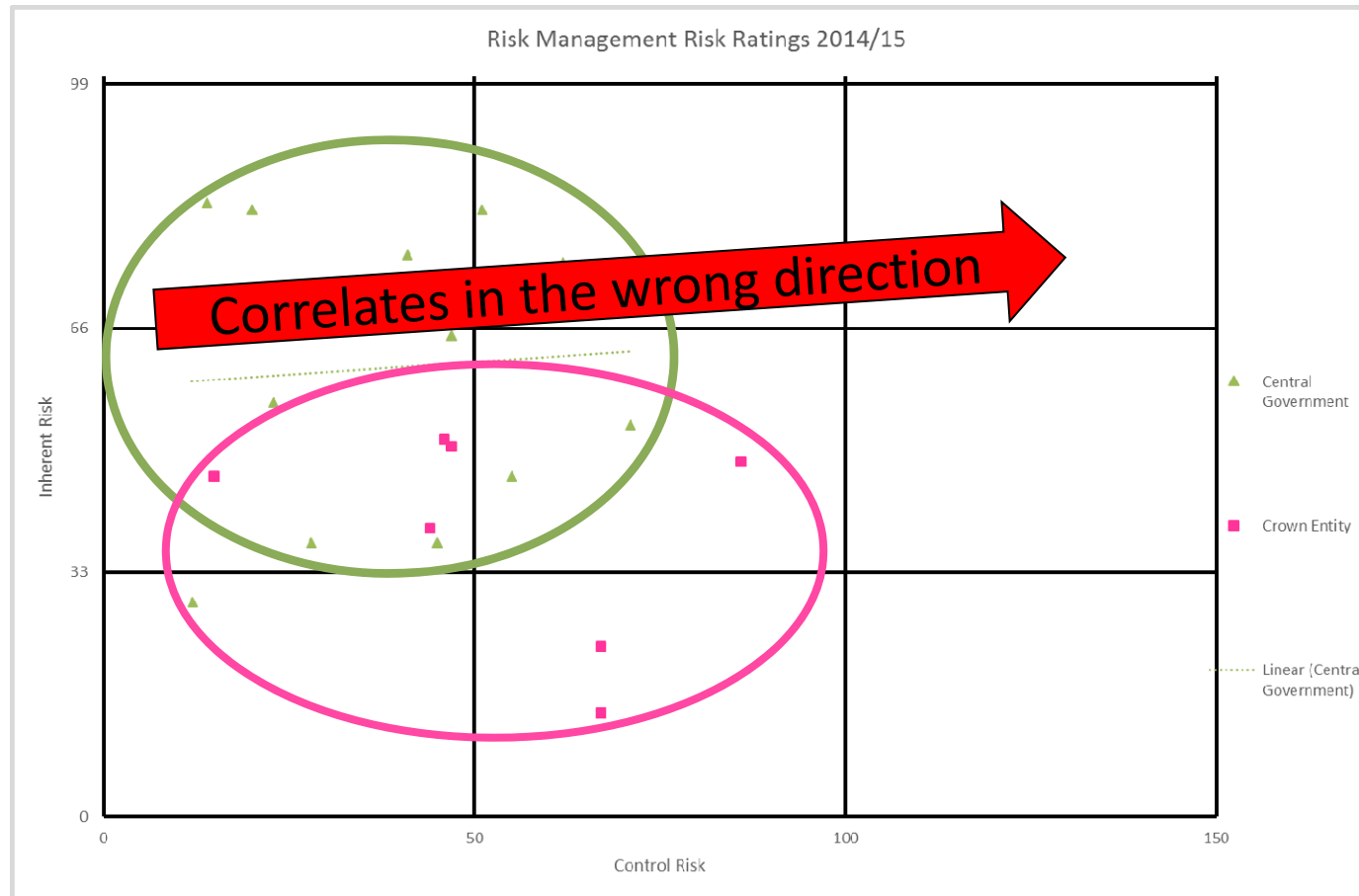




# Risk management remains a risk

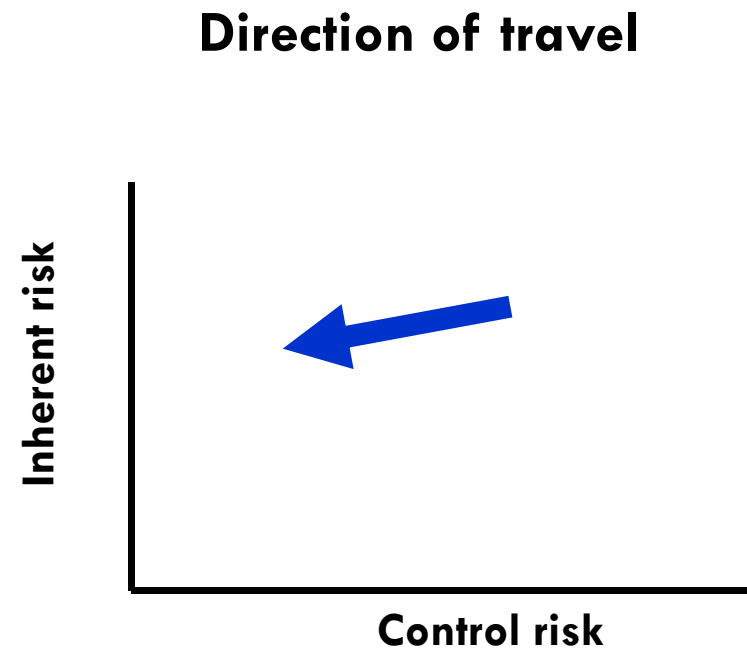


# But perhaps not for the sector?

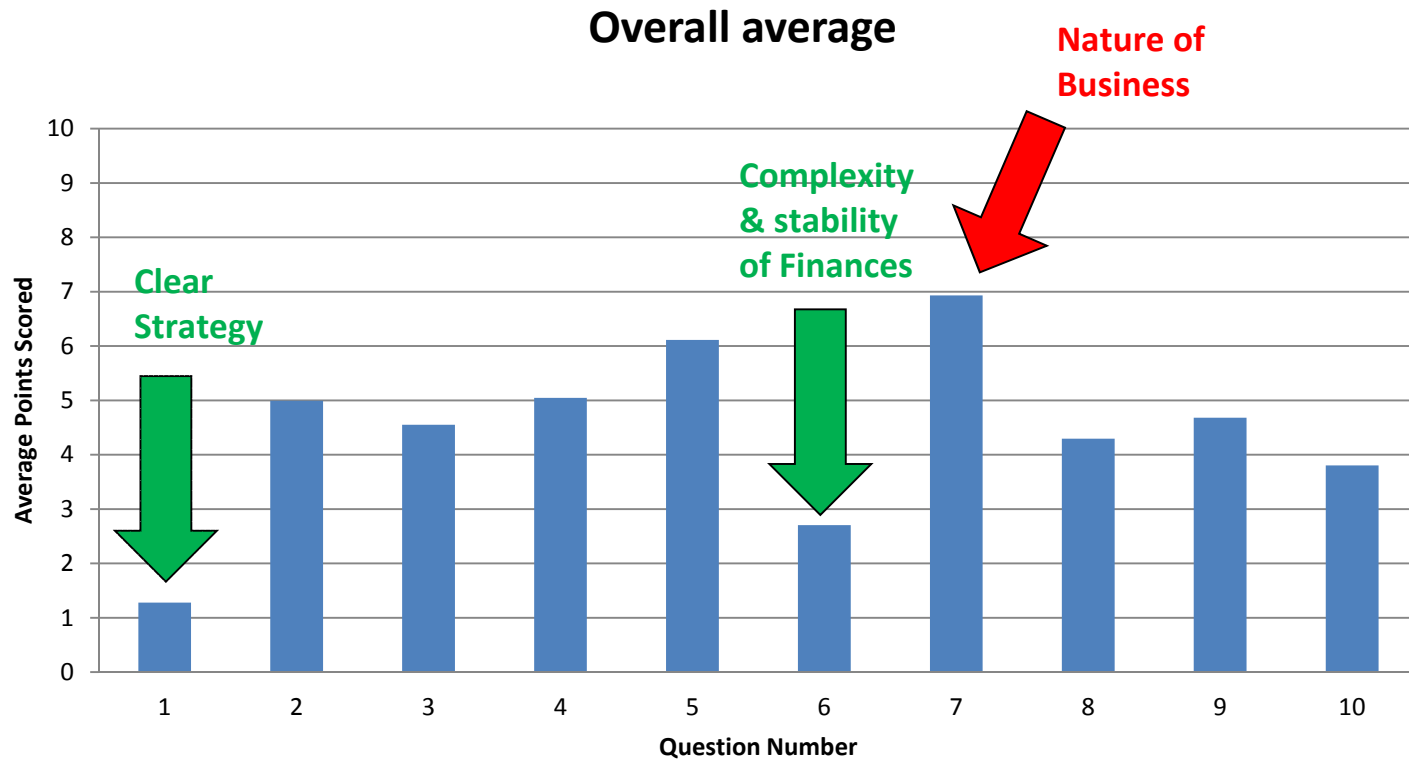


# Risk management

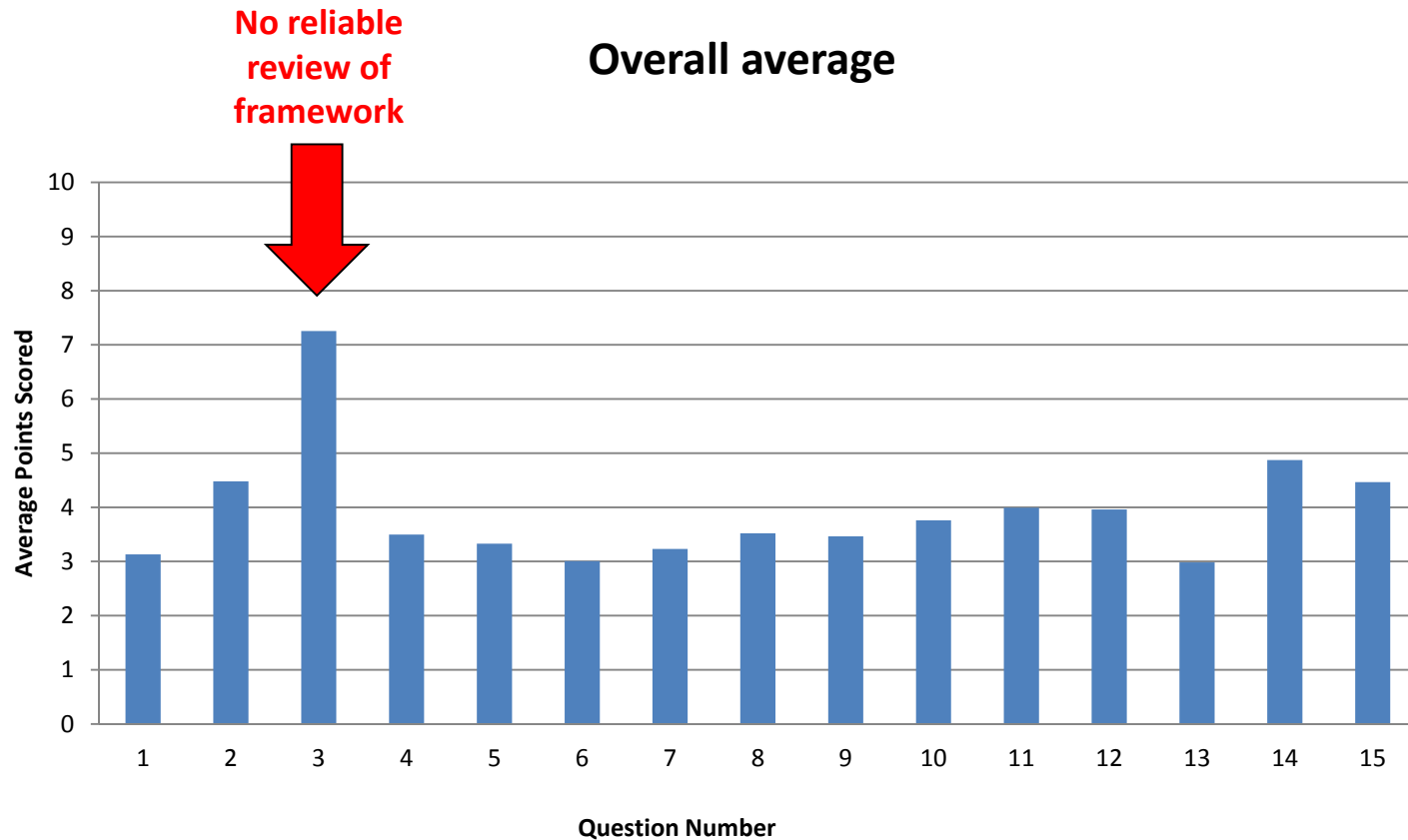
- No CG entity has high control risk;
- But there are high levels of inherent risk in the sector.
- The trend line is heading up, some entities with high inherent risk have weaker controls than we would expect;
- But the direction of travel is positive.
- Some frameworks need improvement;
- Assessing the quality of risk management frameworks, not just their existence, should be a priority for the sector.



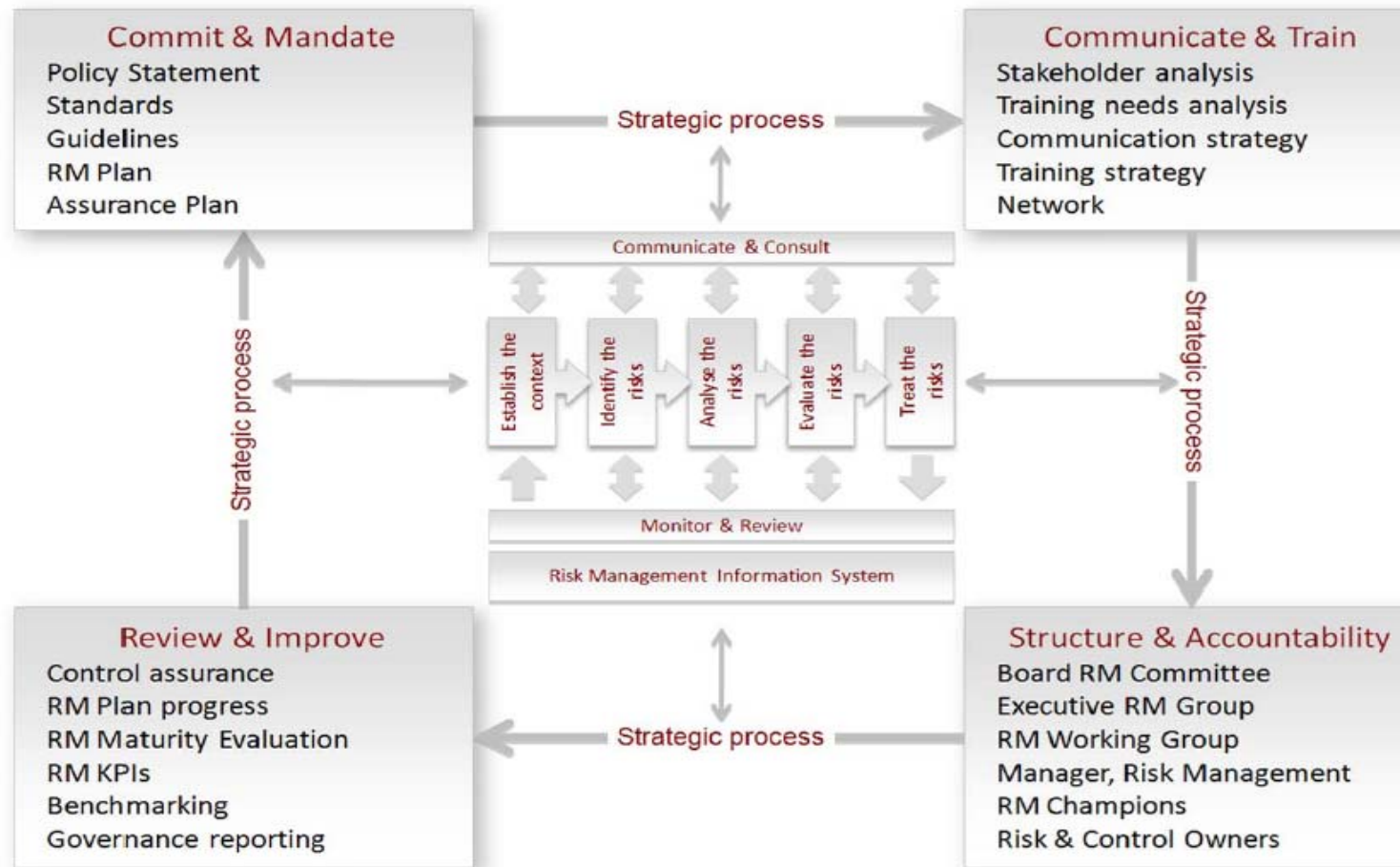
# Inherent risk



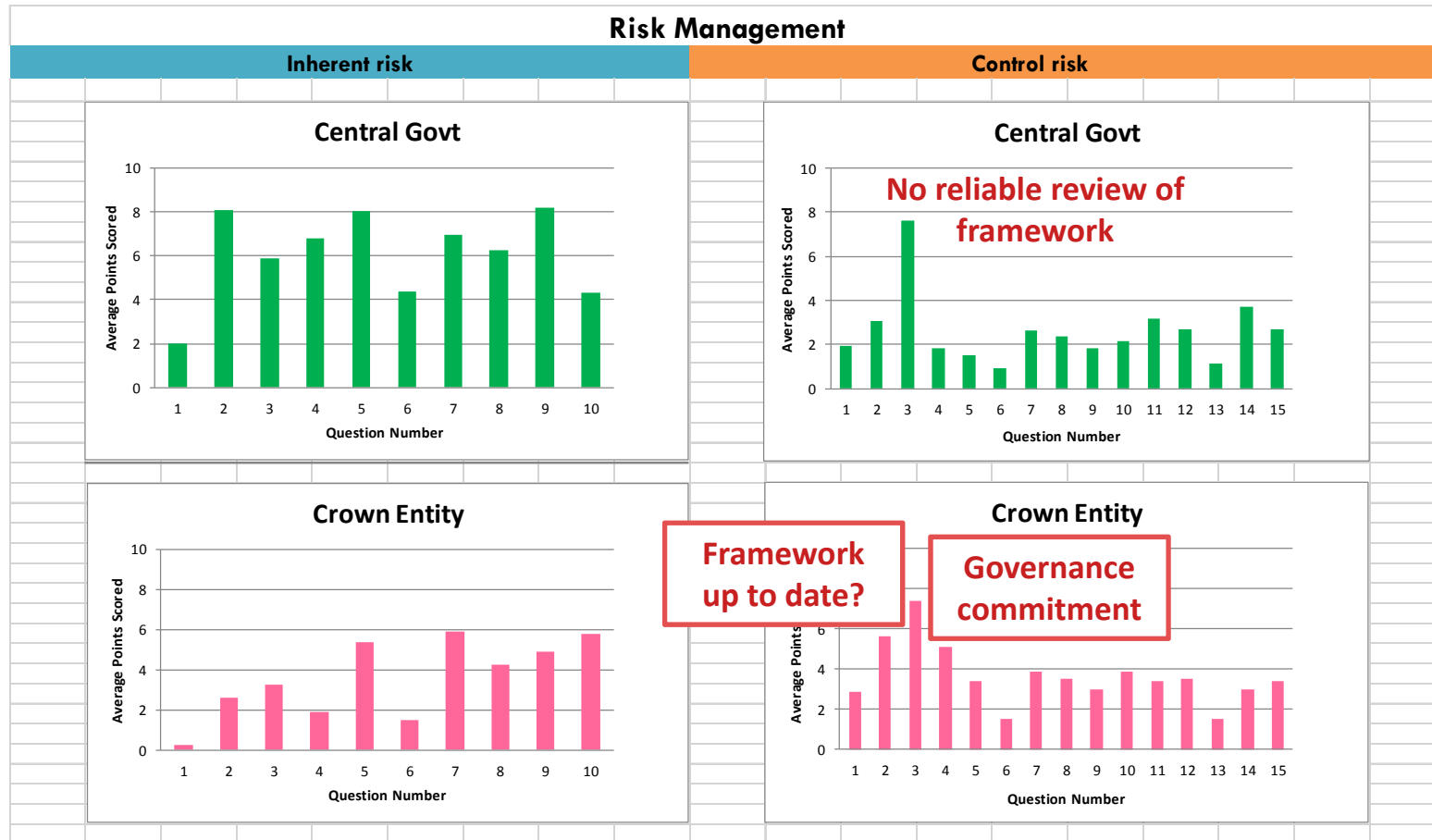
# Control risk



# Risk Management Framework

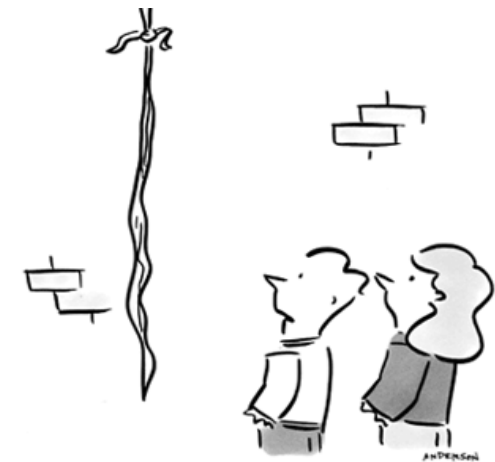


# Is the sector different?



# Procurement and contract management

- High level of inherent risk due to:
  - Significant dollar spend
  - Number, size, and complexity of processes and arrangements delivered through third parties
  - Reliance on the private and third sectors for delivery
  - Capex an investment in sector
- Control risk that requires consideration:
  - Contents of policies and guidance material
  - Assurance that contracts are well managed



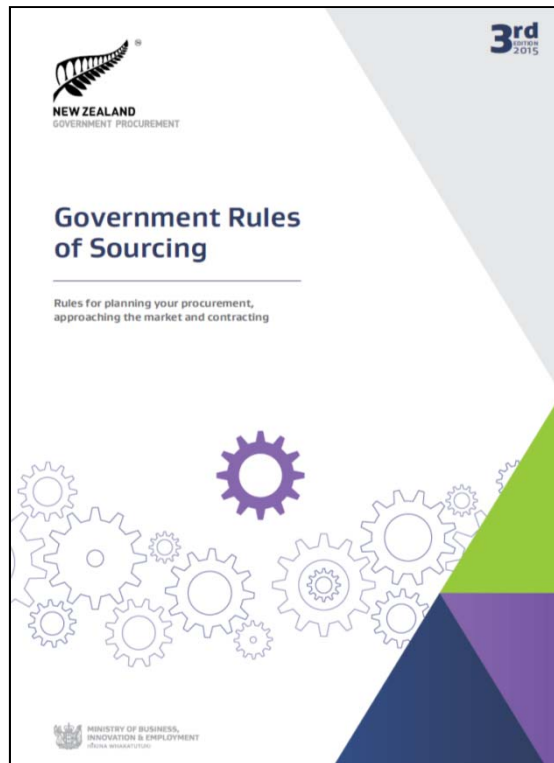
"Looks like he used the escape clause."



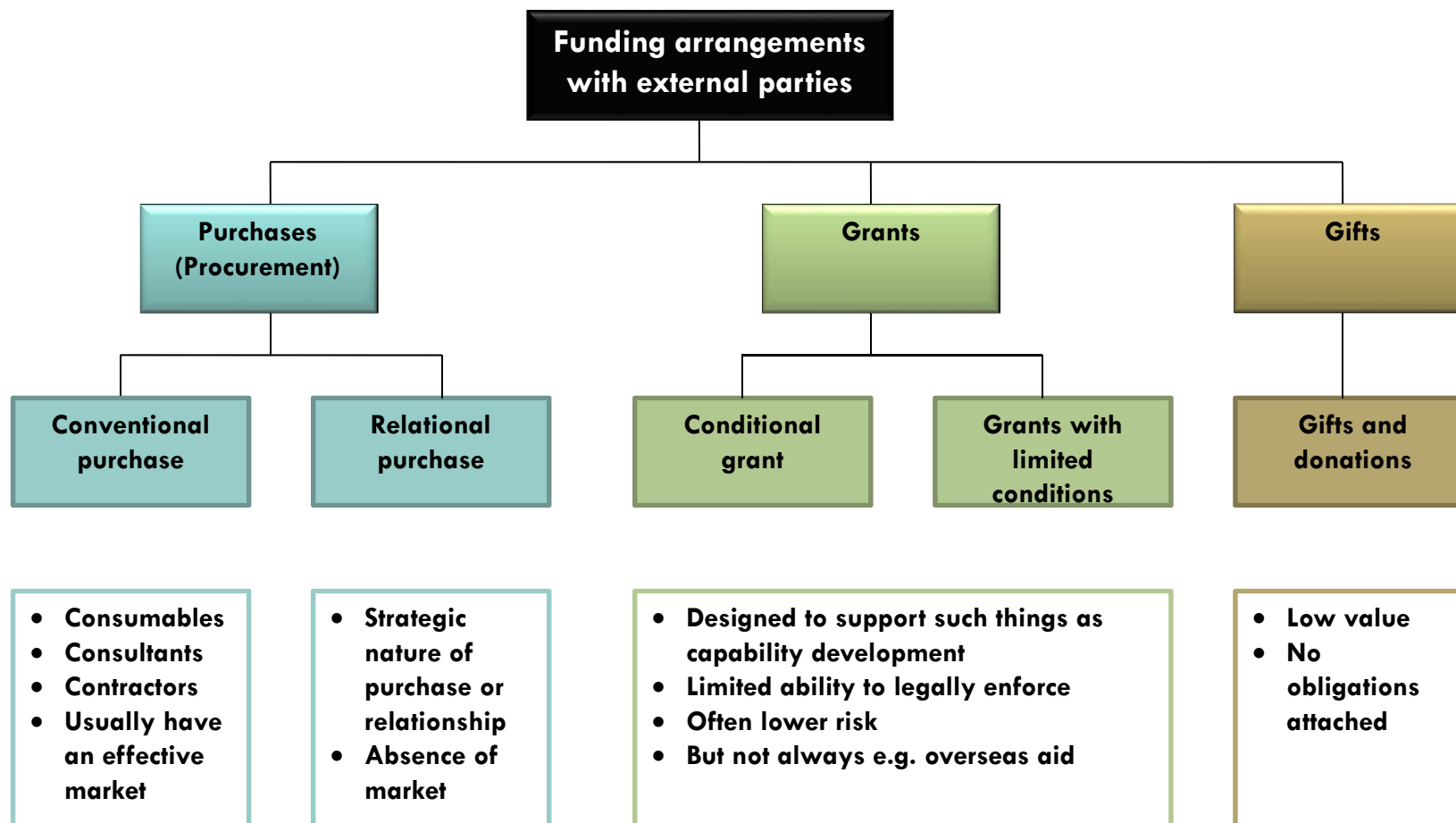
# Why procurement matters

- A significant activity for most public sector organisations  
30% to 70% of the budget spent on goods and services
- Significant performance and financial aspects to manage
- This level of procurement activity will continue in the foreseeable future
- Many organisations don't understand the extent of their contracting
- Many organisations don't understand the risks
- Significant frauds and performance issues have arisen

# A well guided topic



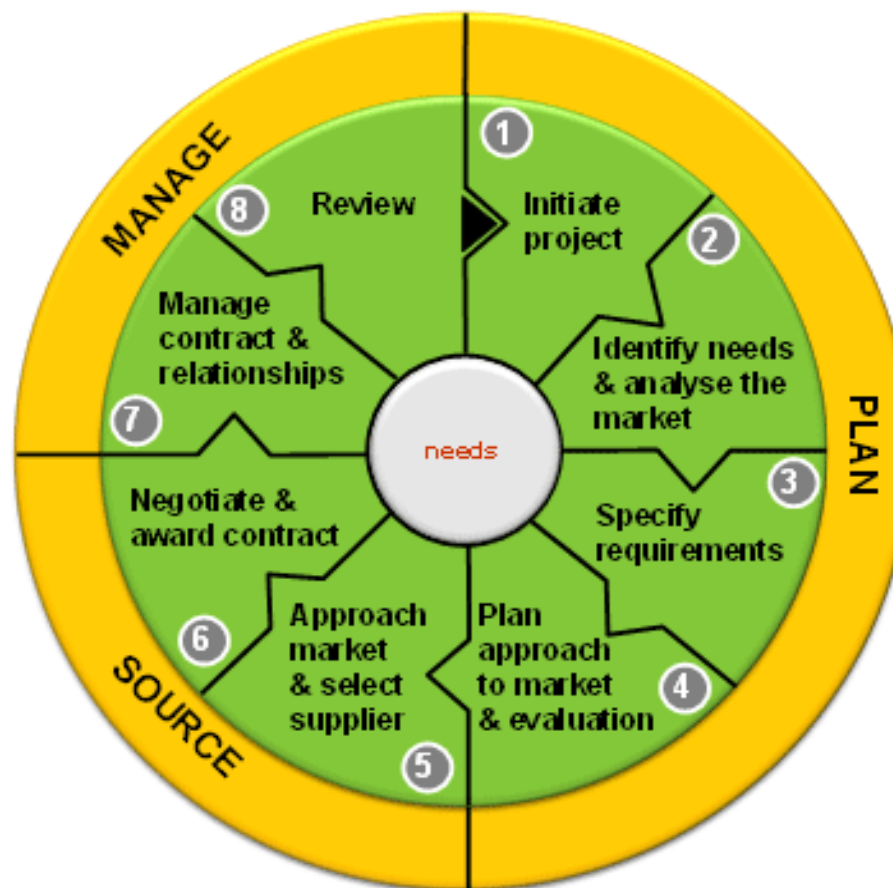
# A continuum of funding arrangements



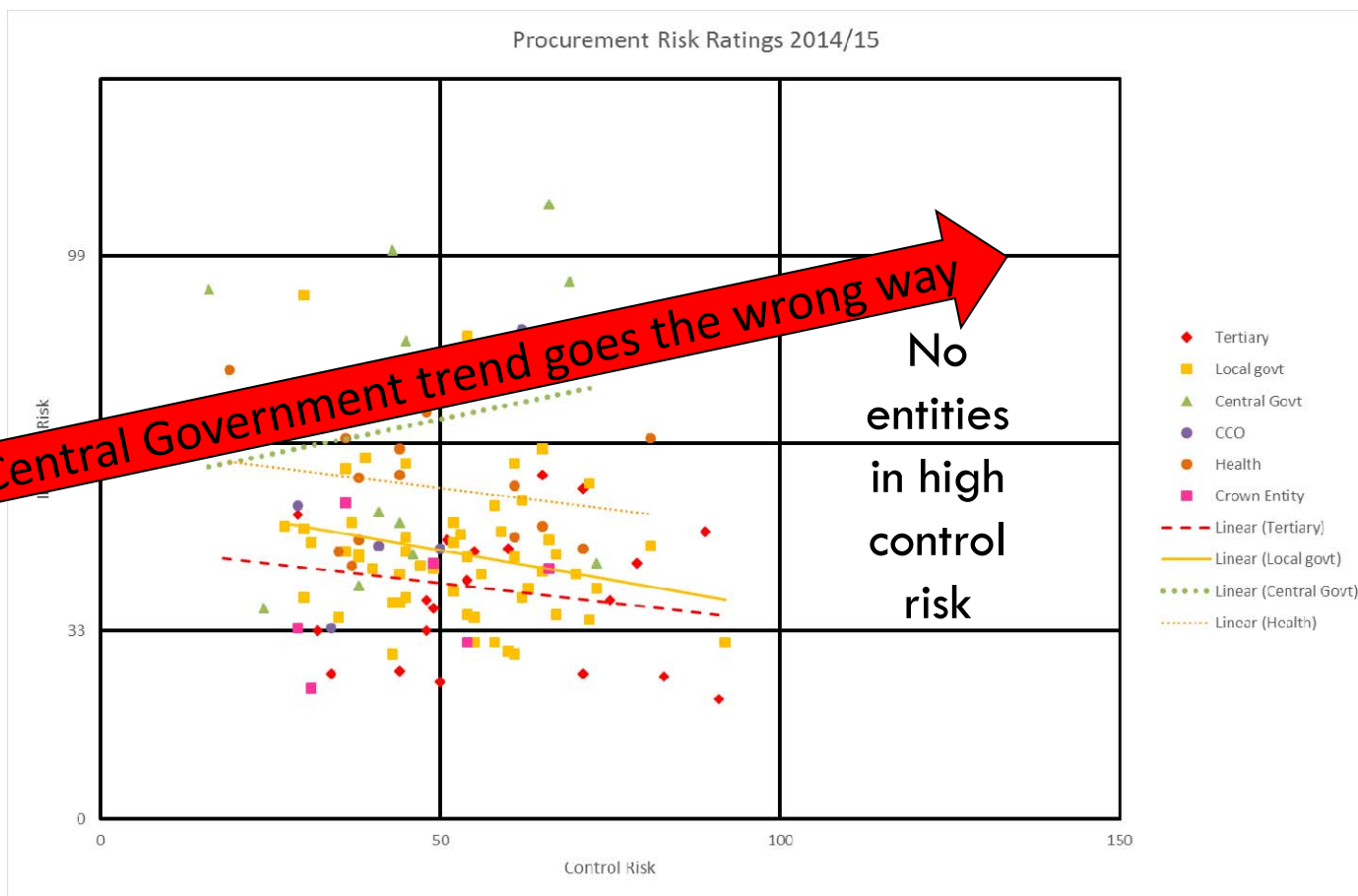
# A cyclical approach

## Contract Management

- Follows the award of a contract
- Manage the delivery of the goods and services
- Organisations put considerable effort into selecting a supplier through a tendering process
- but then put limited effort into managing the delivery.
- A poor outcome can result.

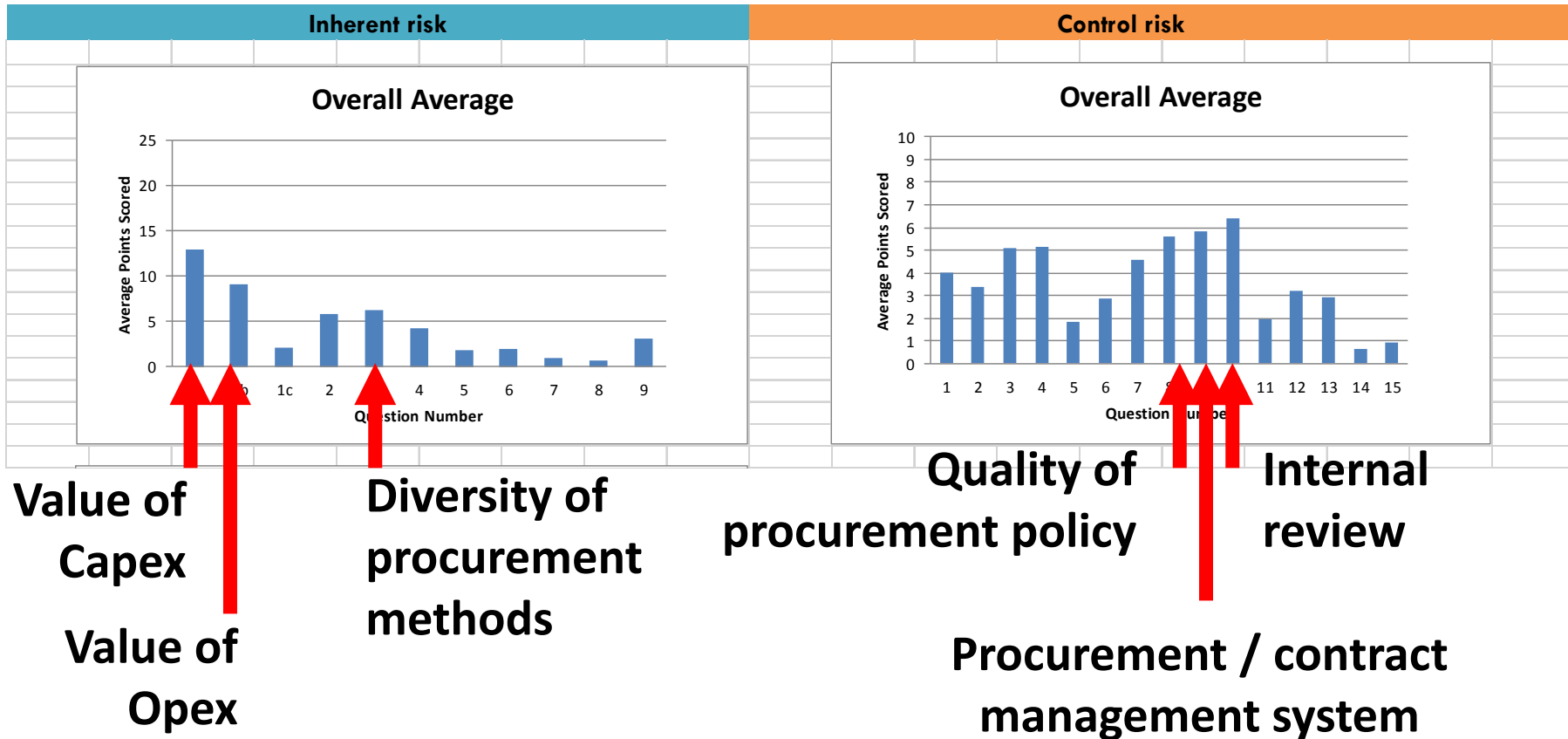


# Procurement in 2015 under control?

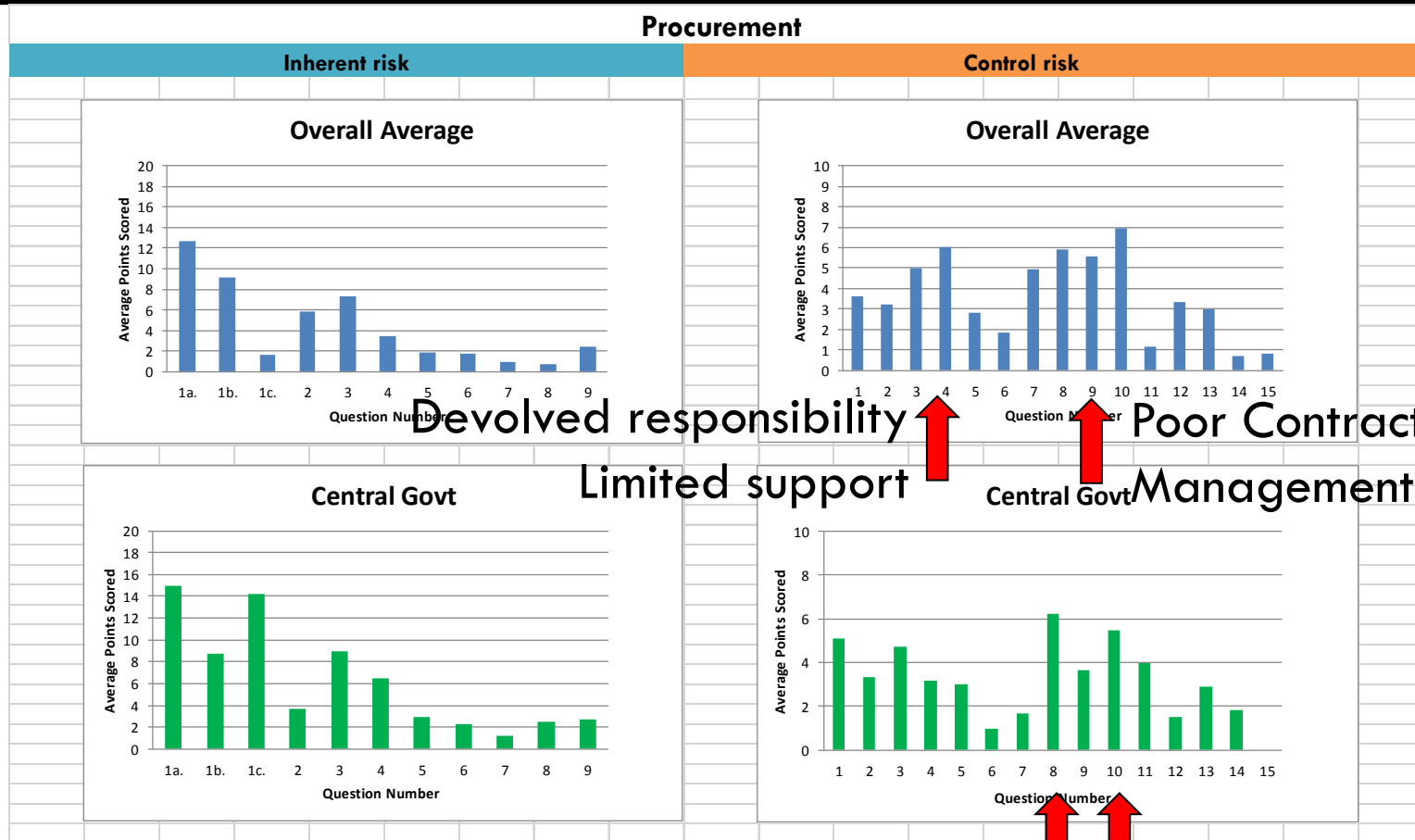


# Procurement risk drivers

## Procurement risks



# Differences between sectors



Devolved responsibility



Poor Contract



Limited support

Central Govt Management System

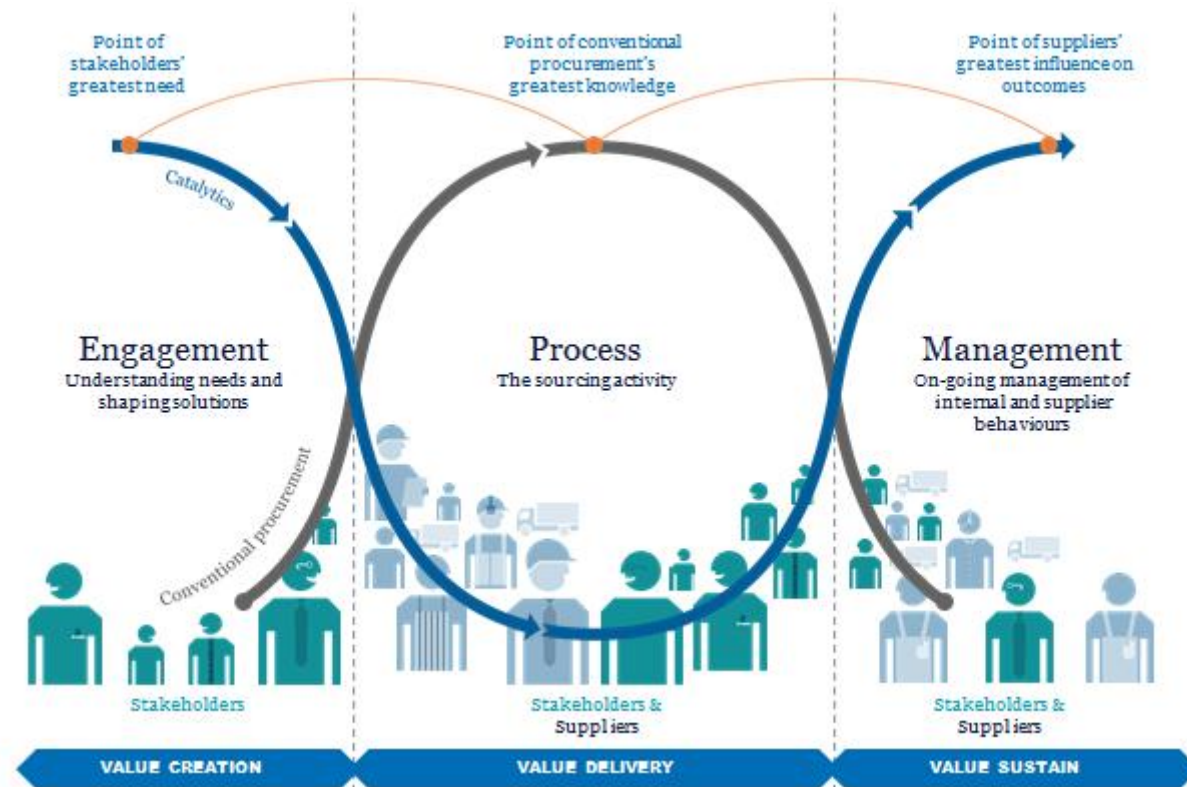
Poor policy



Limited Review



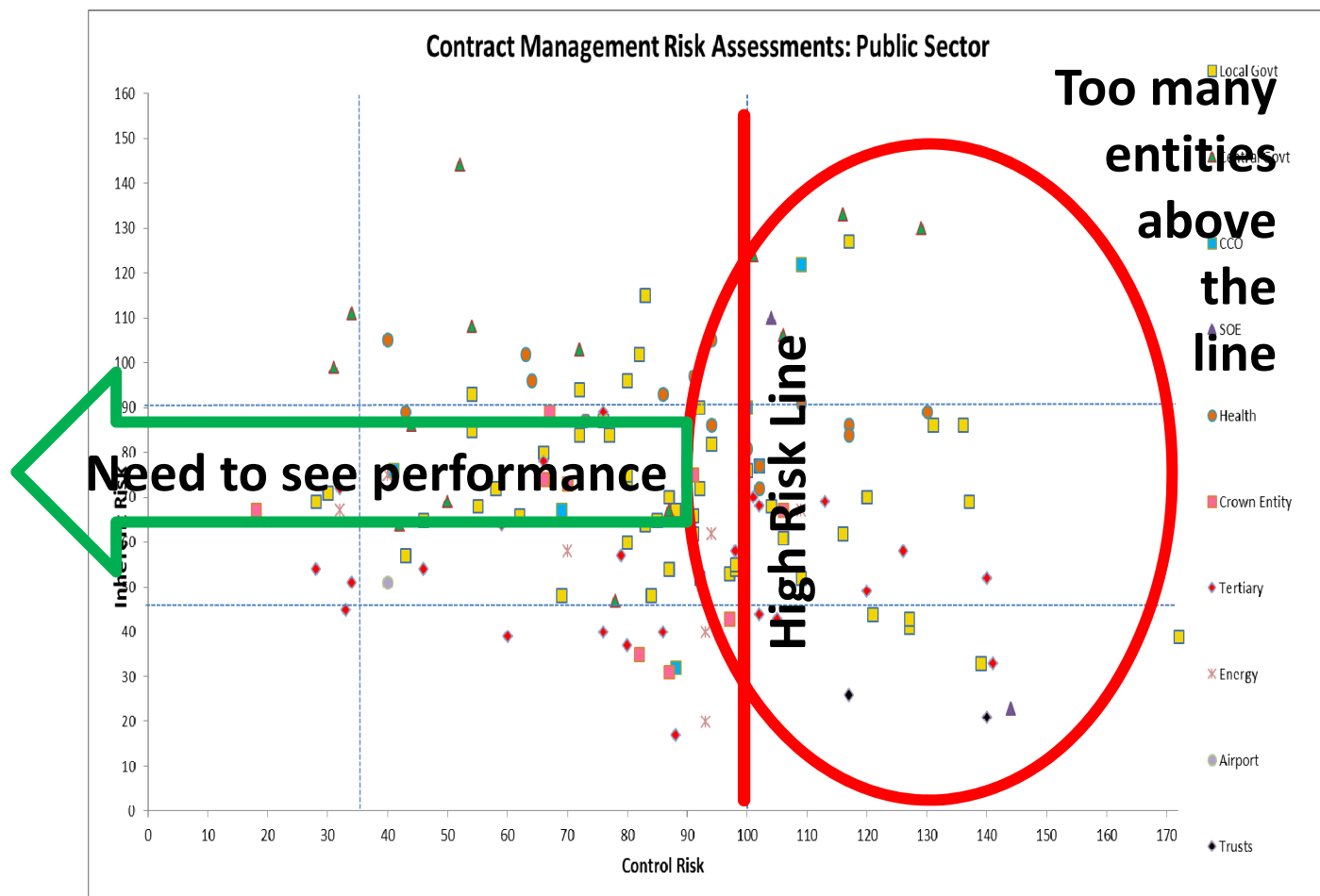
# Enough contract management?



Too much effort at the procurement stage,  
not enough at the contracting management stage CIPS 2015



# Contract management still at risk?



# What controls do we consider?



Policy and Guidance



Delegated authority



Organisation, resources, capability and support



Contract management systems and records



Review, reporting, oversight and improvement

# What controls do we consider?



Organisation, resources, capability and support



Contract management systems and records

- Adequate resourcing is important.
- Competent staff are needed.
- Training may be necessary.
- An organisation needs to plan for its contract management.
- There should be clearly assigned responsibility for each contract.
- Good records should be retained for each contract - on progress, quality, claims and payments.

# What controls do we consider?



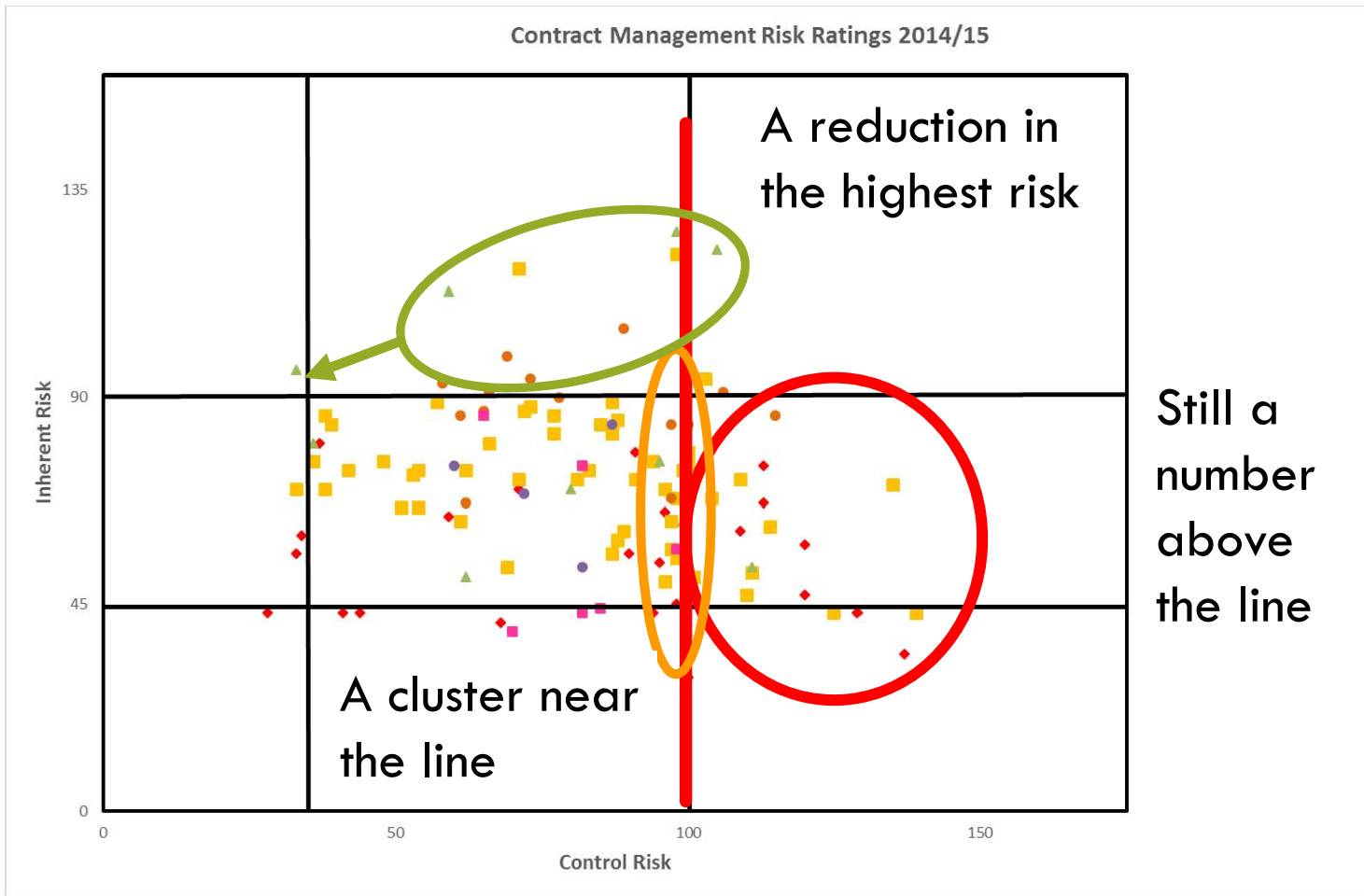
Delegated authority



Review, reporting, oversight and improvement

- Proper application of delegations to contract approval, to variations and payments.
- Good reporting by both contractor and contract manager.
- Prepare or oversee a risk assessment for contract deliverables.
- Costs should generally be in line with the contract.
- Delivery on time is expected. Delays should be explained.
- There should be an end of contract report.

# Identify the riskiest and track performance over time



# The manifestations of risk, part 1

## Risks to the financial statement:

- Fraud and theft
- Significant wastage
- Contractual disputes and contract failure
- Serious contract performance issues
- Poor budgeting and estimating
- Major cost overruns
- Significant delays
- Inadequate insurance arrangements
- Serious losses

# The manifestations of risk, part 2

## Risks to your organisation's performance

- Poor specification or scope for contracted goods and services  
i.e purchase the wrong product or service
- Poor quality goods and services
- Poor performance by the contractor or supplier
- Contractual dispute
- Delay
- Cost over runs
- Fraud – a number of recent examples
- Poor contract administration

# The manifestations of risk, part 3

## Risks to your reputation:

- Conflict of interest issues
- Breach of process contract obligations
- Breach of legal obligations
- Contract failure or poor performance
- Significant cost overruns
- Poor decision making by management or governance
- Lack of confidentiality
- Poor communications



# 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?
- Is your procurement effort well directed?
- How good is your contract management?
- 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.”*



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