

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?

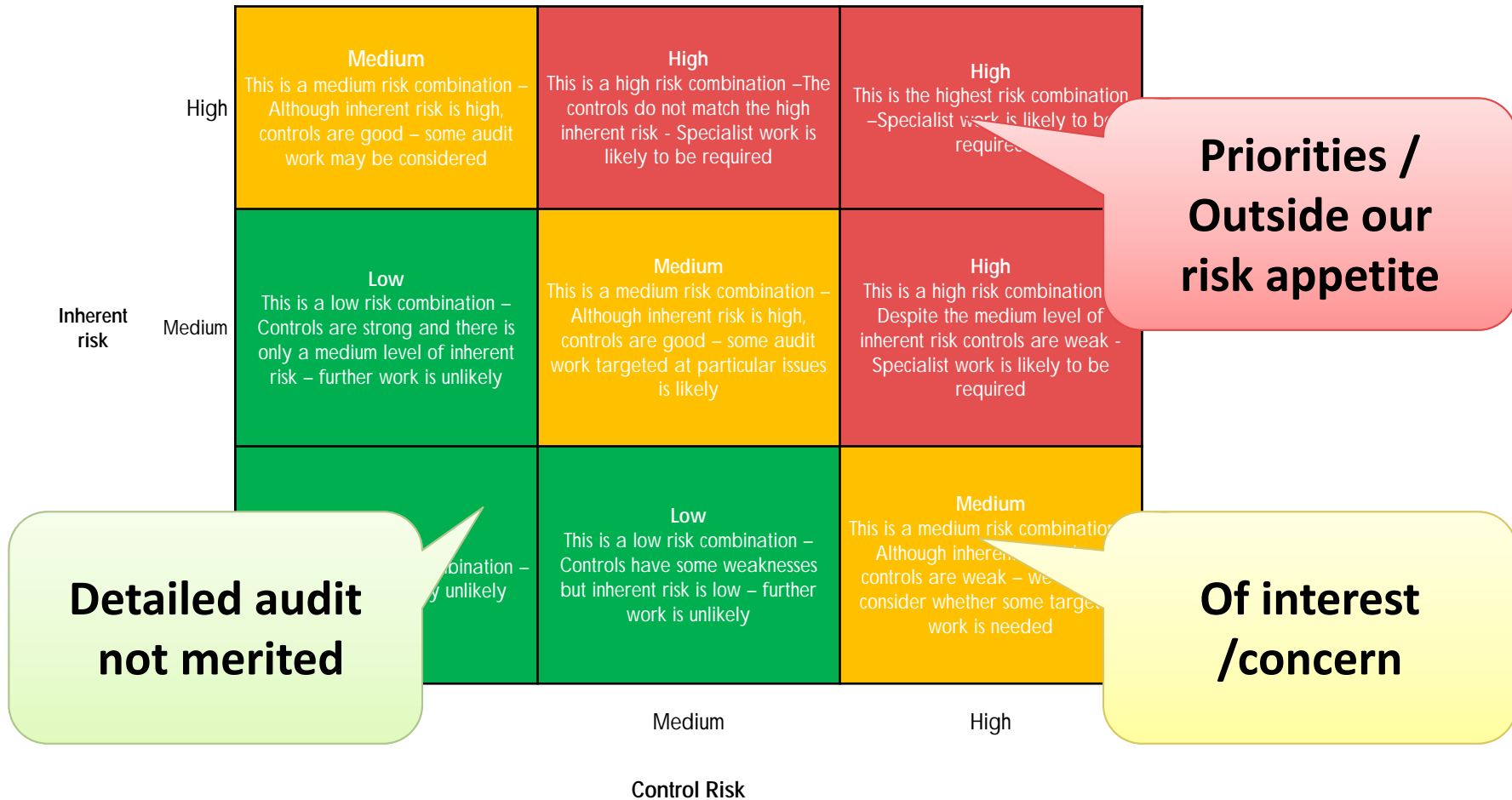
Some
feedback

- 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

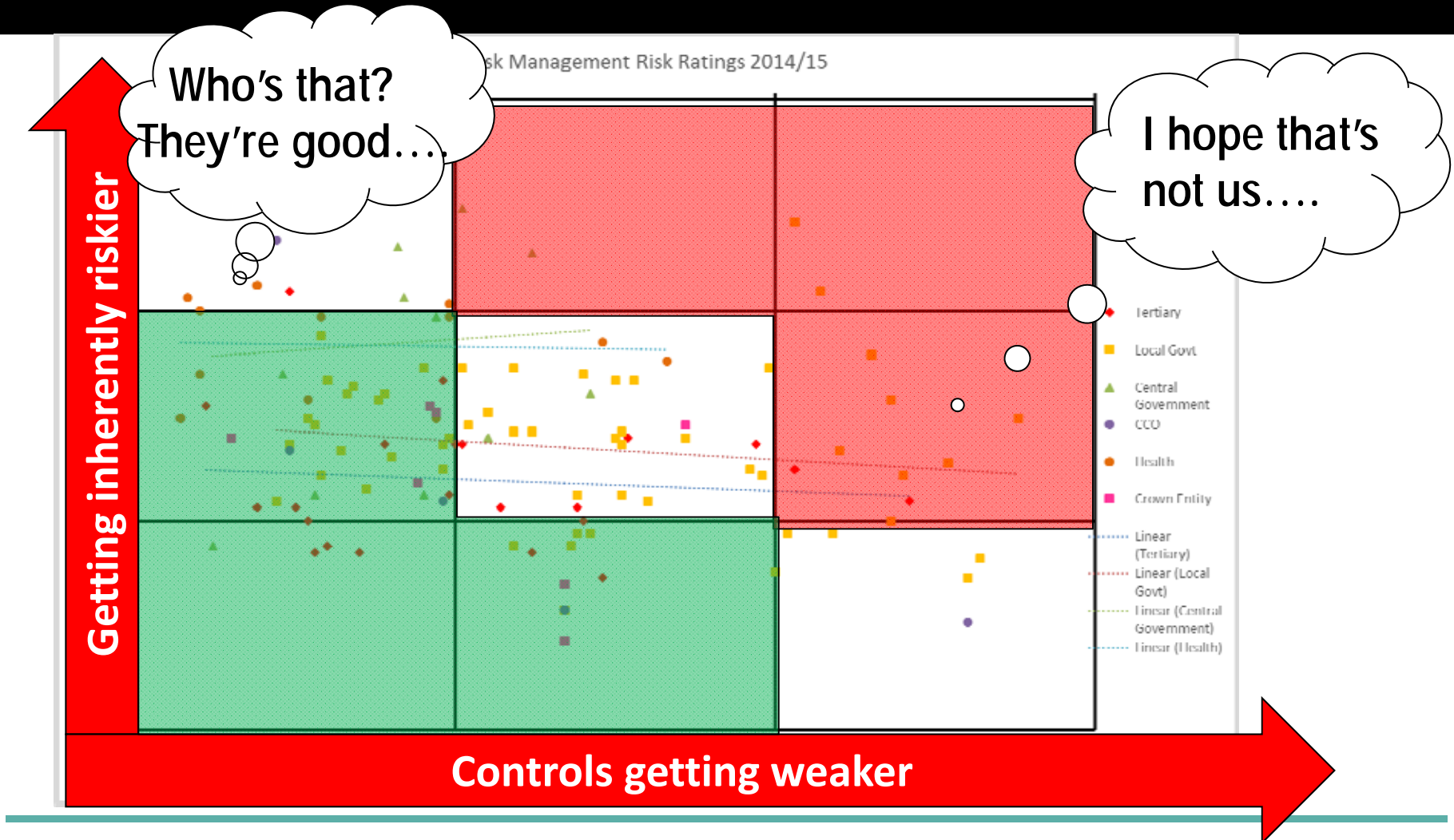


Broader Audit Risks

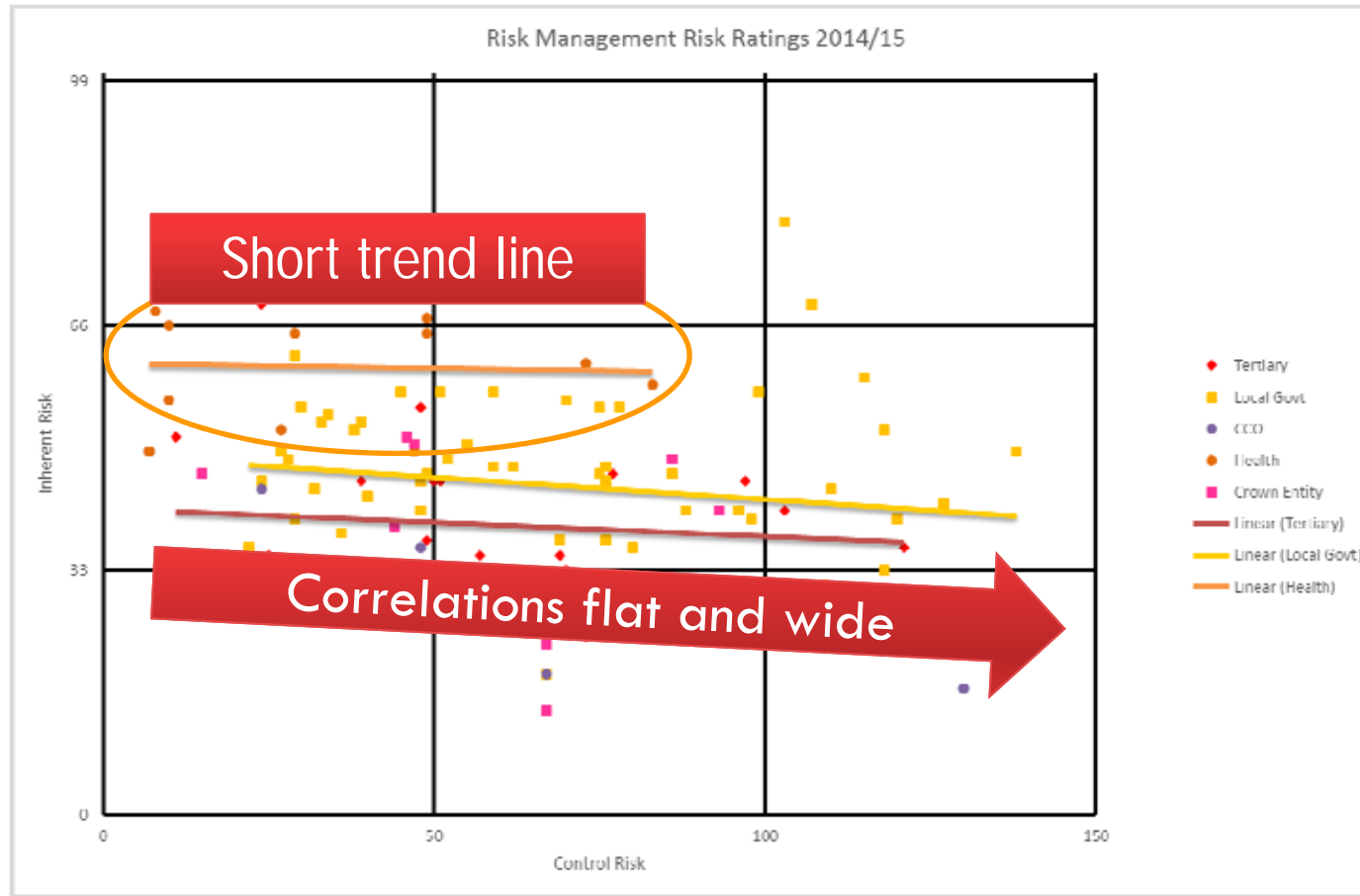
The Big Three



What's the data telling us?

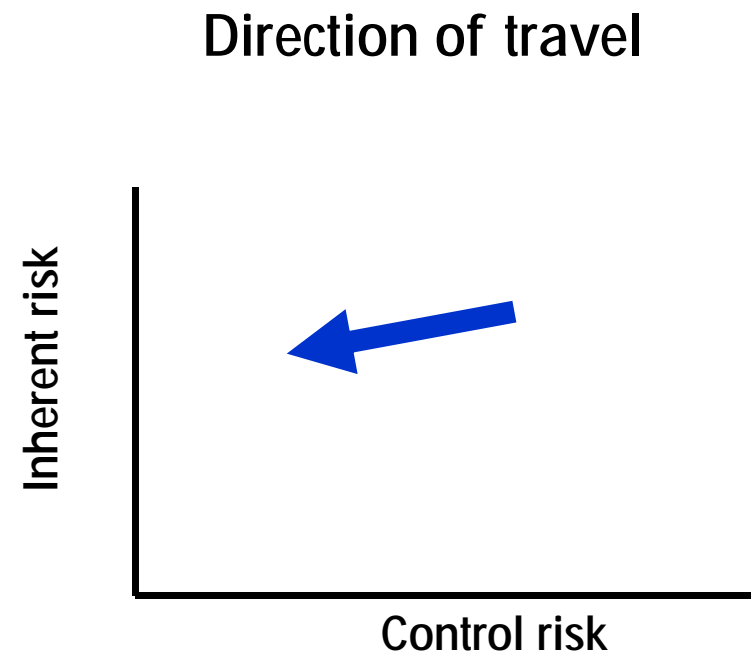


But varies by sector

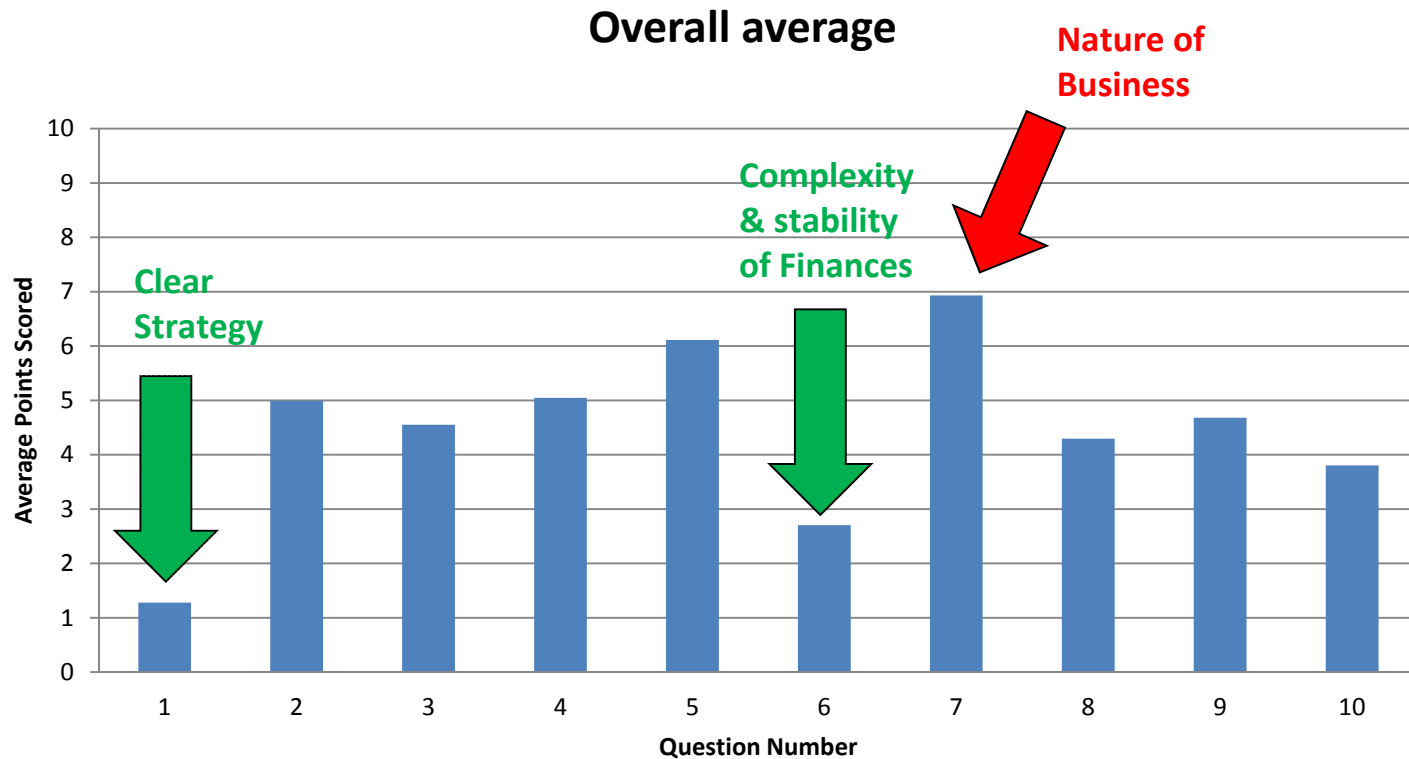


Risk management

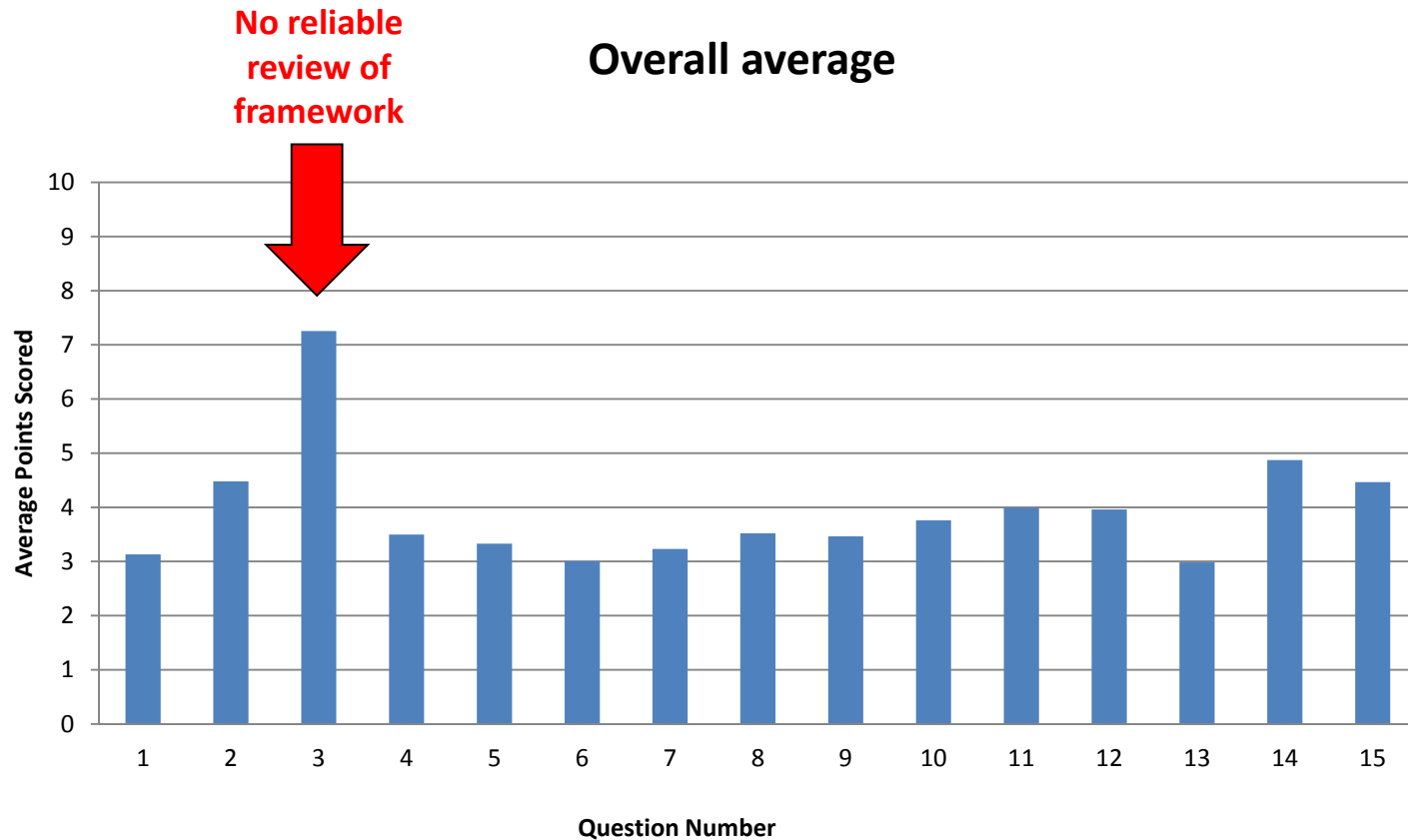
- No Central Government or Health sector entity has high control risk;
- But there are high risks in some other sectors.
- Levels of inherent risk vary...
- But the direction of travel is positive.
- Some frameworks need improvement;
- Assessing the quality of risk management frameworks, not just their existence, should be a priority.



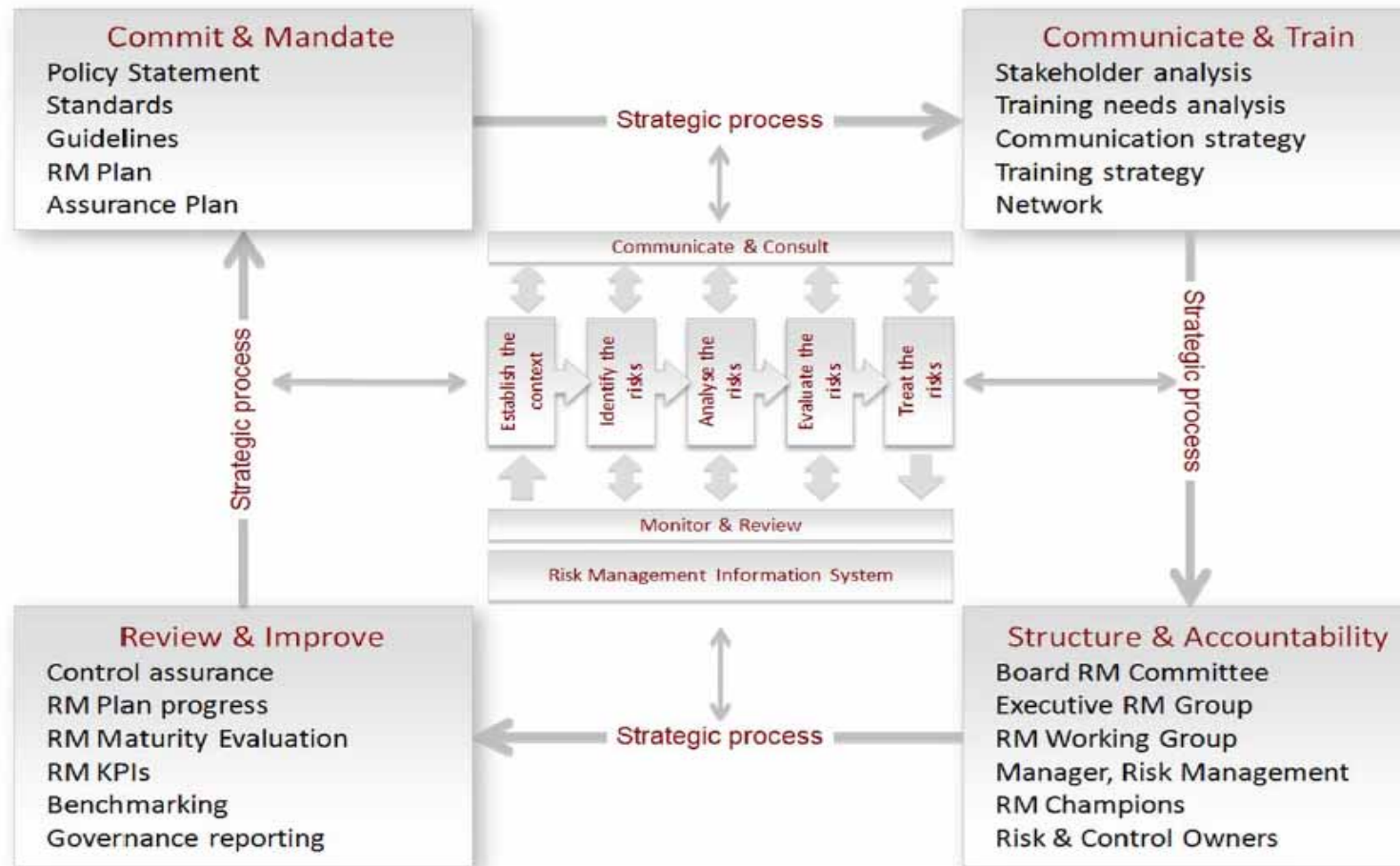
Inherent risk



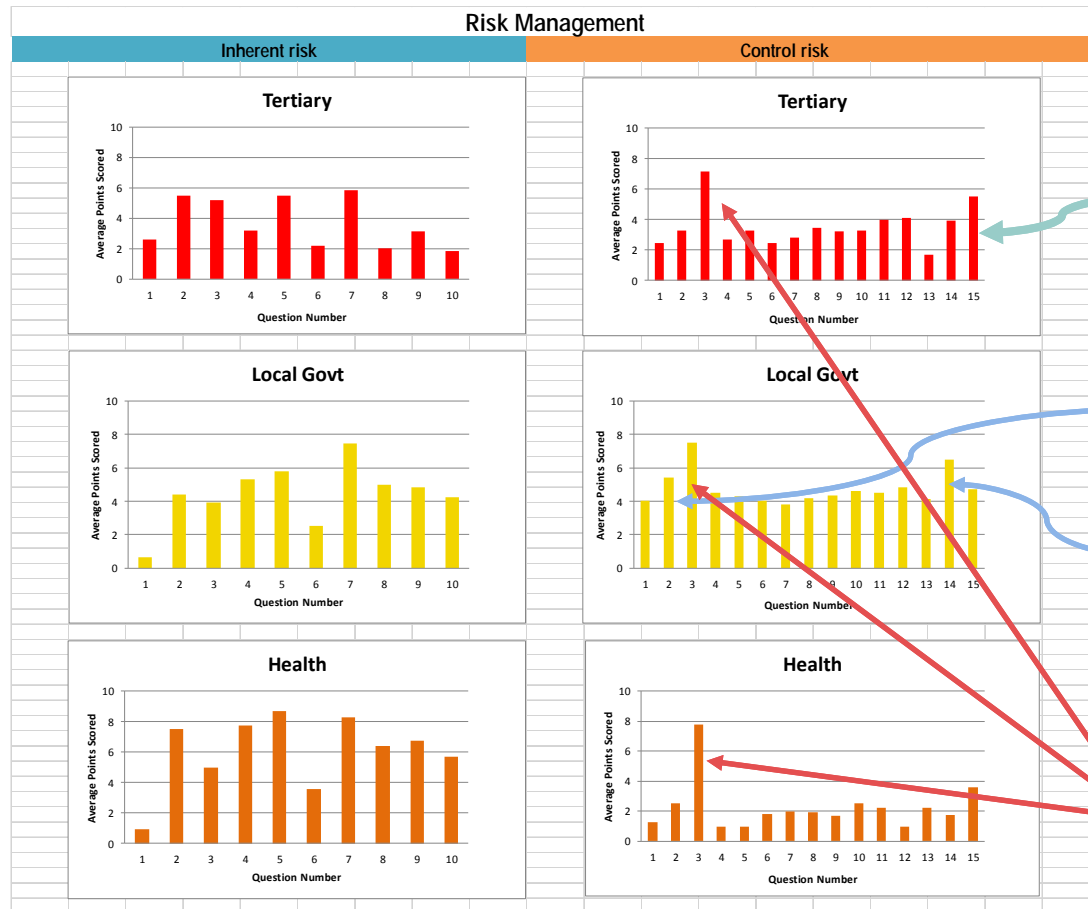
Control risk



Risk Management Framework



Are the sectors different?



Lack of clear reporting on risk?

Frameworks more dated

Internal audit not linked to risk

No reliable review of the framework to assess its quality

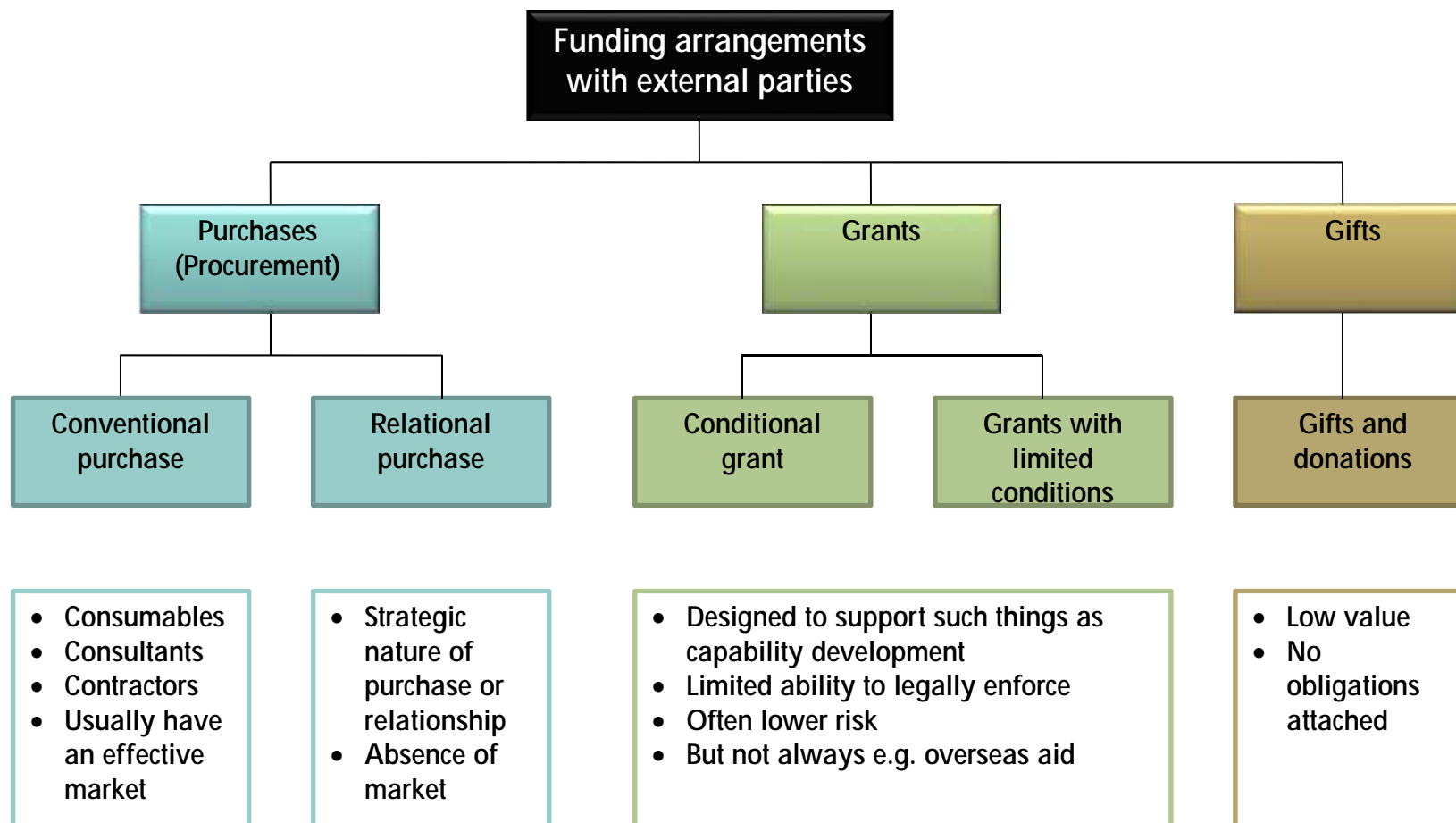
Why procurement matters

- 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



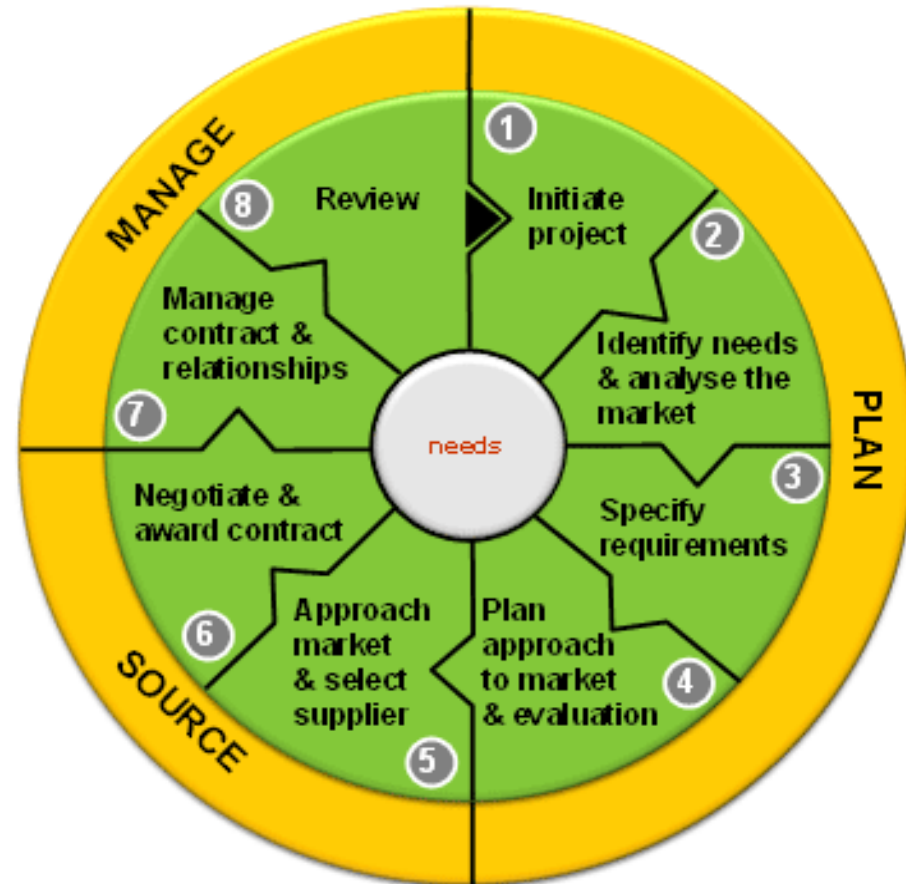
A continuum of funding arrangements



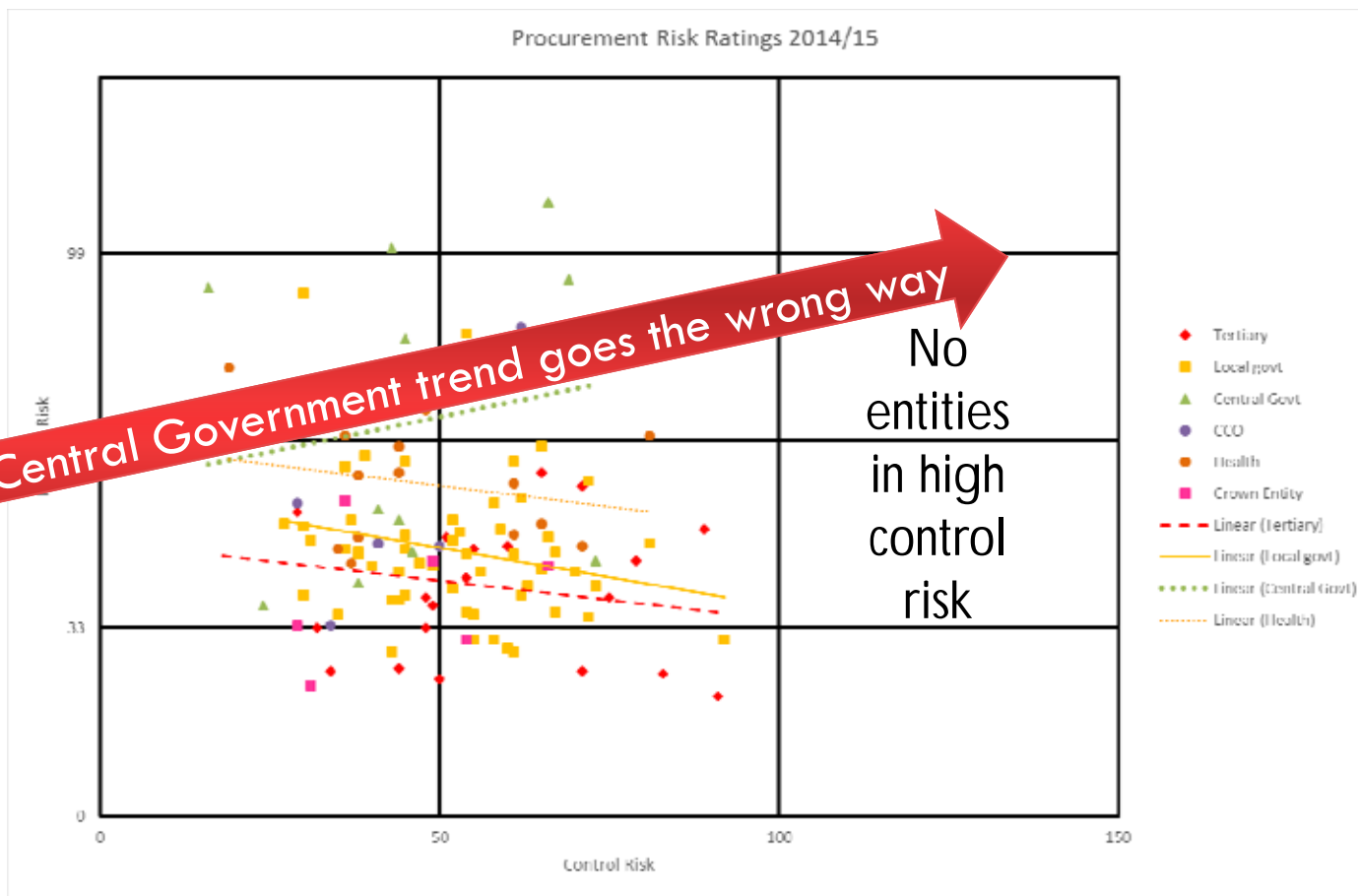
A cyclical approach

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.

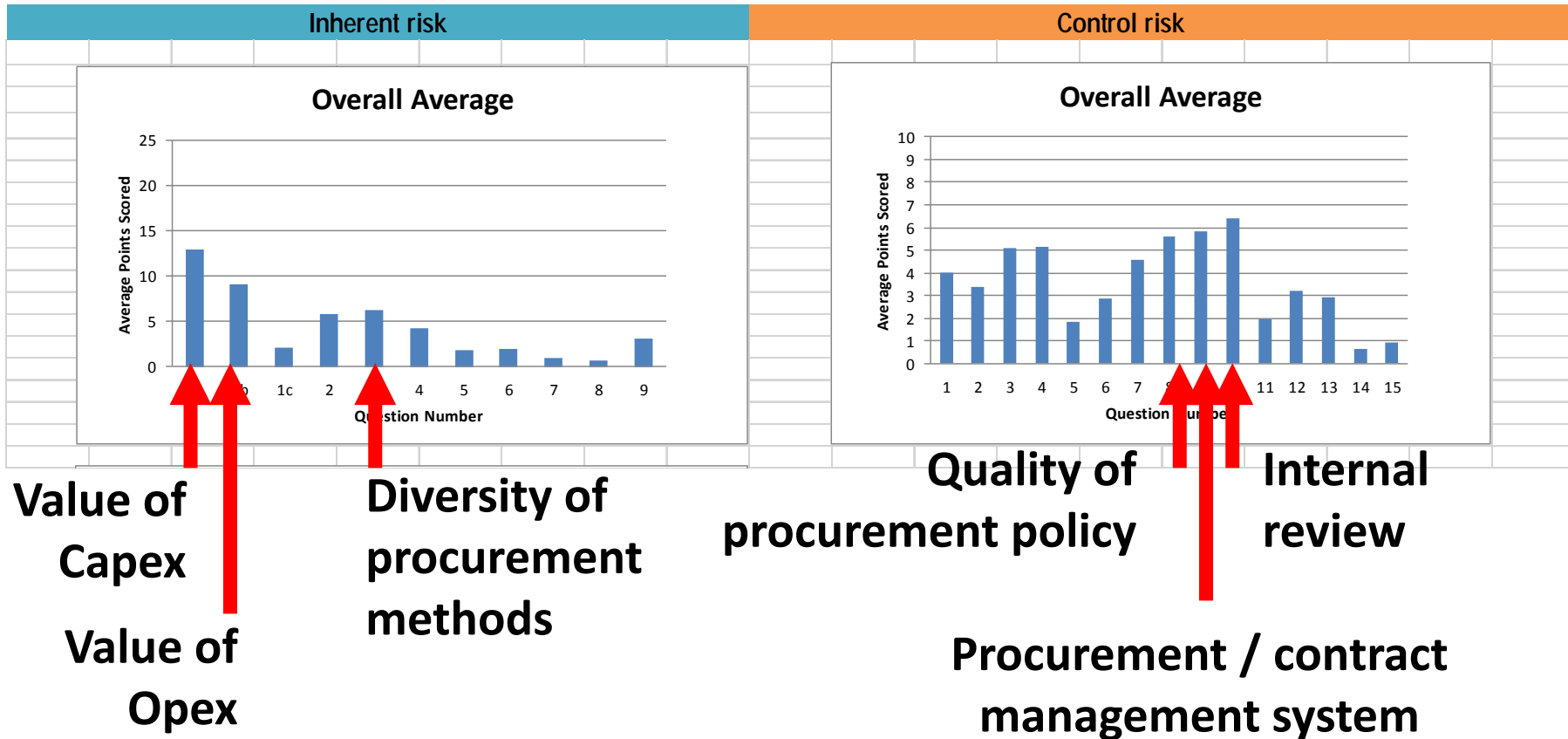


Procurement in 2015 under control?

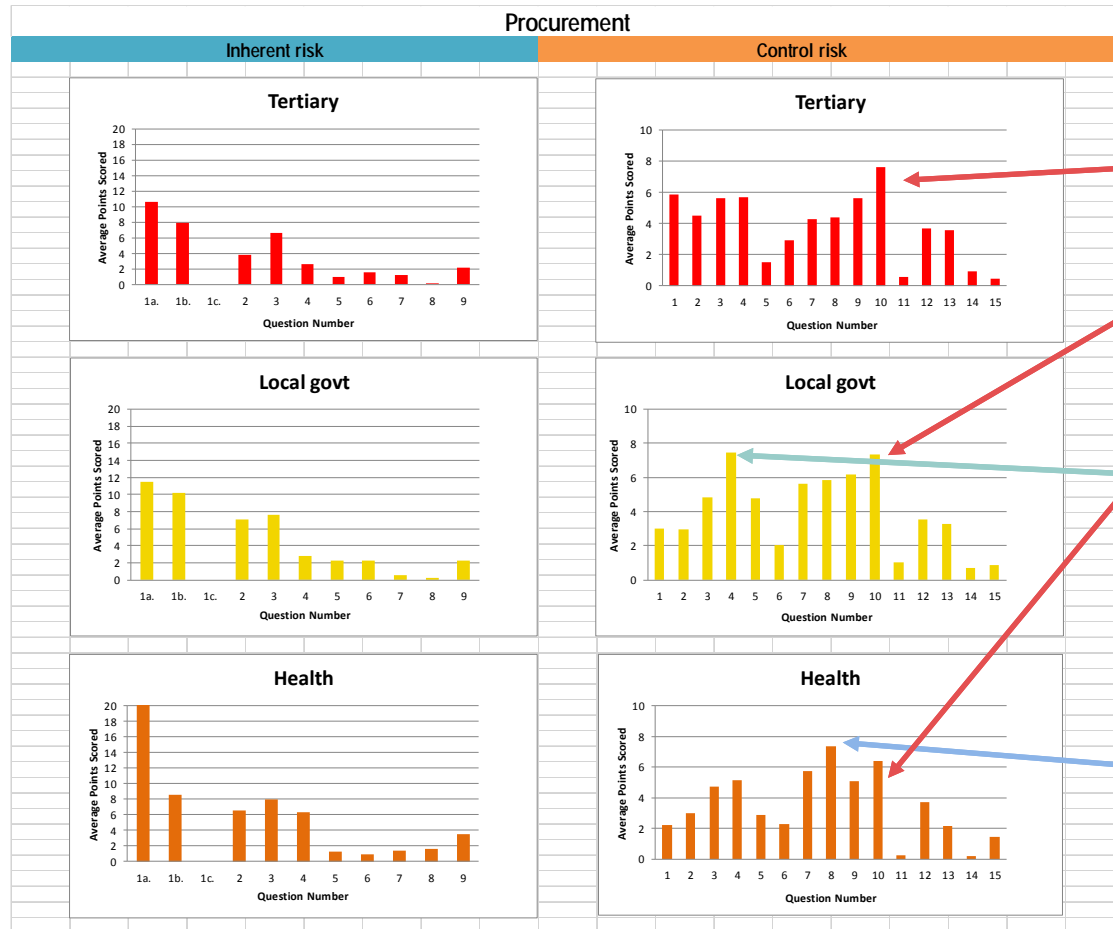


Procurement risk drivers

Procurement risks



Differences between sectors

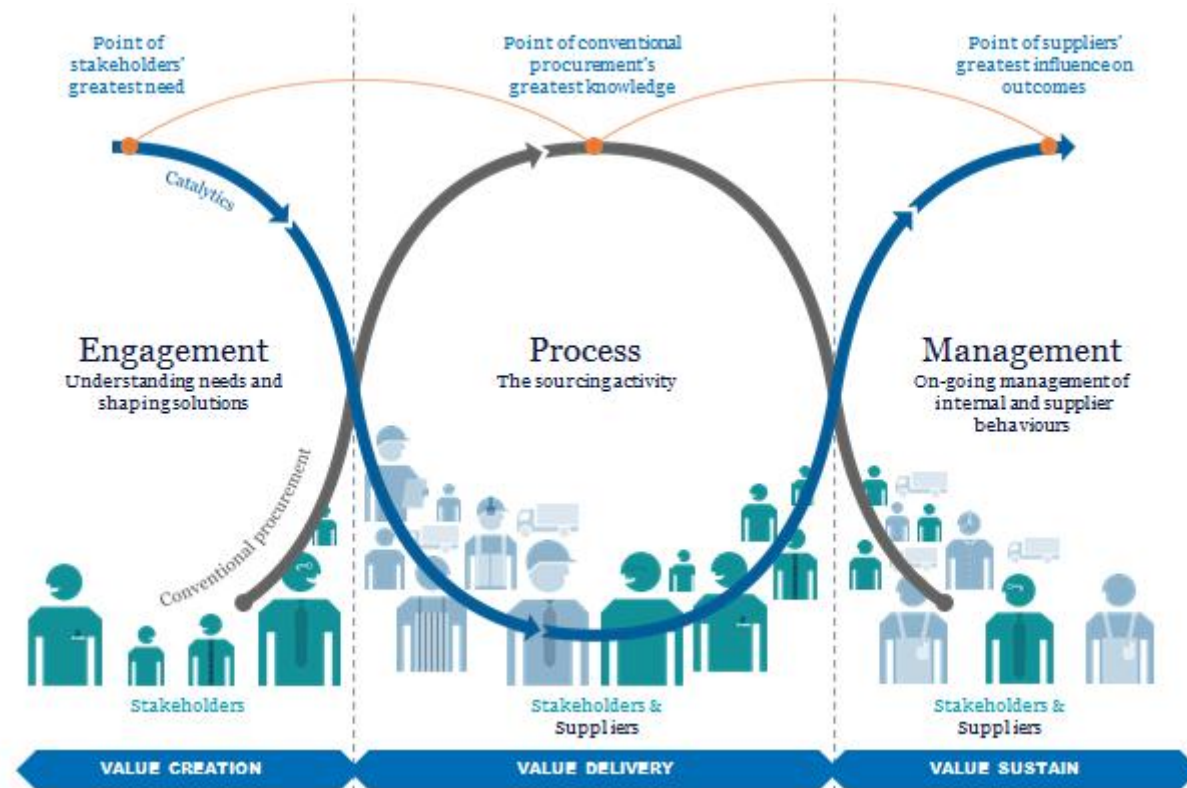


Limited Review

Complex structures
Devolved responsibility
Limited support

Weaker or unknown
quality of policy

Enough contract management?



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

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?



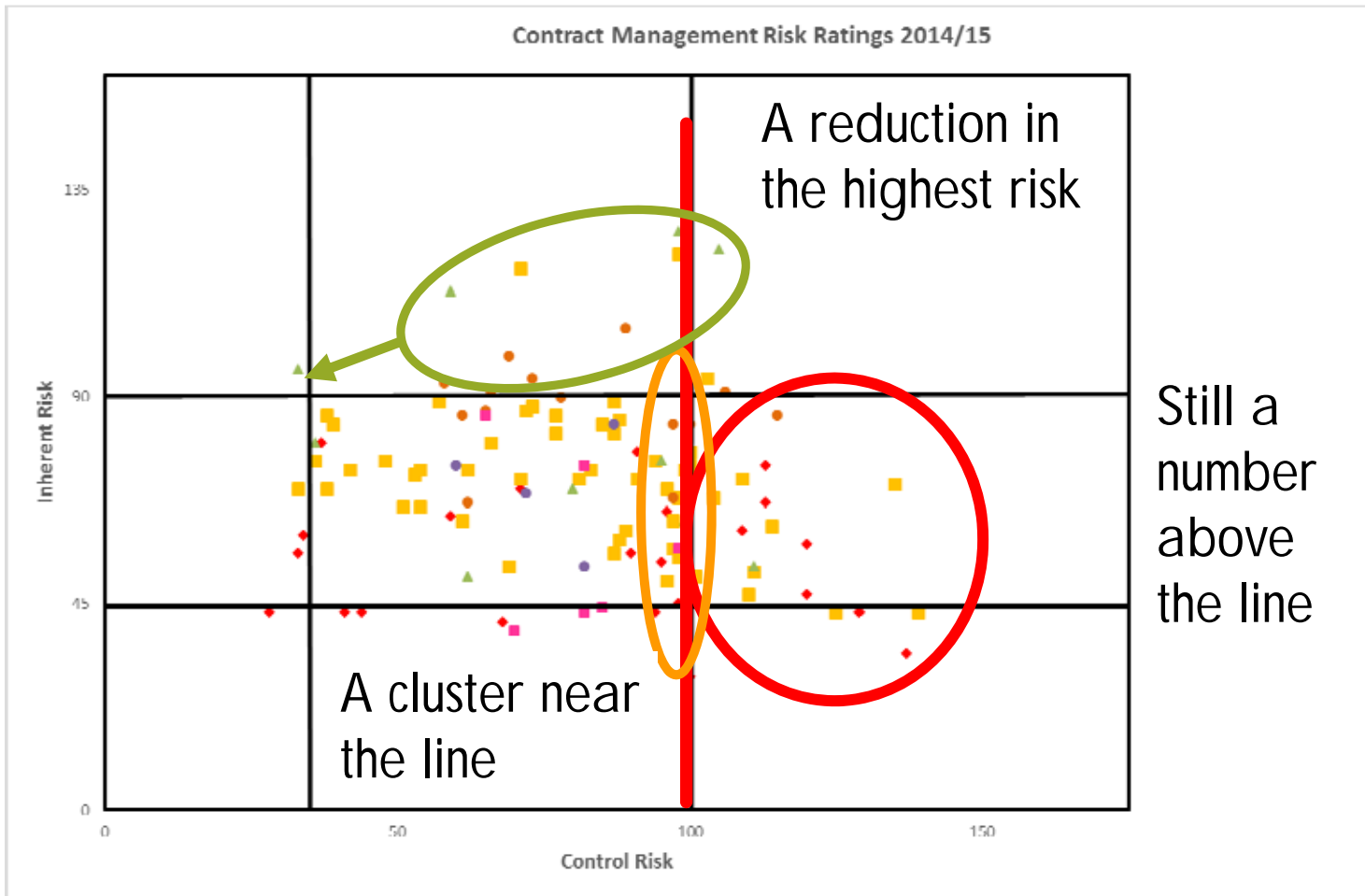
Delegated authority



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.”



AUDIT NEW ZEALAND
Mana Arotake Aotearoa