

Risk assessment in performance audit

2nd International Auditing Seminar
Different approaches based on risk

Federal Court of Accounts - Brazil



EUROPEAN
COURT
OF AUDITORS

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A brief introduction

Defining risk for performance audit

Tracking and reviewing EU risks at a strategic level

Identified in policy scans and reflected in audit proposals and annual priorities

Risk assessment in the planning of a performance audit

Purpose, approach, and focus on key risks to identify audit questions and determine the audit scope

A brief introduction



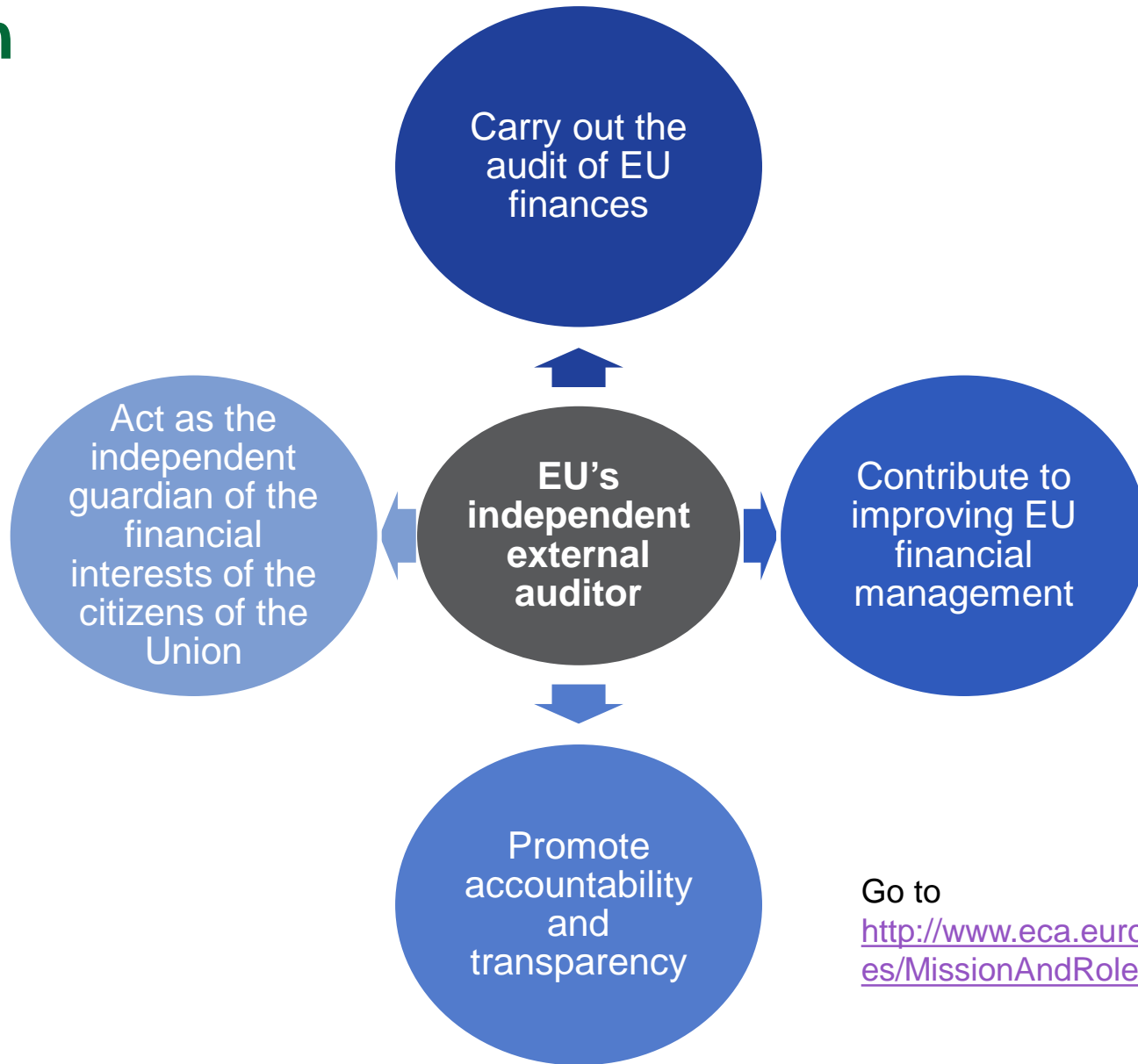
We are based in Luxembourg



- 28 Members - one from every Member State of the EU
- 900 professional and administrative staff of all EU nationalities



Mission

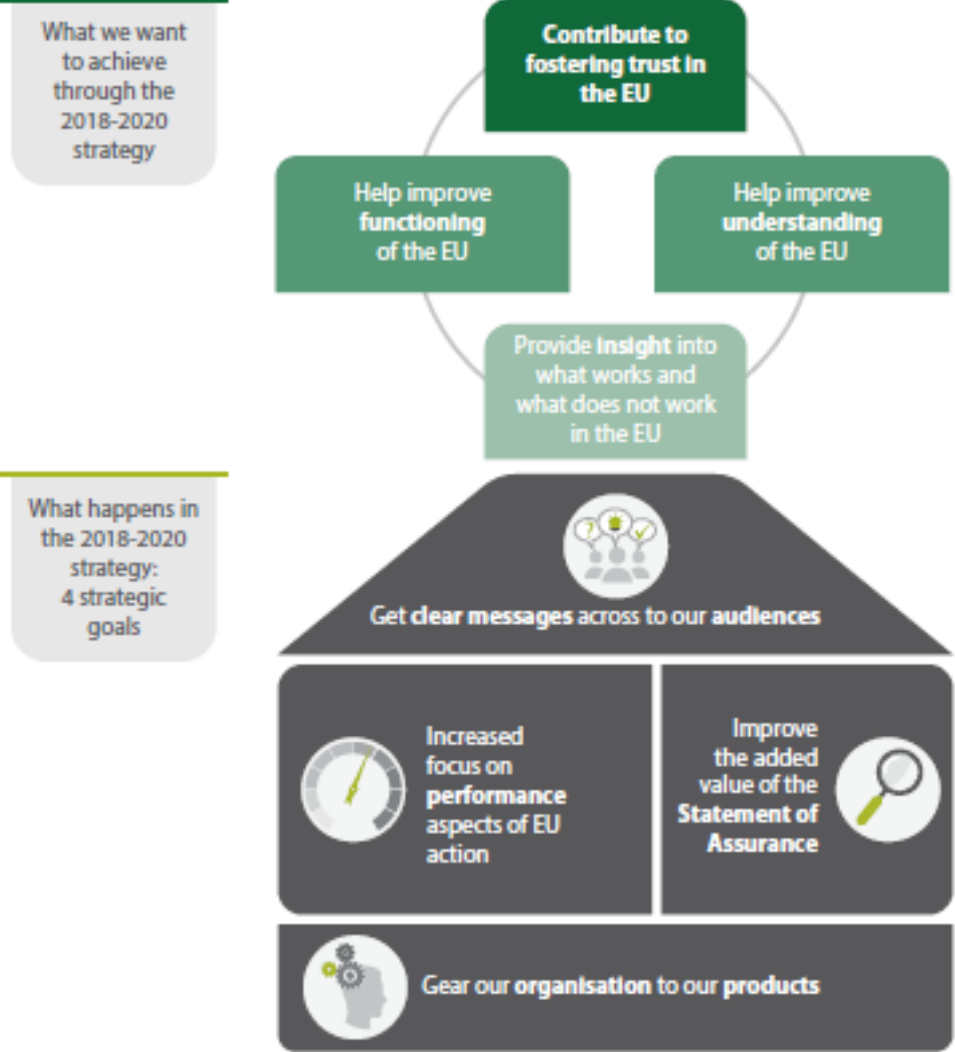


Go to

<http://www.eca.europa.eu/en/Pages/MissionAndRole.aspx>

Strategy for 2018-2020

Overall objective:
Fostering trust through independent audit



Go to:
<https://www.eca.europa.eu/en/Pages/Strategy.aspx>



Products



Annual reports

Statement of assurance, results of financial and compliance audit work on EU budget and European Development Funds, including analysis on budgetary management and performance aspects



Specific annual reports

Published separately, on EU agencies, decentralised bodies, joint undertakings (PPPs) and other institutions



Special reports

Audits on specific policy and spending areas, or on budgetary or management issues. Most are performance audits. They can also present the results of compliance audits



Review-based products

Landscape reviews, briefing papers, and rapid case reviews



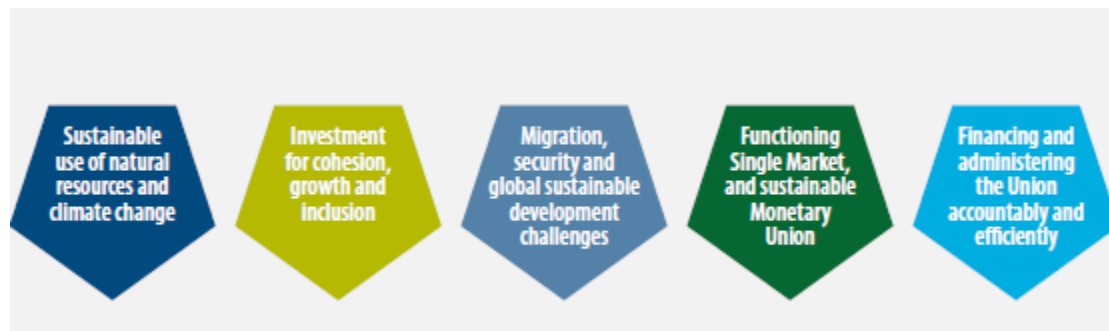
Opinions

Issues of EU legislation and public sector management and audit

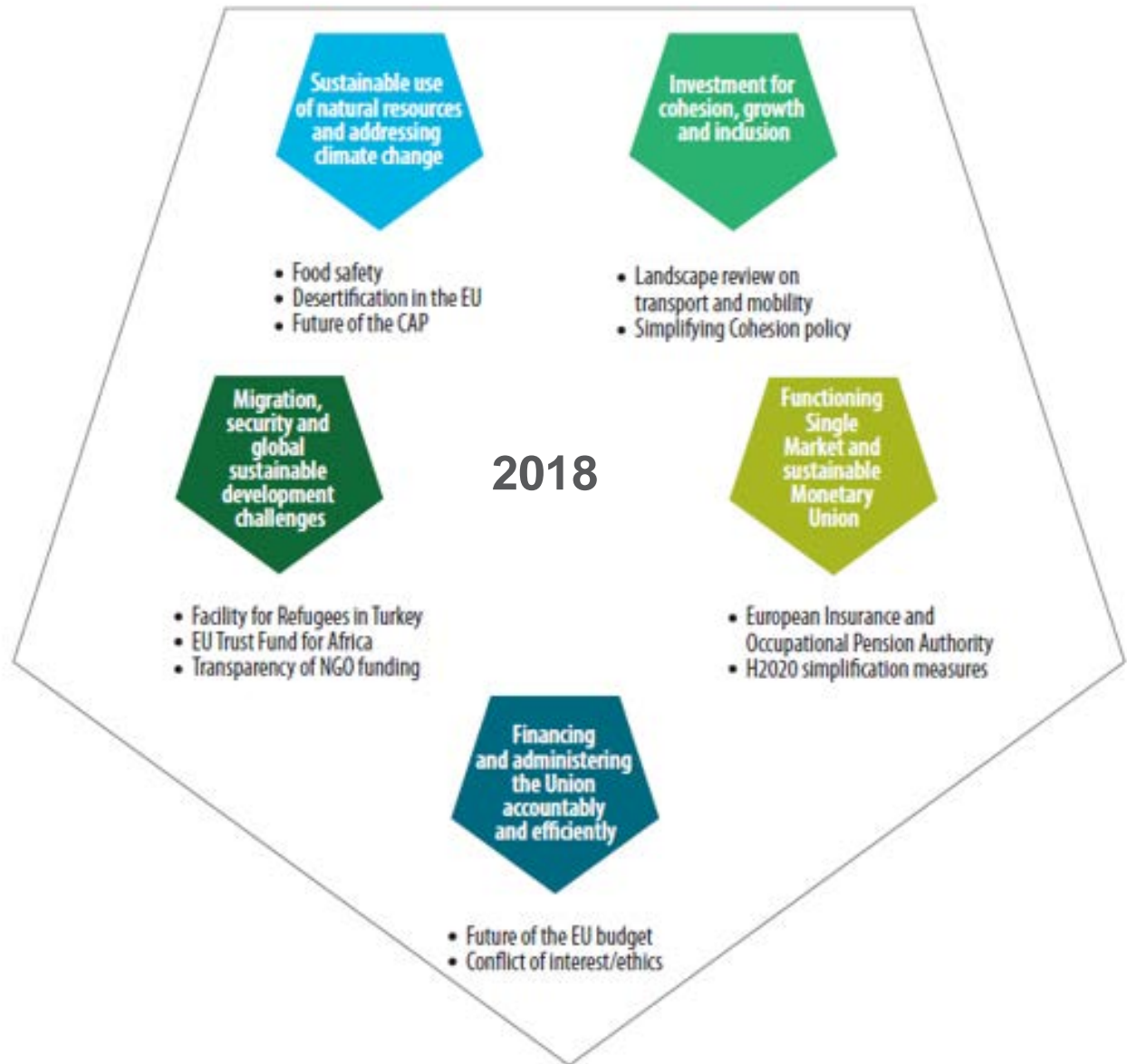
Priority areas

For planning our work in 2018-2020:

- ❑ Sustainable use of natural resources and addressing climate change
- ❑ Investment in cohesion, growth and inclusion
- ❑ Migration, security and global sustainable development challenges
- ❑ Functioning single market and sustainable monetary union
- ❑ Financing and administering the Union accountably and efficiently



Applying the priority areas to annual work programming



Go to:
<https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=43189>



Defining risk for performance audit

A definition of risk

Risk can be defined in various ways, depending on the context.

In the EU, we give considerable prominence to the achievement of policy objectives and sound financial management, i.e. the risk that these are not attained.

Risk is an incident or the occurrence of a particular set of circumstances, which, if they occur, could adversely affect an organisation or the person/s concerned.

Risk could arise, for example, through exposure to financial loss; loss of reputation; failure to deliver a policy or programme economically, efficiently or effectively; etc.

We look at these risks at:

- 1) an **overall strategic level** when selecting audits;
and
- 2) in more detail, when **planning an individual audit engagement.**



Tracking and reviewing EU risks at a strategic level



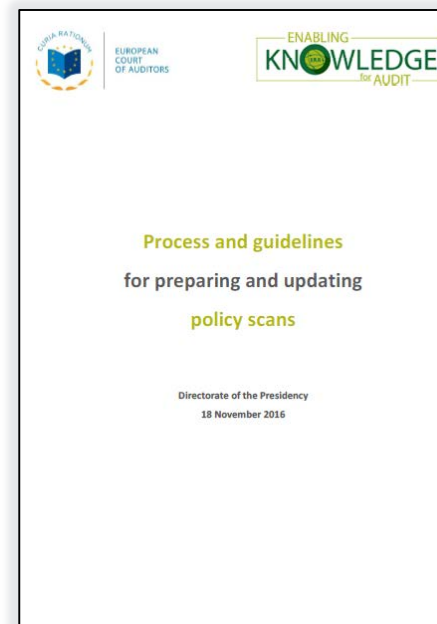
Policy scans (1)

Since 2016, policy scans have been developed for each major policy area:

- describing the policy area;
- providing a clear and concise summary on the latest developments and risks related to that area; and
- highlighting potential implications for audit work.

We document overall indications of existing, new and/or emerging risks as part of each policy scan.

Policy scans, including the high-level risk assessment are updated at least once a year, based on the review carried out.



Policy scans (2)

Overall policy areas can be broken down into a number of individual scans.

Interlinkages and cross-cutting risks are also identified.

System exploits the knowledge and expertise developed within the ECA.



Policy scans (3)

A standard template is used.

Developed by one person or a team experienced in the area.

Peer reviewed within the audit directorate.

Corporate team takes a horizontal look at the policy scans and suggests improvements, if necessary.



Policy scans (4)

This year, 38 policy scans, including related risk assessments, covering major EU policy areas were created/updated with the involvement of over 80 experienced auditors.

Information is available on the ECA's intranet to all staff.

Key for an effective risk review: a systematic and structured approach, an exercise that adds value, cross-cutting collaboration and empowerment.



Elaborating further on risks in audit proposals

Subsequent 'proposed audit tasks' (PATs) include a more specific review of the most relevant risks.

The nature of the risks and an overall assessment of their potential impact and likely occurrence is included in each PAT.

Requires judgement based on knowledge, experience and a rigorous analysis of factors that might indicate the existence of risk and its impact.

The PAT, if adopted, is a pre-cursor of the detailed risks assessment undertaken by the audit team as part of each individual audit planning process.



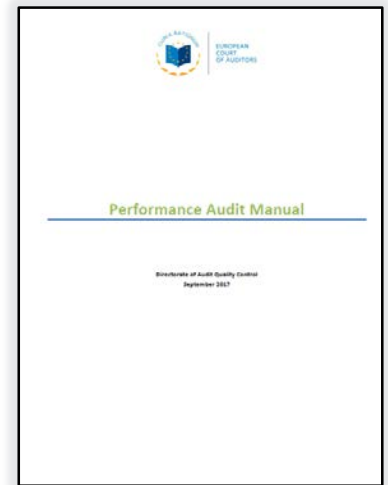
Risk assessment in the planning of a performance audit

A key audit planning requirement

In planning an audit, the audit team should analyse the relative significance of risks, mapping the likelihood of occurrence against the likely impact, both quantitative and qualitative.

The audit team should focus on those risks having both a higher likelihood of occurrence and a higher impact if they do materialise, whilst also considering the action taken by the auditee to mitigate such risks ('risk response').

ECA's Performance Audit Manual



Go to:

https://www.eca.europa.eu/Lists/ECADocuments/PERF_AUDIT_MANUAL/PERF_AUDIT_MANUAL_EN.PDF

Four progressive steps

A process with each step acting as a filter and leading to the next:

Step 1: achieve a thorough understanding of the audited area, focus on the conditions that may increase the risk level, and list the key controls one expects to find.

Step 2: identify possible risks and analyse those which are most significant and critical for the achievement of good performance.

Step 3: examine how the main risks are being managed by the auditee, and analyse the level of residual risk.

Step 4: focus the planned audit on areas of high risk, develop related audit questions, and define the audit scope.

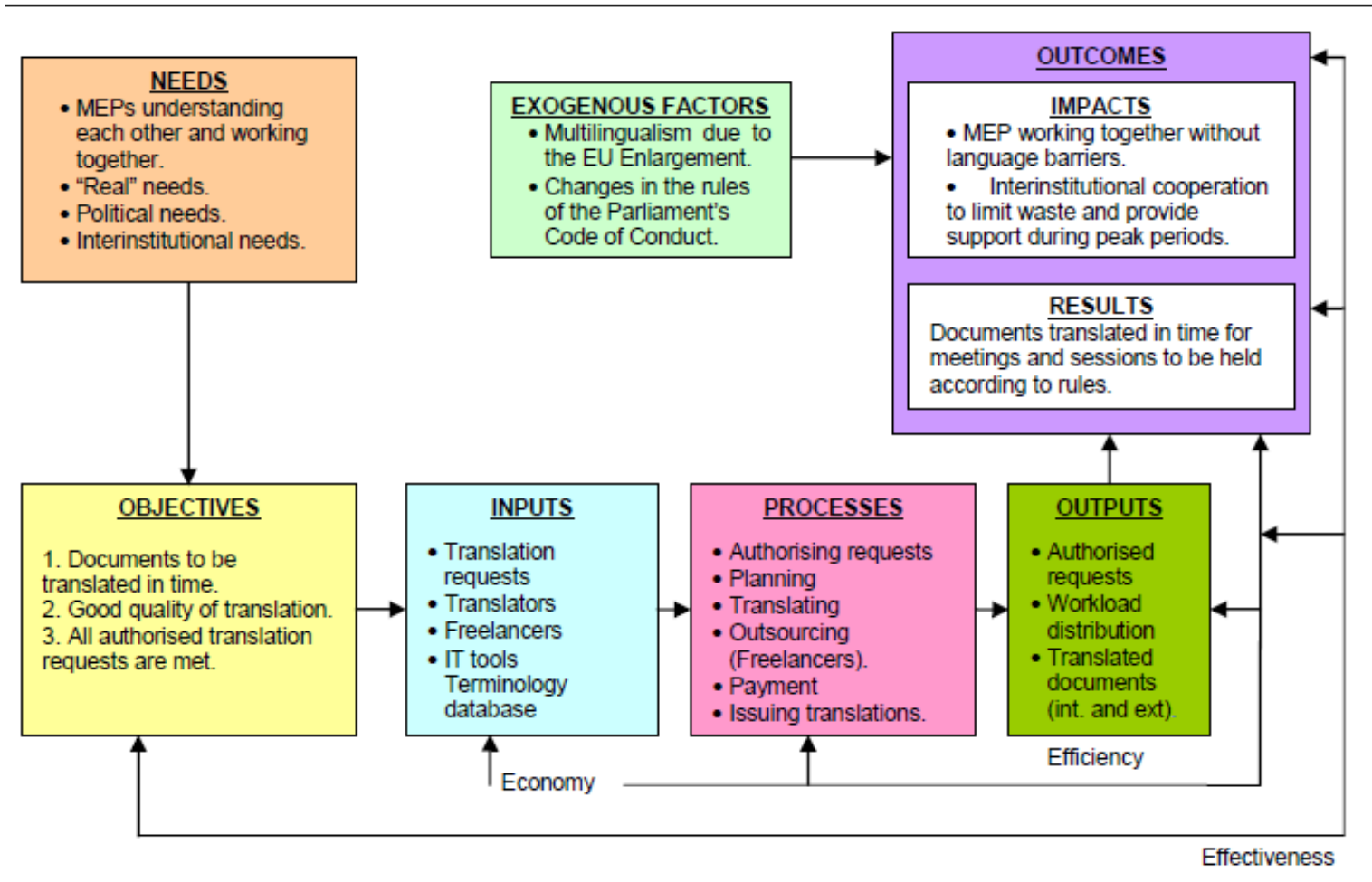
Step 1: achieving a thorough understanding

Acquiring up-to-date information.

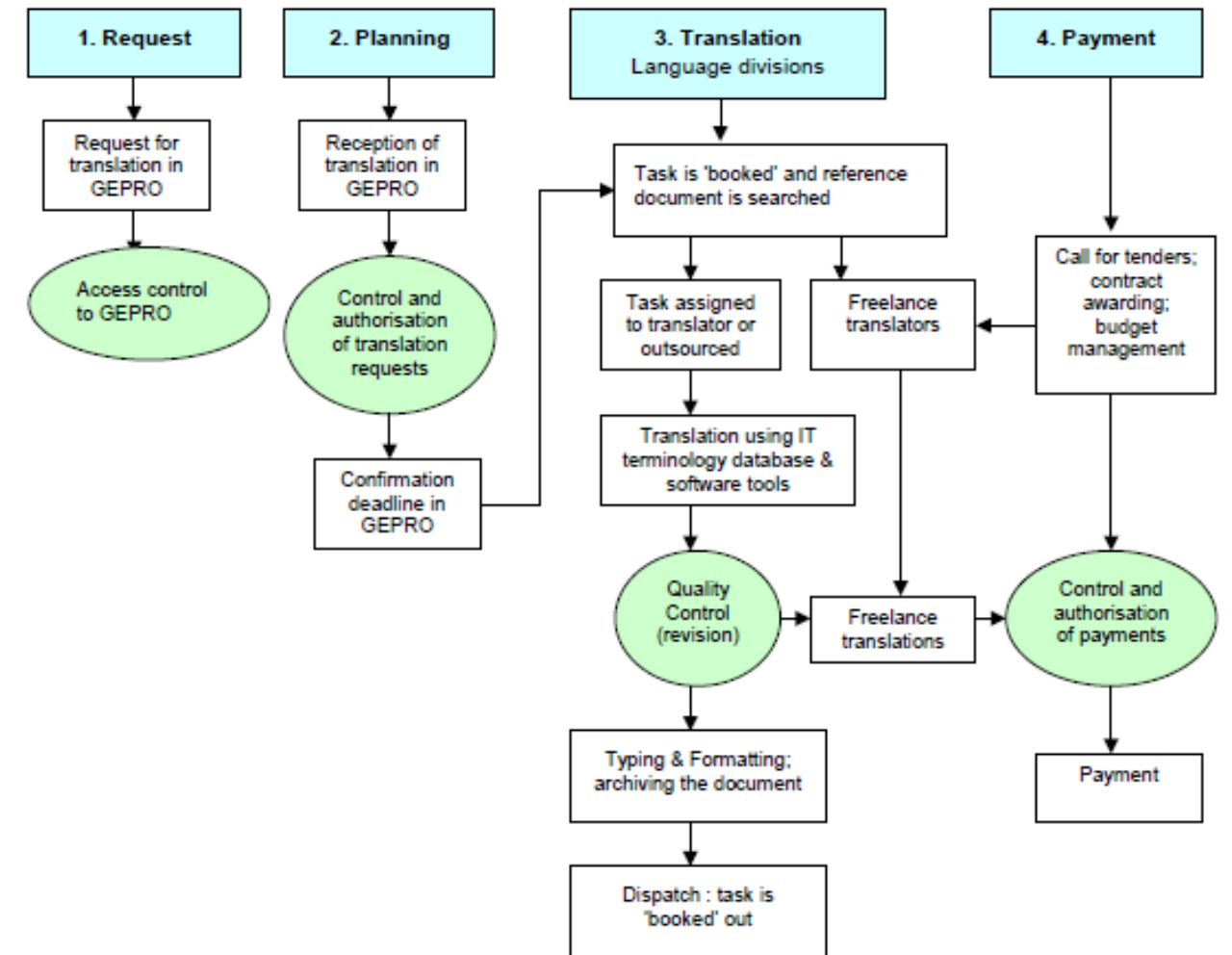
Gaining a sound understanding of the policy area, key actors, main developments, the key processes and the expected outputs and outcomes.

Identifying those factors that could increase the risk level.

Step 1: using diagrams to support the analysis



Step 1: using diagrams to support the analysis



Step 2: identifying the risks

Using a brainstorming session to explore the following:

- What can go wrong? What can be the risk?
- With whom does the risk lie?
- What factors are / can be negatively affecting performance (3 Es)?
- What can be the cause (including weaknesses in controls)?
- What can be the consequences or the impact?
- How can this risk be managed?

Step 2: identifying the risks

Decide on how to group and structure risks, sorting and fine-tuning in the process.

Describe each risk, highlighting the main reasons (**causes**) for the problem, referring clearly to the **problem** being faced, and the impact (i.e. most important potential **consequences** of the problem).

Once aware of all the risks relating to the audit area, shortlist those that will be included in the final table.

Step 3: analysing the risks

Remaining short-listed risks are prioritised based on their level (high, medium and low).

Assessment is based on likelihood and impact.

And management response.

To identify the residual risk level for each identified risk.

Step 4: using the risk analysis to define the audit questions and scope

Discuss with the auditee

Identify the issues for in-depth audit

Decide which risks are most significant and critical

Use the results for issue analysis

Set the hierarchy of audit questions

Define the audit scope

Reflect the outcome in the audit planning memorandum.

Questions?



Contact Details

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