

**(1) SAIs Internal Risk Management and (2) Identification of High Risk Areas /
Programs in the Public Sector**

December 2018

Background

The Working Group on the Value and Benefits of SAIs (WGVBS) has developed its working program around the contents of ISSAI 12. In order to perform its functions and ensure their potential value to citizens, SAIs need to be seen as trustworthy. This is only achieved if they are perceived as credible, competent, independent and accountable institutions that lead by example. Hence, it is necessary to implement an effective risk management process within SAIs, including integrity risks.¹ Principle nine considers that, in order to guarantee good governance in SAIs, among other items, they must regularly assess the organization's risks and complement this with risk management initiatives. Furthermore, principle five highlights the value SAIs can provide by being aware of the shifting environment and identifying emerging risks faced in the public sector. Along this line, it was decided, during the eighth meeting of the Working Group in Nanjing, China, to create a framework that could be helpful for SAIs to use in identifying the risks that governments face in their programs and operations.

SAIs should be able to identify and manage their own internal risks in order to prevent any operational and strategic damage that could affect their performance, as well as to be in a better position to lead by example.

Additionally, it is important for SAIs to count with specific analysis methodologies that allow them to embed in the structural problems that affect the public sector. As from the global examination of audit results, it is possible to know those management areas that are more vulnerable to present problems or failures that will affect the law enforcement, the efficient use of resources and the achievement of the public institutions' objectives.

In general terms, the adoption of this approach aims to provide useful information to positively influence the different stages that are part of the policy cycle through the identification of improvement areas regarding their design, implementation and evaluation. The main objective is to provide information that leads to the necessary legal and management reforms in the public administration to avoid the recurrence of inefficient practices as a way to improve good governance.

This paper is divided in two main sections; the first one considers a brief guide on an internal risk management process that SAIs should take in order to contribute to reaching institutional goals and objectives; the latter addresses the identification of high risk areas / programs in the public sector. Additionally, a section with SAIs' best practices has been included in order to provide with practical guidance that complements this framework.

¹ INTOSAI counts with some tools to identify and manage risks. A concrete example of identification of integrity risks in public sector institutions is the Self-Assessment of Integrity (IntoSAINT). For further information on this particular initiative, please refer to www.intosaicbc.org/intosaint/.

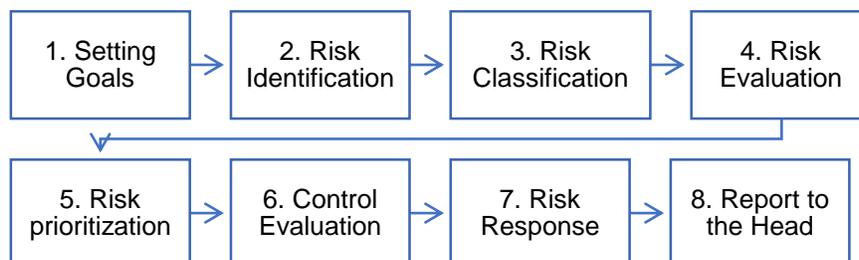
46 **(1) SAIs Internal Risk Assessment**

47
48 **Initial conditions to carry out a risk assessment process**

- 49
- 50 • It is required to count on the support of the top management within the SAI to
51 launch the process. Such support should be formalized through an institutional
52 policy or statement.
 - 53
 - 54 • Training in risk management for the staff in charge of such process should be
55 implemented, so all their knowledge is in alignment.
 - 56
 - 57 • Risk identification should be carried out by staff members with enough experience,
58 in order to ensure an effective detection of the threats and vulnerabilities in the
59 institution. It must be seen as a process to be executed by a special area. The
60 roles of the actors engaged in the risk assessment process must also be defined.
 - 61
 - 62 • A methodology, strategies, tactics and procedures must be defined. It also requires
63 constant feedback to identify potential events that could affect the proper execution
64 of the processes, as well as the achievement of institutional ones.
 - 65
 - 66 • Risk identification can be done by conducting surveys and holding meetings with
67 the selected staff from different key areas.
 - 68
 - 69 • As a complement of the process, it is advisable to undertake workshops with all
70 levels within the SAI departments to enhance the risks detection mechanisms.
 - 71
 - 72 • Communication should be part of the general risk management due to the fact
73 that there is a wide range of stakeholders who need to be informed as part of the
74 process.
 - 75
 - 76 • A report to the head of SAI should be prepared accordingly.

77
78 The workshops could include the following steps:

79
80
81 **Risk management general process²**



² Basing on COSO ERM 2017 and ISO 31000: 2018.

92 **1.1. Identification of strategic goals and institutional processes**

93
94 The strategic goals guide the achievement of the institutional mandate, mission and
95 vision. From these strategic goals, the operational, information and compliance goals are
96 established. Specific objectives for the different administrative units are thereafter
97 defined, including internal regulations.

98
99 Once the processes performed by each unit are identified, it is necessary to match them
100 with the strategic goals, objectives and actions set forth in the Strategic Plan.

101
102
103 **1.2. Risk Identification**

104
105 This step consists of determining the threats and vulnerabilities that may affect the
106 activities carried out by each participating unit in reaching their strategic and specific
107 goals, and including the identification of internal and external factors that can trigger those
108 risks (negative events). This process should be conducted as part of day-to-day activities;
109 it should not be seen as parallel to fulfill an administrative requirement.

110
111 The information gathered should be based on the experience and opinions of the
112 participating staff.

113
114
115 **1.3. Risk classification**

116
117 Since the tasks of SAIs have common features, it can be proposed to consider the risk
118 self-assessment categorization, as follows:

- 119
120
 - **Strategic risks:** related to achieving the SAI's main objectives.
 - **Administrative, legal and financial risks:** related to independence, mandates,
121 tasks, responsibilities and finally financial resources (allocations) that help the
122 SAI fulfill its tasks. This includes human resources, and information technology,
123 among others.
 - **Operating risks:** related to the SAI activity, mainly: audits or other control
124 activities, including jurisdictional ones; related reports and decisions, provision of
125 consultation to stakeholders; systems, human resources, tools, and principles
126 adopted by the SAI, level of technology it uses or needs to use.
 - **Ethics risks:** related to integrity, independence, objectivity, competence,
127 professional behavior, confidentiality and transparency, which ultimately create
128 credibility that enhances the image of the SAI.
 - **Reputational risks:** related to the SAI reputation or associated with the changes
129 in perception that third parties have of the SAI, mainly influenced by
130 communication means such as media management.

131
132
133
134
135
136
137
138
139

140
 141
 142
 143
 144
 145
 146
 147
 148
 149
 150
 151
 152
 153
 154
 155
 156
 157
 158
 159
 160

1.4. and 1.5. Risk evaluation and prioritization

The risk evaluation consists of assessing the probability of occurrence and the impact of each risk. This evaluation is carried out using both qualitative techniques (assessing the likelihood from the perspective of expert judgment) and quantitative techniques, using statistical models.

It is advisable to use a nominal scale rate (from 1 to 10) to evaluate risks, as well as an ordinal scale to establish the equivalent qualitative criteria (high, medium, low).

The probability of occurrence is evaluated based on the frequency; i.e. how many times the risk could occur; considering internal and external factors, while the impact was assessed by taking into account the consequences that may result for the institution if the risk materializes.

The following chart shows the scales suggested for risk assessment regarding impact and probability:

Assessment scale – Risk materialization probability

Value	Category	Probability
10	Recurrent	Very high, there is full assurance that the risk will materialize, it tends to be between 91% and 100%.
9		
8	Very likely	High, the risk has 75% to 90% probability of materialization.
7		
6	Likely	Media, the risk has 51% to 74% probability of materialization.
5		
4	Unlikely	Low, the risk has 26% to 50% probability of materialization.
3		
2	Highly unlikely	Very low, the risk has 1% to 25% probability of materialization.
1		

161
 162
 163

Assessment scale – Severity of risk impact

Value	Category	Impact
10	Very serious	Directly influences the attainment of the strategic goals, mission and vision of the institution; It may also involve monetary loss or damage to SAls image, or interrupting for a significant period all or critical functions, resulting in institutional failure in providing services.
9		
8	Serious	Significant damage to the institutional monetary funds or to the image or affecting the achievement of some strategic objectives. A considerable period is also needed to restore correct operation or damage.
7		
6	Moderate	Causing a major loss to institutional funds or damage to its image.
5		

4	Low	Does not affect the attainment of strategic objectives, or may cause damage to property or image, which can be corrected quickly.
3		
2	Less	It may have very low effect on the institution.
1		

164
 165 After developing the aforementioned two scales, it is necessary to prioritize risks,
 166 according to its final value and to determine which risks require immediate attention, by
 167 identifying the priority area in which each risk is located:

168
 169 **Risk prioritization**
 170

Low risk 1,2,3	Tolerable risk area Determination is made regarding if the risks located here will be accepted, prevented or mitigated.
Moderate Risk 4,5,6	Moderate risk zone Determination is made regarding if the prevention and monitoring actions for risks located here will be shared or transferred to mitigate them properly.
High Risks 7,8	High risk area Determination is made regarding if the mitigation actions for risks located here will be shared or transferred to manage them properly.
Serious Risk 9,10	Significant risk area Steps are taken to mitigate risks located here, establishing a specific action plan to manage them.

171
 172 The priority of the risks is concentrated in a general risk map, in which the risks are located
 173 to determine if their attention is needed immediately.

174
 175
 176 **1.6. Evaluation of existing controls**
 177

178 Once the risks have been identified, evaluated and categorized, it is necessary to
 179 evaluate the existent controls to mitigate them and assess how effective is the operation
 180 and design of controls. It should be noted that the aim of the workshops is not to evaluate
 181 the effectiveness and adequacy of controls in place to respond to such threats. However,
 182 the technical opinions of the participants on the existence and operation of policies and
 183 procedures are contributions of high added value.

184
 185 In order to address the deficiencies identified by participants, they themselves may
 186 suggest mitigation strategies, which are part of the response phase to the risks.

187
 188
 189 **1.7. Risk response**
 190

191 After completing the stages of identification, classification, evaluation, and prioritization
 192 of risks and the assessment of existing controls, public servants in each administrative

193 unit may define, based on the priority of risk, the most appropriate response to address
194 them according with the following determinations:
195

- 196 • **Avoid risk:** Eliminate the factors that are causing the risk. If a part of the process
197 is at high risk, the entire process receives substantial changes for improvement,
198 redesign or elimination, when applicable.
199
- 200 • **Reduce the risk:** The institution should establish actions to reduce the probability
201 of occurrence (preventive actions) and the impact (contingency measures), such
202 as specific measures for internal control and optimization procedures.
203
- 204 • **Sharing:** Transferring the risk to a third party who will assume the impacts or
205 losses resulting from the materialization of risks present at the process with risks.
206 It can also be understood as partial transfers, in which the goal is not be separated
207 completely, but segmenting the process and channeling the segments to different
208 administrative units or persons.
209
- 210 • **Assuming the risk:** Once the degree of impact the risk has on the strategic
211 objectives is analyzed, a conclusion is made to establish no action or control and
212 assume the consequences if the risk materializes, since mitigating proves to be
213 unreasonable due to its low impact and low probability of occurrence.
214

215 The following measures could be useful to avoid and mitigate risks:
216

- 217 1. Adopt a regulatory and administrative plan that identifies the general framework
218 for directing and controlling an activity through an organizational structure that can
219 demonstrate the authorization and responsibilities policies, as well as provide
220 procedures that prevent violations of disciplinary systems by a clear segregation
221 of conflicting tasks.
- 222 2. Select competent staff through a proper recruitment process that depends on the
223 competence and integrity of officers in charge.
- 224 3. Establish a financial and accounting system that relies upon a complete set of
225 records, documents and a classified guide of accounts, where related standards
226 are met.
- 227 4. Adopt sound procedures to promptly record all accounting processes with fair
228 value, and have a sound accounting classification within an accounting period
229 during which these processes are performed, in order to develop the financial
230 information in an applicable accounting policies framework that allows defining
231 accounting responsibility.
- 232 5. Implement sound procedures to clearly and precisely define authorization and
233 responsibilities.
- 234 6. Evaluate and update the internal control system to avoid outdated controls and to
235 keep pace with the new developments.
236
237
238
239
240

241 **1.8. Reporting to the Head**

242
243 After the identification, evaluation, assessment and prioritization of risks, a report on the
244 workshops performed should be completed, in order to inform the head of the institution
245 on the most relevant results. The report should include the following documents:

246
247 • **General Risk Inventory (GRI)**

248
249 The list of all those events that the institution is exposed to and that have been identified
250 and categorized in the risk self-assessment workshops. In the inventory, each risk is
251 traceable over time.

252
253 • **General risk map**

254
255 Graphical representation of the value of each risk, according to their likelihood and
256 impact, usually in the form of a heat map. The risks are represented so that the most
257 significant ones (high impact and high probability) can be distinguished from the least
258 significant.

259
260 • **Institutional program for risk monitoring**

261
262 Based on the risk matrix and the overall risk map, and in order to address areas of
263 opportunity identified during the workshops, a program of this kind can be developed and
264 become a part of the activities to be carried out to address all risks, with a special
265 emphasis on the top 15 risks. It should include administrative units responsible for
266 implementation of controls, specific dates over a period of time for actions to be
267 implemented, expected deliverables, and the expected effect on the institution's
268 performance as a result of the action plans created to mitigate risks.

269 **(2) Identification of High Risk Areas / Programs in the Public Sector**
270

271 The traditional approach to auditing is based upon a bilateral relationship between
272 the audited entity and the auditing institution. The cumulative results of the work
273 performed on audited entities can offer a general view of patterns or reiterative
274 situations, which might, in turn, shed light on structural problems in specific areas /
275 programs of the government.

276
277 SAIs have a unique position within government structure, as to better understand
278 the challenges and vulnerabilities that public sector faces. In addition, as it has been
279 discussed in the Working Group on Value and Benefits of SAIs, our institutions
280 remain as one of the most trusted public entities due to our oversight role.

281
282 Any government deals with endanger procedures and activities that compromises
283 the fulfillment of public goals, the efficient use of public funds and the observance of
284 rules and laws. Specifically, there are certain areas / programs in the government
285 that may be riskier than others, given the nature or the conditions of the actions that
286 are carried out.

287
288 For instance, public procurement entails vulnerabilities—in terms of opportunities to
289 commit fraud, abuse or corruption practices—, because of the diverse interaction
290 between public officials and private agents, including the hidden and irregular one
291 that leads to collusion, as well as the high amount of resources that are usually
292 allocated in the public budgets under this item. In this case, if different audit reports
293 on this matter show a reiteration of similar irregularities / problems that imply a legal
294 breach of rules or a failure to attain objectives, SAIs may consider this area as a
295 high-risk one.

296
297 Likewise, public programs that involve direct impact on social welfare or national
298 security, might be regarded as high-risk due to its political, social and economic
299 relevance.

300
301 Finally, there are other areas/programs that are executed under not optimal
302 conditions in terms of institutional skills, availability of resources or unsuitable
303 internal control environment. These themes may also be label as high-risk.

304
305 In this context, SAIs can provide different stakeholders with real value by detecting
306 specific vulnerabilities that governmental institutions should address. It is worth
307 mentioning that identification of high-risk areas / programs contributes to deterring
308 management inconsistencies, inefficiencies, and irregularities.

309
310
311 **2.1. Defining public sector risk areas**
312

313 For the sake of this framework, a high-risk area in government might be defined as:
314

- 315 i. A program or agency that is at risk for failure to fulfill its mandate or is
316 subject to fraud, waste, abuse, or mismanagement;
317 ii. A common pattern or process in the functioning of government that does
318 not adequately consider efficiency, effectiveness, economy, and legal
319 compliance;
320 iii. Negative trends in domestic economic, social, cultural, political and
321 environmental variables, and
322

323 These risks might be explained by different factors:
324

325 (1) Structural vulnerabilities in public institutions' operation:
326

- 327 • Inappropriate internal control systems, including integrity
- 328 • Public management models that do not meet citizens' needs³
- 329 • Deficiencies in technical skills and capacities
- 330 • Financial constraints
- 331 • Technological gaps
- 332 • Management and human resources concerns
333

334 (2) Inappropriate design and enforcement of laws and regulations:
335

- 336 • Laws not pertinent to current social, economic, and political conditions
- 337 • Civil servants' perception of impunity resulting in perverse incentives
- 338 • Deficient provision of justice
- 339 • Lack of checks and balances in governmental affairs
- 340 • Government's deficient performance evaluation
- 341 • Deficiencies in the statutory frameworks of the government
342

343 (3) External conditions stemming from the international environment:
344

- 345 • Economic crisis in the global economy
- 346 • Economic and regulatory changes affecting trade partners
- 347 • Widely fluctuating and unpredictable international markets and interest
348 rates
349

350 (4) Economic, social, cultural and environmental patterns:
351

- 352 • Undue political influence on government
- 353 • Lack of trust in the public sector
- 354 • Overly bureaucratic culture

³ One of the vulnerability factors in public entities lays on the non-implementation of models designed to meet citizens' needs. For example, process management: A management at the service of citizens should necessarily change the traditional model of a functioning organization and move towards an organization process management included in the "value chain" of the entity. This will guarantee public good and services under their responsibilities generate positive results and impacts for the citizens.

- 355
- 356
- 357
- 358
- Lack of institutional mechanisms allowing social participation in public issues and equal treatment under the law
 - Economic crisis, public security, energy security, network security, ecological and mass media and so on.

359

360 According to some frameworks⁴ to manage risks in the public sector, there are three
361 thematic zones which present the highest risks in terms of impact on regularity and
362 probity. These areas are the following:

363

364 1. *Government procurement*

365

366 Government departments and public enterprises are increasingly turning to the
367 private sector to procure a wide range of goods, services and works of public interest.
368 Government contracts represent a fundamental economic activity for government
369 departments which generate significant financial flows.

370

371 Partly, as a result of their size and their complexity, government contracts are one
372 of the public activities which are the most exposed to risks of attacks on regularity
373 and probity, particularly corruption. Similarly, government procurement constitutes a
374 major area of risks, within which can be committed anti-competitive practices, which
375 lead government departments to pay artificially high prices for goods and services.

376

377 Besides government contracts, the following items might also be subject of specific
378 attention:

379

- delegations of government services (operation of a government service, concession, infrastructure management);
- contracts for public/private partnerships;
- government long-term leases.

384

385 The audit of the regularity of these transactions involves the verification of the
386 conclusion terms of these contracts or partnerships, but also their execution terms
387 are important, which may hide irregularities such as the order of additional
388 operations or even works not carried out or modified.

389

390 2. *The grant of government aid*

391

392 Government aid schemes are levers for the implementation of a policy by the private
393 sector. The field of government aid schemes is characterized by its extent:

394

- diversity of the donors, whether they are government bodies (State, territorial governments, government establishments, public interest groups, community and international bodies) or private bodies linked to a government body;

397

⁴ *The Identification, Audit Scheduling and Handling of Risk in the Public Sector*, Paris, Cour des Comptes, 2016, pp. 4-6.

- 398 ○ proliferation of intervention methods: diversity of financial aid (subsidies,
399 bonuses, taking of equity stakes, loans, guarantees, tax credits, tax rebates,
400 reductions in social security contributions, etc.) and crosscutting programs.
401

402 Besides reinforcing the controls on the use of government funds, the stakes in this
403 area of risks are the lack of transparency in the grant and management of the aid,
404 as well as the risk of poor use of the funds or their misappropriation.
405

406 Indeed, the examination of regularity provides the verification of the conditions of
407 use of these government funds, particularly the conformity of their allocation and the
408 regularity of the expenditure transactions, including the certification of the service
409 provided.
410

411 The drafting of the multi-year schedule should allow the identification of priorities and
412 targeting per type of beneficiary body, activity or geographical sector.
413

414 3. *The management of human resources* 415

416 The interest of this area of risk takes particular account of personnel and expenses
417 which, besides personnel expenses, include social security contributions as well as
418 services and miscellaneous allocations.
419

420 The following points should be prioritized:
421

- 422 ○ conditions for recruitment (creation of position and procedure) and the service
423 provided;
- 424 ○ conditions for the setting of the highest remunerations, including salaries,
425 bonuses and allowances, particularly the corporate officer managers and all
426 their incidental benefits (reimbursement of miscellaneous expenses, related
427 benefits);
- 428 ○ conditions for aggregation of remunerations;
- 429 ○ audit of payments of social security contributions.
430

431

432 **2.2. Identification of risk areas stemming from audit work** 433

434 SAs can use different methodologies in order to identify risk areas in their own
435 national public sectors; these approaches might be focused on one or more of the
436 following activities:
437

- 438 i. Analyzing audit results so as to define recurrent patterns, unaddressed problems,
439 and continuous trends:
440
 - 441 • Quantitative analysis based on statistics of audit findings across different
442 years.
 - 443 • Qualitative analysis of audit findings, including the identification of explanatory
444 factors contributing to areas of risk.

- 445 ii. Compiling relevant information from external sources:
446
447 • Detection of social and economic indicators and trends
448 • Identification of potential impacts on public finances from internal and external
449 factors
450 • Definition of stakeholders and public opinion priorities and demands.
451 • Detection of all related news, information, interviews, etc., which are
452 published in the media.
453
454 iii. Conducting surveys or focus groups among relevant stakeholders:
455
456 • Members of parliament
457 • Non-governmental organizations
458 • Media
459 • Academia
460 • Audited entities
461 • Other government department
462 • Society at large
463

464 Each SAI, depending on its available resources, technical capacities, and/or legal
465 mandate, might use one or more of these options. The expected product of this
466 process would be an identification and mapping of risk areas across government.
467 This information could prove to be a very important input for legislative work, public
468 budgeting, program and policy assessments, audit planning, prioritization of
469 governmental actions, and governmental and academic research and studies.
470
471
472
473
474
475
476
477
478

479 **Annexure - WGVBS Member SAIs' Practical Cases**

480

481 • **Austria**

482

483 The ACA aims to respond to public sector risks by planning its audits in a risk-
484 oriented manner. An examination of the audited entities internal control systems
485 (whose effectiveness and reliability are assessed in each audit) and risk
486 management systems often provides for indications with regard to the focal theme
487 of the audit. Experience has shown that the following areas and audit themes come
488 with a high risk: projects with a high number of participants, separation between
489 implementation and funding, restructuring processes in the IT area, outsourcing,
490 measures with inadequate high-pressure deadlines etc. In order to reinforce its
491 impact, the ACA conducts follow-up audits. Sample audits (in particular at smaller
492 entities) serve to increase its preventive impact.

493

494 • **Bahrain**

495

496 Risks are usually identified in SAI Bahrain, through the following process:

497

- 498 a) Understand all related business processes by interviewing concerned
499 personnel, questionnaires, read and summarize related operational manuals,
500 select a sample of transactions and study the process through them,
501 observations.
- 502 b) Prepare documentary and information flowcharts for business processes.
- 503 c) Identify all probable and expected risks.
- 504 d) Classify identified risks (High, medium, low).
- 505 e) Identify risky areas and prepare.

506

507 • **France**

508

- 509 1. Risk management has substantially increased since year 2000 in the French
510 public sector within strategic, operational and support fields. In parallel, the
511 French SAI –*le Cour des Comptes*– and its associated Regional Chambers of
512 Accounts have consistently developed their approach to audit risk management
513 in public institutions and processes.
- 514 2. Depending on their experience, auditors can investigate and issue observations
515 and recommendations more or less focused when dealing with the strategic and
516 operational fields, mainly on the existence, implementation and efficiency of risk
517 control processes within the auditees.
- 518 3. Regarding support functions, including financial, IT and human resources
519 systems, directly linked with the use of public resources, the French SAI draws on
520 its high level of expertise to also challenge the risk mapping in itself, the adequacy
521 of mitigation plans and actions, as well as the effectiveness of internal control
522 systems. Furthermore, its jurisdictional mandate and its cooperation with judicial
523 powers enable it to identify serious violations in the implementation of

524 administrative and financial regulations and to allow appropriate sanctions, in
525 order to improve risk management, especially in procurement, granting of public
526 subsidies, recruitment, promotion and salaries of civil servants.

527 4. Financial risks are in the core of audit stakes in France. The risk management
528 system is highly developed in the public financial field, particularly in budget and
529 accounting sectors. Through the mission to certificate the State and Social
530 Security's accounts, the French SAI evaluates the risk management system of
531 the government administration and private welfare institutions.

532 5. According to Article 47-2 of the Constitution and several laws (2001 for State
533 accounts and 2005 for Social Security), public accounts must be regular, objective
534 and faithful on the image of their financial situation. These provisions have
535 strengthened the requirements for accounting reliability and financial
536 transparency. They were declined by the decree of November 7th, 2012, in relation
537 to Public Accounting and Budgeting Management (GBCP for *Gestion Budgétaire*
538 *et Comptable Publique*), which defines the accounting rules applicable to public
539 management.

540 6. The objective of accounting quality is guaranteed in particular by the application
541 of accounting standards by the State and its public bodies.

542 7. To ensure compliance with the criteria of quality of accounting,⁵ the GBCP decree
543 also provides the establishment of an internal control system in each ministry and
544 body.⁶ Accounting internal control refers to all the formalized and permanent
545 arrangements designed to provide reasonable assurance of controlling the risks
546 threatening the quality objectives of public accounts, from operative events to its
547 settlement accounting. As such, it is an essential component of the overall risk
548 management and a powerful lever for improving the reliability of accounts. The
549 decree of December 31st, 2013, describes the actors and the internal accounting
550 control approach. It is implemented, within each ministerial department, by
551 managers at all levels, under the coordination of the secretary general of the
552 ministry.

553 8. The risk management in accounting is based on a trend of continuous
554 improvement in three stages:

- 555 ○ identification of accounting risks and development of action plans;
- 556 ○ implementation of measures to strengthen the system, consolidating the
557 three levers of accounting control organization (organization of the
558 accounting function, documentation of procedures and risks, traceability of
559 actors and operations),
- 560 ○ evaluation of the effectiveness of the accounting internal control system.

561 9. The reference framework for the internal budgetary and accounting controls of
562 public bodies, published by decree on December 17th, 2015, is also based on this

⁵ Reality, justification, presentation and good information, sincerity, accuracy, completeness, non-compensation, imputation, attached to the correct period, attached to the correct exercise.

⁶ the State is in line with the European Directive 2011/85 of 8 November 2011, which states that must set up reliable systems of public accounting in established rights, subject to internal control and independent audit.

563 progressive and adapted approach to the challenges. Common to all public
564 bodies, it defines the objectives and how to implement the risk management
565 approach while leaving the margins to necessary adaptations.

566

567 *Le Cour des Comptes* publically reports every year on the progress of risk
568 management and control in its reports on State Budget and Accounts on Social
569 Security Management and Accounts.

570

571 • **Iraq**

572

573 The FBSA of Iraq uses two kinds of evidence to identify public sector risks. They are
574 as follows:

575

576 1. Institutional risks assessment and analysis manual: It includes a set of general
577 guidelines that audit teams use to perform their audit tasks.

578

579 The manual has the following themes:

580

- 581 a) Administrative organization risk assessment
- 582 b) Technical organization and activity risk assessment
- 583 c) Accounting and financial organization risk assessment
- 584 d) Procurement and contracting risk assessment

585

586 This manual aims at analyzing and assessing institutional risks to remedy them and
587 fight corruption in the financial, technical and administrative organization of all
588 managements and institutions by means of its general steps. These steps aim at
589 detecting corruption and fraud, securing resource protection from waste, loss and
590 misuse ; leading to improvement of operation efficiency, adherence of staff to laws,
591 rules, regulations and management policy.

592

593 2. Risk-based audit: According to this manual, audit priorities are arranged in
594 audit office plans or during activity and operation audit .The aim is to focus on
595 high risks in institutions so as to be well covered and ultimately leading to
596 tasks distribution among team members and linking internal audit to risks and
597 assessing them.

598

599 The following are some points that an auditor should observe while auditing to
600 identify risks:

601

- 602 a) Changes in sectors (there might be potential work risks like staff of the entity
603 lacks the ability to deal with changes taken place in the sector).
- 604 b) New services and products (there might be potential work risks like
605 obligations are greater than products).
- 606 c) Expanding of work (there might be potential work risks like demand is
607 inaccurately estimated).

- 608 d) New accounting requirements (there might be potential work risks such as
609 incomplete or improper implementation or excess costs).
610 e) Organizational requirements (there might be potential work risks such as
611 legal risks).
612 f) Current and expected funding requirements (there might be potential work
613 risks such as losing funding due to the entity's inability to meet the
614 requirements)
615 g) IT utilization (there might be potential work risks such as Inconsistency of
616 systems and operations).
617

618 FBSA audit work is based on what has been mentioned above. The auditor follows
619 the steps while performing his/her tasks .Once the audit is completed, a report of
620 results of the observations and weak points in the public institutions is prepared. The
621 results are reported to the parties concerned.
622

623 The FBSA identifies public sector risks and reports them to the parties concerned
624 via its annual report that is submitted to the Legislature. It includes a summary of
625 fiscal year audit results namely through common observation diagnosed in public
626 institutions .The aim behind which is to pinpoints the potential negative impact on
627 the public budget, public accountability system, integrity and quality management in
628 order to take the appropriate corrective procedures and avoid their recurring.
629

630 • **Kuwait**
631

632 The State Audit Bureau (SAB) of Kuwait has taken auditing to a higher level by using
633 a risk-based audit method, which consists of prioritizing audit and focusing on
634 strategic objectives, activities and processes that involve high risks. This method
635 aims to add value to the audited entities by identifying risks and improving methods
636 to address them. I also guides the efforts of the audit team members to ensure the
637 enhancement of the control work outputs, and ensure the quality of performance.
638 This method, rather than traditional audit ones, is based on auditing accounting
639 aspects and the extent to which entities are subject to laws, policies and procedures
640 auditing.
641

642 The SAB has created a working group to set the fundamental principles of risk-based
643 auditing, and the group has prepared an initial draft of the *Risk-Based Audit
644 Guidance Manual*, aiming to get the final approval and start to be applicable.
645

646 However, the Kuwait Audit Bureau actually applies its auditing work based on the
647 most important risks due to the fact that most of the foundations for auditing are
648 certain risks raised by the parliament or the Council of Ministers, and the task of the
649 Audit Bureau is to examine these risks and audit them.
650

651 The SAB issued its first *High-Risk Report* in July 2018, which aimed to highlight the
652 high-priority topics for the Parliament to adopt and discuss. This report was also sent
653 to the Council of Ministers in order for it to consider the reasons why it was classified
654 as a high-risk issue, according to the following criteria:

655

- 656 • Bad management.
- 657 • Misuse of available resources.
- 658 • Corruption or fraud.
- 659 • Waste in public money.

660

661 The SAB follows up and updates, periodically, topics considered as high-risk, adds
662 new ones and deletes those causes that have been classified as high-risk subjects
663 according to four basic criteria:

664

- 665 • the extent to which senior management and leaders are committed to the
666 control responsibilities in taking appropriate corrective actions and their
667 support for these procedures.
- 668 • the adequacy of human capacities and competencies, as well as the available
669 financial resources to solve these risks.
- 670 • the availability of a corrective action plan that can identify the root causes of
671 those risks and the measures to overcome them.
- 672 • monitoring and follow-up periodically the progress made in the
673 implementation of corrective measures to cope with high risks.

674

- 675 • **Mexico**

676

677 The Mexican SAI has recently adopted a risk-based approach. The objectives of this
678 approach are the following: (1) ensuring that audit information contributes to outlining
679 a strategic perspective on public sector management weaknesses, (2) becoming a
680 means of preventing audit findings on the same issue from recurring, and (3) making
681 the value and benefits of the Mexican SAI's work more evident.

682

683 This approach is based on the assumption that the public sector faces a wide range
684 of potential problems with significant impact on the national budget and quality
685 management. There are certain areas that are more likely to be subject to these
686 risks; in these cases, one can observe vulnerabilities that: (1) are currently affecting
687 management operation and policy implementation, or (2) are not yet having any
688 current effect, but in the future there is a high likelihood that they will have a negative
689 impact either on the functioning of an entity or the achievement of program goals.

690 The risk areas that are selected as the main ones by the Mexican SAI have an impact
691 on public sector governance, including:

692

- 693 1. Irregular or inefficient use of public funds
- 694 2. Management failures (poor performance and unachieved goals)
- 695 3. Distrust in government.

696

697 The Mexican SAI's methodology is based on a qualitative and quantitative analysis
698 of the individual auditing results obtained during a specific year. The auditing staff
699 identifies the vulnerabilities related to the nature of the findings included in each audit
700 report. The list of the identified vulnerabilities is compiled and sorted. Based on this

701 list, there is an analysis of their frequency and main features in order to categorize
702 the data. This categorization is aimed at identifying the key risk areas.

703

704 Following these steps, the most recent Mexican SAI audit report identified the
705 following eleven key areas:

706

707 1. Information on social programs beneficiaries: inadequate design and
708 operation of databases that gather information about people enrolled in social
709 programs. The lack of comprehensive and updated registry systems results
710 in an inappropriate identification of target groups, inability to verify data
711 accuracy, difficult policy assessments, and miscommunication of programs'
712 goals and outcomes, which ultimately hampers the program implementation
713 process.

714 2. Disclosure of expenses and liabilities: inappropriate and incomplete
715 information on the financial status of public institutions hinders the national
716 planning process, preventing a proper assessment of budget constraints,
717 medium and long-term payment obligations, and the real financial impact of
718 debts and contingent liabilities.

719 3. Effective integration of citizens in overseeing public programs: constraints
720 over the real participation of social program beneficiaries contributes to an
721 inadequate regulatory framework, high levels of social marginalization,
722 inappropriate involvement of intermediaries, resistance to the authorities, and
723 information asymmetries, among other conditions.

724 4. Procurement practices by public agencies: the current legal framework
725 prescribes the requirements and procedures to be met for government
726 purchases. However, in some cases, although such regulations are complied
727 with, the resulting contracts do not represent a real benefit for the state.

728 5. Public works planning and oversight: the allocation of public contracts must
729 be carried out so as to preserve the best conditions in procurement. However,
730 there are still problems like improper planning, inadequate work plan
731 execution, poor project management and supervision, insufficient skilled staff,
732 delays and cost overruns.

733 6. Intermediaries in the public spending process: the federal structure
734 contemplates that part of the budget for certain areas such as health,
735 education, agricultural activities, or economic development is exercised
736 through intermediaries, including local agencies, universities, private
737 organizations and civil society. This can result in significant risks and impede
738 accountability.

739 7. Unexpended budgetary resources: having unexpended funds remaining, or
740 positive financial balances, corresponding to a particular activity, program, or
741 public service. The unexpended budget does not represent savings; rather, it
742 involves an inability to spend efficiently.

743 8. Inadequate use of IT technology: the implementation of IT innovations does
744 not necessarily result in a benefit. In some cases, the use of IT systems does
745 not have a positive impact on improving management processes, instead
746 resulting in costly and underutilized investments.

- 747 9. Duplicative programs: using different approaches for solving public problems,
748 without effective communication and coordination between the agencies
749 involved, resulting in overlapping efforts and inefficient use of resources.
750 10. Public services provided by private sector: the participation of private firms
751 as suppliers of public services has yielded neither a more efficient
752 management alternative nor better supervision and control.
753 11. Failures in the design and implementation of public policies: This includes an
754 inadequate identification of policy goals and expected outcomes, and poor
755 performance of agencies responsible for processes and implementation
756 activities.

757
758 • **Peru**
759

760 In the Peruvian case, to elaborate policies on which the audit plans are based, we
761 consider: administrative systems with higher risks, sectors with a greater impact on
762 the priorities on government policies and the legal assignments prioritized by the
763 National Control System, such as:

- 764
765 1. Income and revenue
766 2. Procurement of good and services
767 3. Investment projects or public works
768 4. Authorizations, licenses and permits
769 5. Social programs and basic social services
770 6. Extractive industries: fishing, forest, mining and hydrocarbons
771 7. Natural disasters and phenomenon
772 8. Environmental management
773 9. Election campaigns and management transfers
774

775 Regarding compliance audit, it has been considered a directive and a manual which
776 set out the guidelines for the audit to be based on the risks detected during the
777 evaluation process of the design, implementation and effectiveness of internal
778 control of the subject to be assessed. This was carrying out through the walk test
779 and the result had two purposes:

- 780
781 1) Present deficiencies of internal control as part of the audit report for the
782 adoption of measures to overcome such deficiencies.
783 2) Strengthening professional judgment of the auditor to decide the trust level of
784 the process and sub processes controls; and based on that, define the
785 procedures of the final audit plan to assess the subject to be audited.
786

787 Auditors identify critical or fundamental process or sub process in the subject to be
788 audited and the main activities of each one of these. They will also identify the
789 inherent risk for each activity and the control every entity have to reduce it.
790

791 The inherent risk is the combination of internal and external risk factors in their
792 natural state, without the application of any control. This is identified taking into
793 account the following factors:

- 794 • Nature and sector of the entity
- 795 • Nature, complexity and volume of operations performed
- 796 • Organizational structure and level reached in process management
- 797 • Managerial organization, human resources and material, management
- 798 integrity and resources quality of the entity
- 799 • Economical and financial situation of the entity
- 800 • Results of previous audits conducted to the entity.

801

802 Identification of corruption risks in procurement process and management of works
803 by contract.

804

805 Given the fact that government acquisitions and procurement are one of the most
806 representative aspects in the public budget execution where irregularities are
807 frequently found, causing significant loss to the national treasury, it is the Office of
808 the Comptroller General, according to its attributions, defining and improving control
809 mechanisms. This way, they will contribute to the caution of state-owned property.
810 This is why there is the *Audit Guide for Government Acquisitions and Procurement*
811 and the *Audit Guide for Public Works*, which have a methodology oriented to
812 standardize audits procedures in the performance of audits to public works. These
813 are specialized audit guides which, under a process and sub process approach,
814 identified risks, factors, description and the effects they may causes in the
815 achievement of the objectives of public entities.

816

817 In the case of the *Audit Guide for Acquisitions and Procurement*, risks were identified
818 for the following phases:

819

- 820 • Planning and preparatory activities
- 821 • Selection process and,
- 822 • Contractual execution

823

824 Sub processes of public works management where risks were identified are also
825 procurement phases:

826

- 827 • Need for hiring
- 828 • Organization of procurements
- 829 • Bases and call
- 830 • Proposal evaluation and granting
- 831 • Signing of the contract
- 832 • Execution of the contract

833

834 In the *Audit Guide for Public Works*, for every sub process of the procurement, there
835 is a description of statements and management criteria, from the perspective of
836 efficacy, efficiency and economy; and depending on this, specific procedures are
837 developed by the auditor.

838

839

840 • **U.S. GAO**

841
842 The Government Accountability Office (GAO) has developed a robust analytical
843 framework to focus attention on government operations that it identifies as high risk⁷
844 due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement or
845 the need for transformation to address economy, efficiency, or effectiveness
846 challenges. The main product of this approach is a report listing high risk programs
847 and operations in key public sector areas. This report is updated every two years
848 and is presented to the Congress at the beginning of each new session.

849
850 The high risk program began in 1990, and since then it has undergone several
851 changes in order to capture the complexity of government activities. The original
852 High Risk List had fourteen programs, while the current list includes more than thirty.
853 The major cross-cutting high risk areas range from transforming DOD business
854 operations and managing federal contracting more effectively, to assessing the
855 efficiency and effectiveness of tax law administration and modernizing and
856 safeguarding insurance and benefit programs.

857
858 To determine which federal government programs and functions should be
859 designated high risk, GAO uses its guidance document, “Determining Performance
860 and Accountability Challenges and High Risks.” GAO considers quantitative factors
861 such as the exposure to loss as well as several qualitative factors, such as whether
862 the risk involves public health or safety, national security, or could result in
863 significantly impaired service, program failure, or greatly reduced economy,
864 efficiency, or effectiveness. GAO also considers corrective measures planned or
865 underway to address risks and the status and effectiveness of these actions.

866
867 Based on this information, GAO identifies areas of vulnerability in order to alert
868 stakeholders and public opinion about the need to target long-term improvements.
869 Another important aspect of this approach is the follow-up activities it involves. After
870 an area is added to the High-Risk List, GAO assesses the corrective actions and
871 policies taken by the Congress or the Executive Branch to curb the risk areas’
872 negative effects and updates the status in its next biennial update report. GAO uses
873 the following five criteria for establishing when an area is ready to be removed from
874 the High Risk List:

- 875
876 1. **Leadership Commitment:** agency has demonstrated strong
877 commitment and top leadership support.
878 2. **Capacity:** agency has the capacity (i.e., people and resources) to
879 resolve the risk(s).
880 3. **Action Plan:** a corrective action plan exists that defines the root cause
881 and solutions, and provides for substantially completing corrective
882 measures, including steps necessary to implement the solutions GAO
883 recommends.

⁷ GAO, Report to Congressional Committees. High-Risk Series, An Update, (US: GAO, February 2015), available on <http://www.gao.gov/assets/670/668415.pdf>

- 884 4. **Monitoring:** a program has been instituted to monitor and
885 independently validate the effectiveness and sustainability of corrective
886 measures.
887 5. **Demonstrated Progress:** agency has been able to demonstrate
888 progress in implementing corrective measures and in resolving the
889 high risk area⁸.

890
891 Based on these five criteria, GAO rates the level of improvement in each area,
892 including the corrective actions and other initiatives undertaken. These improvement
893 ratings are especially useful for agency leaders and the Congress in setting their
894 priorities for addressing high risk areas.

⁸ GAO, Report to Congressional Committees. High-Risk Series, An Update, (US: GAO, February 2015), available on <http://www.gao.gov/assets/670/668415.pdf>