



# Guidelines of the Performance Audit Risk Analyses in Finland

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# Content of the Presentation

- I. The Function of the Guidelines
- II. Guidelines in Practice and First Experiences

## I The Function of the Guidelines (1/4)

### The background of risk analysis

- ▶ 2004 - 2006 the administrative sectors made annual sector reports
- ▶ The sector reports were considered unsatisfactory
- ▶ The aim was to improve analysis by
  - specifying the concept of risk
  - standardizing the reporting practices
  - clarifying and emphasizing the financial aspect
  - improving the directing of the audits

## I The Function of the Guidelines (2/4)

### The starting up of the risk analysis

- ▶ The guidelines were drafted in work group
- ▶ The risk analysis process has been done in 2007 and 2008 in seven administrative sectors
  - 2007: Ministry of Education, Ministry of Trade and Industry and Ministry for Foreign Affairs
  - 2008: Ministry of Social Affairs and Health, Ministry of Justice, Ministry of Transport and Communications and Ministry of Agriculture and Forestry
- ▶ From now on the risk analysis will be conducted in each administrative sector on every three years

## I The Function of the Guidelines (3/4)

### Objectives of risk analysis

- ▶ To find out the overall outlook of risks in the state finances
- ▶ To evaluate the problem areas in sectoral and cross-sectoral activities

### The idea and result of risk analysis

- ▶ To get a prioritized proposal for audit topics

## I The Function of the Guidelines (4/4)

### Criteria for focusing audits

- ▶ The financial significance of activity
- ▶ The financial risk associated to activity
  - the probability of a negative impact
  - the consequences of a negative impact
- ▶ The possibility to produce useful information

### Method of implementation

- ▶ Administrative sector group based team work
- ▶ Practical implementation in five stages

## II Guidelines in Practice and First Experiences (1/7)

The risk analysis process has five stages

### STAGE 1: Examining the financial significance of the activity and identifying risks

- The sector group identifies the areas, topics and functions that are significant for the state economy
- The impact on state finances is evaluated by using different kind of documents and data
- The information used in evaluation process is fundamentally based on day-to-day monitoring of administrative sector

## II Guidelines in Practice and First Experiences (2/7)

### STAGE 2: Analysing and classifying risks

- ▶ More detailed analysis is conducted and the risks are classified according to the type of risk
- ▶ The sector group discuss about the chosen topics
- ▶ The topics are distributed to the members of the sector group and the detailed analysis and classifying is conducted
- ▶ In the detailed analysis of the probability and the impact of a risk are evaluated on a scale of 1 to 3 (if possible, otherwise NA)
- ▶ The risks are classified by using a specific form (Form 1)



## II Guidelines in Practice and First Experiences (3/7)

### STAGE 3: The prioritizing of topics

- The topics are placed in an administrative sector in order of importance based on overall risks
- The risks are summarized in a separate form (Form 2); about five most important risk of administrative group are listed

## II Guidelines in Practice and First Experiences (4/7)

### STAGE 4: Reasoning for audit topics

- ▶ The administrative sector group summarizes the reasoning of the most important audit topic proposals
- ▶ Reasoning evaluate the linkage of the topics to the NAO's strategic theme areas and audit themes
- ▶ Reasoning is summarized in a form (Form 3)

## II Guidelines in Practice and First Experiences (5/7)

### STAGE 5: Risk analysis report

- ▶ In the final stage the risk analysis report is formulated
- ▶ The report contains
  - a summary of the risk analysis (2-3 pages)
  - the description of key risks in the administrative sector
  - the risk analysis forms, summary form, reasoning forms and a list of audit activities in the administrative sector during the past 5 years are added to the report

## II Guidelines in Practice and First Experiences (6/7)

### Problems in risk analyses process

- ▶ The evaluation of risks in monetary terms was found difficult in some cases
- ▶ The lack of proper analyzing methods impels to use common sense and assumptions based on professional knowledge
- ▶ The summarizing of broad thematic entities in few lines or even in one number was found challenging

## II Guidelines in Practice and First Experiences (7/7)

### The positive sides in risk analysis process

- ▶ The risk analysis process is more systematic than the annual sector reports
- ▶ The standardization of the process increased the uniformity
- ▶ The process has created also a lot of new audit topics
- ▶ The process has increased the importance of group working
- ▶ The process gives more influence for the auditors on selection of audit topics