

Guidelines of the Performance Audit Risk Analyses in Finland

Mikko Koskinen and Juho Nurminen National Audit Office of Finland 28.4.2009



Content of the Presentation

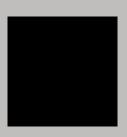
- I. The Function of the Guidelines
- II. Guidelines in Practice and First Experiences



I The Function of the Guidelines (1/4)

The background of risk analysis

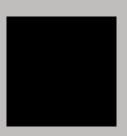
- ▶ 2004 2006 the administrative sectors made annual sector reports
- The sector reports were considered unsatisfactory
- The aim was to improve analysis by
 - specifying the concept of risk
 - standardizing the reporting practices
 - clarifying and emphasizing the financial aspect
 - improving the directing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



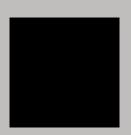
I The Function of the Guidelines (4/4)

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

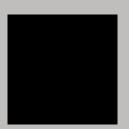


II Guidelines in Practice and First Experiences (1/7)

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)



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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

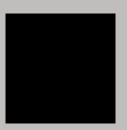
- The administrative sector group summarizes the reasoning of the most important audit topic proposals
- Reasoning evaluate the linkage of the topics to the NAO's strategic theme areas and audit themes
- Reasoning is summarized in a form (Form 3)



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

STAGE 5: Risk analysis report

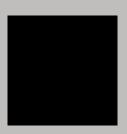
- In the final stage the risk analysis report is formulated
- ▶ The report contains
 - a summary of the risk analysis (2-3 pages)
 - the description of key risks in the administrative sector
 - the risk analysis forms, summary form, reasoning forms and a list of audit activities in the administrative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