

Linking Risk to Resources

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In Any Such Seas. . .

- Of Victoria, Rudyard Kipling wrote, “Real estate agents recommend it as a little piece of England – the island on which it stands is about the size of Great Britain – but **no England is set in any such seas or so fully charged with the mystery of the larger ocean beyond.**” (Kipling first visited Victoria in 1889)

And Welcome to B.C.!



Today's Topics: Risk and the Mystery of the Larger Ocean

- We're discussing audit planning and risk in two main areas:
- First, the process of audit planning on an annual basis, where risks and issues are identified and resources are linked to audit topics.
- Second, the process of audit planning on an individual audit/assignment basis, where staff time is linked to audit objectives.

Initial Overview of Planning

- “Macro” or annual level:
 - Based on **Risk**
 - Tied to audit plan
 - Topic selection approved by Audit Committee
- “Micro” or assignment level:
 - Based on **Resources** and staff time (staff hours)
 - Tied to specific audit production
 - Planned by staff and management

Essential Postulates of Risk

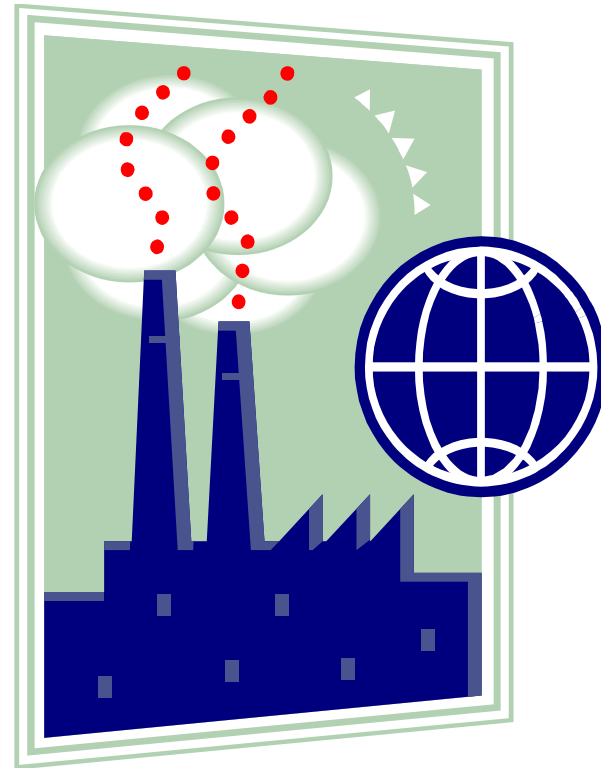
- Audit time is a limited resource.
- Audit time should be leveraged to match the organization's **risks** and **risk appetite**.
- Audits should happen when and where they reduce risk and help the organization achieve its goals.
- Audits shouldn't happen when the audit topics are not connected to the organization's goals.

Today's Outline

- Overview and Risk Postulates
- Macro Audit Planning
- Micro Audit Planning
- Examples
- Next Steps
- Questions

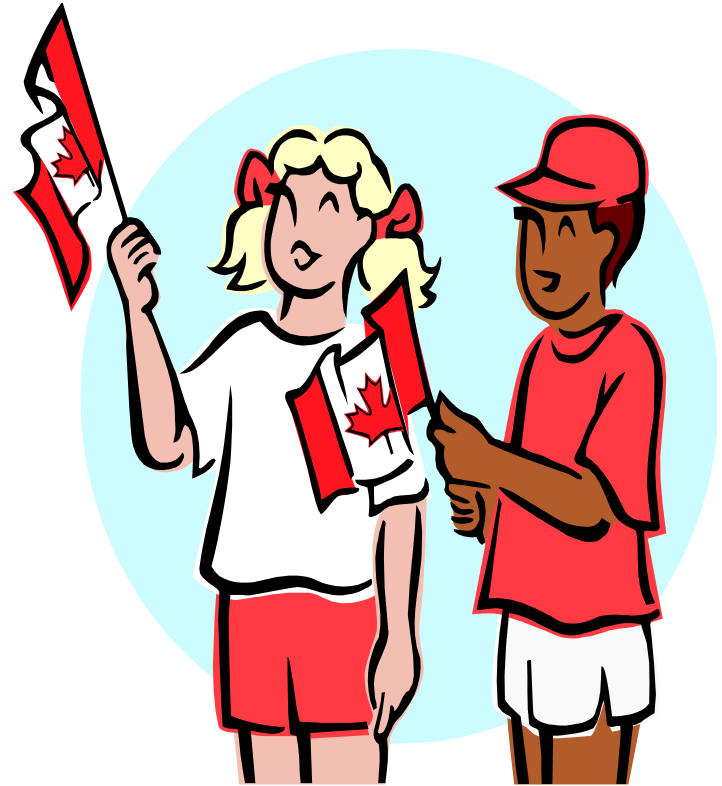
Why Risk?

- Risk is the “possibility of loss or injury” – Webster’s
- Risk is the chance that an organization won’t meet its goals.
- With limited resources, we should focus on risk.



Action Planning

- Think about what you might do back at the office to expedite audit planning.
- How can we best link risk to our limited audit resources?



COSO Risk Definition

- COSO links “risk” the notion of not achieving the organization’s objectives:
 - Risks get between an organization and its goals
 - Internal controls help achieve goals



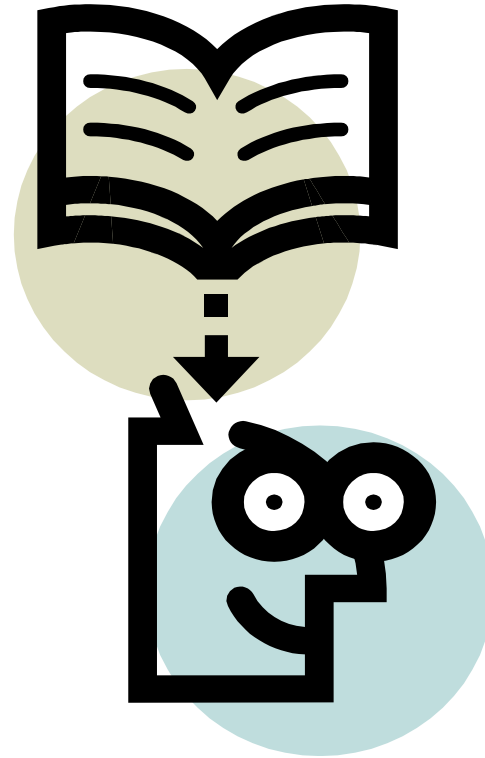
No Fish Under the Ice

- Risk can also be seen from different perspectives.
- How we view risk is important to how organizations can manage risks
- “Risk appetite”



Managing Risk with Auditing

- Auditing is designed to assess the risks that the organization won't achieve its mission.
- Management and auditors should pay attention to core risks.



Planning and Risk Recognition

Audit plans – at both the annual (macro) level and the assignment (micro) level – can alert management to risk, even before audits are completed!



When the Committee Asks “So What”?



- Audit committees and audit directors should ask how each risk can impact the mission.
- No impact should mean no audit!

How Risk and Plans “Hit Home”

Risk should be explained to the Audit Committee and elected officials in ways that link each risk to the core objectives of the organization.



Macro Audit Planning

- For annual plans, auditors need to consider the organization's risks and the organization's risk appetite.
- Key factors might include issues core to the organization's mission.
- Hint: Audits of payroll, travel claims, and internet use might not be “core” issues linked to the organization's mission.

Tools for Macro/ Annual Planning

- Annual plans should be based on reviews of the major issues facing the organization.
- Consider matching audit resources to specific risk areas or organization areas.
- For example, if 50% of your organization's time and budget are spent on construction, you may want to spend 50% of your audit time and budget on auditing construction.

Developing the Annual Plan

- Once risks are identified, assign audit budget to each risk and audit topic.
- Buy-in from management/Audit Committee is critical.
- A strong Audit Charter or legal authority is vital to the audit organization's success.
- Distribute the plan to key managers and staff. Consider posting on Internet, Intranet or in a newsletter.

Annual Plan Establishment

- Use vital phrases that speak to the key risk as audit titles.
- For example, the audit title, “vaccine audit” is less effective and less descriptive than the title, “audit of vaccination efficiency and effectiveness” or “Are we vaccinating the right population at the right time?”

Annual Plan Budgeting

- Each full-time employee has a base time budget of around 2,080 hours per year (40 hours per week X 52 weeks per year)
- Excluding leave, holidays, training, and other overhead, many auditors are 60%-75% “billable” or efficient. At a 72% rate, we budget 1,500 hours per auditor per year of audit-productive time.
- For example, 3 full-time employees = 4,500 hours/year.

Matching Risk To Resources

- Let's assume that a local government provides three primary functions:
 - Street maintenance (3/5 of budget)
 - Public health, emphasizing vaccinations (1/5 of budget)
 - General administration (1/5 of budget)
- Ideally, we'll peg audit hours (more or less, and based on risk!) to the core services our government offers.

Annual Plan Example (1)

- Audit unit in a local government has 4,500 available hours.
- Risk assessment process identified three major risks:
 - Street paving processes aren't making lasting improvements to street quality.
 - Vaccination program may not be reaching the most vulnerable population.
 - New I.T. system may cost more and take longer than budgeted.

Annual Plan Example (2)

- Can allocate hours based on risk:
 - 4,500 audit hours available:
 - Audit of street paving investment vs. results: 2,700 hours
 - Audit of causes of vaccine not reaching intended clients: 900 hours
 - Audit of new system cost, budget, and progress comparing contract to actual: 900 hours

Micro Audit Planning

- Within each audit, we should use risk to allocate audit time and focus within the budget.
- Let's take the audit of "Vaccine not reaching intended clients" – planned for 900 hours.
- Many organizations divide the budget into phases: Survey/Planning, Field Work, and Reporting.

Micro Audit Planning

- Within the time allowed, one rule of thumb would allow us to allocate:
 - 25% to planning and survey (includes defining specific scope/objectives and planning all field work, preparing documentation),
 - 50% to field work, and
 - 25% to reporting (includes the written report, exit conferences, briefings, etc).

Dividing Audit Time



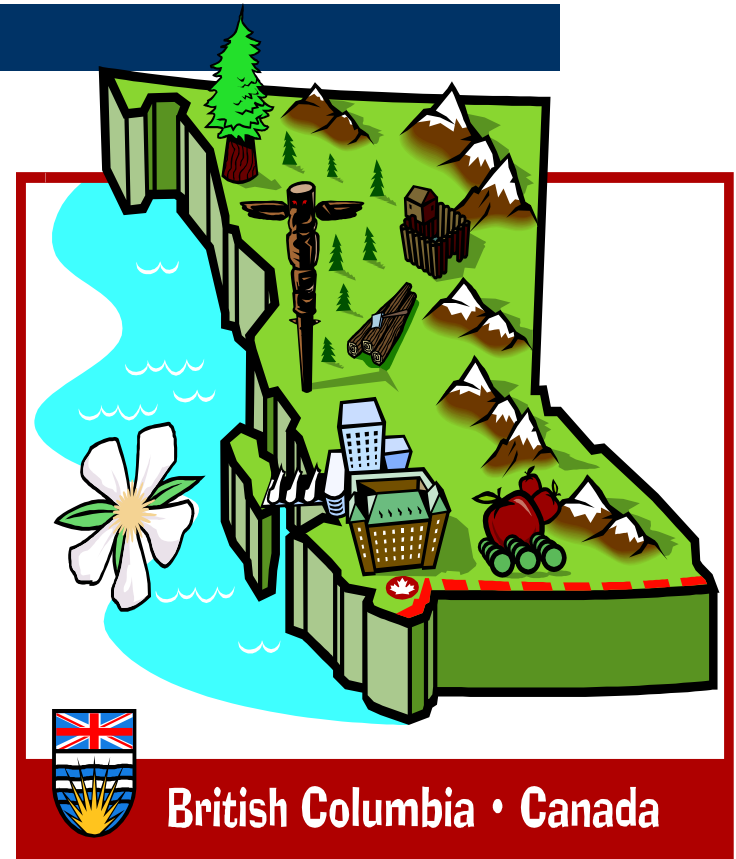
- A technical topic might have more planning time (40/30/30)
- A typical topic might use 25/50/25
- A really routine topic could be 10/80/10

Examples

- Planning for an education audit might include risks causing low test scores or low college admission rates from a secondary school.
- Planning for a service organization audit might include risks causing poor customer relations or poor communication.
- Planning for a health care audit might include risks causing disease or injury.

Link Risks/Topics to Core Services

- What's important to your city, state, or province should be important to the audit planning process!
- The most important services should be audited the most!

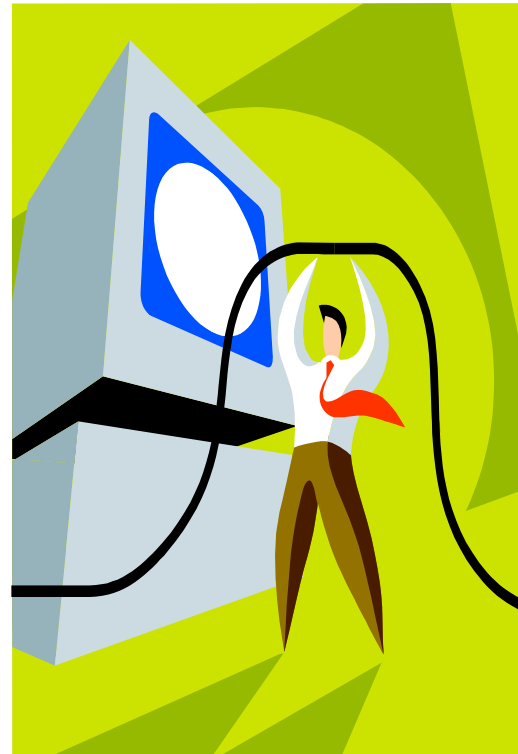


Next Steps

- Link core risks to planning process
 - Macro
 - Micro
- Ensure that stakeholders understand the concepts and processes.
- Link risks to our limited resources.
- Develop risk-based planning and resource allocation to link resources to mission!

Questions?

- Let's discuss any questions, concerns, or remaining issues!
- Any action plan items for your return to the office?
- Risk and resources impact all of our audit organizations.



Thank You!



- Please contact City of Portland Audit Services with questions or suggestions.

Contact Information

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