



Florida Inspectors General

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Conducting the Risk Assessment-Key Elements of the Risk Assessment Process

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KEY ELEMENTS

1. **Nature of Risk**
2. **Why a Risk Assessment is Necessary**
3. **Identifying the Population**
4. **Identifying the Components of Risk**
5. **The Calculation**
6. **Cautions and Flexibility**



Nature of Risk

Organizational risk

- ▶ Mitigate with not doing it
- ▶ Mitigate with Insurance
- ▶ Planning for risk
- ▶ Mitigate with controls



Nature of Risk

Internal Audit

- ▶ Dynamic Nature of Risk
- ▶ How to address it
- ▶ Macro
- ▶ Micro



Why a Risk Assessment is Necessary

- ▶ 20.055 (5) (i)-The inspector general shall develop long-term and annual audit plans based on the findings of periodic risk assessments.
- ▶ The plan shall show the individual audits to be conducted during each year and related resources to be devoted to the respective audits.



Why a Risk Assessment is Necessary

- ▶ 20.055 (5) (i)- The plan, where appropriate, should include post audit samplings of payments and accounts.
- ▶ The Chief Financial Officer may utilize audits performed by the inspectors general and internal auditors.



Why a Risk Assessment is Necessary

What you do with the plan:

- ▶ (5)(i) Plan shall be submitted to the agency head for approval.
- ▶ (3)(d) The agency head or agency staff shall not prevent or prohibit the inspector general from initiating, carrying out, or completing any audit or investigation.
- ▶ (5)(i) Copy of plan to:
 - ▶ Governor's Chief Inspector General.
 - ▶ Auditor General.



Identifying the Population

2010 – Planning

- ▶ The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.



Identifying the Population

- ▶ In developing the internal audit activity's audit plan, many chief audit executives (CAEs) find it useful to first develop or update the audit universe.
- ▶ The audit universe is a list of all the possible audits that could be performed. The CAE may obtain input on the audit universe from senior management and the board.



Identifying the Population

- ▶ The audit universe can include components from the organization's strategic plan; incorporating components of the organization's strategic plan the audit universe will consider and reflect the overall business objectives.
- ▶ The organization's strategic plan considers the environment in which the organization operates; these same environmental factors would likely impact the audit universe and assessment of relative risk.



Identifying the Population

What you need to know about the Audit Entities

- ▶ In developing the internal audit activity's audit plan, many chief audit executives (CAEs) find it useful to first develop or update the audit universe.
- ▶ The audit universe is a list of all the possible audits that could be performed. The CAE may obtain input on the audit universe from senior management and the board.



Identifying the Population

How do you do it:

- ▶ Solicit input from management.
- ▶ Evaluate data related to investigations and contract oversight findings.
- ▶ Review prior audit finding and topics not addressed from last year's work plan; include statutory mandates.
- ▶ Assess with mission and strategic initiatives in mind.



Identifying the Population

Weight Risk Factors

- ▶ Reminder: This is a subjective process...budget efforts in this area accordingly.
- ▶ Develop weights for each of the risk factors chosen based on the consequences that each factor has on the organization.
- ▶ Using judgment determine the weight a particular factor should have in relation to other factors.



Identifying the Population

What do you need to know to assess the risk?

- ▶ **Must have a clear understanding of the topic.**
 - Interview
 - Statutes
 - Rules
 - Policy and Procedure
 - Budget Information
 - IT environment
 - Control environment



Calculation

What do you do with that information?

- ▶ First, capture it
- ▶ Perform the Risk Assessment



Calculation

Capturing the knowledge

- ▶ Separate information and attachment page for
- ▶ Each entity (Similar to OPPAGA's GPS, Government Program Summaries)



Cautions and Flexibility

Big picture

- ▶ Weighing the likelihood vs. the impact of something happening



Cautions and Flexibility

Common Factors

- ▶ Minimal number of factors recommend from 5 to 10
- ▶ Resources of Budget
- ▶ Character of Activity, core activity, business unit or local system.
- ▶ Disaster recovery plan or fall back arrangements
- ▶ Recent system or process changes



Cautions and Flexibility

Common Factors, Continued

- ▶ Recent system or process changes
- ▶ Period since Last Audit
- ▶ Complexity
- ▶ Management concern or requests
- ▶ Management experience
- ▶ Public exposure



Cautions and Flexibility

Other possible factors

- ▶ Known opportunities to achieve operating benefits
- ▶ Auditability or cost to audit.
- ▶ Impact on client or customers
- ▶ Gut feeling
- ▶ Hair on Fire



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Questions?

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