



Risk Management and internal controls: *What use is it for public organisations and public policies?*

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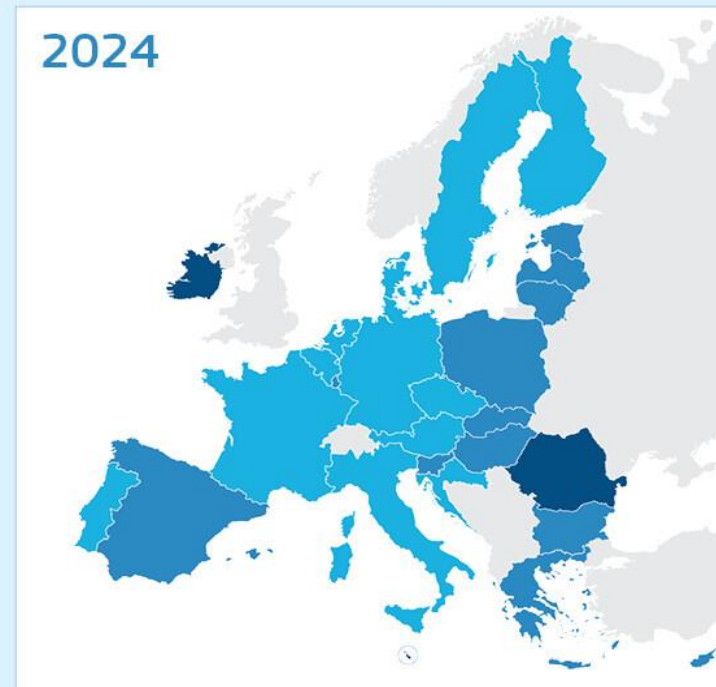
Ministry of Public Expenditure and Reform,

Ministry of Finance,

Dublin, Ireland



EU Economic Growth Outlook



% of GDP

< 0 %

≥ 0 %

≥ 1 %

≥ 2 %

≥ 3 %



Source: European Economic Forecast, Winter 2023

Introduction - Rationale for the theme ...

- Risk management in the public sector entities still lacks systematisation and discipline ?
- and can be perceived by public managers as hindering efforts to pursue innovation ?
- There is a sense of a certain “overdose” of institutional control mechanisms,
- notably due to the relevance of the Audit Bodies, such as,
 - Federal Court of Accounts
 - Office of the Comptroller General.

Questions to be addressed ...

- a) To what extent can risk management and internal control (including internal audit) foster or hinder innovation in the public sector?
- b) How to harmonize the organizational internal control procedures (including internal audit) with the purpose of public policies?
- b) What should be the role of Government Audit Bodies in identifying risks and enabling an environment conducive to innovation in the public sector?
- c) How to harmonize the institutional role of Government Audit Bodies with the inner efforts in each public organization to put in place its own internal control system?
- d) How do Audit Bodies can improve the accountability mechanisms in government agencies?

The Three Lines Model, IIA



IIA Position Paper – January 2013
This version update - July 2020



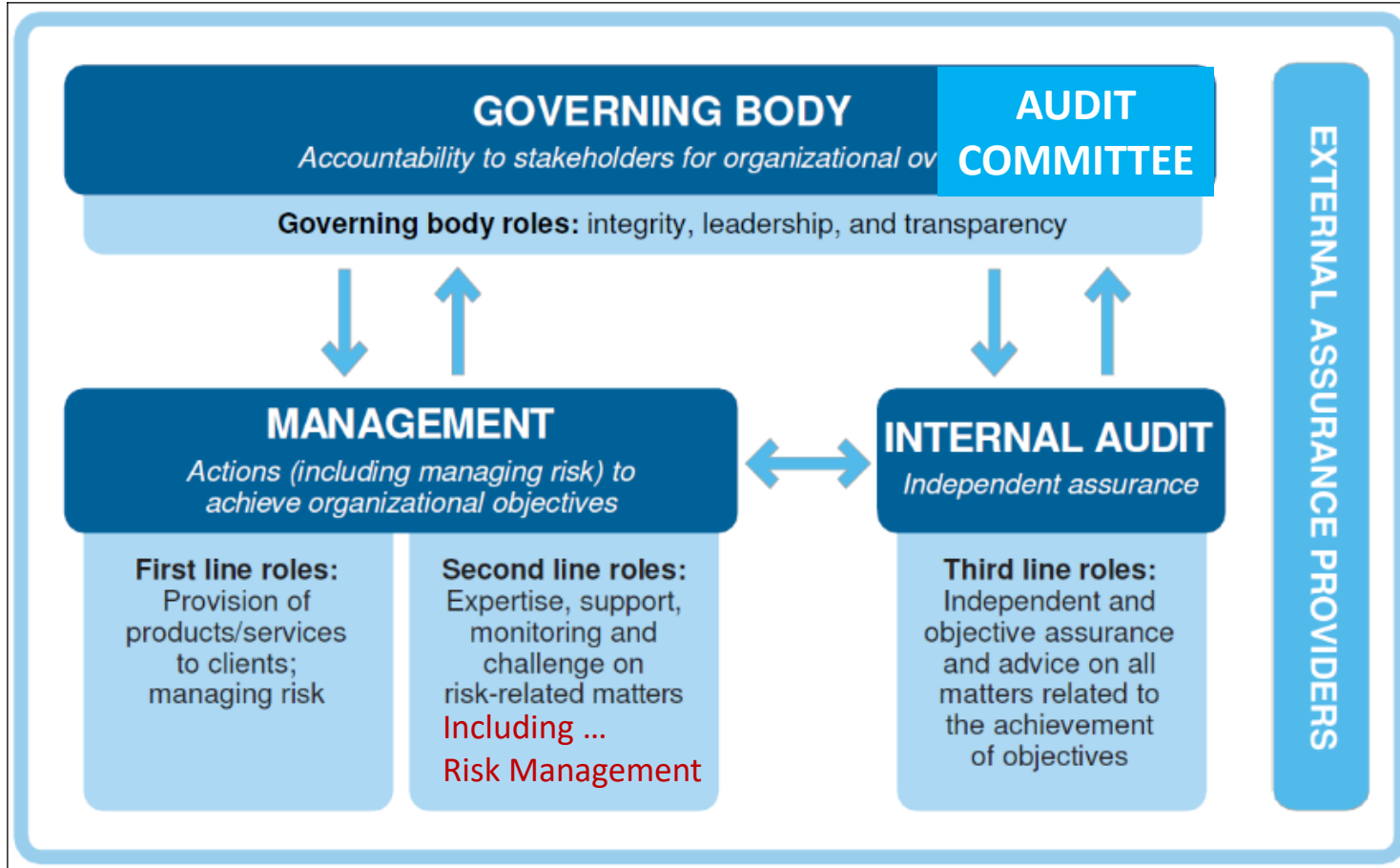
THE IIA'S THREE LINES MODEL

An update of the Three Lines of ~~Defense~~

Assurance

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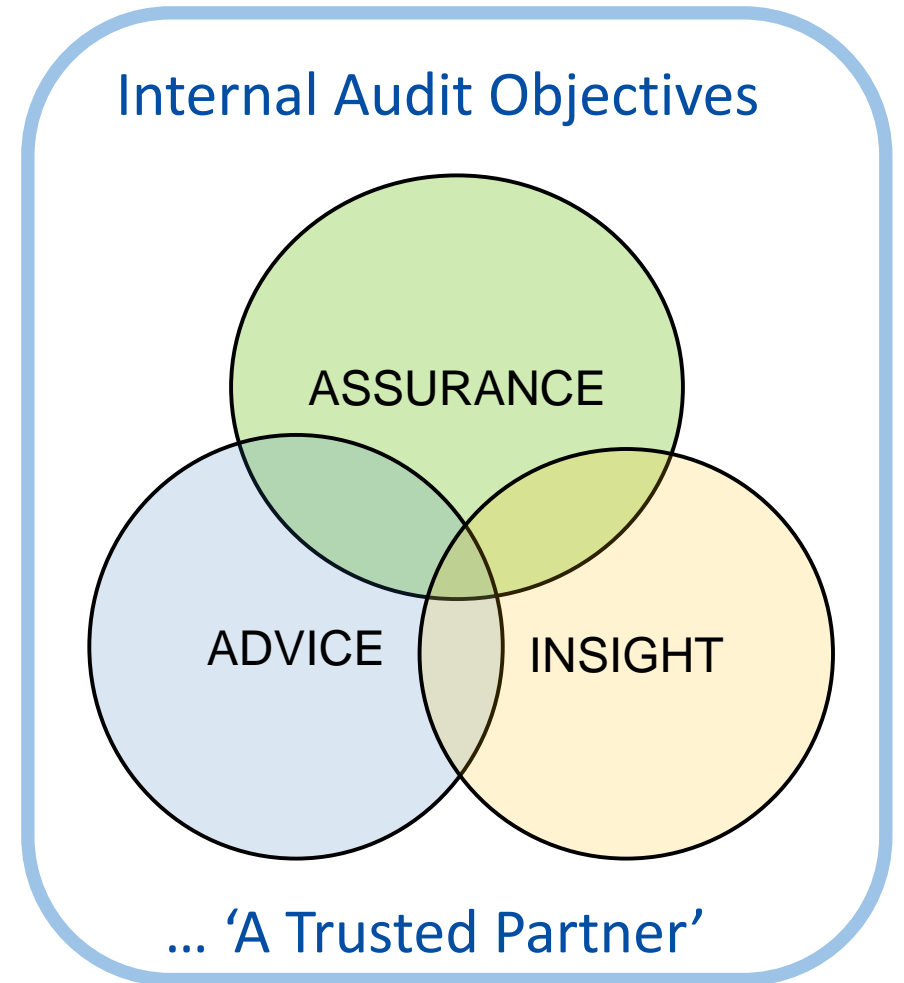
The Three Lines Model - IIA



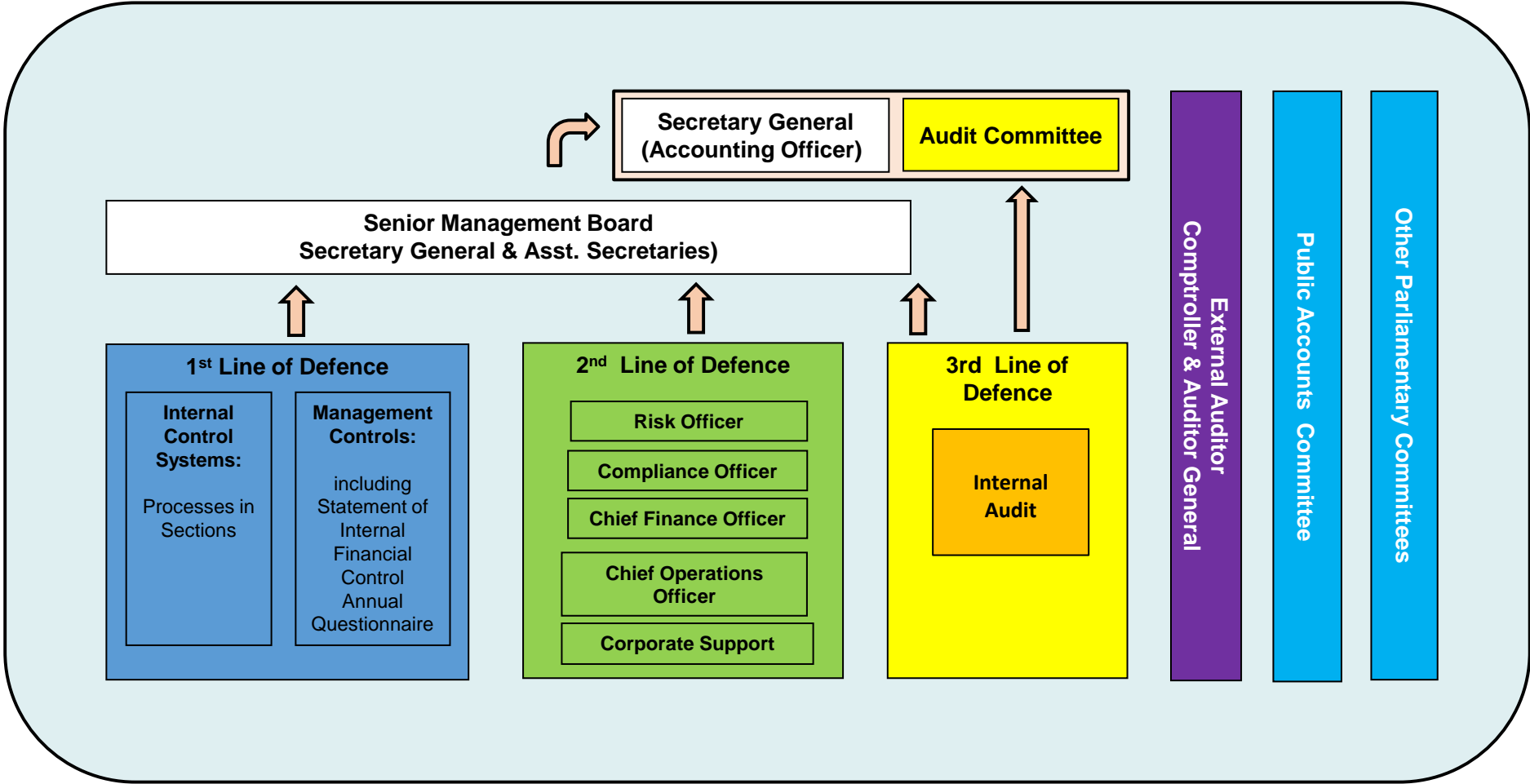
↑ Accountability & Reporting

↓ Delegation, Direction, Resources, oversight

↔ Alignment, communication, coordination, collaboration



The Three Lines Model (Government Ministry, Ireland)



How do we deal with risk?



Treatment of Risk - Options:
avoid / transfer / accept / mitigate



Culture ... Risk Management Culture

Culture

In a group, the shared perception of what behaviour is 'correct' and likely to be rewarded. It influences the way people relate and represents collective values, beliefs and principles members of the organization. "How we do things around here!"

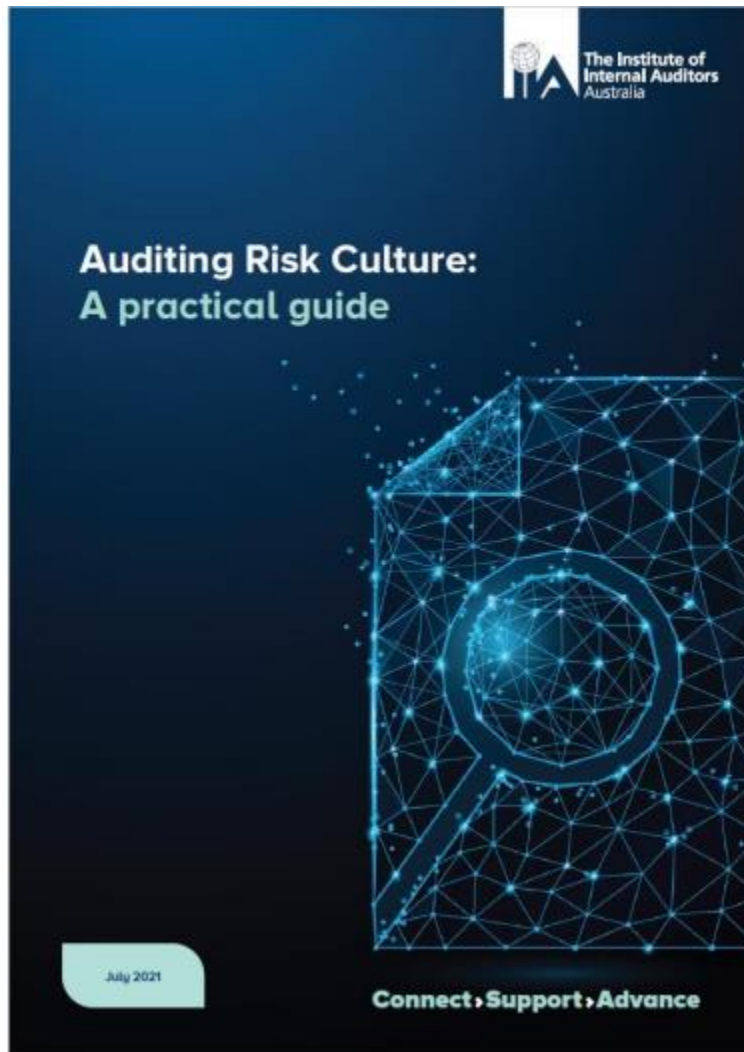
Risk Management

Systemic process of identifying, assessing, prioritizing, and mitigating/managing potential risks or uncertainties affecting organization's ability to achieve objectives. Process is integral to effective governance and decision-making within organisation

Risk Management Culture

Set of values, beliefs, attitudes and behaviours in an organization that collectively influence how risks are identified, assessed, communicated and managed. Reflects how the organization deals with uncertainty and potential adverse events.

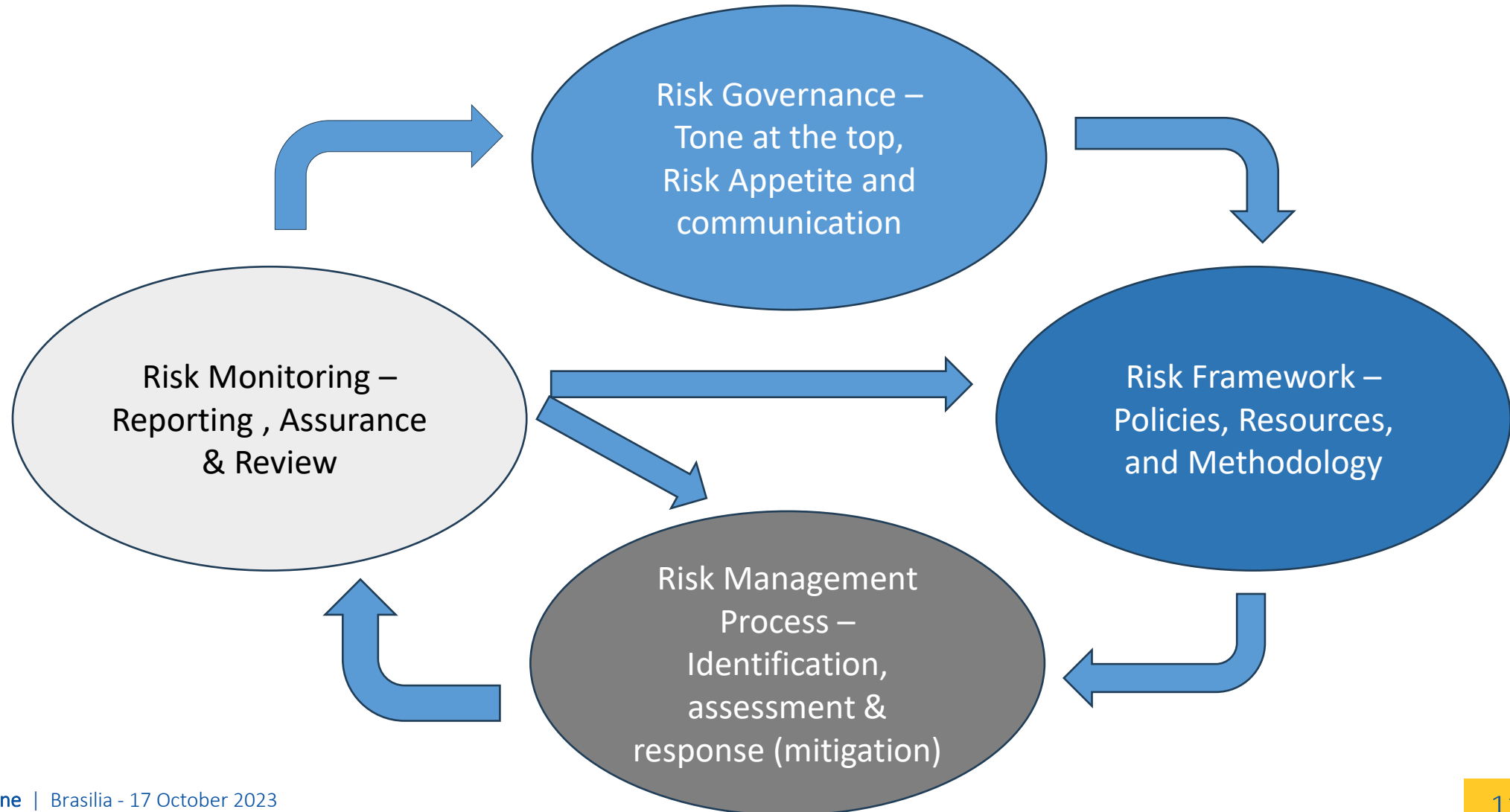
Risk Culture ...



Risk culture is an aspect of broader organisational culture. Risk culture refers to the behavioural norms that help or hinder effective risk management. Some definitions of risk culture also incorporate the group's underlying values and assumptions about risk management, and others incorporate policies and systems. In large organisations, subcultures often form in different areas and even in specific teams with different managers. Internal audit teams should not assume that risk culture is consistent throughout an organisation, or even within a large division or function or tier of management of that organisation. Culture normally forms in groups of people that have regular interaction with one another, often with a common manager.

<https://www.iaa.org.uk/resources/risk-management/auditing-risk-culture-a-practical-guide/>

Tone at the Top ... Risk management



a) To what extent can risk management and internal control (including internal audit) foster or hinder innovation in the public sector?

- Innovation carries risks – these risks need to be identified / assessed / mitigated / managed / accepted?
- Risk Management should enable innovation – pointing controllers and auditors in direction of high risks
- Risk management should also address risk of not doing something
- Innovation brings risks which management must decide how to control/mitigate
- **Risk appetite & Risk Culture** is therefore a key element
- Not innovating is a risk! e.g. climate change, equality, diversity, social.

- Over-control is a waste of resources – EU call it ‘gold-plating’.
- This means that our controls are disproportionate to risks.
- Internal Audit can audit **anything** but cannot audit **everything**!
- Internal Audit will focus on high risk areas in the organization.

b) How to harmonize the organisational internal control procedures (incl. internal audit) with the purpose of public policies?

- Ministers and Politicians are responsible for the direction of public policy
- An internal (or external) auditor has no remit to question/audit government policy in Ireland
- But Auditors do have the right to review and question how policy is implemented (3 E's)
 - Economy – are inputs of right quality and most economic cost?
 - Efficiency – maximise outputs from given inputs; minimize inputs for given outputs'
 - Effectiveness – has the project/programme achieved the objectives set out?
- Internal controls should mitigate risks of fraud, poor procurement, etc.

c) What should be the role of Government Audit Bodies in identifying risks and enabling an environment conducive to innovation in the public sector?

External Audit (Comptroller & Auditor General)

- Carry out audit of the State Accounts
- Independent assurance that public funds are well managed and used legally.
- Financial and regularity audit – may include value for money (VFM) audits
- Report to Parliament (Public Accounts Committee)
- Standard reporting format & opinion (true & fair)
- Historical focus (past year's accounts)
- Tends to be a year-end activity

Internal Audit

- Represents the 3rd Line in Governance Model
- Reviews/audits the first 2 Lines in an organisation
- Review and advise on risk management process
- Internal to organisation
- Reports to the Board or equivalent
- Report format tailored to nature of audit
- Future focused – recommendations to add value
- All year round activity – flexible audit plan

d) How to harmonize the institutional role of Government Audit Bodies with the inner efforts in each public organization to put in place its own internal control system?

- Not always easy!
- **Managers and Auditors have different objectives:**
 - Managers are responsible for Risk Management and putting in place the internal controls
 - External Auditors are responsible for auditing accounts and reporting relevant material issues.
 - External Auditor statutory role limits ability to give proactive advice to auditees (only post-mortem!)
 - Internal Auditors responsible for the audits of internal controls, not for internal controls themselves
 - IA need to be independent of the processes they audit, e.g. Risk management and control system.
- However
 - Internal Audit can offer advice and insights in the role of ‘a trusted partner’.
 - IA can take on consultancy style assignments on particular topics, e.g. climate, culture.
 - The Audit/Risk Committee’s remit of overseeing risk, internal audit and external audit can be helpful

e) How do Audit Bodies (EA & IA) can improve the accountability mechanisms in government agencies?

'As a function independent of Line Management, IA is well positioned to provide assurance on the design and operation of the processes around risk culture and reporting, and to provide an objective view on the risk culture itself.'

- External Audit will notify of any material errors/weaknesses but tends to have a historical focus
- Can inform parliament/citizen with Value for Money studies
- Internal audit should focus audits on the areas of highest risk
- Internal Audit is future focused – it recommends corrective measures to improve risk management and/or internal control
- Risk management (identifying and controlling) depends on the Organisation's **risk appetite** and is not responsibility of IA
- The Audit/Risk Committee can have a very strong role
- One size does not fit all !

Risk Appetite

Risk appetite is the level of risk that an organization is prepared to accept in pursuit of its objectives, before action is deemed necessary to reduce the risk.

It represents a balance between the potential benefits of innovation and the threats that change inevitably brings.

Risks in Focus 2024 – Global Survey



Risks in Focus 2024 – Global Survey

What are the top 5 risks your organization currently faces?

Audit area	Average of all regions	Asia Pacific	Latin America	Africa	North America	Middle East	Europe
Cybersecurity	73%	66%	75%	58%	85%	70%	84%
Human capital	51%	59%	44%	39%	65%	47%	50%
Business continuity	47%	61%	47%	52%	36%	53%	35%
Regulatory change	39%	35%	48%	32%	43%	33%	43%
Digital disruption	34%	30%	38%	33%	36%	32%	33%
Financial liquidity	32%	21%	33%	47%	28%	38%	26%
Market changes	32%	47%	26%	21%	41%	26%	30%
Geopolitical uncertainty	30%	28%	42%	25%	28%	16%	43%
Governance/corporate reporting	27%	24%	18%	36%	16%	45%	22%
Supply chain and outsourcing	26%	27%	16%	19%	36%	28%	30%
Organizational culture	26%	23%	26%	34%	21%	30%	20%
Fraud	24%	22%	30%	46%	9%	26%	13%
Communications/reputation	21%	18%	22%	27%	21%	28%	12%
Climate change	19%	22%	22%	19%	12%	10%	31%
Health and safety	11%	12%	8%	10%	17%	9%	13%
Mergers and acquisitions	6%	4%	3%	3%	8%	10%	8%

Note: The IIA's Risk in Focus Global Survey, n = 4,207. Percentages show who ranked the area as one of their top 5 for risk level. Dark blue shading indicates the 5 areas of highest risk for that region.

Risks in Focus 2024 – Global Survey

Each region has distinct areas of concern.

Another way to look at the data is to consider which region had the highest risk within each audit area. For example, climate change risks were rated highest in Europe, compared to other regions. Some notable points about highest ratings per audit area include:

- North American respondents gave cybersecurity (85%) and human capital (65%) the highest risk ratings compared to other regions.
- For Europe, while cybersecurity was nearly as high as for North America (84%), the other areas of high concern were geopolitical uncertainty (43%) and climate change (31%). Europe was the only region where climate change was higher than 30%.
- Latin America shared Europe's concern about geopolitical uncertainty (42%), but also reported high risk for regulatory change (48%) and digital disruption (38%).

- Asia Pacific was particularly concerned with business continuity (61%) and market changes (47%), compared to other regions.
- The Middle East had much higher risk levels for governance/corporate reporting (45%) than other regions and was also slightly higher for communications/reputation (28%).
- Finally, Africa had a unique mix of risks that were higher than other regions, including financial liquidity (47%), fraud (46%), and organizational culture (34%). (See Figure 1.)



Our Culture Review ... cultural traits

Collegiate/helpful atmosphere at team level

But

People don't always understand what others do outside the Team (Silo culture).

Strong leadership across the Ministry provides direction within divisions and teams

But

Individual styles can cause variations in approach and behaviours.

People are willing, able and trusted to make decisions

But

There is individual caution in adopting new approaches to problem solving.

A professional Ministry built around appreciation for expertise and challenge

But

More 'generalist' views or experience is not valued as greatly as 'specialist' skills.

Strong precedent and policy focus guides staff

But

External scrutiny of decisions made by Ministry
Can drive caution and inhibit innovation/change.

Focus on evidenced based decision-making enabling objectivity & consistency in decisions

But

Long term planning & innovation compromised by the annual budget cycle.

Our Culture Review ... critical few behaviours



DPER Culture Review

Review and Next Steps
April 2021



Report: <https://www.gov.ie/en/publication/fc82b-dper-culture-review/>

Thank you

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If you don't get Culture right...
nothing else matters.

Questions?