

## 2.1.3 Reputation Protection and Risk Management

### Introduction

The Audit Office (the Office) has specific policies on reputation and risk management, which are implemented under the oversight and leadership of the Deputy Auditor-General. This section addresses risk management for the audit practice.

Risk management is critical to maintain the reputation of the Office, the confidence of Parliament and avoid litigation. The Office uses a structured approach to manage risk.

Risk management is viewed as an ongoing process, ingrained in the attitudes of all professionals. Professional staff must be aware of and mindful of risks associated with each audit and assurance engagement.

### Policies and guidance

#### Risk management for audit and assurance engagements in a public sector context

Public sector audits ensure accountability, integrity and transparency by helping parliament hold government accountable for its use of public resources. The public sector auditor has additional statutory functions such as investigating matters of public concern related to financial prudence, probity and waste.

By their nature, NSW public sector entities have a higher level of public interest than other entities because they are taxpayer funded, subject to parliamentary oversight and often engage with the general public. As such, an increased level of risk management is required for audit and assurance engagements.

1. The Auditor-General (A-G) has the ultimate responsibility and accountability for the Office's [Risk Management Framework](#). The Office Executive supports the A-G in managing risk in the Office.
2. **To ensure the Office manages its risk when professional staff conduct audit and assurance engagements, policy [1.1.1 'Policy Development, Applicability and Waivers'](#) requires staff to comply with all audit and assurance policies.**
3. **In addition to audit and assurance policies, professional staff must also comply with:**
  - **the Office's risk-based audit methodology that incorporates the requirements of the Australian Auditing and Assurance Standards**
  - **relevant regulatory and legislative pronouncements issued by the regulators and professional bodies**
  - **the Office's Quality Management Framework so that reports issued by the A-G are appropriate in the conduct of an audit and assurance engagement.**
4. **Professional staff must observe the policies, procedures and guidelines established in [2.2.2 New Engagements and Risk Classification](#) to manage engagement risk in the conduct of an audit and assurance engagement.**

5. **Professional staff must have regard to the risk of material misstatement in the conduct of an audit or assurance engagement.** While the assessment of the risk of material misstatement is central to the Office's risk-based audit methodology, it is unlikely to identify all matters expected of a public sector audit. This can create a reputational risk because of perceptions around the adequacy of the audits conducted by the Office.
6. **During the conduct of audits and related services engagements, professional staff are also expected to be alert to, and raise for discussion with the Engagement Controller (EC), matters that give rise to public concern related to financial prudence, probity and waste** – regardless of whether the matter will result in a material misstatement. This includes an entity's internal control and governance processes such as (but not limited to):
  - **deficiencies in internal control, including but not limited to those related to business processes, information technology and security, governance, and to the prevention and detection of fraud**
  - **instances of actual or possible fraud, including management fraud**
  - **non-compliance with laws and regulations, such as intentional or legislative non-compliance, with a focus on laws and regulations key to the auditee's public and financial administration**
  - **appropriateness of the entity's delegations to support timely and effective decision making**
  - **processes/decision regarding the use of public resources not demonstrating appropriate probity, and/or resulting in waste**
  - **issues identified during the conduct of the audit that are not material to the financial statements but pose a heightened strategic, operational, or reputational risk to the auditee. An example of this is the risk of cyber incidents from internal and external actors and the preparedness of the entity to detect, prevent and respond to such incidences.**
7. Not all of the above instances may be relevant to all audits and assurance engagements. Some instances may be more or less relevant depending on the type and nature of the engagement.
8. **Where any of the above instances are identified, staff must consult with the EC, Engagement Quality Reviewer (where one is appointed) or an Assistant Auditor-General, where relevant, to determine the most appropriate form of reporting to management, those charged with governance and parliament.**

## Effective date

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