



ANNUAL AUDIT TRAINING

DISTRICT-WIDE RISK ASSESSMENT PROCESS

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What is a Performance Audit?

Objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with the responsibility to oversee or initiate corrective action.

BAC Audit Charter

- Article V, Paragraph 1: Audit Purposes – Performance audits can serve several purposes including, but not limited to:
 - Verifying that programs are working as intended
 - Assuring efficiency and effectiveness
 - Identifying the root cause of any problems experienced by Valley Water
 - Assessing future risks facing Valley Water
 - Assessing the progress of prior audit recommendations
 - Evaluate financial performance and service delivery
 - Identifying leading practices
 - Assessing regulatory compliance
 - Developing policy options
 - Assessing the accuracy of financial information reported by Valley Water

Developing the Audit Plan

- The Risk Assessment provides an objective foundation upon which audit selection decisions are based, and provides the rationale for “why” an auditee is selected
 - **Risk:** The possibility of an event occurring that will have an impact on the achievement of objectives
 - **Risk Assessment:** The identification, measurement, and prioritization of risks and auditable areas. This allows the auditor to
 - Design more specific and effective audit programs
 - Focus audit resources on those areas that will provide the greatest value to Valley Water
- The **Annual Audit Plan** is the end result of a systematic analysis and deliberative planning process

The District-wide Risk Assessment

Step 1. Identify Potential Risks

- Identify the Audit Universe—Identifying the Risk Universe provides a defensible method to prioritize potential audits and makes it more likely audit resources will focus on those areas that will provide the most value to the organization
 - Audit Universe – The sum of all auditable units
 - Auditable Unit – Organizational units or programs that are exposed to sufficient risks that control, including audit, is appropriate
 - Categories of Auditable Units – Departments, programs, projects, IT systems, cross-functional business processes
- Identify Core Purposes & Objectives
- Identify Risks to Achievement of Purposes & Objectives

The District-wide Risk Assessment

Step 2. Consider Risk Factors



Considerations of Key Audit Risks

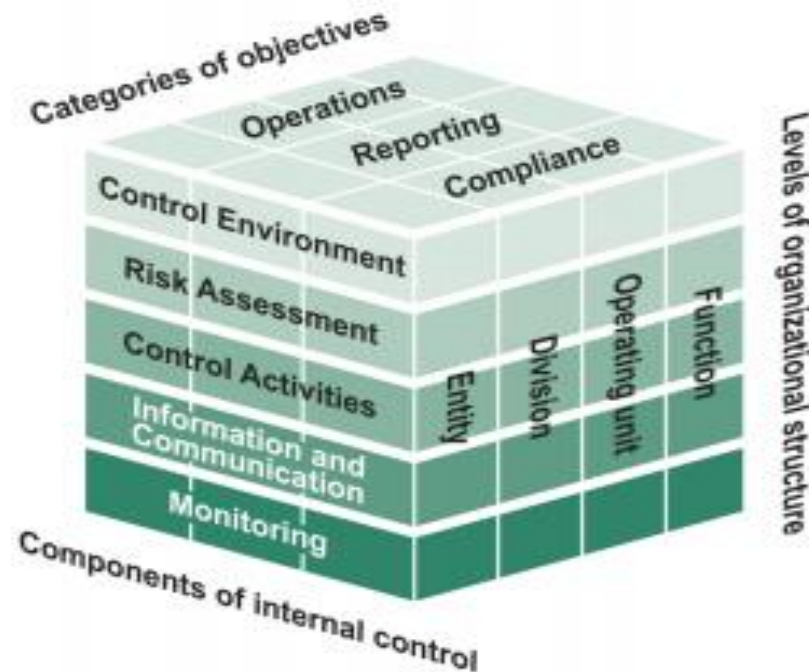
- **Inherent Risk:** the susceptibility or probability of an event occurring within a specific program or business activity that will have an impact on the achievement of objectives
- **Control Risk:** the risk that such an event will not be prevented or detected in a timely manner by the entity's systems of internal controls
- **Detection Risk:** the risk that the audit procedures designed by the audit team will not detect a significant risk or the occurrence of a significant event that impacts the entity's success in achieving its objective
- **Fraud Risk:** The risk that an individual internal or external to the agency can engage in fraud waste and abuse without being detected

Considerations of Systems of Internal Control

- Internal controls are those measures an organization adopts to:
 - Encourage adherence to agency policies and procedures
 - Promote operational efficiency and effectiveness
 - Safeguard assets
 - Ensure the reliability of accounting data
- Control activities come in many forms:
 - Preventive and Detective Controls
 - Manual and Computer Controls

Considerations of Systems of Internal Control (cont'd)

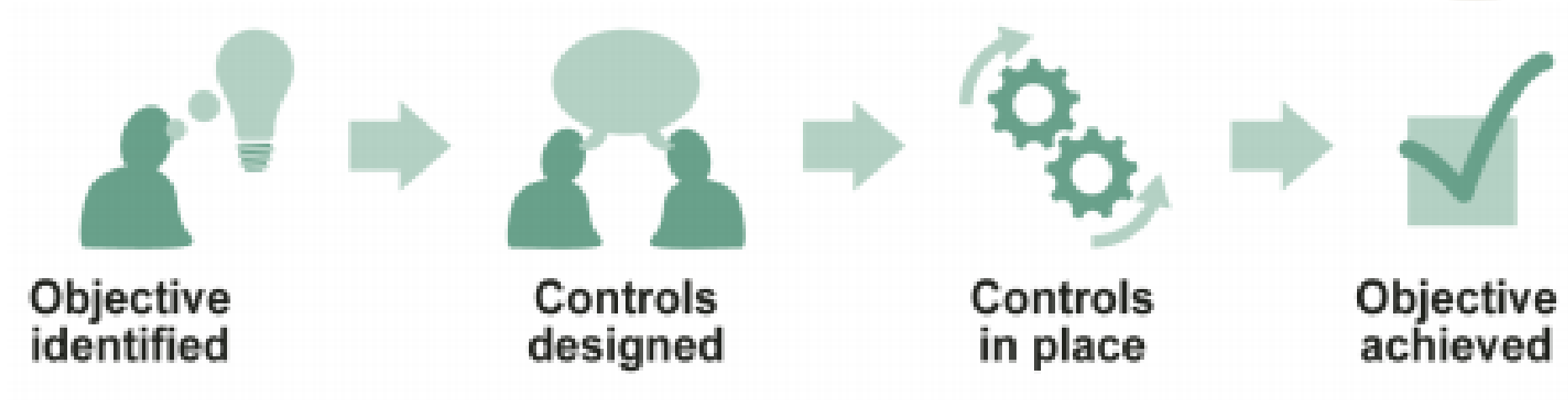
The Components, Objectives, and Organizational Structure of Internal Control



Source: COSO and GAO | GAO-14-704G

Considerations of Systems of Internal Control (cont'd)

Achieving Objectives through Internal Control



Source: GAO-14-704G

Considerations of Equity / Inequity

The Association of Local Government Auditors describes the focus on equity in public service as a “proactive approach to improve outcomes for all, free from historical bias or favoritism that recognizes structural differences and burdens.”

Source: Association of Local Government Auditors. Retrieved on July 2014, 2025, from <https://algaonline.org/page/DEI>

Considerations of Equity / Inequity

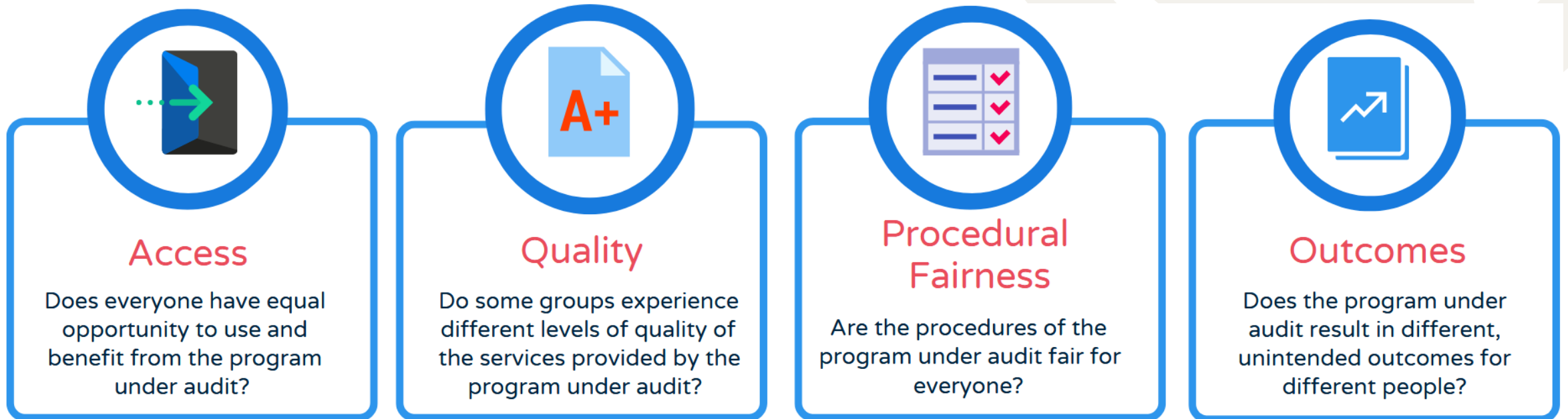
Obtaining Stakeholder Input

- Understanding the benefits and burdens that different groups experience
- Diverse stakeholders may identify new issues or concerns
- Diverse stakeholders may have historical, cultural, or specialized knowledge that may reveal root causes for inequities
- Stakeholders who experience benefits or burdens may hold unique perspectives
- Stakeholders are likely primary or secondary audiences for the audit report
- Stakeholders who are impacted by the audit topic can help hold the auditee accountable to implementing the audit recommendations

Source: Association of Local Government Auditors' Committee on Diversity, Equity & Inclusion. June 2020. *Considering Diversity, Equity, & Inclusion (DEI) in a Stakeholder Analysis*. Retrieved on July 14, 2025, from https://cdn.ymaws.com/algaonline.org/resource/resmgr/resources/guides_and_reports/alga_considering_diversity_e.pdf

Considerations of Equity / Inequity

Researchers at the University of Colorado found that social equity/inequity can be measured in four main ways



Sources:

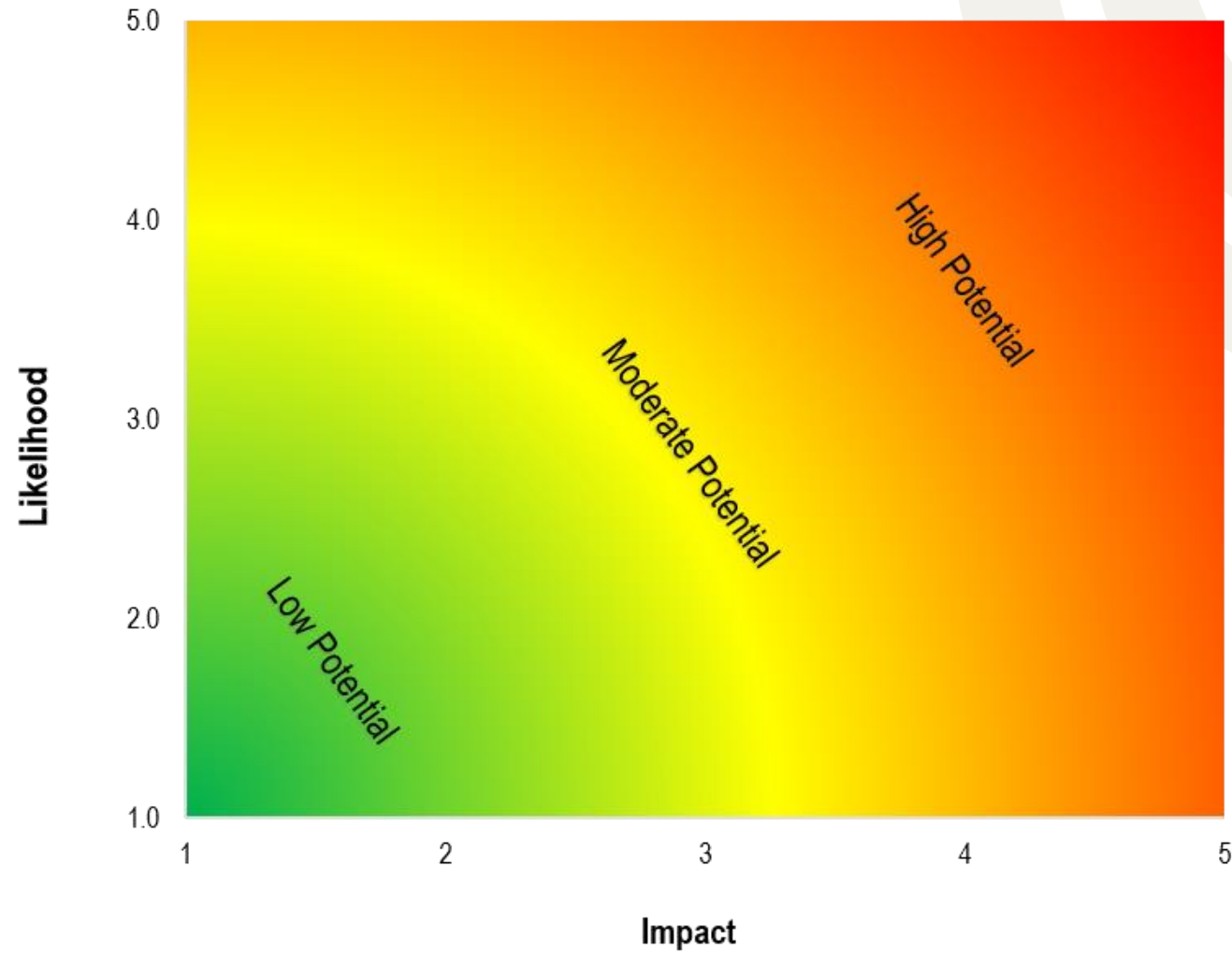
Association of Local Government Auditors. https://cdn.ymaws.com/algaonline.org/resource/resmgr/resources/guides_and_reports/How-to-Measure-Equity.pdf
Larson, S., Jacob, B., Butz, E. 2017. "Linking Social Equity and Performance Measurements: A Practitioner's Roadmap". University of Colorado, Denver. Accessed via: <https://aspacap.files.wordpress.com/2018/10/cap-roadmap-larson.pdf>

The District-wide Risk Assessment

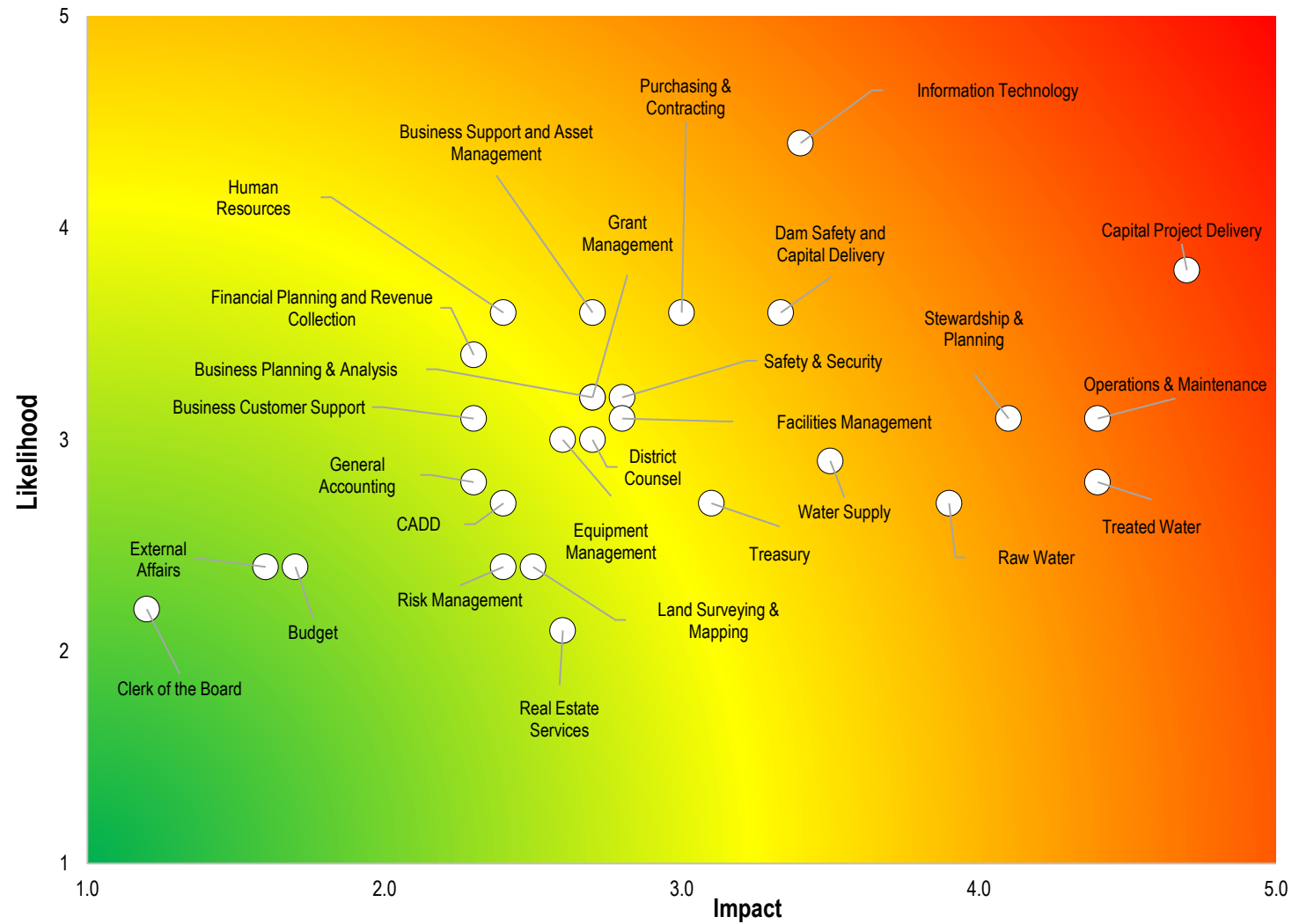
Step 3. Map Risks Based on Potential Impact

- Identify and Rank Potential Audit Topics
 - Evaluate potential audit topics based on the *inherent risks* associated with program activities, the *internal controls* designed to mitigate them, the *likelihood* of a problem occurring, and the *potential impact* such an occurrence may have on the organization
 - Map program areas based on this assessment to illustrate the potential value a performance audit may have on the organization

Risk Mapping Model



2023 District-wide Risk Assessment Results



The District-wide Risk Assessment

Step 4. Identify Potential Audit Topics

- Select Potential Audit Topics Based on whether the they:
 - Contribute to the organization's goals
 - Are significant enough to have a noticeable impact on the organization
 - Are important enough to justify the cost of controls or improvements
- Develop 1-page audit scoping documents for potential audit engagements
 - Audit objective, scope, approach
 - Proposed schedule and budget

The District-wide Risk Assessment

Step 5. Develop Annual Audit Plan

- Consider Risk Assessment Results
- Consider Evolving Priorities and Challenges
- Obtain Input from Board Members
- Factors to Consider in Developing Annual Audit Plan:
 - Moderate- to high-risk audit topics
 - Sufficient audit coverage to achieve an effective audit cycle
 - Time is ripe / current events
 - Budget resources
 - The Audit Horizon: What is Auditable and What is Achievable within a Specific Period of Time (e.g., in one year, in a 3-year audit cycle)



THANK YOU,

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