

Terms of Reference for the EUROSAI Project Group on “Raising the Awareness of the SAIs on the Enterprise Risk Management (ERM) of the auditees and using the ERM approach in developing risk-based annual audit plans”

1. General provisions

1.1 Name of the Project Group:

“Raising the Awareness of the SAIs on the Enterprise Risk Management (ERM) of the auditees and using the ERM approach in developing risk-based annual audit plans”

1.2 Background and objective of the Project Group:

Background

Today, as technology develops and institutions focus on being more innovative, not only do the risks heighten, but it also becomes normal to live with prolonged uncertainties. This difficult pandemic process we are living in has made us understand better than ever how important risk management is.

In recent years, enterprise risk management has increasingly attracted the attention of organizations. In this context, organizations are increasingly making use of frameworks related to enterprise risk management such as COSO's Enterprise Risk Management Framework-2017, COBIT 2019, ISO 31000 (2018) to improve their performance in an uncertain world. International risk management frameworks aim to identify the risks faced by entities in the public or private sector, including cyber-risks, and to manage these risks to be able to reach their objectives and carry out their activities efficiently.

As a result of this trend, some credit rating companies like S&P have invented new products for analyzing and evaluating companies' ERM to let their customers “shift from a “cost/benefit” line of thought to a “risk/reward” approach.” This is just one of the proofs that risk management is an increasingly attractive implementation adopted by many entities in this highly complex world.

The issue of how this trend, which has been rising in the last few years, will be reflected in the field of audit is very important for the SAIs to remain relevant. As we all know, audits are implemented by taking risks into account. However, enterprise risks should not be limited just to the execution of audits; they should also be taken into account when making annual audit plans or choosing among alternative audit topics. There are various approaches on how to do this, and some SAIs, including the Turkish Court of Audits (TCA), have specific approaches and practices in this regard. Moreover, ERM evaluation, conducted stand-alone or in conjunction with an audit, might be another element of external audit practices on which the TCA has been working for a few years.

With this project, it is primarily planned to perform a due diligence on determining the maturity level of the risk management of the audited institutions and understanding the level of knowledge of the SAIs on the enterprise risks of the audited institutions. Following this analysis, it is considered to form a basis for building up methodologies to develop risk based- annual audit plans and evaluate the risk management of auditees.

Objective

The aim of this Project Group is to determine the level of awareness of SAIs on risk management of auditees and to lay the groundwork for the development of methodology for developing a risk based- annual audit plans and evaluating risk management of auditees by good understanding of the auditees' risk management structure.

In this regard, the project is planned to be run in two phases. In the first phase, a survey is going to be designed to understand risk management structures of the auditees. After applying the survey to selected sector/entities, the results will be compiled and then reported to the EUROSAI community with the aim of raising awareness among SAIs on the ERM and forming a base for further works regarding reflection of the ERM in the annual audit plans and evaluation of auditees' ERM.

This project is unique as it is innovative, stipulates further developments such as developing methodologies in different areas, and it aims to capture a rising trend all over the world by SAIs to be able stay relevant.

1.3 Link with EUROSAI Strategic Plan:

1.3.1. Strategic Goals:

The nature and aims of this Project Group is directly related to the **Strategic Goal 1, objective 1.2** which is;

To support the development of innovative approaches and methods in audit and governance of SAIs making use of new technologies

1.3.2. No duplication or overlaps with other activities of the EUROSAI Strategic Plan:

When the current EUROSAI OP is examined, it is thought that the proposed project topic is a new field and will not cause any overlap.

2. Structural provisions

2.1 Lead SAI: Turkish Court of Accounts

2.2 Contact person(s):

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2.3 Participants:

All interested SAIs as well as other parties are welcomed in this Project Group. Negotiations with some interested SAIs are still continuing. Up to now, SAI Hungary expressed their willingness to participate in the PG as observer.

3. Technical and procedural provisions

3.1 & 3.2 Intended results and benefits to EUROSAI Membership:

1. To have deep knowledge about the auditees' risk management structures.
2. To raise the awareness of the SAIs (especially for those who will not participate in the project) about the enterprise risk management of the auditees.

3. To form a base for different methodologies regarding reflection of the ERM in the annual audit plans and evaluation of auditees' ERM.

4. To create an environment to share experience and knowledge about the works that have already been done on these issues.

3.3 Duration & Key Milestones:

- **November 2021** – Project group approval and interested EUROSAI members confirm participation
- **February 2022** – Draft survey prepared to understand the ERM maturity levels of audited entities and explore SAIs' awareness of these auditees' ERMs
- **March-April 2022** – Application of the survey to EUROSAI member SAIs and gathering the first results
- **May 2022** – Online workshop to discuss the survey results and develop a base for including enterprise risks in annual audit plans and audit topic selection process
- **October 2022** – Output (an assessment report) finalised

3.4 Working Methods:

- The Project Group will in principle work virtually.
- Online meetings and workshops (all interested SAIs will be invited to share their experiences and best practice).
- E-mail correspondences on the draft survey and analysis reports as well as the receipt of feedbacks.
- Survey that will be applied to all EUROSAI member SAIs.

3.5 Necessary resources:

TCA will provide staff to coordinate and carry out the activities regarding the project. EUROSAI member SAIs will be asked to put their inputs to the project via surveys, e-mail correspondences and other possible online meetings.

3.6. Reference documents and materials:

- <https://www.coso.org/Documents/2017-COSO-ERM-Integrating-with-Strategy-and-Performance-Executive-Summary.pdf>
- <https://www.coso.org/Documents/COSO-ERM-Creating-and-Protecting-Value.pdf>
- https://www.nao.org.uk/wp-content/uploads/2011/06/managing_risks_in_government.pdf
- https://www2.deloitte.com/content/dam/insights/us/articles/6713_rebooting-risk-management-covid/DI_Rebooting-risk-management-COVID-report.pdf
- <https://www.spglobal.com/ratings/en/products-benefits/products/enterprise-risk-management-evaluations>
- <https://www.iso.org/obp/ui/#iso:std:iso:31000:ed-2:v1:en>
- http://en.cnki.com.cn/Article_en/CJFDTotal-KJYJ200710007.htm

