**Suggested solution to Exercise 2.2**

**Examples of Risk Factors Related to a Particular**

**Subject Matter**

Procurement is a typical subject matter for compliance audits. The following table gives some

examples of risk factors relating to a compliance audit of procurement. The list is not intended

to be exhaustive. The relevant risks and risk factors will vary depending on the subject matter

and the circumstances of the particular audit.

**Examples of Risk Factors Related to the Audit of Procurement**

**Inherent risk**

1. Lack of relevant procurement legislation

2. Recent changes to the procurement legislation (eg to conform to international legislation)

3. Complex or unclear legislation, or legislation open for interpretation

4. Significant monetary amounts are involved such as defence procurement

5. Audit findings from the prior year revealed compliance deviations in regard to procurement

legislation and directives

6. Previous suspicions or instances of fraud and corruption involving management and key staff

7. Inspections by regulatory authorities (eg competition authorities)

8. Complaints received from potential suppliers about unfair practices related to awarding tenders

9. Potential conflicts of interest

**Control risk**

1. Lack of good internal guidelines, including lack of clear and objective criteria

2. Recent changes in general or application controls related to procurement IT systems

3. Poor quality-control or weak monitoring activities related to suppliers

4. Weak or non-existent controls regarding suppliers' compliance with ethical guidelines

5. Non-existent or poor quality monitoring activities related to compliance with relevant

legislation

**Detection risk**

1. Audit procedures are ineffectively designed (eg performing procedures that only involve

checking transactions that are recorded, and not checking for completeness; or making

inquiries only of staff in the procurement department and not of others such as administration

or facilities management staff, suppliers or agencies that register complaints)

2. Incentives may lead management to intentionally withhold or conceal evidence (for example,

suppliers may make bribes or give kickbacks)

3. Possible management collusion or override of controls