

Risk Assessment

Organizations exist to achieve a purpose or goal. In the case of The University of Arizona, the goals are three-fold: teaching, research and public service. To achieve these goals, specific targets known as objectives are formulated. This management process encompasses developing consistency of objectives and goals throughout the organization, identifying key success factors and timely reporting to management of performance and expectations.

A **risk** is anything that endangers the achievement of an objective. **Risk Assessment**, the second internal control component, is the process used to identify, analyze, and manage the potential risks that could hinder or prevent a college, school, or a department from achieving its objectives. One can simply ask the questions: *What could go wrong? What assets do we need to protect?* A more formal assessment process can include:

- estimating the significance of a risk
- assessing the likelihood or frequency of the risk occurring
- considering how the risk should be managed (what action needs to be taken).

One of the most significant circumstances that is likely to endanger unit objectives, and therefore increase risk, is **change**. Examples of this type of circumstance are:

- Changes in personnel,
- New or upgraded information systems,
- New programs or services,
- Increased delegation of spending authority,
- Reorganizations of units,
- Moving to new locations.

In addition to change, there are other situations that may increase the risk associated with an entity or an activity. They are as follows:

- **Complexity** increase the danger that a program or activity will not operate properly or comply fully with applicable regulations.
- **Decentralization** increases the likelihood that problems will occur.
- A **prior record of control weaknesses** will often indicate a higher level of risk.
- **Unresponsiveness to identified control weaknesses** in prior audits may indicate that future weaknesses are likely to occur.

When determining how to manage risk, please consider the concept of **reasonable assurance** which is an important part of the definition of internal control. The purpose of internal control systems is to provide reasonable assurance that operations are efficient and effective, that financial reporting is reliable and that the institution is in compliance with applicable laws and regulations per the Committee of Sponsoring Organizations of the Treadway Commission (COSO) report entitled *Integrated Control-Integrated Framework*. Absolute assurance may not be an achievable goal, because it may be prohibitively expensive and impede productivity. One would not expend a substantial amount of funds to protect a relatively inexpensive asset. For example, it is not prudent to spend \$50 to safeguard a \$25 box of pens. Spending \$50 to safeguard \$5,000 in laptop computers, however, may be very sensible.