Taking the **subjectivity** out of Risk Management

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Complacency may be the next biggest risk companies face in this decade

Kroll Report FY13/14

Two Emerging Themes

- Move away from Risk Registers

- Emergence of Key Risk Indicators

  (KRIs)

Key Risk Indicators (KRIs)

- Re-defining Risks

- **Ongoing** Quantitative Assessment of

  - Corporate Risk

  - Risk Categories

  - Emerging Risks

- **Leading** indicator of area of focus

- Great **communication** technique

- **Data Driven**

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Why use Data to Drive Risk Assessment

- Risk assessment relies primarily on **qualitative** and **subjective** measures

- Corporate risk profiling is **time consuming** to prepare and is typically only updated **once a year**

- Corporate risk profiling does not allow you to examine organisational entity/activity **impact on risk**

- Examine the **different risk categories** (e.g., financial, HR, operational, strategic, legal, technological, etc.)

Who is involved / Benefits

- **Audit**
  - Ongoing assessment of risks and controls
  - Identification of specific audits; drilldown into risks; refine audit objectives
  - Annual risk-based audit planning
- **Corporate Risk Officer**
  - Support for corporate risk profile
  - Assessment of risk mitigation efforts
  - Ongoing assessment of current and emerging risks
- **Finance**
  - Financial monitoring and control testing
  - Assessment of new opportunities
  - Statement of assurance

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Objective of KRIs

Assessment of **each organisational entity** to determine impact on **each** risk category and to develop an of overall risk ranking (Low, Medium, High)

- For each Corporate Risk
- For each Category

Developing Data-Driven Risk Indicators for Corporate Risk – Intellectual Property

Risk Sub-category
R&D – failure to manage research and development projects.
Safeguarding of IP - failure to implement safeguards to prevent theft of IP by employees.
IT Controls – failure to implement IT controls to protect IP.

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Combine Data Assessment across Corporate

Org Entity	Corp Risk 1	Corp Risk 2	......	Corp Risk n	Rank
Entity 1	3.5	3.7		2.3	Low
Entity 2	3.5	4.5		4.6	High
...					
Entity X	4.8	2.8		4.4	Medium

Developing Data-Driven Risk Indicators for HR Risk Category

Risk Sub-category
Recruiting – failure to attract people with the right competencies.
Resource Allocation – failure to allocate resources in an effective manner to support the achievement of goals and objectives.
Retention – failure to retain people with the right competencies and match them to the right jobs.
Work environment – failure to treat people with value and respect.

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Developing Data-Driven Risk Indicators for Finance Risk Category

Risk Sub-category	Risk Results / Impact	Risk Indicator
• Failure to establish a proper financial framework	• Errors and corrections • Losses • Suspense transactions	• % JV and reversals • % Losses • % Suspense account
• Failure to establish budgeting and forecasting processes	• Over expenditures • Late expenditure decisions • Poor commitment accounting • ?	• Actual > Planned • % expenditures period 12+ • % not referencing a commitment or PO
• Failure to manage financial structure	• Complex financial structure • Discretionary expenses	• # of funds / fund centres • Use of Internal orders / WBS • # of currencies • % discretionary expenses

Combine across all Entities

Org Entity	Financial	HR	......	Operational	Rank
Entity 1	3.2	3.2		4.3	Low
Entity 2	6.5	5.5		3.6	High
...					
Entity X	4.3	1.8		4.4	Medium

Risk Categories

- External environment
- Legal and regulatory
- Strategy
- Governance
- Operational

- Information
- Human resources
- Technology
- Financial and administrative

Example – Project KRIs

- # of project Managers
- # days without Project Manager
- Steering Committee
- # of Steering Comm Meetings
- Days to go in project (risk highest in last 20%)
- % spend of budget
- Risk of project
- Size of project ($ and complexity)
- Days since last audit
- # incidents (safety)
- # of people on project
- ….

Data-Driven Indicators

- **Volume / Size**
  - # of employees
- **Variability/Change**
  - Avg age; avg age of senior managers
  - Avg years of pensionable service; % who can retire < 2 years
  - Experience – years in dept / position / classification
  - % Fulltime employees; % affected by org change
  - % acting ; % new hires
  - Leave: total leave taken; avg sick; avg vacation; avg unpaid
- **Complexity**
  - # types of employee; # classifications; # locations; # unions
  - % employee with non-std hours
- **Other**
  - % Sex (M/F); % FOL (Eng/Fr/Mand)

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Brand [ ] Division [Select a Division] Month: [August, 2014] [15] Trigger: [Overall Risk Score]

Business						14	Dec 13	Nov 13

△ 0186 Vanguard

Monthly Trend Drill Down [x]

Brand > Division: FC > Month: AUG 14 > T2: 296200 > T3: Abnormal Margin Volume

Full Audit	Risk Profile Rating: 87 %	Days Since Last Audit: 42

Metric Name	Metric Value Curr.	Metric Value Prev.	Rating Curr. Month	Rating Prev. Month	Risk Rating (Movement)
Abnormal Margin Volume	102	169	5 %	5 %	⚪
Audit Score	68	68	15 %	15 %	⚪
Cash Reversal Volume	13	8	10 %	10 %	⚪
Max Annual Leave Balance	14.16	12.46	5 %	5 %	⚪
Miscellaneous Transaction Volume	8	8.5	0 %	0 %	⚪
Non-Current Debit Ledger %	92.40%	98.33%	10 %	10 %	⚪
Shop Leadership	Team Leader	Team Leader	0 %	0 %	⚪
Staff Turnover	25.77%	19.49%	7 %	7 %	⚪
Total TTV	627841	575373	15 %	10 %	🔻
Writeoff Commission	0.026	0.0242	10 %	5 %	🔻
Writeoff Volume	13	10	10 %	5 %	🔻

Business rows (background):

Business								
296200					%	48 %	23 %	
314400					%	48 %	28 %	
13203					%	43 %	28 %	
11903					%	43 %	28 %	
303400					%	38 %	28 %	
32003					%	38 %	28 %	
678400					%	33 %	28 %	
542100					%	33 %	28 %	
48300					%	38 %	28 %	
169500					%	33 %	28 %	
678700					%	38 %	23 %	
661600					%	33 %	28 %	
292300					%	38 %	28 %	
505600					%	38 %	28 %	
759800								
532300	(BOH)	15 %	15 %	20 %	10 %	10 %	23 %	23 %

△ 1288 Illumo-Nation

Business											
603000	85 %	63 %	75 %	65 %	43 %	53 %	48 %	48 %	53 %	73 %
41501	75 %	80 %	75 %	70 %	55 %	53 %	53 %	53 %	53 %	77 %
04101	72 %	62 %	65 %	78 %	67 %	43 %	38 %	48 %	43 %	80 %
29801	72 %	70 %	60 %	60 %	40 %	43 %	43 %	43 %	43 %	53 %

No Audit Required | Mini Audit | Full Audit | Compliance Audit

T2	Country	T3	Business	Risk Score	Staff Turnover	Shop Leadership	Total TTV	Write-off Volume	Write-Off % Commission	Audit Score	Re V
0177				90 %	14 %		696,240	12	2.52 %	81	
0142				87 %	11 %	Team Leader	765,550	17	14.62 %	44	
1474				83 %	0 %		449,740	15	3.34 %	63	
1474				82 %	13 %	Team Leader	719,460	18	1.85 %	26	
0143				80 %	0 %	Team Leader	944,840	11	2.65 %	79	
0185				80 %	0 %	Team Leader	531,870	20	5.93 %	67	
0185				80 %	0 %	Team Leader	727,500	11	2.49 %	67	
0142				80 %	0 %	Team Leader	606,240	20	2.92 %	37	
1288				80 %	0 %	Team Leader	679,320	18	10.07 %	64	
0185				80 %	0 %	Team Leader	616,470	23	7.79 %	51	
0142				80 %	0 %	Team Leader	742,320	15	5.24 %	69	
0142				78 %	0 %		445,450	9	3.17 %	60	
1288				78 %	0 %		383,400	24	9.20 %	57	
0142				78 %	0 %		900,520	7	2.97 %	80	
1288				77 %	10 %	Team Leader	1,088,170	17	1.75 %	71	
0142				77 %	14 %	Team Leader	730,960	6	5.56 %	77	
0177				75 %	0 %	Team Leader	771,610	11	2.64 %	71	
0142				75 %	0 %	Team Leader	554,420	8	5.99 %	63	
0177				75 %	0 %	Team Leader	566,750	15	2.76 %	67	
0195				75 %	0 %	Team Leader	845,990	24	4.53 %	69	
1474				75 %	23 %		293,010	12	4.68 %	83	
0142				75 %	22 %		206,770	21	9.46 %	68	

T2	Country	T3	Business	—Off % mission	Audit Score	Cash Reversal Volume	Miscellaneous Transaction Volume	Non-Current Debit Ledger %	Max Annual Leave Balance	Abnormal Margin Volume
0177				52 %	81	10	25	58 %	24	120
0142				.62 %	44	11	25	93 %	20	123
1474				34 %	63	3	27	97 %	16	86
1474				85 %	26	3	37	63 %	42	131
0143				65 %	79	11	39	28 %	19	121
0185				93 %	67	16	47	73 %	28	94
0185				49 %	67	8	74	46 %	15	93
0142				92 %	37	10	31	17 %	42	113
1288				.07 %	64	18	11	75 %	26	107
0185				79 %	51	5	24	69 %	37	119
0142				24 %	69	7	18	63 %	26	164
0142				17 %	60	7	10	83 %	22	53
1288				20 %	57	9	13	90 %	22	66
0142				97 %	80	5	26	97 %	21	79
1288				75 %	71	6	20	29 %	26	288
0142				56 %	77	20	16	90 %	24	108
0177				54 %	71	4	25	94 %	20	82
0142				99 %	63	15	32	84 %	26	102
0177				76 %	67	14	23	21 %	13	92
0195				53 %	69	44	29	0 %	20	121
1474				58 %	83	7	15	100 %	23	81
0142				46 %	68	0	7	98 %	17	60

	Current Weightings	Modified Weightings
Staff Turnover	7 %	7 %
Shop Leadership	8 %	8 %
Total TTV	15 %	15 %
Write-off Volume	10 %	10 %
Write-off % Comm	10 %	10 %
Audit Score	15 %	15 %
Cash Reversal Volume	10 %	10 %
Miscellaneous Volume	5 %	5 %
Non-Current Debit Ledgers	10 %	10 %
Max Annual Leave	5 %	5 %
Abnormal Margin Volume	5 %	5 %
Total Weightings	**100 %**	**100 %**

Update

Factor weighting

Risk factor weighting

By default all risk factors are weighted equally. Enter the desired risk factor weight.

Volume

Total Expenses	1.0
Total Revenue	1.0
Total Assets	1.0
Number of Invoices	0.7
Number of PRIs	1.0
Number of acquisition cards	1.0

Variability

Pct discretionary spending	1.0
Pct period 12 or later	1.3
Number of JVs	1.0
Number of suspense recs	1.0
Number of loss recs	1.0
Number or reversal recs	1.0

Complexity

Number of object categories	1.0
Number of funds	1.0
Number of Cost Centres	1.3
Number of GLs	1.0
Number of currencies	1.0
Number of document types	1.0
Number of Internal Orders	1.0
Number of POs and FRs	1.0
Number of material documents	1.0
Number of Assets	1.0
Number of real estate blocks	1.0
Number of WBS documents	1.0
Pct Overtime to Salary	1.0
Pct Invoice Date Errors	1.2

[OK]   [Cancel]

Dave Coderre 2014

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Data-driven risk indicators

Ideally the indicators:

- Quantitative (data-driven)

- **By-product** of operational systems (e.g., financial, HR systems)

- **React** to changes in risk levels

- Support the assessment risk at **any** organizational level

- Support annual and **ongoing** risk assessment process

- **Easy to update** (monthly/quarterly)

Development of KRIs

Steps:

1. Ensure that your Audit Universe is aligned to Strategic Initiatives that are tied to Corporate Objectives

2. Develop KRIs for each corporate risk and for all corporate risk categories

3. Perform ongoing assessment of **corporate risks** and **risk categories** by audit entity or any slice of the organization

4. Select activities/entities to audit which have highest corporate or risk category ratings.

Benefits of ongoing Data Driven Risk Assessment

- Auditors can be **more proactive** in assessing corporate risks and emerging areas of risk

- Takes the **subjectivity** out of risk assessment

- **Predictive business** performance measures will help drive productivity by 20% by 2017

Benefits of ongoing Data Driven Risk Assessment

- Managers that persist in using historical measures **miss the opportunity** to capitalise on opportunities that would increase profit or fail to intervene to prevent an unforeseen event, resulting in a decrease in profit

- ERM is more reliable and effective when ERM frameworks are shown to produce credible and useful risk-adjusted performance measures on an **ongoing** basis
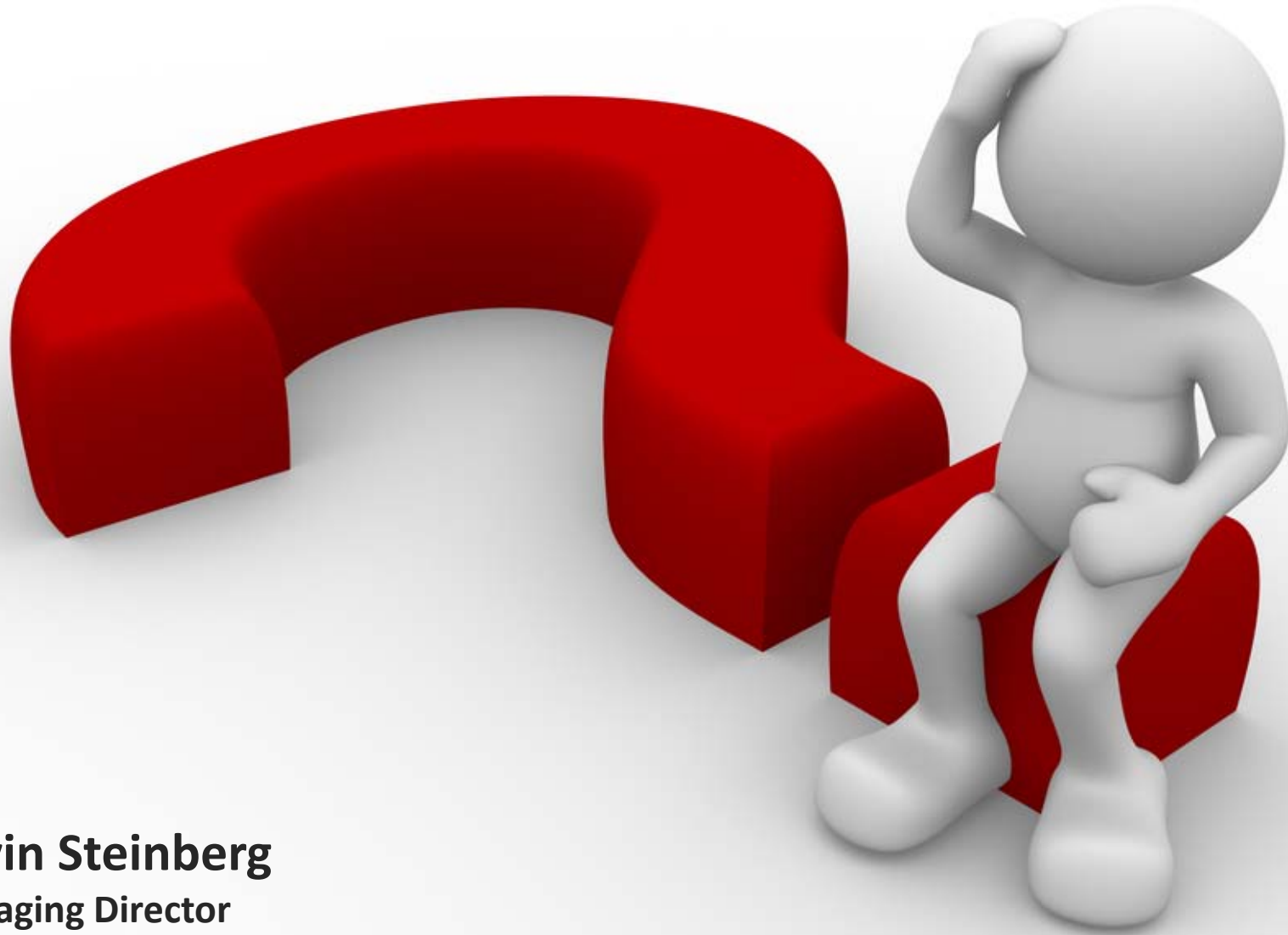
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