



The 2004 Risk Forum – Risk & Reward

20 – 21 September 2004

Keele University

The Integration of Risk Management & Internal Audit

Presented By
Ron Mendes

Email: ron.mendes@bakertilly.co.uk

Telephone: 0121 214 3100

Mobile: 07970 784482

Conference Workshop - Integration of Risk Management & Internal Audit

Background

- Ron Mendes
- Baker Tilly
- Workshop Delegates
- Delegate Expectations

Integration of Risk Management & Internal Audit

The 10 Point Approach

1. What, in summary, is Risk Management about?
2. What, in summary, is Internal Audit about?
3. What are the contrasts and differences between Risk Management and Internal Audit characteristics?
4. What are the characteristics of controls?
5. Why go through the effort of integration?

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The 10 Point Approach (cont'd)

6. What integration models are currently in use?
7. What risk identification methods are currently in use?
8. What types of controls are currently in use?
9. What are the factors necessary for an organisation to integrate Risk Management and Internal Audit?
10. What are the benefits of integration?

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Subject Matter Recap

What, in summary, is Risk Management about

- traditionally?
- in modern terms?

What, in summary, is Internal Audit about

- traditionally?
- in modern terms?

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Subject Matter Recap

Risk Management

- 20th century traditional version concerns “minimising loss” only
- 21st century modern version includes “maximising gain”

Internal Audit

- 20th century traditional version concerns internal financial control assurance only
- 21st century modern version includes all internal controls assurance

Integration of Risk Management & Internal Audit

Some Contrasting Comparisons of Risk Management & Internal Audit Characteristics

What are the contrasts and differences between Risk Management and Internal Audit characteristics?

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Some Contrasting Comparisons of Risk Management & Internal Audit Characteristics

Risk Management

Dynamic

Forward looking

Focus on key issues

Pro-active

Highly responsive

Cohesive

Internal Audit

Static

Backward looking

Focus on all issues

Reactive

Lowish responsiveness

Confrontational

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Characteristics of Controls

What are the characteristics of controls?

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Characteristics of Controls

Formal	v	Informal
Visible	v	Invisible
Hard	v	Soft
Necessary	v	Redundant
Value Enhancing	v	Value diminishing
Inherently expensive	v	Inherently cost effective

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Why go through the effort of integration??

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Reasons for Integrating Risk Management & Internal Audit

Common Purpose & Goals

- protection
- facilitation
- assurance

“Fragmentation” in Achievement of Purpose & Goals

- assurance, etc

Common means of achievement

- via controls

Avoids duplication

- of effort, execution, etc

Eliminates redundant controls/streamlines controls

Reduces costs

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Reasons for Integration – cont'd

- Increased efficiency & effectiveness of operations & strategy
- More certainty in achieving corporate purpose & goals
- Added value
- Wider staff involvement
- Greater sign up and ownership
- Better protection
- More robust assurance

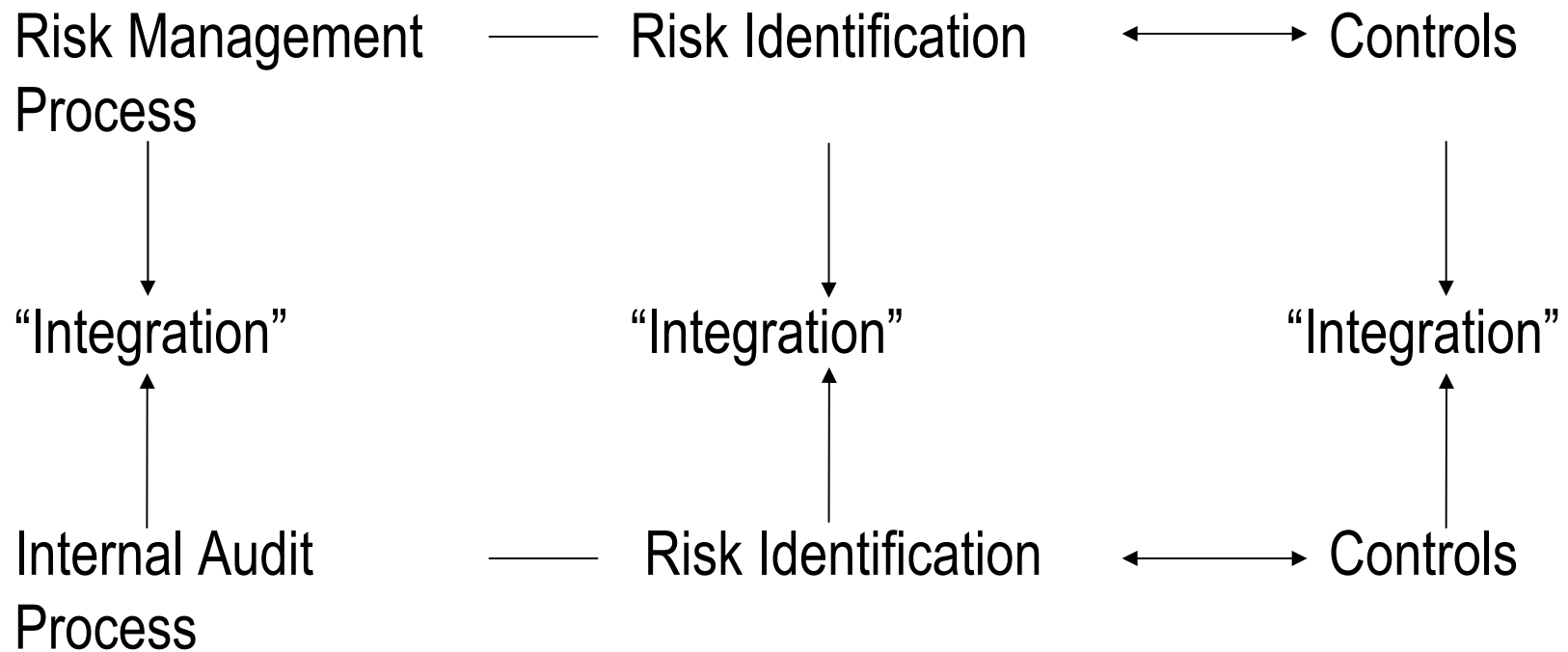
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Model for Integration of Risk Management & Internal Audit

What integration models are currently in use?

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Model for Integration of Risk Management & Internal Audit



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Risk Identification Methodologies

What risk identification methods are currently in use?

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Common Risk Identification Methodologies

AD-HOC

- “Spaghetti” Method - Brainstorming
- “Memory” Method - Past History
- “Form Filling” Method - By Staff
- “Interview” Method - By Consultants
- “Copycat” Method - From other organisations

STRUCTURED

Baker Tilly Methodology

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Baker Tilly Template for Identifying Risks

- Structural
- Custodial
- Strategic
- Operational
- Communicational

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BUSINESS
RISK
MANAGEMENT

COMPLIANCE
RISK
MANAGEMENT

CUSTODIAL
RISK
MANAGEMENT

STRATEGIC
RISK
MANAGEMENT

OPERATIONAL
RISK
MANAGEMENT

COMMUNICATION
RISK
MANAGEMENT

Legislation
Regulation
Rules/M&A
Standing
Orders &
Fin Regs Pol
& Proc

Assets &
Liabs
-
Intangible
Tangible
Animate
Inanimate

Social, Economic
Political
Technological
Environmental
Communicational
(SEPTTEC)

Medium
to long
term

Processes
Efficiency
Effectiveness
VFM
BV

Short to
Medium Term
Performance

Reporting PR
Marketing
Relationships

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Types of Controls

What types of controls are currently in use?

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Types of Controls

- Non-controllable risks
 - Strategic
 - Custodial (insurance)
- Controllable risks
 - Compliance
 - Operational
 - Communicational
- Types of Control
 - Preventative controls
 - Detective controls
 - Corrective controls
 - Enabling controls

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Preliminary Assessment for Integration

What are the factors necessary for an organisation to integrate Risk Management and Internal Audit?

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Preliminary Assessment for Integration

- Condition of existing Risk Management
“Risk Management Maturity”
- Condition of existing Internal Audit
“Internal Audit Development”
- Organisational culture

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Benefits

What are the benefits of integration?

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Benefits of Integration

- Enables a fundamental assessment of both Risk Management and Internal Audit to be carried out
- Integrated process is dynamic not static
- Integrated process is forward looking not backward looking
- Integrated process is more focussed on the key issues of the business
- Integrated process is pro-active not reactive

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Benefits of Integration – cont'd

- Integrated process is highly responsive
- Integrated process promotes cohesiveness not confrontation in the organisation
- Integration process adds value such that integration is an investment not an expense or overhead
- Integration enhances the likelihood of achieving corporate plans and goals

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Other Matters

- Embedded Risk Management
- Linkage to Strategic & Business Planning
- Emerging Risk Focus
- Control Self Assessment

RISK BASED INTERNAL AUDIT

IS NOT

INTEGRATED INTERNAL AUDIT AND RISK MANAGEMENT

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Conclusions???

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