Facilitated Enterprise Risk Assessment:
A Simple Approach

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Purpose

- Understand Facilitated Enterprise Risk Assessment concepts and value

- Decide if further discussion or draft proposal warranted

Do you need to consider enterprise risk?

American Institute of CPAs: 2015 Report on the Current State of Enterprise Risk Oversight

1,000 survey participants:

- **68% -** Board wants senior administration more involved in risk oversight
- **65%** - Caught off guard by operational surprise in last five years
- **59% -** Increase in risk volume and complexity in last five years.
- **42% -** Risk oversight processes immature or minimally mature
- **41% -** Means to report risk exposures to senior executives not satisfactory

Enterprise Risk Assessment

- An approach to risk identification and prioritization ultimately leading to better governance, strategic decision-making, resource allocation and stewardship.

- The enterprise approach strives to develop a mindset that makes people at multiple levels ask "Who else needs to know?" and "Whom haven't I told?"

- Anticipating what needs to go right and what can't go wrong.

Why facilitated?

- A facilitator:

  - Is objective, unbiased and ego-free
  - Keeps process from getting stalled
  - Creates templates and manages well-run meetings keeping busy people engaged
  - Handles highly-charged situations and emotions
  - Gets to rapid consensus saving time and money

The first two steps are assessment

Enterprise Risk Management Process

- Identification
- Assessment
- Mitigation
- Communication & Monitoring
- Owner(s)
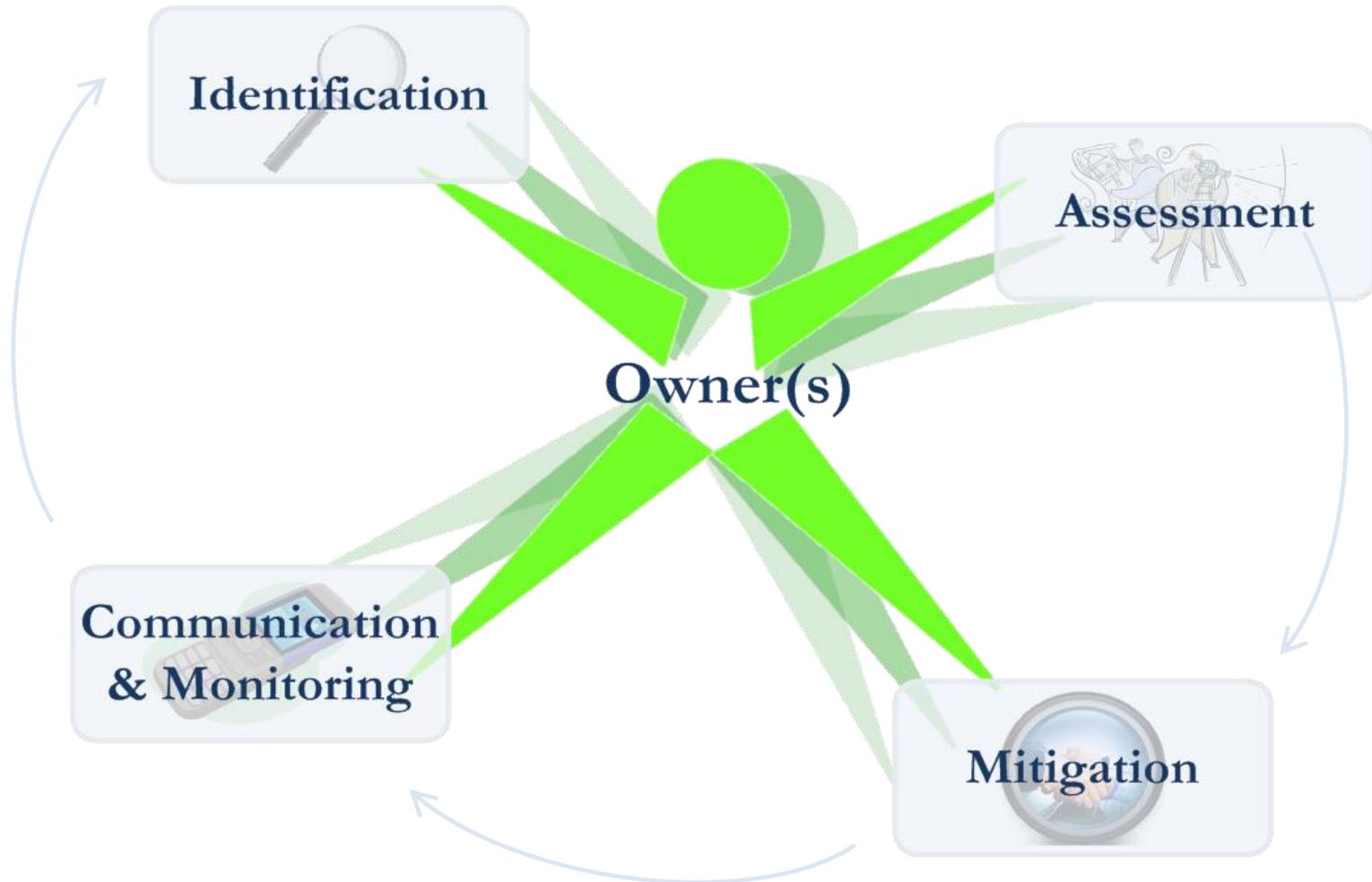
External Risk: examples

- Economic: Availability of capital; Investment return; Unemployment; Interest rates; Competition

- Environmental: Natural disasters; Energy costs; Disposal of waste

- Political: Government regulations; Legislative policies; Neighborhood relations

- Social: Student and parent behavior; Terrorism; Privacy

- Technological: Emerging technology; Data security; Interruptions

Internal Risks: examples

- Infrastructure: Availability of assets; Access to capital; Institutional structure (multi-campus / international)

- Personnel: Employee capabilities; Health and safety; Organizational structure – decentralized responsibility; Desired culture

- Process: Formal policies/procedures; Integration of key functions; Rigor of central administration / fiscal management

- Technology: Data integrity; System usability; Usefulness of data; Systems maintenance

- Compliance; Charging costs to sponsored projects; Scientific conduct; Taxability of benefits; Detecting plagiarism

Potential Consequences

- Injury/death

- Fines and penalties

- Lawsuits/settlements

- Decline in fund sources

- Loss of future revenue

- Failure to achieve

- Loss of trust

- Loss of accreditation

- Management leave

- Disciplinary action

- Recruitment expenses

Why? Recent stories

- Economic downturn

- Hurricane, earthquake, tsunami, nuclear

- Safety accidents – lathe, arc, burns, shootings

- Underpayment of royalties

- Unsafe laboratory conditions and handling of hazardous waste

- Misconduct and student plagiarism

- Investment risk

Provide context for the assessment

- What is your mission?

- What are your goals?

Stakeholders watching/demanding

- Board

- Senior management

- Middle management

- Staff

- Partners

- Customers

- Regulatory agencies

- Potential whistleblowers

- Who else?

Facilitated assessment process

1. Create risk and opportunity list (from strategic plan; facilitated brainstorming, from interviews or survey, starter lists from like institutions); discuss
2. Determine impact and likelihood of occurrence (concern level); perhaps determine ability to influence
3. Strategy planned or in place and tolerance: accept, share, mitigate, exploit
4. Select top items

Next Steps

1. Assign owner(s)
2. Determine or refine strategy
3. Develop/implement strategy
4. Monitor

Facilitated assessment process

Risk Management Actions

	Low	Medium	High
IMPACT	Considerable management required	Must manage and monitor risks	Extensive management essential
	Risks may be worth accepting with monitoring	Management effort worthwhile	Management effort required
	Accept risks	Accept, but monitor risks	Manage and monitor risks
	Low	**Medium**	**High**

LIKELIHOOD

Communicating Risk: heat map
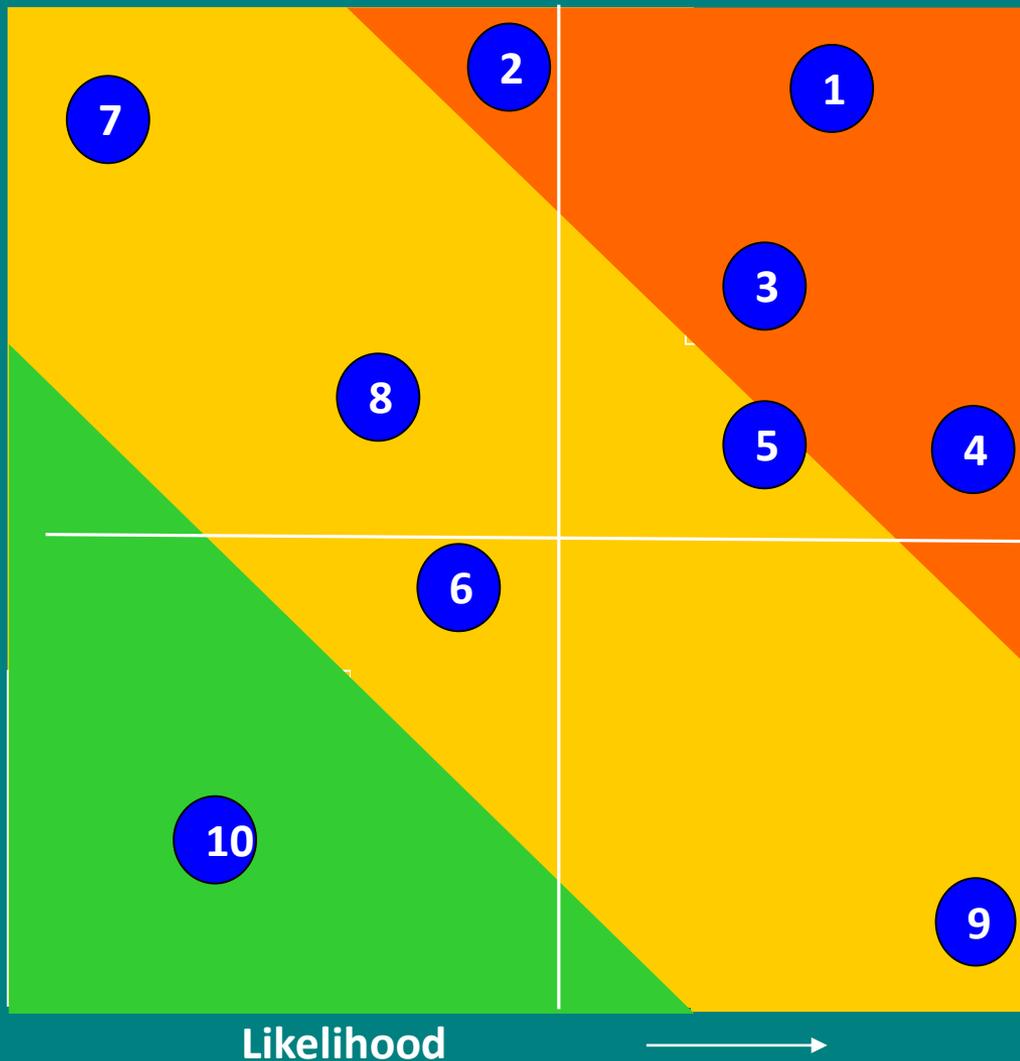
1. **Purchasing: improper dept contracting**

2. **Safety**

3. **Space: Inefficient use**

4. **Admin systems poor**

5. **Not focused on biggest institutional risks**

6. **Business continuity**

7. **Lack of PDA encryption**

8. **Compliance issues: staff can't know everything**

9. **Customer spending reduced**

10. **Management conflicts of interests**

Measuring facilitated ERA success

- Process and venue for open and honest discussion on risk and related issues facing us

- No new bureaucracy: ERA embedded into existing strategic planning and annual budget process to ensure sustainability

- Regular, objective and disciplined reporting of risks (e.g., at least annually)

- Adverse circumstances avoided / prevented / faster or better response

Facilitated Enterprise Risk Assessment

Should be

- Adding value
- Compatible with management thinking
- Part of decision-making

Should not be

- Just an exercise
- Management flavor of the month

How does having a neutral facilitator payoff?

- Neutrality means assured respect and safety: *everyone is heard*

- Everyone sees what is being captured: *notes adjusted in real-time*

- Multiple ways and opportunities for people to get their views in: *speaking, writing, drawing, anonymous polling*

- Entire workshop documented as-we-speak: *next day report*

- Building risk and opportunities scenarios with key players means no surprises later: *when you present the report all stakeholders involved have already bought in*

- Report on ERA results may be addressed to counsel, as an attorney-client work product, making it less vulnerable to trivial discovery: *harder to justify if written report produced in house*

Discussion

- Unique factors in your environment

- Desired outcomes

- Ideas for moving forward

- Further information needed

- Others to involve

Thank you

Examples

Please note: due to strict confidentiality of risk assessment audits, I am not at liberty to supply names of companies for which I have worked and/or the specific nature of audits. As such, examples below provide only methodologies used and actioned.

- **National media firm**: The Internal Audit Vice President gathered his peers for a two-hour enterprise risk assessment session. He added his perspective on opportunities and risks right along with everyone else. Each item was rated by concern level and ability to influence. A report was presented to the President with recommendations for action.

- **International bank:** One Informational Technology Director gathered his entire department and selected internal customers for a half-day session. Issues were identified, organized and understood and a collaborative action plan developed and implemented.

- **California state agency**: Director of Internal Audit had a series of sessions over two days exposing staff and manager clients to enterprise risk assessment concepts while conducting actual risk assessments. All parties were debriefed and the session outcomes were documented and refined for future internal use.

- **International science and technology institute**: The President planned a three-day enterprise risk assessment workshop to include all levels of managers. An advance survey was conducted to kick-start the assessment meetings. The assessment was completed in one-day for the entire institution. The results were then presented to a government oversight committee.

- **University 1**: The Audit Director had 45 middle managers and 25 senior managers surveyed for their topics and issues. A Middle-manager four-hour session prioritized their list of risks and opportunities concurrent with the Senior-manager session prioritizing their view of risks and opportunities. When the two lists were compared, there were unexpected, eye-opening revelations.

- **University 2:** The Internal Audit Vice President wanted all levels of management exposed to enterprise risk assessment and created four 3-hour sessions with the administration, fund-raising, information technology, and athletics departments. Session debriefs and plans were then submitted for regular internal review and action.