

Facilitated Risk Workshop

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Disclaimer

- The information in this presentation does not represent the opinion, content and perspective of Lender Processing Services, Inc.
- The presentation is based on the over 18 years internal audit experience of Gina Eubanks, CIA, CCSA, CISA.

Agenda

- Context and Objective of today's session
- Learning objectives
- Simulation
- Conclusion

Simulation Agenda

- Introductions
 - Role of Internal Audit
 - Definition of Enterprise Risk Management
- Ground Rules for Meeting
- Objectives and Deliverables
- Define Business Risks
- Day One: Brainstorming
- Day Two: Prioritization/Risk Rating Session

Role of Internal Audit

The Internal Audit department reports functionally to the Board Audit Committee and is responsible for providing independent and objective assurance to the Board and Executive Leadership that risk management, control and governance processes are effective.

Who is responsible for providing assurance to the board?

- **Management** (fundamentally)
- **Internal Audit** (independent objective assurance)
- **Other sources** (external audit or independent specialists)

Internal Audit Definition

...an **independent**, objective **assurance and consulting** activity designed to add value and improve an organization's operations. It helps an organization **accomplish its objectives** by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of **risk management, control, and governance** processes.

Source: *International Professional Practices Framework (IPPF)*

Management's Role

- Risk management is a fundamental element of corporate governance.
- Management is responsible for establishing and operating the risk management framework on behalf of the Board.

Ground Rules

- Participate in discussions and activities
 - Dialogue among participants
 - Clarifying questions
 - Be “present”
 - Transparency
- Parking Lot
 - Use your card
 - Captured for later discussion



Meeting Objectives

- Stimulate communication about risks across functional areas
- Capture divisional risks and controls



Deliverables

A comprehensive, documented **risk and controls matrix** will be provided back to the division to maintain and update as the risk environment changes.



What do We Mean by Business Risk?

Business Risk Defined:

The level of exposure to uncertainties that the enterprise must understand and effectively manage as it achieves its objectives and creates value.

- It is not just about threats; there is an upside as well as a downside.
- Risk is not about a single point estimate. We are focused on the next 12-18 months.
- Exposure and uncertainty are important factors.

Consider the Following Factors:

- Risk is a fact of life; life is constantly changing and is uncertain.
- Today's economy requires companies to identify and respond more quickly to changing risk profiles.
- All levels of management are essentially responsible for risk management.
- Opportunities for fraud
- Many risk management activities are well defined and accountability has been assigned. For risks that have not been defined/assigned, risks can "slip between the cracks" and/or be managed inconsistently due to individual perceptions of the significance of the risk.

Focus on Inherent Risks

Think about risks from your point of view within the company, considering your group's goals and objectives.



- You are identifying **INHERENT RISKS** in your business.
- Don't consider whether you are controlling the risk.
- You don't know for sure if the risk is effectively being controlled until it is tested.
- **View risk as if you were just being introduced to the company for the first time, and don't know if anything is working well.**

Identify Business Risks

Questions to consider when identifying your business risks:

- What could impact the achievement of strategic business objectives?
- Where do you devote considerable internal effort in order to control risk?
- What areas receive considerable management reporting?
- Where have you devoted significant resources?
- What are the analysts and rating agencies most interested in?
- What wouldn't you want on the front page of the newspaper?
- What are key obstacles to taking advantage of opportunities?
- What is impeding growth?
- What do your competitors do better?
- What keeps you up at night?
- What do people complain about within the organization?
- Where is opportunity for fraud?
- If you could fix one thing at the company, what would it be?

Day One – Assignment

**Take 15-Minutes to Write Down Five Critical Business Risks
from Your Point of View**

Success of this exercise will depend upon your input

During the risk session, we will be asking you to provide your listing of risks. If you find that you have more than five identified risks, don't hesitate to include the additional ones on your listing. When capturing the risks, please attempt to create "risk statements" for us to discuss. For example, a good risk statement would be:

"DR/BCP functions may not be adequate, which could result in the inability to meet business objectives in the event of a catastrophic event".

Note that the risk and potential result is included in this risk statement.

We will walk through the remaining slides together during our session with you.

Agenda – Day Two

- Assess Impact
- Determine Frequency
- Document Controls

Reminder: Think about risks from your point of view within the company, considering your group's goals and objectives:

- You are identifying **INHERENT RISKS** in your business.
- Don't consider whether you are controlling the risk.
- You don't know for sure if the risk is effectively being controlled until it is tested.
- **View risk as if you were just being introduced to the company for the first time, and don't know if anything is working well.**

Assess Impact

- How big of an impact could this risk have if it were to occur?
- Impact can be in many areas, including financial, legal/regulatory, reputation, human resources, stock valuation, etc.
- Inherent risk does not take into consideration the existing control structure.

Impact Criteria

Rating	Financial	Reputation	Legal/ Regulatory	Customer	Employees	Operations
1 Low	Impact on earnings of less than 2% (<\$XX) of projected Earnings Before Income Tax (EBIT)	<ul style="list-style-type: none"> • Quickly contained • Short term recoverability • Minimal media attention 	<ul style="list-style-type: none"> • Warnings or violations requiring administrative action and minimal penalties 	<ul style="list-style-type: none"> • Minimal or isolated impact on customer relationship(s) • Minimal complaints and recovery costs 	<ul style="list-style-type: none"> • Unplanned loss • Impact to morale 	<ul style="list-style-type: none"> • Minimal impact to operational processes • Minimal data and system performance, reliability and validity issues • Promptly recoverable service interruption
2 Moderate	Impact on earnings of greater than 2% (\$XX)but less than 20% (\$XX) of projected Earnings Before Income Tax (EBIT)	<ul style="list-style-type: none"> • Long term recoverability • Formalized plan with committed resources • Regional media attention 	<ul style="list-style-type: none"> • Routine Federal/ State litigations subject to fines or penalties • Subject to regulatory proceedings 	<ul style="list-style-type: none"> • Decline in customer relationship(s) • Customer complaints and/or investigations 	<ul style="list-style-type: none"> • Unplanned loss of key staff • morale is low resulting in negative production 	<ul style="list-style-type: none"> • Negative impact on operational processes • Moderate data and system performance, reliability and validity issues • Isolated service interruptions
3 High	Impact on earnings of greater than 20% (\$XX) of projected Earnings Before Income Tax (EBIT)	<ul style="list-style-type: none"> • National media attention; • Significant loss of reputation • Formalized tactical plan required to contain and recover 	<ul style="list-style-type: none"> • Major Federal/ State investigations subject to substantial fines, penalties including criminal charges and/ or cease and desist orders • Subject to lengthy drawn out regulatory proceedings 	<ul style="list-style-type: none"> • Wide-spread impact on customer relationship(s) • Threat to economic development • Possible regulatory action 	<ul style="list-style-type: none"> • Unplanned loss of senior staff; • Pervasive negative impact to morale and production 	<ul style="list-style-type: none"> • Pervasive impact on operational processes • Major data and system performance, reliability and validity issues • Wide-spread area of service interruption; • Slow system recovery

Identify Frequency

- How often will you encounter the identified risk?
- How likely is the risk to occur given the inherent uncertainties in your business?

Criteria for Frequency/Likelihood	
1 Low	Future event(s) may occur only in exceptional circumstances.
2 Moderate	Future event(s) is likely to occur.
3 High	Event(s) has occurred in the past and is likely to occur in the future.

Now Let's Talk About Controls

How Effective are the controls or risk mitigation processes that have been established?

For each of the identified risks provide us with information about the mitigating controls that have been implemented to reduce the level of inherent risk to an acceptable risk tolerance (below are some examples):

- Management monitoring and review
- Quality control processes
- Change management controls
- Authorization and approval controls
- Limited access to applications/data

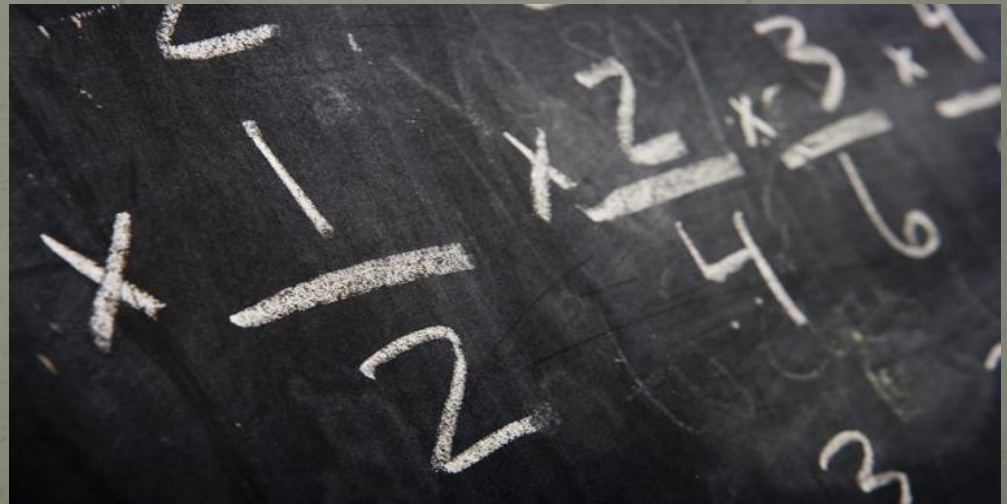
Consider only existing mitigation that is currently in place and expected to remain. If dealing with a new issue or pilot project, consider only the mitigation you are certain will be in place when launched.

Criteria for Assessing Effectiveness of Controls

1 Excellent	Risk is pro-actively managed through strong mitigating processes
2 Good	Processes exist to detect and mitigate risk
3 Poor	Processes do not exist to mitigate risk or are considered inadequate.

Check the Results

- Impact Factor x Frequency Factor = Inherent Risk Factor
- Inherent Risk Factor x Control Factor = Residual Risk Factor
- The **higher** the residual risk factor, the more ineffective the controls.



Next Steps

- Results will be summarized and sent back out to the group for review and approval. Please be sure to respond to our review and approval request.
- Internal Audit will leverage this information to create Master Audit Plan for 2012.
- Please provide us with feedback on the process and ideas for improving our ability to identify and assess risk across the organization.

Jane.Doe@abccompany.com, Chief Audit Executive
John.Zeta@abccompany.com, Internal Audit Director

Challenges

- Not talk about controls
- If don't mention won't audit

Wrap-up

- Be prepared
- Right people in the room

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