

# HAVING A RISK MINDSET

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# With you today

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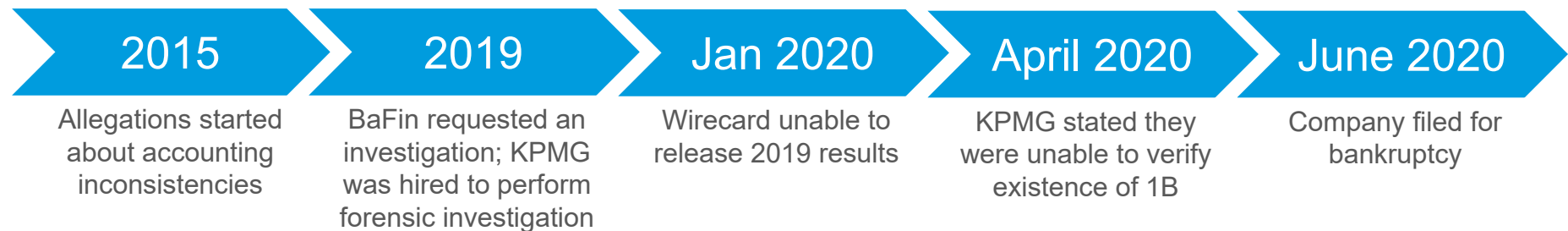


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# The Enron of Germany

Wirecard is a Munich based payment processor, founded in 1999; listed on the Frankfurt Stock Exchange in 2017

## Timeline of Events



## What is meant by Risk?

*‘...Risk is a threat that an event or action will affect the organization’s ability to achieve its business objectives and strategies...’*



# What went wrong in the Wirecard situation?

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- Risk was not top of mind for Management or Board
- Lack of oversight – no risk or audit committees established
- Deniability over potential fraud identified by KPMG reports
- Normal checks and balances were overridden
- Weak and/or or sometimes lack of internal controls

# WHY IS RISK MANAGEMENT IMPORTANT?



# RISK MANAGEMENT PROCESS



**Risk Management is an ongoing process, not a one-time event**

# Chat Question

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What mechanisms do you use to identify risks?

- A. Surveys or questionnaires
- B. Periodic (e.g. annual) risk assessments
- C. Table-top or simulation exercises
- D. Vulnerability assessments
- E. Other (please specify)



# What are Internal Controls?

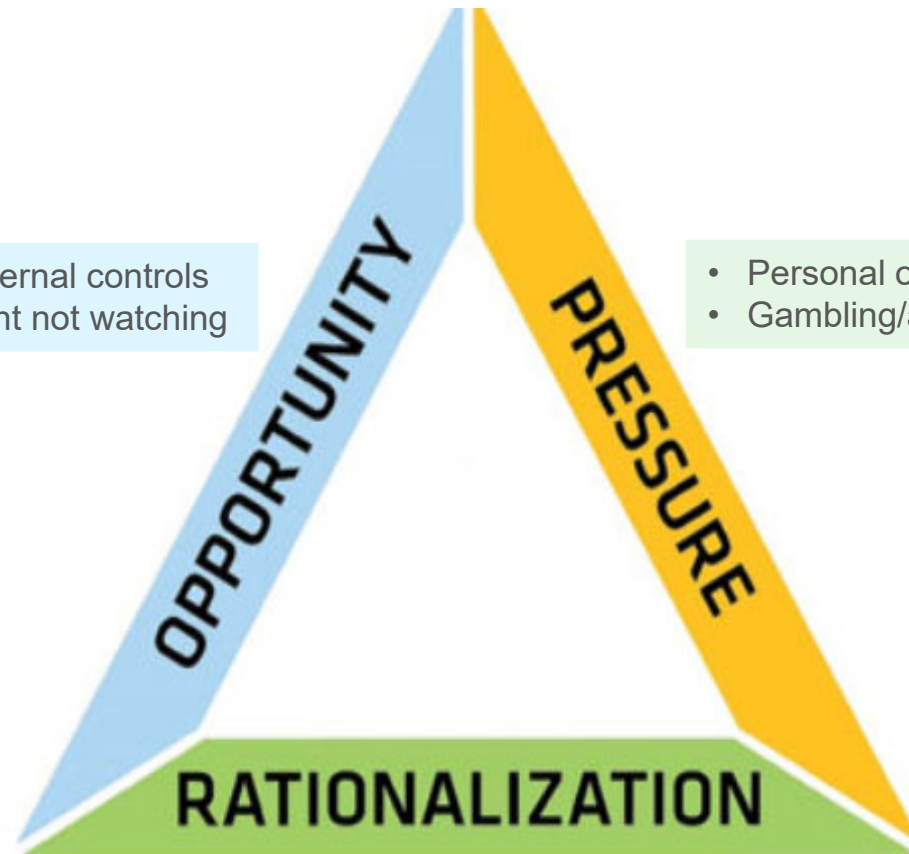
*Actions taken to enhance the likelihood that established goals and objectives will be met (or reduce the likelihood of risk manifesting)*



# WHAT HAPPENS WHEN YOU IGNORE INTERNAL CONTROLS?

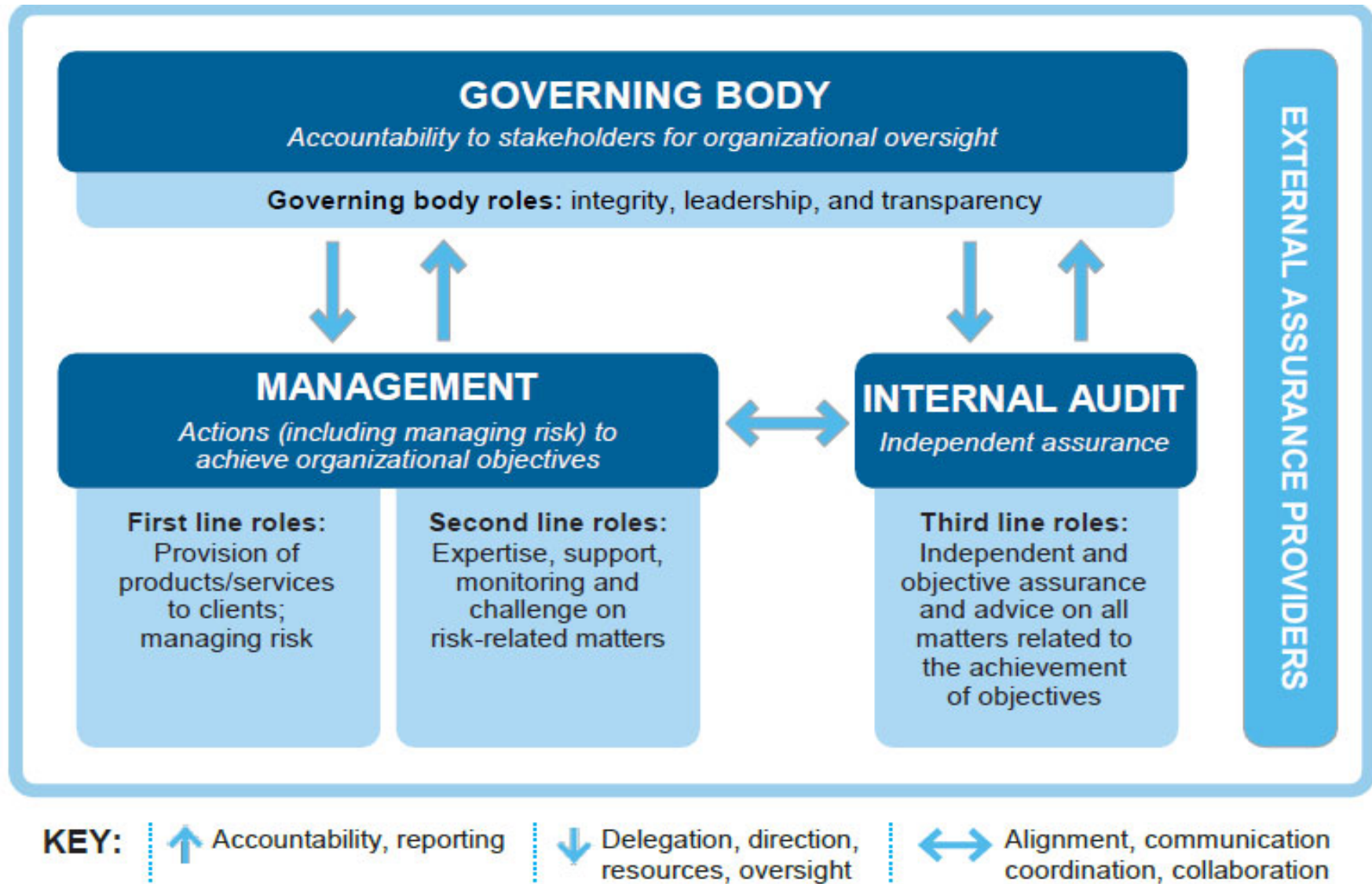
- Lack of or weak internal controls
- Senior management not watching

- Personal or financial pressures
- Gambling/addiction



- Justification of dishonest actions
- "It's only a loan, I will pay it back"

# WHO IS RESPONSIBLE FOR RISK MANAGEMENT?



Published by the Institute of Internal Auditors Effective July 2020

**Three Lines can work together to improve an organization's risk management structure**

# Wells Fargo – What happens when 3 Lines fail

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## What happened?

Employees, with encouragement from Management, boosted sales figures by covertly opening accounts and funding them from consumers' authorized accounts without their knowledge or consent.

## Where the Three Lines Failed?

- Wrong Tone at the Top
- Lack of accountability amongst sales org peers
- Corporate risk management didn't identify the risks
- Material misstatements not identified as part of internal or external auditor testing

## The cost of failure

- Impact to stock performance and about \$37.5M in fines
- Had to make changes to its sales practices and internal oversight mechanism

# #Dieselgate

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## What happened?

Defeat device software was installed in cars to keep nitrogen oxide emission from diesel engines within legal limits during tests, while on road emissions were 40 times higher. This violated federal emission laws.

## Where do you think the Three Lines Failed? – *Please use chat function*

- Lack of appropriate tone at the top
- Lack of accountability amongst engineering groups
- Inspection teams did not highlight this issue
- Quality auditors missed this design flaw

# HOW HAVE RISKS EVOLVED IN THESE UNCERTAIN TIMES?

- Cybersecurity
- Supply Chain Disruptions
- Talent Acquisition and Retention
- Inflation Pressures
- ESG/Climate Change

**Robust risk management, especially in times of uncertainties, can help companies adapt and thrive**

# Chat Question

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What other emerging risks do you see in the post COVID world?

- A. Third Party Risk Management
- B. Company Culture
- C. Political Volatility
- D. Regulatory Changes
- E. Others (please specify)



## IIA ONRISK2022 RISKS

1. Cybersecurity
2. Talent Management
3. Organizational Governance
4. Data Privacy
5. Culture
6. Economic and Political Volatility
7. Change in Regulatory Environment
8. Supplier and Vendor Management
9. Disruptive Innovation
10. Social Sustainability
11. Supply Chain Disruption
12. Environmental Sustainability

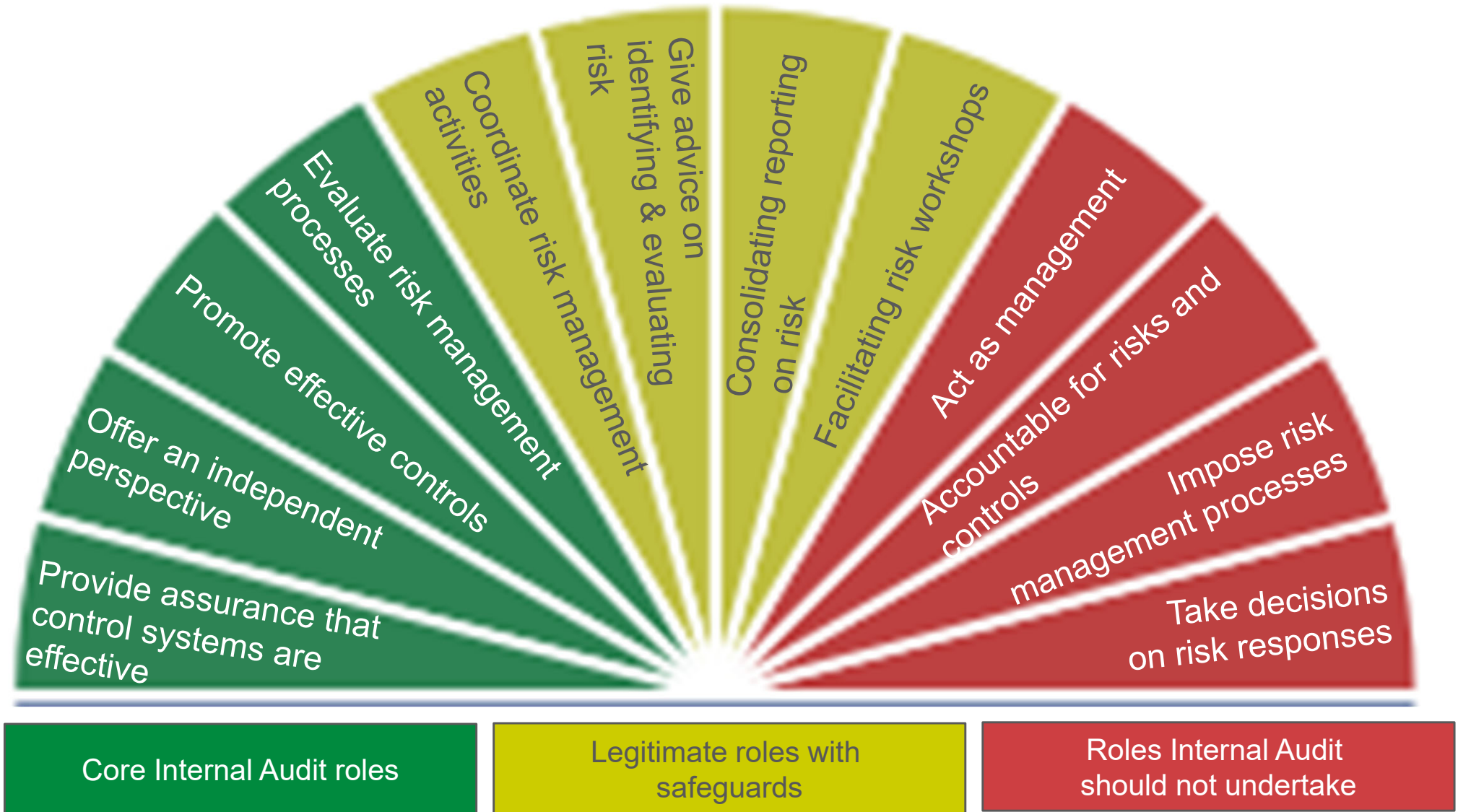
Link: <https://iaa.no/wp-content/uploads/2021/10/2022-OnRisk-Report.pdf>



# HOW CAN YOU ENHANCE THE RISK CULTURE WITHIN YOUR ORGANIZATION?

- Set the right Tone at the Top
- Educate the workforce....and apply skepticism
- Align on the guardrails (risk appetite)
- Think broader than financial risks
- Define measurable metrics (lagging and leading KRI/KPIs)

# What Internal Audit Can and Can't Do



## KEY TAKEAWAYS

- Identify risks and continue to monitor for changes in risk profile – especially as there are changes in people, processes and technology
- Coordination, alignment and communication between three lines is key to a positive risk culture – know your role!
- Risk management should be simple, real and easy to understand

# THANK YOU!!!

