HAVING A RISK MINDSET

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With you today



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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

2015 Jan 2020 April 2020 June 2020

Allegations started about accounting inconsistencies

BaFin requested an investigation; KPMG was hired to perform forensic investigation

Wirecard unable to release 2019 results

KPMG stated they were unable to verify existence of 1B

Company filed for bankruptcy



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?

- 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?

Protect company's assets

Helps achieve company's objectives

Ensure compliance with laws/regs

Promote company's reputation

Drives shareholder value

Provides risk taking opportunity

Helps with decision making

Everything Else.....



RISK MANAGEMENT PROCESS



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



Chat Question

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)



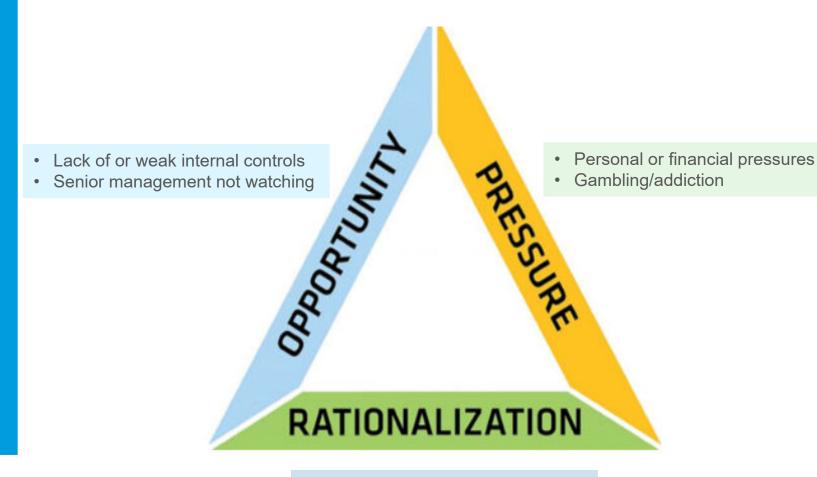
What are Internal Controls?

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?



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



WHO IS RESPONSIBLE FOR RISK MANAGEMENT?

GOVERNING BODY

Accountability to stakeholders for organizational oversight

Governing body roles: integrity, leadership, and transparency



MANAGEMENT

Actions (including managing risk) to achieve organizational objectives

First line roles:

Provision of products/services to clients; managing risk

Second line roles:

Expertise, support, monitoring and challenge on risk-related matters



INTERNAL AUDIT

Independent assurance

Third line roles:

Independent and objective assurance and advice on all matters related to the achievement of objectives

KEY:

Accountability, reporting



Delegation, direction, resources, oversight



Alignment, communication coordination, collaboration

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



Wells Fargo – What happens when 3 Lines fail

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

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

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
- Economic and Political Volatility

- 7. Change in Regulatory Environment
- 8. Supplier and VendorManagement
- 9. Disruptive Innovation
- 10. Social Sustainability
- 11. Supply Chain Disruption
- 12. Environmental Sustainability

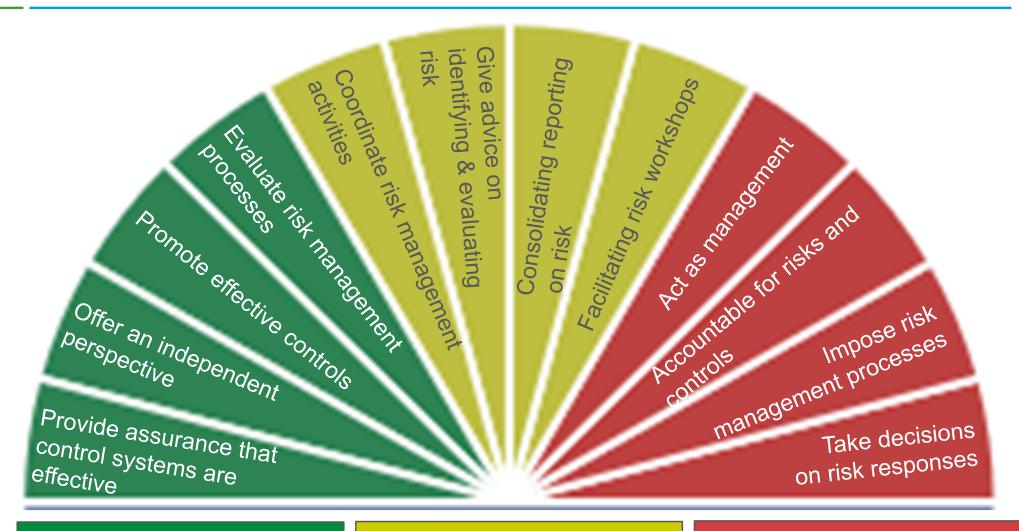


HOW CAN YOU ENHANCE THE RISK CULTURE WITHIN YOUR ORGANIZATION?

- 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



Core Internal Audit roles

Legitimate roles with safeguards

Roles Internal Audit should not undertake



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!!!

