

Continuous Monitoring (CM)
for
Risk & Performance
Management

Dan French

Themes

- Introduction
- Misplaced confidence - what's broken?
- The need for a better early warning system
- Continuous Monitoring
- Real world examples
- Discussion

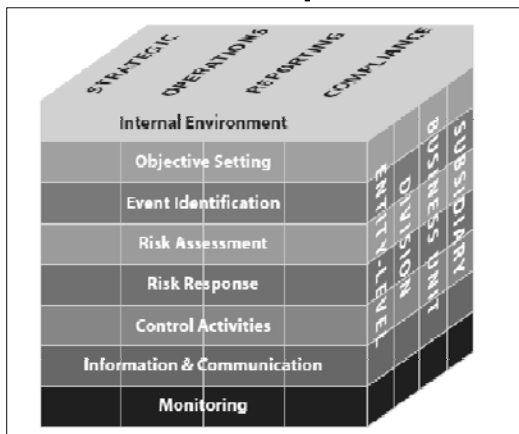
ERM and Ommm...



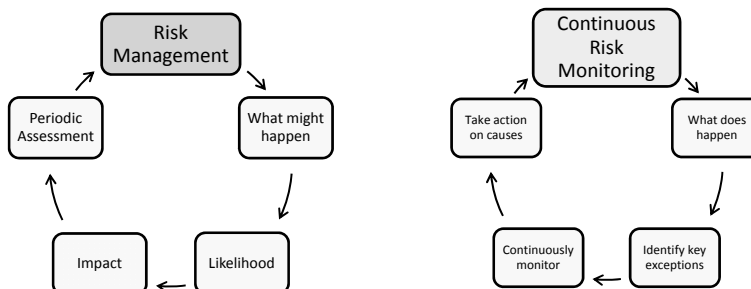
ERM & Monitoring

- Discipline by which an organization assesses, controls, exploits, finances, and **monitors** risks to optimise stakeholder/shareholder value
- Risk Types
 - Hazard risk
 - Financial risk
 - Operational risk
 - Strategic risk
- Debate remains on ERM & opportunities . . .

COSO interpretation



Two paradigms, one objective

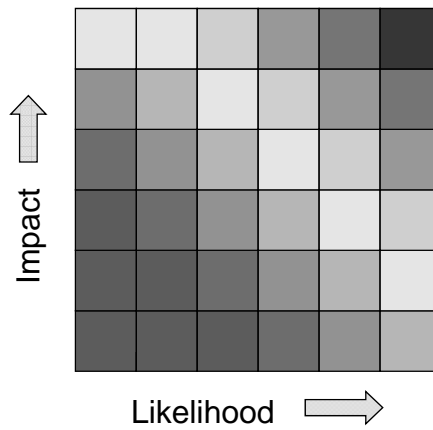


- Enterprise Risk Management
 - All potential risks
 - Tangible, intangible
 - Limited only by awareness
 - Focus on managing risk
 - A management system
- Continuous Risk Monitoring
 - Risks & Opportunities
 - Tangible, data driven
 - Limited by understanding
 - Focus on performance improvement
 - Supporting ERM

Eruptions . .
Continue to happen . .
Never expected . . .



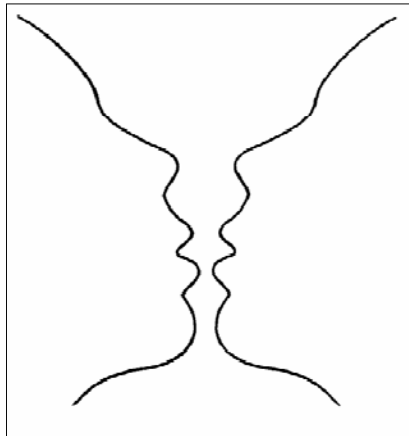
Risk Assessment



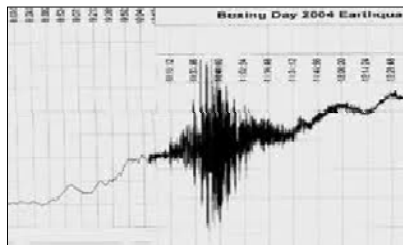
Misplaced Confidence



Perception

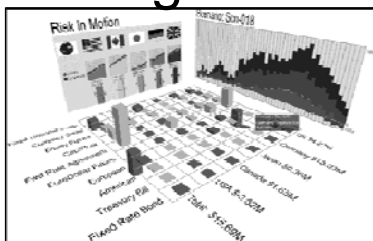


Early monitoring predicts trouble



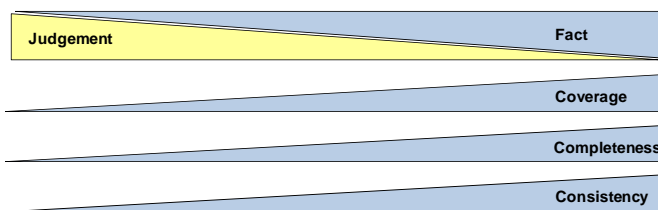
Fact or Judgement?

Section 1 - Control Environment		
Integrity and Ethical Values	This management faculty and supervisory staff understand the Chair's key position regarding matters of risk at the Institute and of the study program.	Positive response
Competence and Skills	This management faculty and supervisory staff understand the Chair's key position regarding matters of risk at the Institute and of the study program.	Positive response
Commitment to Competence	This management faculty and supervisory staff understand the Chair's key position regarding matters of risk at the Institute and of the study program.	Positive response
Reliability and Objectivity	This management faculty and supervisory staff understand the Chair's key position regarding matters of risk at the Institute and of the study program.	Positive response
Communication with Faculty, College and University	This management faculty and supervisory staff understand the Chair's key position regarding matters of risk at the Institute and of the study program.	Positive response

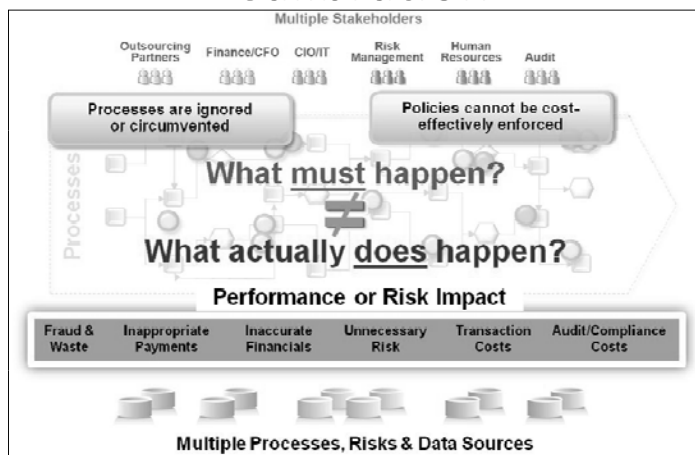


Control Self Assessment (CSA) - Control Improvement Summary		CSA - Control Self Assessment Summary	
Control Area	Control Status	Control Area	Control Status
Operational	High	Operational	High
Financial	Medium	Financial	Medium
Compliance	Low	Compliance	Low
Reputational	Medium	Reputational	Medium
Environmental	Low	Environmental	Low
Liquidity	Medium	Liquidity	Medium
Credit	Low	Credit	Low

The Monitoring Spectrum



Calibration



Early Visibility & Confidence



Risk AND Performance?

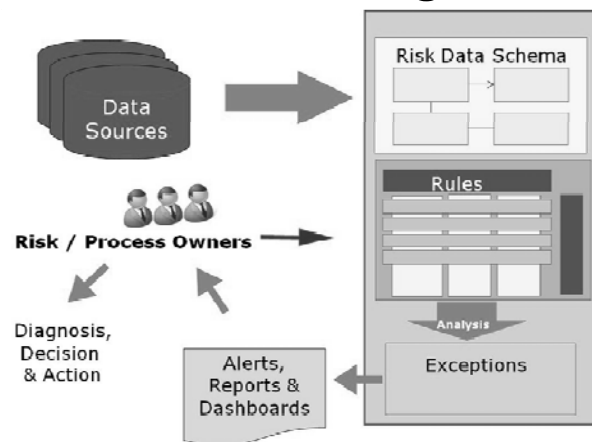
- Two sides of the coin
- For example;
 - AR risks/KRIs
 - Credit check
 - Payment terms
 - Delivery quantity & quality
 - Performance KPI
 - DSO



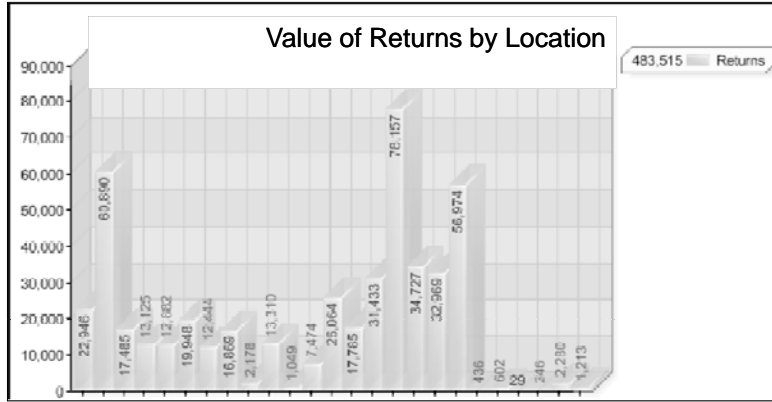
Speed, Results & Agility

- Continuous Monitoring is receiving more and more attention from the finance, risk, compliance, audit (and vendor) communities.
- Ensure 'strategic' is not slow and costly
- This is not an IT initiative
- Identifying and managing exceptions should already be a key focus for management
- Rapid results are not only possible, but critical !
- Monitor only what matters – what decisions will you make based on the exceptions?

Continuous Monitoring Framework



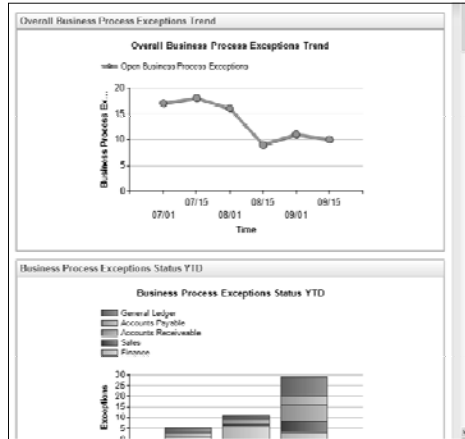
Exception Summary



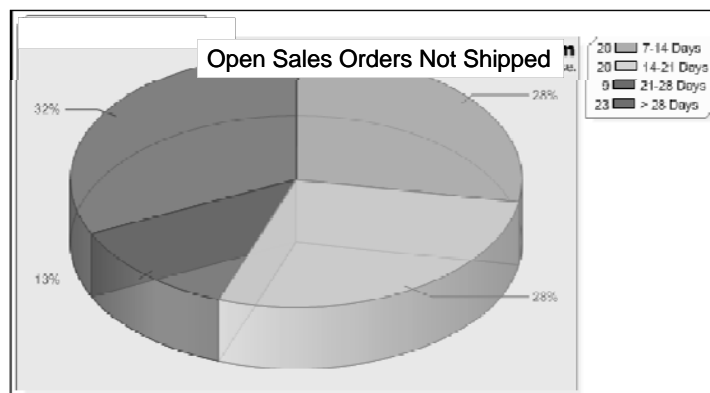
Exception Detail

Purchase Order Line		
Name	Column A	Column B
Purchase Order ID	000011007 C	000010244 C
Purchase Order Line Number	99	60
Purchase Order Line Organization	STD	STD
Description	Color LaserJet CP1025n Printer	Color LaserJet CP1025n Printer
Unit of Measure	ST	ST
Material ID	H7CC489A-E19	H7CC489A-E19
Unit Price	577.10	577.10
Quantity	1.00	1.00
Gross Amount	2708.40	2708.40
Net Amount	2708.40	2708.40
Sales Tax Amount		
Use Tax Amount		
Freight Amount		
Cancel Flag	N	N
ERS Flag	N	N
Revision ID		001001213
Purchase Order Line Status	DELIVERY_COMPLETE	DELIVERY_COMPLETE
Purchase Order Organization		
Vendor ID	000010003	000010003
Vendor Location ID		
Last Updated By		
Last Updated Date	Jun 15 2011 12:00AM	Jun 14 2011 12:00AM
Unlimited Over Delivery Flag	N	N
Non-Deductible Input Tax	0.00	0.00
Goods Receipt Flag	Y	Y
CR Based Invoice Verification Flag	Y	Y

Exception Trending



Exceptions can identify performance gaps



Assessment & Diagnosis

- Monitoring – Proving the Concept
 - A one-time extraction and analysis of relevant data for exception analysis
 - Selected risk scope
 - Decide/Refine the exception rules
 - Analysis performed against agreed exception rules for key risk or performance themes
 - Review exceptions and explore impact and root causes
- 100% sample size
- Rapid insight into selected business risks
- Establishes the value of monitoring (or lack of value)

Exceptions . . .

“That CAN’T happen!”

Yes. But, it did . . .

Case Study – Board View

- Global 30bn FMCG leader, > 50,000 employees
- Financial processes are reliant on systems that are deeply integrated in initiating, authorizing, recording, processing and reporting business events & transactions.
- The pace of business change continues to increase in multiple dimensions
- Investors demand more rapid and robust reporting and better insight
- Technology complexity & risk continues to increase
- Reputational risk is becoming the major concern
- The demand for independent, rapid, complete assurance is growing

Experience

- Centrally managed company wide process
- Company wide set of risk exception rules
- Transparency of risks for business processes
- Efficiency gains in central functions
- Transparency, comparability and consistency of reviews and results and centralized follow-up
- Exception reporting supports targeted root cause analysis
- Standard risk assessment for operating entities independent of size
- Corporate and external audit focus shifting to central concept and process verification

Real World Examples

- Cash Flow Risk
 - Lengthening customer payment terms after order disguising customer satisfaction and credit issues
 - Reducing supplier payment terms for no company benefit
 - Changing terms after order approval
- Gross Margin Risk
 - Price reductions for customer orders after booking
 - Price/quantity increases for supplier orders after approval
 - Invoice value greater than received goods

Real World Examples

- Direct Procurement Risk
 - Goods receipts on same day as PO – bypassing forecasting and procurement process
 - Pricing based on delivery note instead of agreed terms
- Indirect Procurement Risk
 - Unusually large 'marketing' spend items
 - Unapproved corporate entertainment
 - Duplicate payments
- Travel & Entertainment Expense Risk
 - Duplicate claims
 - Ineligible items claims

Real World Examples

- Revenue Risk
 - Unbilled revenue
 - Undelivered orders
 - Exceptional customer credits/returns
- GL Accounting Risk
 - JE postings into prior periods already closed
 - Unusually large JEs
 - Unusual manual JEs for accruals
- Fixed Asset Risk
 - Fixed Asset depreciation periods 'adjusted'
 - Misclassified capital equipment
 - Inappropriate asset depreciation periods

Real World Examples

- Corruption Risk
 - Payments or entities on OFAC blacklist
 - Orders for services with no evidence of delivery
 - One time payments
- Employee Fraud Risk
 - Vendor bank account details changed to employee's
 - Manual inventory level overrides mask theft
 - Unusually high customer credits
- Claims Risk
 - Insurance claim payments after policy termination
 - Claims paid not reclaimed with reinsurer
 - Claim payment above approved limit

Best Practices

- Start Small
- Bring stakeholders on the journey
- Be clear on the focus
- Don't make assumptions
- Plan for iterative refinement
- Be clear on what decisions you expect to make for each class of exceptions
- Consider performance as well as risk
- 'Less is More' – avoid the temptation to monitor too much

Challenges

- Gradual realization
- Exception rules need clarity of thought
- Avoid the 'audit' mentality – it's a management tool
- Expect to learn some new things about the business
- Its about data but it is not an IT project
- Focus ruthlessly on WHY, WHAT, HOW

Observations and Recommendations

- Evidence is better than Opinion
- Validate where raw data exists for key risks
- Assess whether CM is worth exploring
- Think through what constitutes evidence of key risk exposure – logical rules
- Perform a short, sharp exception analysis in a specific risk area
- Review & Assess findings
- Build the Case for Action (or not)

The Goal

Visibility
Transparency
Confidence
Control
Agility
Better Decisions

Discussion Topics

- We know this works for financial & operational risk. How could this approach apply to hazard or strategic risk?
- Could intelligent social media monitoring (e.g. Twitter) address some of these?
- Is it possible to define 'rules' for all risks?
- How could continuous risk monitoring suggest new, previously unidentified, emerging risks?

Thank You

Continuous Monitoring (CM)
for
Risk & Performance
Monitoring

Dan French
CEO, Consider Solutions
dfrench@consider.biz
<http://consider-ations.blogspot.com/>