



White*Paper*TM

Risk Self-Assessment Increasing Speed, Quality and Focus in the Audit Planning Process

By William A. Flexner
Emeritus Partner
Option Technologies Interactive

OptionFinder is a registered trademark of Option Technologies Interactive, LLC.
For additional information about the OptionFinder System please contact:

Option Technologies Interactive, LLC
4399 36th Street S.W.
Orlando, FL 32811
Tel: 1.888.684.6389 * 407.872.3333
Website: www.OptionTechnologies.com

Introduction

This OptionFinder® White Paper is based on actual experience with a multi-billion dollar company as it changed from a traditional interview-based audit planning process to a self-assessment process involving the senior executives.

Russ Koval sat at his desk reflecting on the changes that had been introduced in developing the annual internal audit plan.

Historically, as director of internal audit, he identified the risks to the company by conducting a series of one hour personal interviews with the executives of the company. Over a period of three to four weeks, each executive was interviewed to identify the things that they thought would be the greatest risk to the company. After all of the interviews were completed, Russ reviewed his notes, consolidated the risks and created the company's annual Internal Audit Plan.

Several things about this approach concerned Koval. First, the process of conducting the interviews took more elapsed time than he felt was appropriate. Second, there was no interaction or dialogue among the executives about the risks themselves. And, finally, without discussion, no consensus was built as to which risks were truly critical to the company. Thus, the annual plan could easily be construed to be his, rather than the company's.

To get some perspective on what he considered to be a significant risk to the internal audit process, Koval discussed his concerns with the company's auditor, Heather Davidson. After discussing various alternative approaches, they decided that this might be a good opportunity to introduce the concept of "self-assessment" to the company.

Davidson suggested that Koval contact Nick Holmberg, a partner with a Big Six accounting firm, to help design an approach to engage the executives much more directly in deciding where the limited internal audit resources should be focused. Working from a facilitated self-assessment model, Holmberg identified three components that would be essential:

- Review and clarify the business strategy
- Identify and prioritize the risks to the successful implementation of the company's business strategy

- Determine which of the risks should be addressed by internal audit during the current year

The ten executives gathered together at 9 am. As part of the introductions, Holmberg asked the executives to identify their expectations for the session. When it was the CEO's time to speak, Holmberg was in for a bit of a surprise: the CEO said that while the published agenda showed the meeting lasting until 4 pm, he needed to leave by 1 pm.

Holmberg acknowledged the CEO's comments and told him that adjustments could be made in the schedule to adapt to his needs. He then proceeded to ask the remaining executives for their expectations.

Having heard each of the executive's expectations, Holmberg explained that his objective for the session was:

To identify, discuss, clarify, and prioritize areas of risk within the company to assist management in determining and communicating the focus of Internal Audit in the coming year.

In this context, he defined risk as "*the possibility that something will go wrong and not be corrected in a reasonable amount of time.*"

Finally, he told the executives that his goal was to sharpen the focus of internal audit to assure that it added value to the company.

Review and Clarify the Business Strategy

To place internal audit in the context of the company's business strategy, Holmberg began the facilitated process by asking the executives to identify what drives their business; what their major business plan objectives were for the year; and what they felt were their short and long term strategic imperatives.

A total of 30 minutes was spent in discussion of the business strategy, making certain that each of the executives had an opportunity to contribute and clarifying apparent differences in their understanding of the strategy. A total of 14 specific components of the strategy were captured in a word processing program that was projected on a large screen in front of the group.

This exercise accomplished two important objectives: (1) it stimulated an open discussion among the executives and (2) it established the context for the primary focus of the workshop: *identifying the risks to successfully implementing the company's business strategy.*

Identify and Prioritize the Risks to the company

In the context of the discussion of business strategy, Holmberg asked each of the executives to silently brainstorm (on paper) the things that could happen that would prevent the company from achieving its success. After ten minutes, Holmberg asked the executives in turn to identify one of their risks, using traditional Nominal Group Technique (NGT) ground rules: read out one item at a time with no repetition of items already placed on the list. In other words, if a risk had already been reported by someone else, the executive was instructed to skip to a new risk.

Using the NGT process, a total of 52 separate risks were generated in 20 minutes, all captured in the computer and "on-screen" in front of the meeting participants. The entire list was then reviewed to be certain that everyone understood the meaning and significance of each risk.

To quickly reduce the list of risks to those that were the critical few, Holmberg decided to use the OptionFinder® keypad system. The question displayed in Figure 1 was asked of each of the risks and the executives were told to press only a 1, 3, or 9 to indicate their perception of risk.

<ol style="list-style-type: none"> 1. An important risk 2. ... 3. A very important risk 4. ... 5. ... 6. ... 7. ... 8. ... 9. Absolutely critical/could bring to knees <p style="text-align: center; font-size: small;">How much of a risk is this?</p>
--

Figure 1

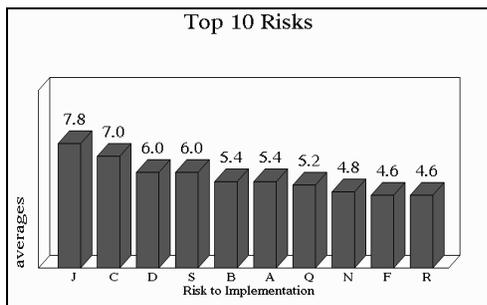


Figure 2

Within ten minutes all of the responses had been collected for the 52 risks and the ten risks most critical to successful implementation of the business strategy were displayed for the group.

Each of the ten risks was then discussed in detail to be certain that the order in the ranking made sense. The spread of opinion for each risk was display, as shown in the results for Risk "C" contained in Figure 3.

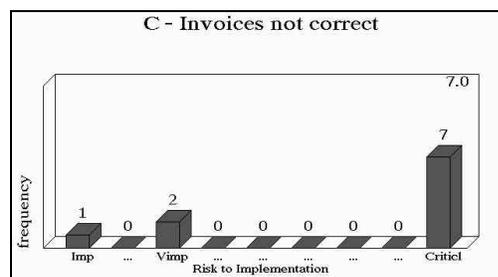


Figure 3

Which Risks Should Be Addressed by Internal Audit?

Once agreement was reached on the most important risks to the company, Holmberg asked the executives to review the list a second time regarding the role of Internal Audit in making recommendations for reducing the risk. In less than ten minutes, using the response scale in Figure 4, the executives quickly identified the top ten risks that Internal Audit should address first.

These results provided the guidance that Russ Koval and Heather Davidson were looking for to focus the efforts of Internal Audit on the things that the executives viewed as the greatest risk to successful implementation of the business strategy.

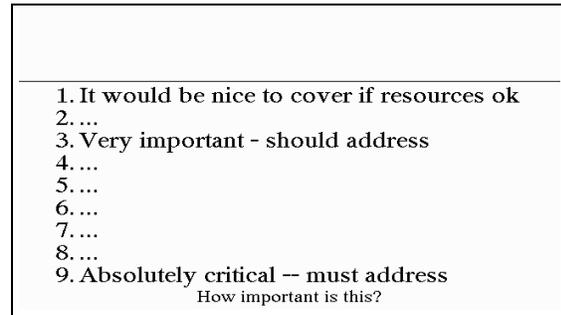


Figure 4

Benefits of the Self-Assessment Approach

After the session concluded (shortly after lunch to accommodate the CEO), both the CEO and the CFO approached the audit team to thank them for the session. They were impressed with the process in several ways:

- The speed with which they were able to reach agreement, while fully exploring the issues;
- The quality of the discussion that involved all of the executives;
- The focus the process gave to both the executives and the internal audit staff.

For the audit team, the session had several additional benefits:

- It increased their visibility;
- It demonstrated a new way in which they could add value to the company; and
- It provided a model and experience that could be used to build support for implementation of self-assessment processes more broadly in the company.

Requirements to Shift from Interviews to Self-Assessment Processes

Traditional approaches to audit place the full burden on the auditors to ask the right questions and determine where the real risks or breakdowns in control exist. As internal audit begins to embrace the concept of self-assessment, several factors need to be considered:

First and Foremost, does the audit team have a “self-assessment” process available that produces a better outcome than the traditional assessment achieved? Without having an effective process that is clearly better than the current one, there is a good chance that the effort will fail to be accepted by members of the audit team or the executives to whom they report.

Are members of the audit team comfortable in the role of facilitator as opposed to auditor? Self-assessment requires effective facilitation skills. In their absence, the auditees may view the process as ineffective and a waste of their time.

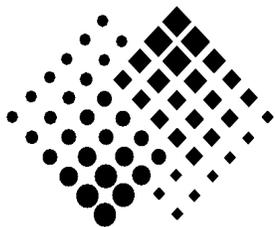
Do the auditees see value for themselves at the end of the process? Value in this case can be measured in many ways including helping the auditees to more effectively achieve their business objectives.

Are appropriate tools available that can help make the process more effective? Such tools as the Nominal Group Technique, sticky wall, the OptionFinder System, and groupware are just some that have been used effectively to add value to facilitated processes similar to those being developed for self-assessment audits.

About the Author

William A. Flexner is founder and Emeritus Partner of Option Technologies. He has more than 30 years experience as a manager, researcher, teacher, consultant and facilitator. In the early 1970s, he was one of the first people in the United States to focus on marketing as it applies to the health care field. He is recognized internationally for creativity, challenging of conventional wisdom and his ability to facilitate diverse groups of people to work together to achieve common strategic purposes. The development of the OptionFinder System was a direct result of Mr. Flexner's need for tools that would help executive teams work more effectively together.

For additional information about the OptionFinder® system, please contact:



Option Technologies Interactive, LLC

4399 36th Street, S.W.

Orlando, FL 32811

Ph: (888) 684-6389 or 407-872-3333

Fx: (407) 872-3330

E-mail: Info@OptionTechnologies.com

Website: www.OptionTechnologies.com

OptionFinder® Educational Resources

Available at www.OptionTechnologies.com

Risk Self-Assessment: Increasing speed, quality, and focus in the Audit Planning Process. *Review and clarify the business strategy, identify and prioritize the risks to the company, benefits of the Self-Assessment approach.*

CSA Design and Facilitation Using Keypad Technology: Presented at IIA CSA Conference, 1997. *Reliable methods, KISS mantra, staying focused on desired outcomes, participants interpretation of polling data, rehearsal for facilitators.*

The Genius Comes from Asking the Right Question: Presented at IIA CSA Conference, 1998. *Keypads change the group dynamic, an outcome oriented way to design workshops, the Art of Asking the Right Question, Using Scales, what to do with the responses to those questions.*

Advantages of Electronic Participation in Workshops and Other Meetings: Presented at IIA CSA Conference, 1999. *What is the CSA/RSA movement trying to accomplish, What do management, participants think of CSA/RSA, what do CSA professionals like about electronic participation, how is electronic participation different from other forms of participation.*

Complying with Medicare Guidelines: Lessons from the Auditors: Lessons from the audit community, the self-assessment workshop, introduction of real-time, anonymous polling, CSA methods and healthcare compliance, changing the culture begins in the workshops and continues in a cycle of improvement and risk reduction, assessment data serves as evidence of due care, benefits felt throughout the organization.

Good Things Come in Small Packages: Facilitated Meetings Using the OptionFinder System. *Benefits of keypads in meetings, designing the OptionFinder System into a meeting process, facilitating with the OptionFinder System.* Original publication reference: Flexner, William A. & Wheatley, Kimbal L. (1997). When You Really Must Have Them; Face-to-Face Meetings Using Keypad Electronic Meeting Systems. In David Coleman (Ed.) , Groupware (pp.193-205). New Jersey: Prentice Hall.

Enhancing Your Presentations with the OptionFinder Audience Polling System. *Understanding the technology, designing effective questions, timing of questions, characteristics of good questions, formatting questions, suggestions for preparing, asking, and discussing questions.*