Risk Based Auditing

Preventing the Next Black Swan Event

Program #: Risk Based Auditing VBPM-PI 20120924

Moderator

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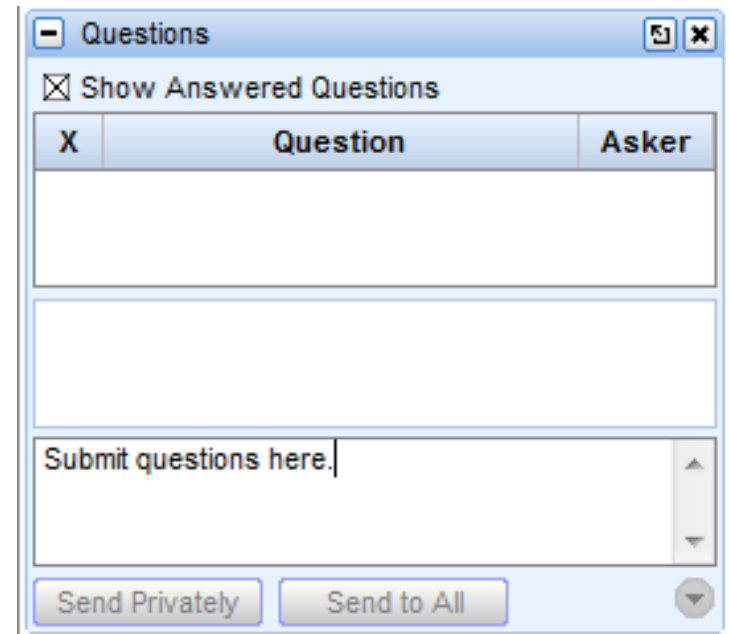
Before we get started...

- *Phones will be on mute*

- *Ask questions using your GotoWebinar panel*

- *Webinar recording will be available*

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About the Presenters

- ## Mike Beard, PMP CLP CLOP ITIL CSM

  - Managing Partner, Value Based Project Management
  - Business Resilience & Efficiency Consulting, Assessor, Wisdom Advisor-Trainer
  - Diverse hands-on and leadership background in manufacturing, operations, technology, industrial engineering, banking/mortgage…

- ## Mo Aiken

  - Principal Advisor, Barra Gwynn Enterprises
  - Professional Services Provider – Advisor, Consultant, Trainer
  - Eclectic leader/solution provider in SW and HW design; Methodologies and Processes for: defense, physics SW, gaming, SFA, IC Capital and other industries

PMI PDUs

- This webinar is valued at 1 PDU
- The PMI category for this webinar is Category B
- VBPM follows the same quality standards in the develop and delivery of their training as an approved REP
- Feel free to use Project Insight or VBPM for your PDU submittal
- Program # is located on the title page

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What is a Risk?

- A risk is an uncertain event or condition that, if it occurs, has a <u>positive</u> or <u>negative</u> effect on an objective

- If it has happened it is a problem and not a risk

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Frameworks

- ISO 31000
- COSO
- *Control Objectives for Information and related Technology*
- *ISACA*

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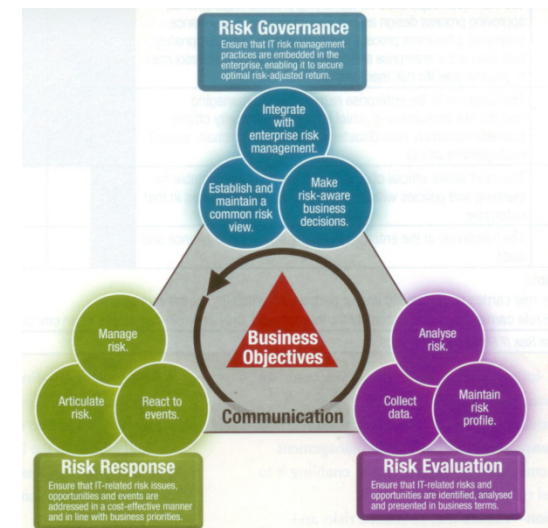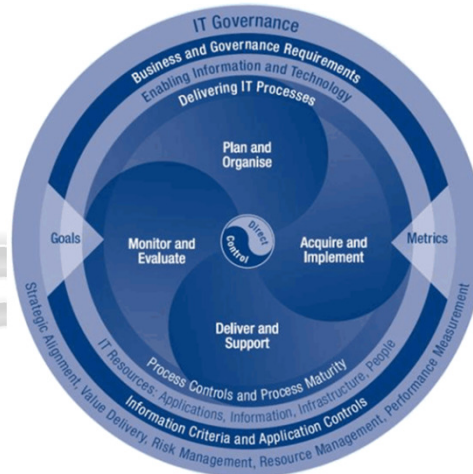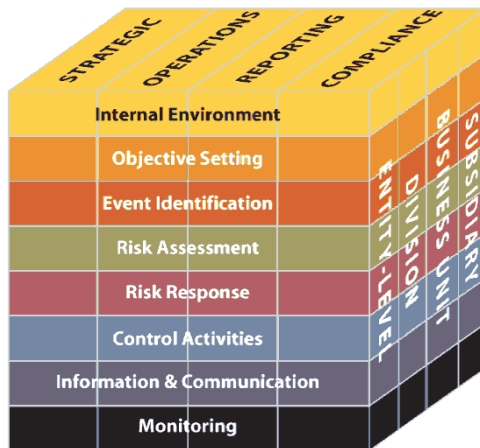
Risk-Based Auditing

- A different approach from control-based auditing
- Attitude, objective, process & methodology
- Business & operations

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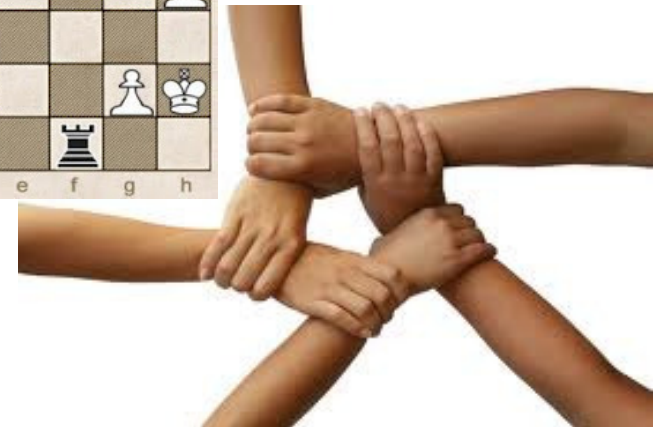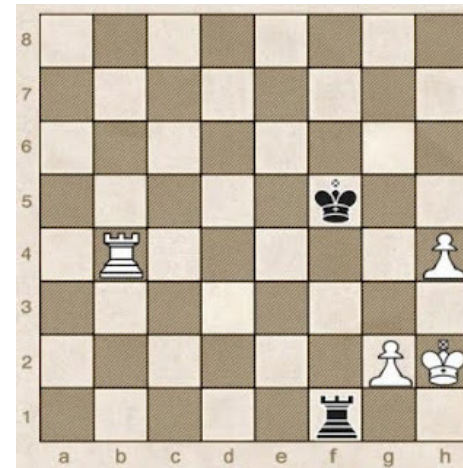
Benefits

- Assurance to board organization risk tolerance in control

- Risks understood & managed

- Improved relationship with business and operations

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Path

- ## Define the risk culture of business
  - Averse or Tolerant

- ## Documented process and criteria

- ## Identify, assess, objectively quantify

- ## Prioritize

Poll

- Does your organization have a risk management methodology from a business perspective?

- Yes

- No

- Don't know

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Leadership

- Governance

- Steering committee

- Teams

- *What is the acceptable level of risk to meet the business and operational objectives?*

Polaroid
1980s

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Visibility & Communication

- War Room ~ Visibility Room
- Daily quick assessment
- Constant focus
- Continuous feedback
- Pro-active infrastructure

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Risk Behaviors

- Decision levels
- Reasoning
- Pressure
- Experience
- Uncertainty

Rock-Paper-Scissors

Urgent

Today

Yesterday

Tomorrow

Framing

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Stimulate Conflict & Debate

- ## Point-Counterpoint
  - Red Team vs. Blue Team
- ## Role-play with diverse teams
- ## Scenario-planning (mind mapping)

Safety

Expense

Availability   Valves   **Drill more oil**

Customer position

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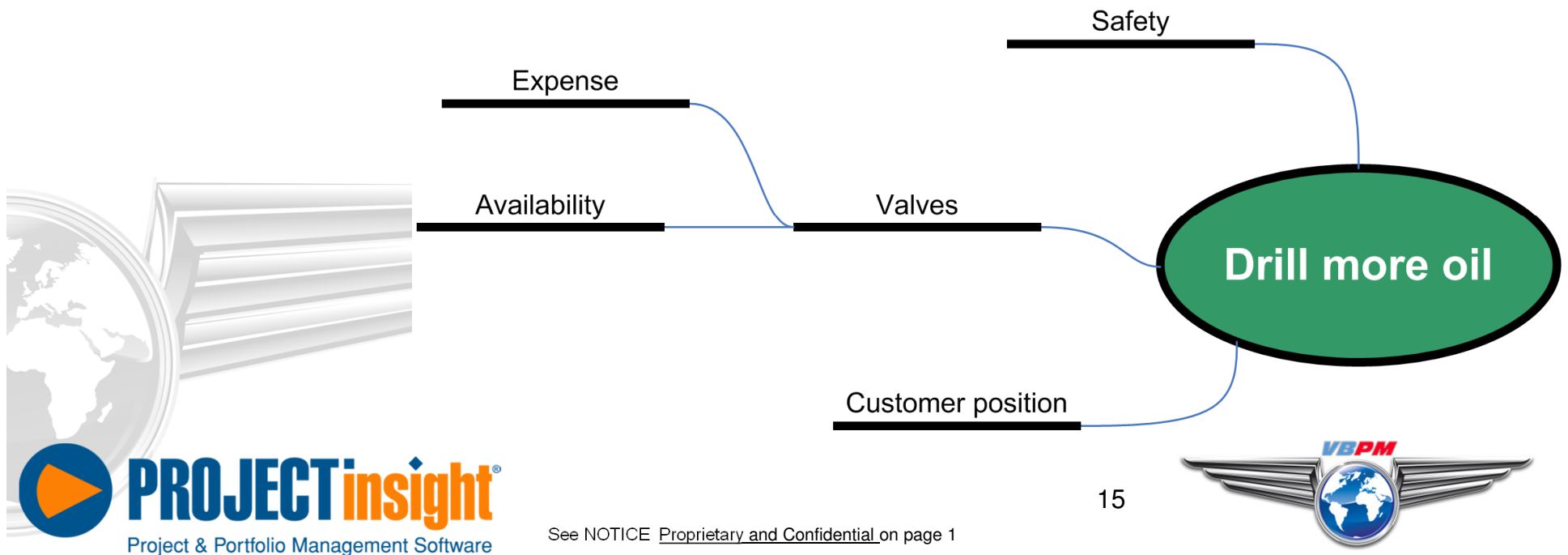
Root Cause

- Research and learn
- Talk to people closest to the problem
- Seek out optimum approach

Kaizen Event Approach

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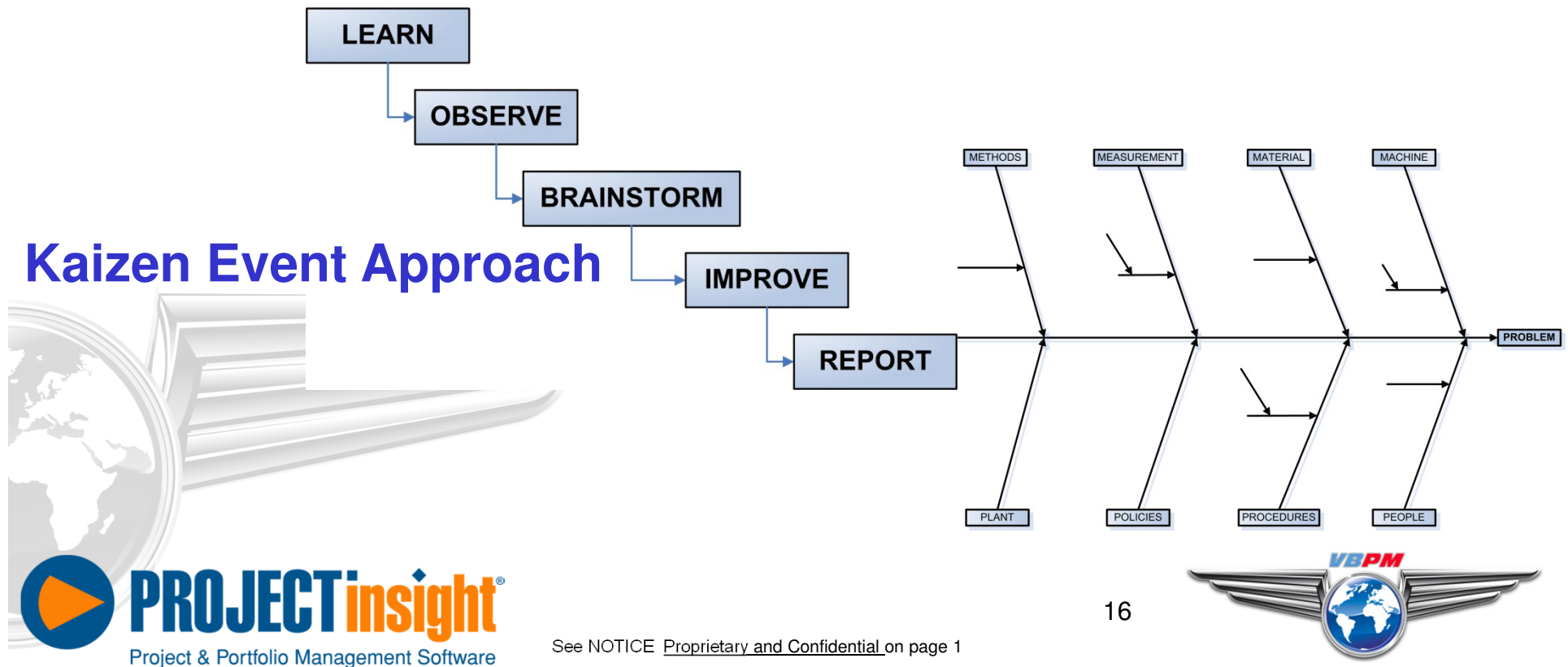
Deciding How to Decide

- Objective decision criteria
- Prevents bias
- Clear consequences

A decision is a process, <u>not</u> an event!

"Making good decisions is a critical skill at all levels."

Peter Drucker

Business Objectives

- Achieve a total integrated understanding of the business, executives & people

- Strategic plan alignment

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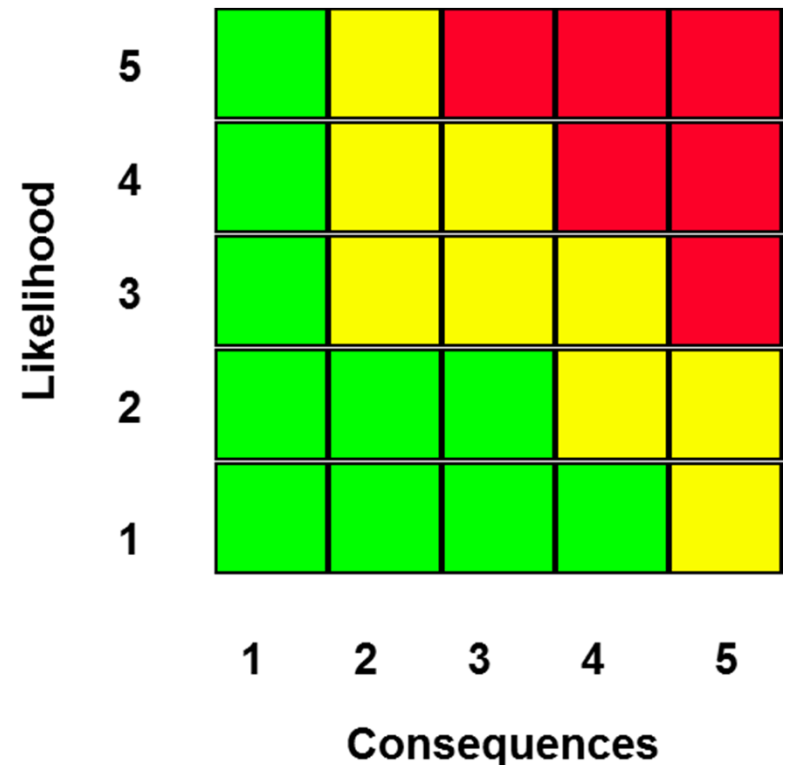
Poll

- Does your organization have an objective prioritization of risks with clear definitions and criteria in words?

- Yes

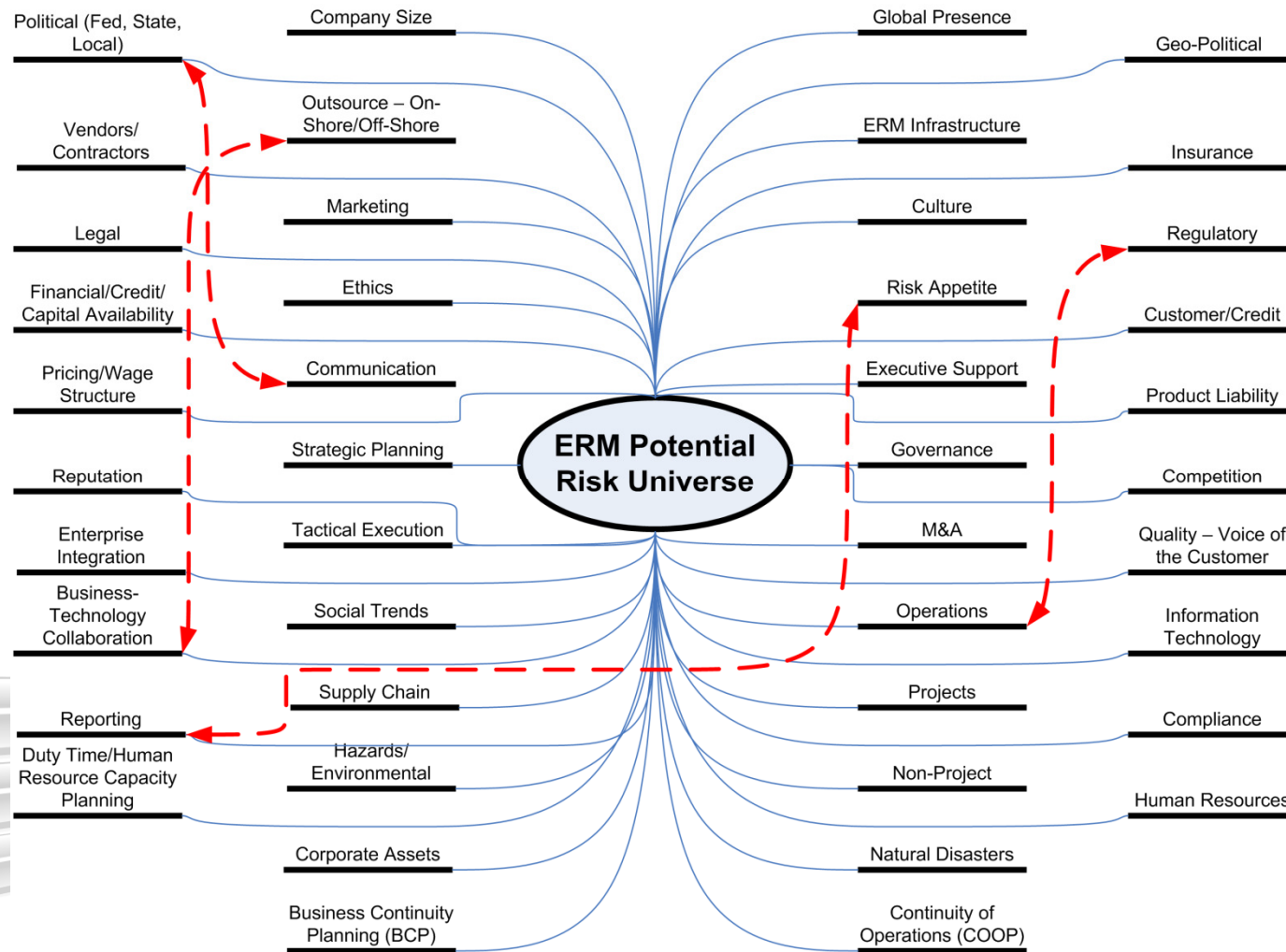- No

- Don't know

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Risk Universe & Convergence

ERM Potential Risk Universe

Political (Fed, State, Local) · Company Size · Global Presence · Geo-Political · Vendors/Contractors · Outsource – On-Shore/Off-Shore · ERM Infrastructure · Insurance · Legal · Marketing · Culture · Regulatory · Financial/Credit/Capital Availability · Ethics · Risk Appetite · Customer/Credit · Pricing/Wage Structure · Communication · Executive Support · Product Liability · Reputation · Strategic Planning · Governance · Competition · Enterprise Integration · Tactical Execution · M&A · Quality – Voice of the Customer · Business-Technology Collaboration · Social Trends · Operations · Information Technology · Reporting · Supply Chain · Projects · Compliance · Duty Time/Human Resource Capacity Planning · Hazards/Environmental · Non-Project · Human Resources · Corporate Assets · Natural Disasters · Business Continuity Planning (BCP) · Continuity of Operations (COOP)

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VBPM

Analyze

- Perform an analysis of all risks

- Validate with risk owners

- Assess converging risks

- Validate actions on risks above threshold

Risk Analysis

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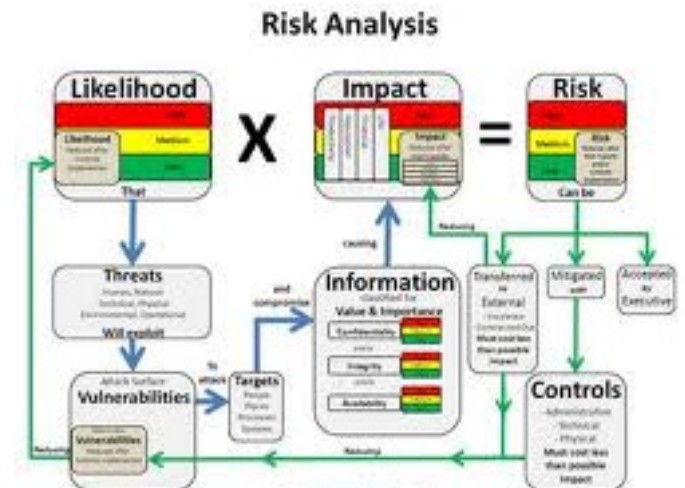
Residual Risk

- *What is the appropriate level of Residual Risk in the organization to allow the business and operations to meet the strategic objectives?*

- *What level of monitoring & control is required to ensure residual risk does not impact other areas?*
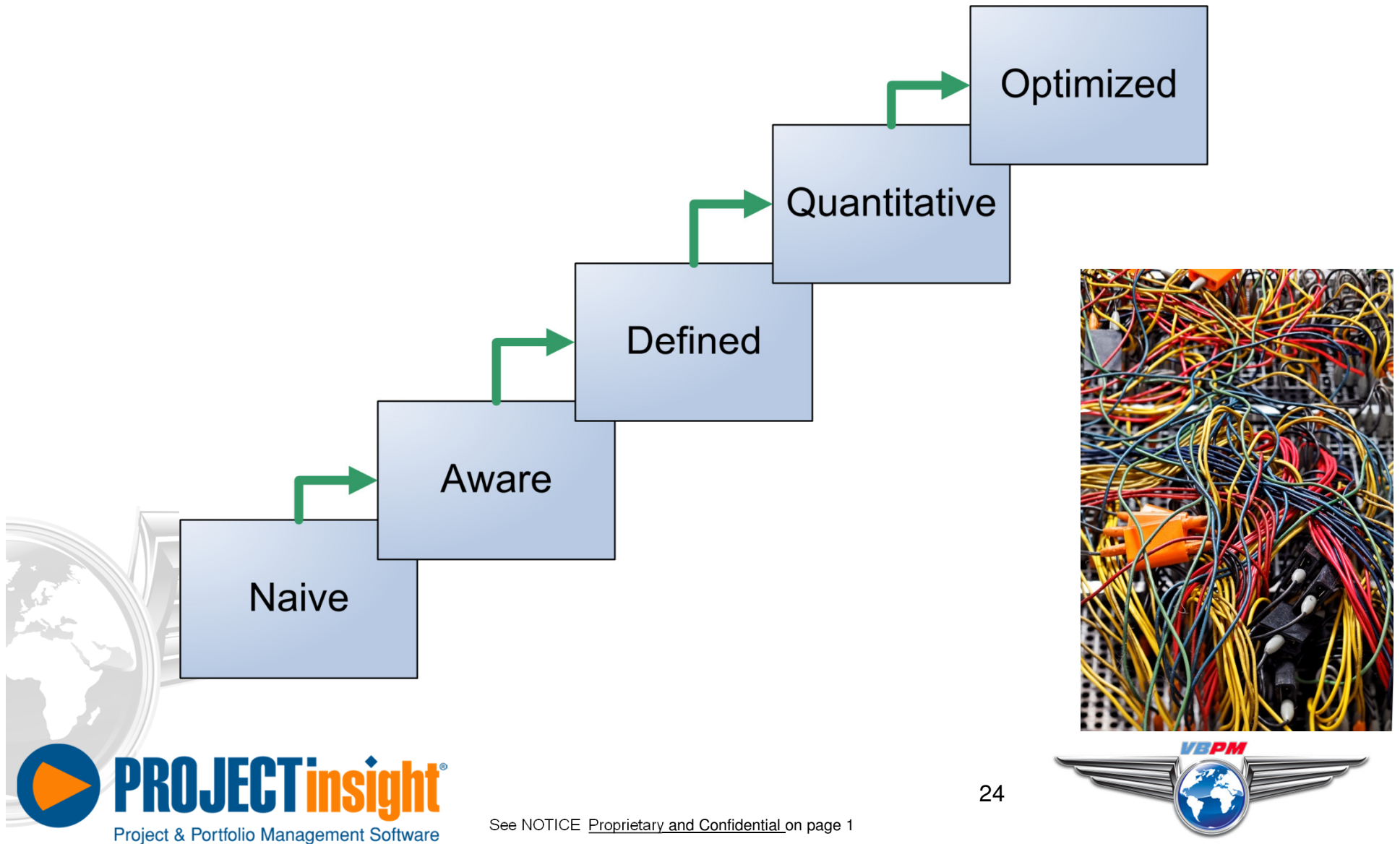
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Black Swan

- *Are you prepared for a Black Swan event?*
- *Are you looking at the outliers?*

Maturity Profile

Naive → Aware → Defined → Quantitative → Optimized
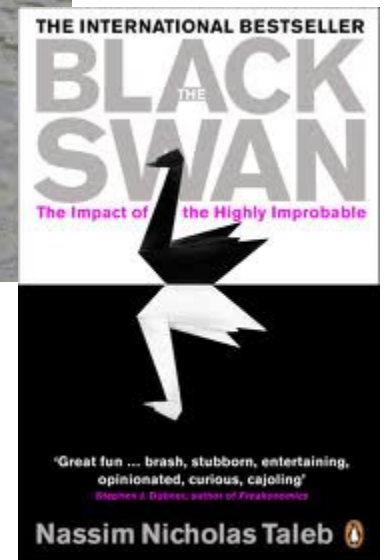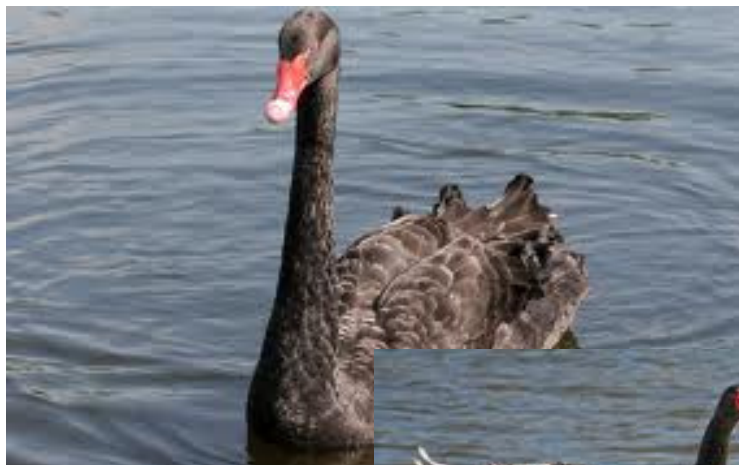
Maturity Profile

- *Where are you now?*
- *Which direction do you need to go?*
- *What is the cost/benefit analysis?*
- *How will you get there?*

Change

> *"It is not necessary to change. Survival is not mandatory."*

W. Edwards Deming

Summary – Risk-Based Auditing...

- Simple but it does take time and work
- Needs to reflect unique environment
- May be a culture change in some organizations
- Requires an integrated systems thinking approach

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VBPM

Training & Speaking Availability

- VBPM and/or Barra Gwynn are available for training or speaking at your organization

- Contact Mike Beard
  - mikebeard@vbpm.org
  - 714-357-6766

**Los Angeles Police Department
Risk Based Auditing**

**PMI-OC
Future of Project Management**

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