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Round table 1

Risk management : concepts and issues

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Summary

- Introduction
- Defining concepts
- Approach to setting up a risk management system
- Positioning of internal control in relation to other control professions
- Challenges of risk management
- Conclusion

Introduction

The management of public and private organisations has always been based on a major pillar namely the production of reliable accounting and financial information.

In recent decades, the financial scandals that have shaken the world of finance have led to the establishment and strengthening of the internal control and internal audit system within private and public organisations, the objective being to achieve a better control of the risks

Thus we went from internal control to the control of risks, the concepts and the issues behind them need to be clarified.

Defining concepts

According to the definition most often used at the international level, internal control is the set of devices chosen by management and implemented by managers at all levels to control the operation of their activities.

The COSO (Committee of Sponsoring Organisations of the Treadway Commission) defines internal control as a process implemented by the top management, hierarchy and staff of an organisation, and intended to provide reasonable assurance as to the achievement of objectives falling into the following categories: (Committee of Sponsorising Organisations of the Treadway Commission):

- **Realisation and optimisation of operations**
- **Reliability of financial information**
- **Compliance with applicable laws and regulations**

Defining concepts

Internal Control: a daily, permanent and evolving system.

As the standards indicate, the objectives of a public entity can be grouped into four categories:

- Compliance with laws, regulations and internal procedures
- The effectiveness and efficiency of management;
- The reliability of internal and external information;
- Safeguarding the heritage.

All the ambiguity about the notion of internal control comes from the difficulties of its translation into French.

Indeed, the English term **Internal Control** first refers to the notion of management control and by extension to the control of management

Defining concepts

The main objective of Internal Control is **to offer managers an effective tool to help them control the risks** that weigh on their business, and thus help them achieve their objectives.

In the public financial management environment, these objectives are fundamentally of two concerns:

- on the one hand the concerns of compliance with regulations, in particular as regards financial, accounting and tax procedures;
- on the other hand, performance concerns that revolve around performance management (Results-Based Management).

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Defining concepts

Implementing an internal control approach is a real opportunity for managers to improve the functioning and performance of their structures.

It implies **a reflection on the strengths but also on the weak points of the organisation and the procedures implemented within the entity**.

All personnel, from the top management to the operational practitioners, **must be involved, that is to say, be involved in the process.**

Managers decide on the arrangements to be put in place, they can delegate operational management to a department particularly concerned by the approach or set up **an ad hoc steering committee**, particularly during the design and implementation phase of the project.

Other staff implement control activities, ie risk coverage measures.

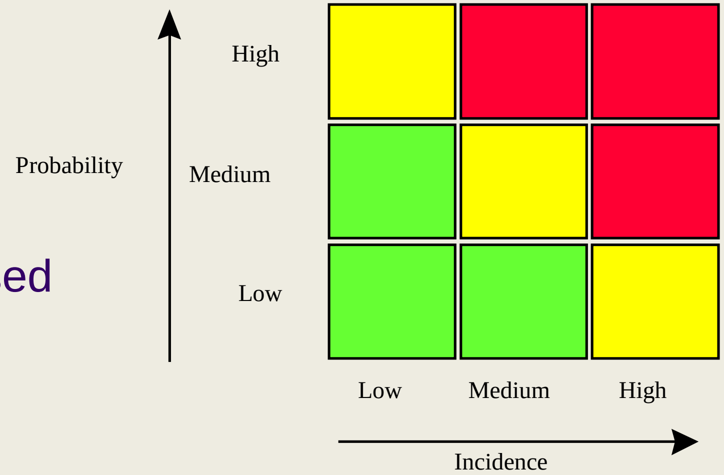
Internal Control Implementation Process

Defining risk:

- A risk is defined as any event, action or inaction likely to prevent an organization from achieving its objectives

Risk assessment according to:

- The probability that the risk is realised
- The impact that this risk could have if it materialised



A major risk is:

- A risk assessed as high (probability & impact in red zone)
- or a risk that is unacceptable to the company with respect to the safety of property and people or the survival of the business
- These include, for example, accidents at work which, given the controls in place, have not been assessed as high risk but are nonetheless considered unacceptable.

Defining concepts

TYPOLOGY OF MAJOR RISKS WITHIN AN ORGANISATION

Organisational Risks

Risk factors

- Dilution of responsibilities
- Insufficient formalisation of attributions
- Absence of delegations and authorisations
- Absence (insufficiency) of organised internal control
- Absence of objectives policy
- Insufficient data restitutions
- Absence (insufficiency) of documentary policy
- Absence (insufficiency) of human resources management, in terms of information and training
- Lack of control of complex operations

Defining concepts

TYPOLOGY OF MAJOR RISKS WITHIN AN ORGANISATION

Risks factors

Operational risks

- Non-respect of budgetary rules
- Non respect of the rules of the public order
- Insufficient coordination in receiving goods and services (mutual control)
- Inadequate inventory management
- Insufficient traceability of operations
- Absence of accounting sincerity
- Late registration of transactions
- Regular non-adjustment of accounts
- Fragility of the conservation of the vouchers

Defining concepts

TYPOLOGY OF MAJOR RISKS WITHIN AN ORGANISATION

Risks factors

Risks related to change

- External factors (evolution of the role of the partners involved in the procedures ...)
- Legislative or regulatory changes
- Introduction of new technologies (evolution of the information system ...)
- Internal factors (recruitments, departures ...)

Approach to setting up a risk management system (accounting)

The process involves several stages:

⇨**identify and prioritiSe accounting risks:**

- define the accounting function through a mapping of processes
- according to an accounting quality objective, draw up a risk map in a multi-year action plan to control these risks

⇨**strengthen the internal control system:**

- organize the accounting function: assignment and segregation of duties, alternation and supervision, control points (control plan ...)
- document the organization, procedures and risks
- guarantee an audit trail by a perfect traceability of actors and operations

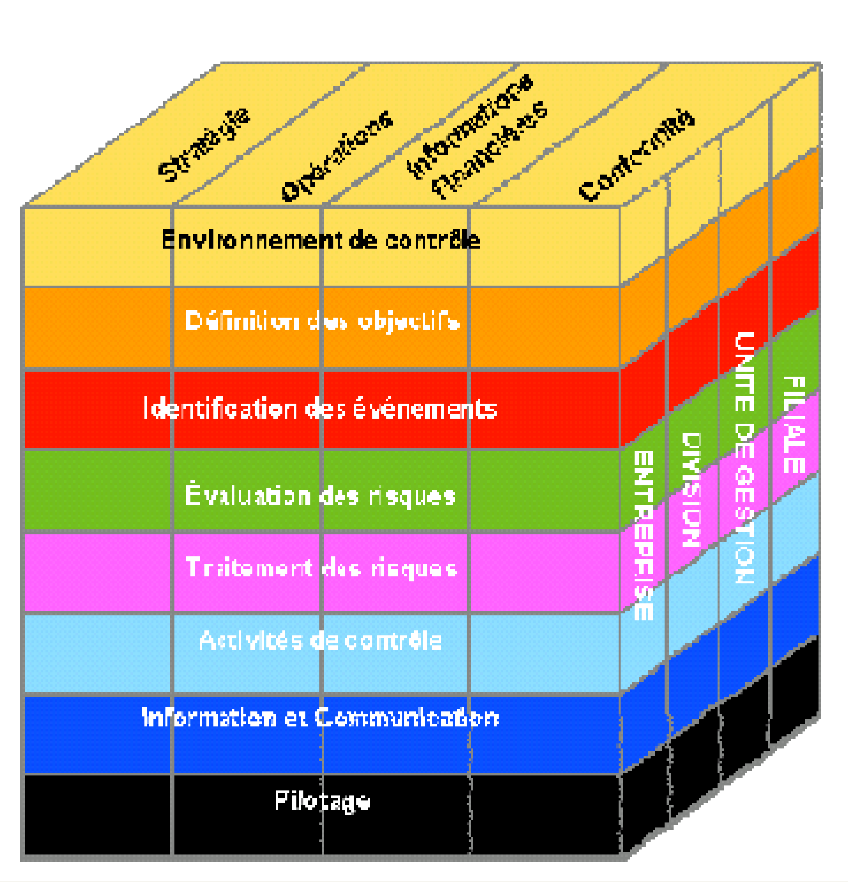
⇨ **evaluate internal control:**

- diagnose processes by actors in the accounting function
- audit by actors outside the accounting function (internal or external auditors)
- report on the results of the assessments to enrich the risk mapping.

Approach to setting up a risk management system (accounting)

Approach to setting up a risk management system (COSO model)

- The four main categories of strategic, operational, reporting and compliance objectives are represented by the columns
- The eight elements of risk management represented by the lines
- The units of the organization represented by the third dimension



Approach to setting up a risk management system (accounting function)

The device is based on 3 operational levers :

- **Lever 1: Organising the accounting and financial function**
- **Lever 2: Document the organisation, procedures and risks**
- **Lever 3: Tracing actors and accounting and financial operations**

To the extent that he is responsible for his objectives, **the top manager** is **clearly identified as the head of internal control of his organisation**. He has to to draw up his internal control policy at the level of the work units that depend on him hierarchically and functionally.

A risk management system, however, should not be a heavy and complex device. Control does not necessarily mean more control: it can even help to reduce controls.

Positioning of internal control in relation to other control professions

Internal control, management control and internal audit coexist within organisations. These approaches are distinct, with, however, more or less important areas of overlap:

- Logic of processes (transversality and interactions);
- responsibility of the hierarchy (impulse and control);
- definition of dedicated actors and overall approach;
- evaluation and monitoring of non-quality criteria.

They are complementary and mutually reinforcing, forming a coherent whole in the service of management quality, management and performance.

Positioning of internal control in relation to other control professions

	Internal control	Management control	Internal audit
who	**All employees,** each at his level.	**Service manager**, who can be assisted by a management controller placed with him.	**Actors dedicated to** the approach and strictly distinct from the actors in charge of internal control and management control.
where	**At the finest operational level,** under the overall supervision of the head of the unit.	**From the hierarchical level** where performance objectives are set.	**At the lowest operational level** where the objectives are set.
when	**Permanently and in real time,** by integration with the normal workflow.	**Periodic review,** by the head of the entity according to the rhythm of the reports and the calendar of the management dialogue.	**Periodic device intervening** according to a multiannual programming.

Positioning of internal control in relation to other control professions

how

Internal control	Management control	Internal audit
Device integrated in management processes consisting of: - The analysis of process risks according to the objectives assigned - Analysis of the processes implemented. - The definition of a production repository, specifying the requirements to be met (in normal and degraded situations). - Description of tasks, procedures and responsibilities (in normal and degraded situations) - The definition of control points and process evaluation methods. - Traceability of actors and operations.	Triptych based on: - The maintenance of dashboards, fed by a well-documented information system (s), ensuring the traceability of the information produced, highlighting the gaps between achievements and objectives, and accessible to the different levels of responsibility of management. - The analysis by the managers of the causes of the performance gaps and the corrective measures taken. - The management dialogue between levels of responsibility on these results and the effectiveness of performance management.	Specific method for internal audit services based on: - The independence and objectivity with respect to the audited entity (and as a corollary, the non-interference of the auditor in the current management). - The analysis of the procedures implemented and the objectives achieved according to appropriate audit methods (interview, questionnaires, contradictory exchanges, verification and tests). - The delivery of a report at the end of the mission, and in case of dysfunction, an analysis of the causes in order to lead to recommendations for improvement.

Challenges of implementing the risk management approach

The process of implementing risk management at the level of the State's accounting function responds to a number of issues:

- **Reliability of the quality of public accounts (certification of the general account of the State by the jurisdiction of the accounts);**
- **Know the wealth and the financial situation of the State: knowledge of assets and liabilities, sincerity of the result (essential information given to readers and users of financial statements);**
- **Improve the business climate;**
- **Ensuring the transparency of the public accounts: the notes provide additional explanatory elements;**
- **Promote a better rating of the State by the dedicated institutions and guarantee its credibility.**

CONCLUSION

Risk management is part of a comprehensive, integrated and progressive approach to improve the quality of the organiSation's accounting and financial information **for the purpose of information, valuation and transparency**.

It is a device that infuses across all layers of the organiSation and **provides reasonable assurance that risks are under control**

THANK YOU FOR YOUR ATTENTION