

RISK MANAGEMENT

Consolidating Risk Groups

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Traditionally, many multinational companies maintain separate internal audit and regulatory compliance departments in each country they operate. These groups often operate autonomously from their global head offices and develop their own plans based on the specific risks identified at their locations.

Domestically, organizations of course also face both federal and local audit and compliance issues, and many public companies allocate another team altogether to document and test financial statement risks and controls solely for Sarbanes-Oxley (SOX) reporting. This existing operational risk program can result in significant inefficiencies and missed opportunities to improve audit, compliance and overall organizational effectiveness. In one company, for instance, the payroll process was audited three times: once by audit, again by the regulatory compliance group and a third time for SOX reporting.

To help prevent this type of redundancy and inefficiency, many multinational companies are now moving toward a singular operational risk management plan for both domestic and international locations. Operational risk management activities can then be strategically integrated across international locations and mitigation of operational and financial risk can become more process-oriented than location-oriented. A single operational audit plan also allows for rapid adjustments, which are often needed to address rapidly changing risks.

Those seeking to make this a reality will need to consider many key factors, chiefly organizational structure, reporting lines, cross-functional teaming and the use of technology. In the beginning, integration must start by creating one organizational entity and developing a consolidated operational risk audit plan. By consolidating into a single group, the focus shifts to helping the organization meet its overall business objectives, not just those within a single location or discipline (e.g., compliance at the UK subsidiary).

With one organizational entity, management is also able to resolve issues in a more timely manner. Currently, management may receive three or four separate reports from the different operational risk groups related to the same department. One consolidated report will also ensure that changes to controls to mitigate a risk in one area do not cause a weakness in another.

The new head of this consolidated operational risk group should report to the organization-wide audit committee with a dotted line report to a senior executive, preferably the chief executive officer. Similar to the existing internal audit group and regulatory compliance

groups, the new entity must be set up so that it can easily maintain its objectivity and independence from the operations of the company.

In addition to integrating all operational risk management groups, there should be a shift to creating annual audit plans based on process versus location. The process plan recognizes that many companies have now shifted key elements of their processes across departments and country borders. To best identify risk and controls, an integrated end-to-end process review is more efficient and effective. Many risks arise at the handoffs between these departments and they are often overlooked when auditing as discrete units. For processes that are located in multiple locations (e.g., procure-to-pay), a coordinated review of all locations will also help identify areas where enhanced consistency may improve operational effectiveness.

When it comes to technology, there are many software options to choose from to aid implementation and monitoring. Most are web-based, allowing accessibility from all company locations, and available in numerous languages. The best packages allow the auditor to link risks to multiple functional audits and locations (a "many-to-many" relationship) and should facilitate a consolidated repository for audit findings. More companies are choosing to leverage their existing enterprise resource planning (ERP) software to automate high-risk processes. As the integrated operational risk teams work together, they will identify additional opportunities to leverage the ERP systems.

Realistically, a fully integrated risk management program will likely take several years to achieve. Just because it takes a concerted, disciplined effort, however, should not dissuade what is the best course for most all risk management departments. The outcome will be an operational risk organization that functions with greater operating efficiency and effectiveness and this in and of itself will enable the group to better assist the organization meet its business objectives. And ultimately, that is risk management's role.

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