The Institute of Internal Auditors

Risk Management Readings

INTRODUCTION

The following list of risk-related articles, books, and other publications has been compiled to assist internal auditors and their organizations in monitoring, evaluating, and improving the effectiveness of risk management systems and processes. The list is not intended to be all-inclusive or to represent all available resources and publications on risk management; rather, it is merely provided as a summary of some of the literature in the field. Internal auditors are encouraged to evaluate risk management information from a wide variety of sources, to ensure that they can effectively add value to their organizations through monitoring and evaluating the effectiveness of their organizations' risk management systems.

BIBLIOGRAPHY


In this unique exploration of the role of risk in our society, Peter Bernstein argues that the notion of bringing risk under control is one of the central ideas that distinguish modern times from the distant past. Against the Gods chronicles the remarkable intellectual adventure that liberated humanity from oracles and soothsayers by means of the powerful tools of risk management that are available to us today.


A "how-to" tool kit that identifies the easiest, most effective risk assessment processes in use for most common audit situations. This kit can be easily tailored to meet specific needs. In addition to adhering to the Standards, it includes specific step-by-step instructions and forms for assessing risk within the individual audit and for audit management to use in assessing risk in the annual audit planning process. Sections include introductory information; the three-step process of assessing risk, implementing Standards 410 and 520; and tools and forms for documenting and reporting risk assessment. Appendices include the Standards for the Professional Practice of Internal Auditing, a glossary of risk terms, and suggested readings. Master copies of forms and spreadsheets are provided on diskettes in Lotus 2.1 for DOS and Excel 5.0 for Windows™. Worksheets are included, without graphics, in ASCII.


This source is a good place to start for individuals who are just beginning a study of the
subject of risk management. It was written for independent accountants to enable them to develop and offer a new kind of assurance service.


Offering both the internal auditor and the general business reader a comprehensive introduction to the topic of risk management, this book has long been a hit at risk management seminars and is one of the reference materials used in preparation for the CCSA exam. Author McNameee discusses strategic, project, and operational risk management from a manager's point of view and identifies the core principle of risk management: managers putting assets at risk to achieve objectives. He points out that controls (in the form of an accurate means to measure, assess, and prioritize risk) are a crucial factor in an organization's future success. Promoting risk management practices that provide an accurate lens on the future, the book uses an approach to business-risk modeling that has proven effective for both strategic planning and the annual audit planning process. It provides steps for strategic, project, and operational risk assessment; methods for identifying, measuring, and prioritizing risk; and models for risk assessment that produce the most credible, timely, and cost-effective results. The book tackles implementation issues by providing a risk management self-assessment questionnaire that involves all entities of the organization in the process. This leads to organizationwide risk management controls that result in the efficient and effective response to the rapidly changing conditions of the emerging global market.


This report describes a conceptual framework to aid in developing an enterprise risk management system. It asserts that no single methodology exists for a system. Each organization's approach to risk, risk tolerance, and management structure and processes is linked to its own unique objectives and strategies. The report states, however, that there are certain elements constituting a broad conceptual framework. The document has examples drawn from leading firms that have risk management systems in place.


This book contains 30 articles organized around four themes: the theory of corporate risk management, the practice of corporate risk management, evidence on corporate risk management, and case studies in corporate risk management. The articles represent a wide range of views and approaches to financial risk management for nonfinancial corporations.


This article discusses the risk management practices of four companies that participate in Asian markets. Political unrest, cultural differences, currency hedging, and the Y2K computer issue are all addressed by the author. Despite recent problems encountered in Asia, the author concludes that all companies surveyed still believe that doing business in
Asia is a good risk. The article also discusses Asian risk management strategies and contains many examples.


This document presents the heart of a risk management framework. It states that risk is seeking the upside of opportunities while managing the downside of threats and hazards. It sets out the concept of a firm's risk profile where risk is divided into three components: risk as uncertainty, risk as opportunity, and risk as hazards. It also examines management's response to the risks identified and assessed.


This is a comprehensive book on enterprise-wide risk management authored by a partner of Arthur Andersen, who also co-authored the 1995 study, Managing Business Risk: An Integrated Approach, published by the Economist Intelligence Unit. The stepping stones in the model presented in this book include adopting a common risk language; establishing goals, objectives, and oversight; assessing risk and developing strategies; designing and implementing capabilities; continuous improvement; aggregate multiple risk measures; links to enterprise performance; and formulating an enterprise-wide risk strategy.


This document was developed to provide guidance to banks, securities houses, and other financial institutions engaged in "dealing," as to the features of good risk management practice and proper internal control. It seeks to distill and codify major principles developed from guidance issues by regulators, practitioners, and other advisers, so as to establish a comprehensive framework consisting of 89 core principles, with accompanying explanations such as risk management strategy, risk management function, risk measurement, reporting and control, operations, and risk management systems.


This article identifies the negative impact that success may have on management's concern about risk. The author created a "risk exposure calculator" that allows managers to calculate their internal risk exposure based on certain pressure points within their organizations. The author also created a "levers of control" model that allows managers to align the existing controls in the company with the business strategy. The author stresses the importance of maintaining traditional internal controls within the company.


This article focuses on managing risks using a three-part definition of risk, requiring managers to evaluate risk as both opportunity and uncertainty, in addition to evaluating
risk as a hazard. The authors created a Business Risk Continuum that is included in the article to illustrate how different functional areas and employees can contribute to the risk management process under the three-part definition of risk. The authors conclude that an integrated approach to risk management will allow companies to obtain the best results.


This document has helped to spark thought and discussion that will lead to better understanding of the nature of risk and of the process of risk identification and assessment. It does not address the measurement of risk, or the various strategies for mitigating risk, such as avoidance, mitigation, or transfer. It is aimed at a broad audience that includes chartered accountants, governing board members, standard-setting bodies, and anyone interested in learning about risk.


This report is based on research that began with the hypotheses that businesses realize the complexity of the risks they face and are searching for a more comprehensive approach to managing risk.

"Managing Risk" (Professional Briefing Note 13), Institute of Internal Auditors - UK and Ireland, 1998, http://www.iaa.org.uk/

This 51-page professional briefing note has proved to be a very popular exposition of the subject covering its nature, relevance to corporate governance, its management, and the interfaces with internal audit.


This article examines changes in risk management techniques that were used by many large U.S. corporations at that time. The creation of a high-level risk manager, declining use of complex derivatives, restructuring of foreign exchange risk, and promoting a risk-sensitive corporate culture were identified as major changes in the risk management arena. Several individuals are highlighted in the article for their innovative approaches to risk management within their companies.


This steering group published a paper on "Financial Report of Risk: Proposals for a Statement of Business Risk" in December 1997, which showed that listed companies already report much information about risk. This report is useful for understanding the various facets of risk and for viewing how companies are employing risk management practices.

Operational Risk - The Next Frontier, Risk Management Association, 2000,
http://www.pricewaterhousecoopers.com/

This study, which was undertaken for the British Bankers Association, the International Swaps and Derivatives Association, and the Association of Lending and Credit Risks Professionals, is based on a survey of 55 financial institutions. While financial institutions have focused considerably on credit and market risks, operational risk as a separate discipline has received attention primarily during the past three years. This study excludes business risk such as competitive positioning, economic cycles, changes in market profit margins, and restructuring of a market. The study indicates that methodologies are evolving to quantify operational risk capital.


This book focuses on operational risks for financial institutions only. Note that it also covers credit risk, market risk, etc. The author presents an overall framework of risk and shows how operational risk fits into the framework. The book includes topics such as operational risk management, aggregating operational risk information, integrated risk framework, minimizing operational risk, retail banking, analysis of losses and processing errors, and securities fraud.


This booklet is a brief, general overview of risk assessment, ensuring actions, and monitoring systems. An appendix provides a business risk framework sketched in succinct descriptions that are grouped under the four categories of risk--strategic, operating, financial, and information. The opening pages posit that broad changes introduce new opportunities and carry business risks. Three phenomena--increase in globalization, increase in intangible assets (e.g. intellectual property), and emergence of the virtual organization--are examined from the viewpoint of these new opportunities and the kinds of new risks they present.


This report uses the Arthur Andersen Business Risk Model to illustrate how information technology sits at the heart of the risk model framework. The report covers a study of firms in North America, Europe and Asia and interviews of 50 senior executives. The objectives are to identify the types of business risk related to information technology; to understand how firms are identifying and managing technology-related business risks; and to describe best practices for managing information technology risks.


This document is a guide to establishing a risk management system based on the AS/NZS 4360 Risk Management Standard. The book provides generic guidance for the establishment and implementation of risk management processes in any organization. It
demonstrates how to establish the proper context, and then how to identify, analyze, evaluate, treat, communicate, and monitor ongoing risk. The book provides an introduction to risk management processes. It also provides guidance and advice on how an organization can implement an effective risk-management program based on the standard.


Examining the entire business process through the lens of risk, authors Selim and McNamee depict risk-based auditing as a crossroads for the profession. "Focusing on controls over transactions buried the internal auditor in details of the past, limiting the value of any information derived," they write. "By focusing on risks to present and future transactions, the auditor is working at a level above details and dealing with the obstacles for organizational success." The research report looks at the various impacts risk management has had on the profession and some of the strategies now in use, such as macro- and micro-risk assessment and scenario planning for fraud and deception, employee theft, burglary, and unlawful duplication. The report also examines the future impact of risk management on the structure of internal audit as it links with managerial and strategic elements in achieving goals.


This moderately technical article explores the use of an enterprise risk management approach in several pioneer companies. The author defines enterprise risk management as combination of the traditional insurable risks with other exposures such as financial commodity, legal, and environmental risks. The author also explains how a natural hedge is created when these unrelated risks are combined into a basket of risks. He also presents a step-by-step process for enterprise risk management.


This article is the result of a survey of board members of 17 companies in the United Kingdom. Those surveyed were asked to provide insights into the current economic downturn and how their company copes with the uncertainties that surround the downturn. The article is not technically challenging.

OTHER REFERENCES AND SUGGESTED READINGS

Articles


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RISK MANAGEMENT GLOSSARY