

The 2014 International Conference on Agro-industry (ICoA): Competitive and sustainable Agro-industry for Human Welfare

New Paradigm of Managing Risks: Risk and Control Self-Assessment

Deddy Jacobus*

Risk Workshop International, Jakarta, Indonesia

Abstract

The implementation of enterprise risk management (ERM) has been widely discussed among contemporary corporate boards and executives. Within the ERM framework, an entity is expected to make a paradigm shift of managing its risk, from that of silo or partial to a more integrative approach where all employees are involved in the process. At the core of this ERM implementation is the utilization of Control Self-Assessment (CSA) both as a process and a method to engage management and employees in identifying, analysing and mitigating risks.

© 2015 The Authors. Published by Elsevier B.V. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Peer-review under responsibility of Jurusan Teknologi Industri Pertanian, Fakultas Teknologi Pertanian, Universitas Gadjah Mada

Keywords: enterprise risk management; risk and control self-assessment

1. Background

The increase of financial scandals and corporate crisis during 1990s and 2000s, has contributed to the growing need for a new paradigm of internal control and risk management. (Kajuter et al., 2008). The need is understood by COSO (the Committee of the Sponsoring Organizations of the Tradeway Commission), which in 2001 initiated a project to develop new framework for risk management. The framework is now known as the *Enterprise Risk Management – Integrated Framework* (COSO 2004) which has been widely adopted by many corporations across the globe (Woods, 2008).

COSO 2004 adds three new components into COSO 1992, the famous internal control integrated framework

* Corresponding author. Tel.: +62-81213121968
E-mail address: deddy@rwi.co.id

as follows: Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring. The three new components are: Objective Setting, Event Identification and Risk Response. This paradigm shift extends the definition of risk as well as to give a new emphasis to risk management as a strategic tool for quality decision making (Deloitte & Touche, 2007).

COSO (COSO, 2004:h2) defines ERM as:

a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

At the heart of this new paradigm is the adoption of *Risk and Control Self Assessment* or *Control Self Assessment/CSA* (Beretta & Bozzolan, 2008).

2. The New Paradigm

The critics of the old paradigm of risk management can be found in among others in the research of Financial Executive Research Foundation in 1980 (White, 1980). This research criticized the effectiveness of the *command and control* model with *rigid assignment of predefined duties and specific objectives* as well as *close supervision and direct control*. This model is viewed as illusive as if that senior management is the only actor that has the capacity to learn and capability to utilize their experience in address corporate issues (Johnson, 1992). Meanwhile various contemporary researches have proved that there are positive correlations between organizational success and the employee involvement (Senge, 1995; Nonaka, 1994; Nonaka & Takeuchi, 1995).

Control Self-Assessment (CSA) is considered as more in line with this development as it drives the growth of *risk and control ownership* among the employees (Kornbluh et al., 1987; Johnson, 1992; Belasco & Sayer, 1995). CSA is a process and method used by management and employees to make a periodic analysis of risk and controls and followed by a series of actions plan to improve risk management and internal control (Hubbard, 2000; Kincaid et al., 2007; Jordan, 1995; IIA-UK, 1995–1997; Wade and Wynne, 1999). The emphasis of CSA is on the decision making through *cooperation* and *participation* between management and employees of an entity (Hubbard, 2000; Kincaid et al., 2007).

CSA includes an important education element that helps line staff better understand risk and control issues as they can often be directly related by the facilitator to the work performed. These "living examples" are powerful communication and reaching opportunities. CSA improves communication at all levels since workshops can include multiple locations, departments, functions, and levels of personnel (Tritler et al., 1996: hal. 9-31). A successful implementation of CSA fosters partnerships between management, staff and auditors. Staff will have an "ownership" of the control structure since they are involved in design and assessment. CSA teaches participants to analyze and report on internal control, thus helping to increase the control consciousness of the entire organization (Kincaid et al., 2007).

It is important to remember that CSA is not exclusively a "risk management or audit tool." Other area such as human resources can make valuable use of CSA techniques and methodologies in their area. It should ultimately be viewed as a corporate tool that helps line employees at all levels better understand and assume responsibility and accountability (Kincaid et al., 2007).

3. The Process of Control Self-Assessment/CSA

The Process of CSA is emphasized on participation and cooperation between management and employees in CSA meetings. It is a process for identifying, analysing and mitigating risks through cooperative problem solving. It is designed to facilitate risks and controls discussions intra or cross departments involving both key employees and managers (Hubbard, 2000; Kincaid et al., 2007).

CSA workshop normally follows the following approach. It is started with identifying the unit business objectives and its key performance indicators since risk is defined as the effect of uncertainty on objectives (ISO 31000:2009). Next the workshop participants will do the risks assessment which according to ISO 31000:2009 Risk Management Principles and Guidelines comprises of identifying, analyzing, evaluating and planning the treatment of risks.

The participants of CSA workshops must comprise of representative of management and employees of units responsible of the process of which issues are to be discussed in the workshop, the number of them are expected to be odd, and facilitated by two staff from Risk Management or Internal Audit functions, of which one of them would in charge of facilitating the process of discussion and the other would be making minutes of meeting. The facilitators is

to preserve their independency and to ensure that workshop is not dominated by certain parties. The facilitators do not have a voice.

In order for the CSA workshop to run effectively, all participants must come with all necessary related documents. They need to comply to the workshop regulations to ensure the achievement of objectives. They need to understand clearly what is being expected from them and from the workshop, the objectives of the workshop, the time available to achieve the objectives and the challenges therein. Should there will be a voting, one man one vote principle applies and hence management does not have the authority to cancel the CSA result. Hence, an open mind, willingness to listen and to accept the voice of their staff, should be adopted by management. This is a prerequisite of the successful implementation of CSA. If the process is implemented consistently and effectively, any organization that decides to adopt CSA will start seeing a stronger ownership and higher commitment of the people towards the organization as well as the continuous improvement of the process and system of the organization.

References

- Beretta, S., & Bozzolan, S., 2008, From Internal Auditing to Enterprise Risk Management: The Case of the Telecom Italia, in *International Risk Management, Systems, Internal Control and Corporate Governance*, Margaret Woods, Peter Kajuter and Philip Linsley, Elsevier.
- Beretta, S., & Bozzolan, S., 2004, 'A Framework for the analysis of firm risk communication', *The International Journal of Accounting*, Vol. 39, 265–288.
- Committee of Sponsoring Organizations of the Treadway Commission (COSO), 1992, *Internal Control-Integrated Framework*, AICPA New York, NY.
- Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2004, *Enterprise Risk Management Integrated Framework*, AICPA New York, NY.
- Cooper, Donald R. & Schindler, Pamela S., 2008, *Business Research Methods*, 10th Edition, McGraw-Hill.
- Crouhy, M., Galai, D., & Mark, R., 2006, *The Essentials of Risk Management*, The McGraw-Hill Companies, Inc., New York.
- Cummings, T. G. & Worley, C. G., 2005, *Organizational Development and Change*, 8th Edition, Thomson.
- Dillman, D.A., 2000, *Mail and Internet Surveys: the Tailored Design Method*, New York, John Wiley.
- DiMaggio, P., 2001, *The Twenty-first Century Firm: Changing Economic Organization in International Perspective*. Princeton, NJ: Princeton University Press.
- Ford, R. & Fottler, M., 1995, Empowerment: A matter of Degree, *Academy of Management Executive*, 9(3): 21-28.
- Jordan, G., 1995, *Control self-assessment: Making the right choice*, The Institute of Internal Auditors, Florida.
- Kajuter, Peter., Linsley, Philip., & Woods, Margareth., 2008, *Risk Management, Internal Control and Corporate Governance: International Perspectives*, ICMA Publishing.
- Kincaid, James K., Sampias, William J., & Marcella, Albert J., 1999, *Certification in Control Self-Assessment*, The Institute of Internal Auditors, Florida.
- KPMG, 1999, *Internal Control: A Practical Guide*. London, October.
- Lam, James, 2004, *Enterprise Risk Management: From Incentives to Control*, John Wiley & Sons, New York.
- Light, Joel N., 2004, *The Relationship and Effects of Employee Involvement, Employee Empowerment, and Employee Satisfaction by Job-type in a Large Manufacturing Environment*, Capella University.
- McNamee, D. & Selim, G.M., 1998, *Risk Management: Changing the Internal Auditor's Paradigm*. The Institute of Internal Auditors Research Foundation, Altamonte Springs, FL.
- Melville, R., 1999, 'Control Self-Assessment in the 1990's: The UK Perspective', *International Journal of Auditing*, Vol. 3, No. 3, pp. 191–206.
- Mills, P. K. & Ungson, G. R., 2003, *Reassessing the Limits of Structural Empowerment: Organizational Constitution and Trust as Controls*, *Academy of Management Review*, Vol. 28, No. 1, 143-153.
- Mohr, R. D. & Zogh, C., 2008, *High-Involvement Work Design and Job Satisfaction*, *Industrial and Labor Relations Review*, Vol. 61, No. 3 (April), Cornell University.
- Sashkin, M., 1984, "Participative Management Is An Ethical Imperative," *Organizational Dynamics*, Spring.
- Selim, G.M. and McNamee, D., 1999, The Risk Management and Internal Auditing relationship: What Are the Essential Building Blocks for a Successful Paradigm Change? *International Journal of Auditing*, Vol. 3, No. 2, pp. 147–155.
- Tritter, R. P. & Zittman, D. S., 1996, *Control Self-Assessment: Experience, Current Thinking, and Best Practices*, The Institute of Internal Auditors Research Foundation.
- White, B. J., 1980, *Internal Control in US Corporations*. Financial Executive Research Foundation, New York.
- Woods, Margareth, 2008, *International Risk Management*, Elsevier Ltd.