

February 2011
Information Paper

Global Survey on Risk Management and Internal Control

Results, Analysis, and Proposed Next Steps

Published by the Professional Accountants in Business Committee



International Federation
of Accountants

Professional Accountants in Business Committee
International Federation of Accountants
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New York, New York 10017 USA

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- contributing to the development, adoption, and implementation of high-quality international standards and guidance;
- contributing to the development of strong professional accountancy organizations and accounting firms, and to high-quality practices by professional accountants;
- promoting the value of professional accountants worldwide; and
- speaking out on public interest issues where the accountancy profession's expertise is most relevant.

This publication was prepared by IFAC's Professional Accountants in Business (PAIB) Committee. The PAIB Committee serves IFAC member bodies and the more than one million professional accountants worldwide who work in commerce, industry, financial services, the public sector, education, and the not-for-profit sector. Its aim is to promote and contribute to the value of professional accountants in business. To achieve this objective, its activities focus on:

- Increasing awareness of the important roles professional accountants play in creating, enabling, preserving, and reporting value for organizations and their stakeholders; and
- Supporting member bodies in enhancing the competence of their members to fulfill those roles. This is achieved by facilitating the communication and sharing of good practices and ideas.

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If you have any queries, suggestions or comments about this information paper, please contact Vincent Tophoff at IFAC by email at vincenttophoff@ifac.org.

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ISBN: 978-1-60815-080-9

IFAC's Global Survey on Risk Management and Internal Control: Highlights

Through conducting this survey, the Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) sought to:

- identify the strengths and weaknesses of existing risk management and internal control systems around the globe;
- investigate the role of risk management and internal control guidelines (frameworks, standards and / or guidance); and
- determine the need for international alignment among the various national guidelines (frameworks, standards, and/or guidance) that already exist.

The results from more than 600 respondents from around the globe and from all types of organizations indicated (a) that more awareness of the benefits of implementing risk management and internal control systems should be created, and (b) that risk management and internal control systems should be better integrated into organizations' overall governance, strategy, and operations.

According to respondents, the drive to integrate risk management and internal control systems is gaining momentum, but the tools and guidance to develop and implement a genuinely integrated system do not really exist. Currently, risk management guidelines are often separate from internal control guidelines. The first step to strengthening guidance in this area, according to respondents, is to combine these separate guidelines into one integrated set. Bringing these guidelines together would help to increase the general understanding that *both* risk management and internal control are integral parts of an effective governance system.

In addition, a large majority of respondents believes that risk management and internal control requirements and guidelines should be further aligned internationally. The global economy is now largely composed of very interdependent national economies and markets. Hence, corporate governance, risk management, and internal control requirements and guidelines should be harmonized globally. As many organizations have international activities, further international alignment would benefit their operations and compliance processes, allowing for the comparison of these systems across borders and, thus, increasing investor confidence and reducing cost.

There is a clear call for collaboration among national and international standard-setting bodies and professional associations, as well as the relevant regulators, to agree on an integrated set of guidelines, common, basic principles, and aligned regulations. According to respondents, the limitations of existing guidelines are not adequately discussed, either nationally or internationally; nor is there a real discussion on international alignment of risk management and internal control guidelines.

Recommended Next Steps

According to respondents, national and international standard-setting bodies and professional associations, as well as the relevant regulators, should collaborate (a) to determine the major similarities and differences between the various guidelines, (b) to compile leading risk management and internal control practices, and (c) to consider the benefits of further integration and international alignment of regulations and guidelines in the area of governance, risk management, and internal control. They should include industry representatives, as well as other stakeholders, to better

understand the risk management and internal control processes and impacts from an implementation perspective.

Respondents would like to see these discussions lead to the establishment of an international, integrated framework that brings together the overall principles or commonalities with respect to risk management and internal control. To further international alignment, existing national guidelines could be expanded or modified—with allowances made for specific national circumstances—to meet the principles of an international framework.

Further international alignment is an ambitious and challenging goal, but the potential benefits are large. It's up to *all* those responsible for developing, implementing, using, and enforcing requirements and guidelines on risk management and internal control to work together to produce a globally recognized and accepted international framework that is relevant to all. IFAC looks forward to contributing to this collaborative effort.

IFAC welcomes your comments. Please send ideas and suggestions for further IFAC activities in this area to VincentTophoff@ifac.org.

GLOBAL SURVEY ON RISK MANAGEMENT AND INTERNAL CONTROL

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1. Introduction

The financial crisis clearly demonstrated that as economies and markets become increasingly globalized, the issues that arise in those economies and markets also need to be considered in a global context, particularly when it comes to risk. Strong risk management and internal control systems are crucial to strengthening the governance of organizations, and therefore the global financial infrastructure, and helping to prevent future crises.

In June 2010, the [Professional Accountants in Business \(PAIB\) Committee](#) of the [International Federation of Accountants](#) (IFAC), with the assistance of the [Committee of Sponsoring Organizations of the Treadway Commission](#) (COSO), launched a survey to investigate what needs to be done to strengthen risk management and internal control practices globally. The objectives of the survey were to:

- identify the strengths and weaknesses of existing risk management and internal control *systems* around the globe;
- investigate the role of risk management and internal control *guidelines* (frameworks, standards, and / or guidance); and
- determine the need for *international alignment* of the various existing national guidelines (frameworks, standards, and/or guidance).

This report analyzes the results of the survey and proposes a number of suggestions for next steps.

Project Team

This survey has been developed by IFAC's PAIB Committee with the support of COSO chairman Dave Landsittel, COSO board member professor Mark Beasley, and COSO staff member Joanna Dabrowska. The PAIB Committee welcomes your comments. You can send them to VincentTophoff@ifac.org.

Survey Methodology

The online international survey was conducted from June to August 2010 and received a very good response of 604 returned questionnaires, of which 586 were useful for analysis. Responses came from more than 80 countries and jurisdictions across the globe—an indication that risk management and internal control is an important topic within organizations. A broad range of stakeholders participated in this survey, including risk and compliance managers (29% of all respondents), CFOs/controllers (18%), internal auditors (16%), and general managers (12%).

The analysis of the survey results was conducted from the following five perspectives:

1. Analysis of the **full** results, based on all 586 useful responses.
2. Analysis from a **country/jurisdiction perspective**.
3. Analysis from a **type of organization** perspective.
4. Analysis based on the **size** of the respondent's organization:
5. Analysis based on the **geographical orientation** of the respondent's organization.

See Appendix A for a further breakdown of the types of responses.

2. Risk Management and Internal Control Systems

The questions in this part of the survey dealt with the respondents' opinions on the risk management and/or internal control systems in their organizations.

Risk management or internal control?

There are various interpretations and descriptions of risk management and internal control, including the following:¹

- Risk management is designed to (a) identify potential events that may affect the entity, and (b) help manage risk within the entity's risk appetite,² so as to provide reasonable assurance that the entity will achieve its objectives.
- Internal control supports organizations in achieving their strategic objectives through effective and efficient operations, safeguarding the organization's resources, providing reliable information, and ensuring conformance with laws and regulations.

Integrated or separate?

Different views are held across countries, jurisdictions, industry sectors, and individual organizations on how risk management and internal control relate to each other. Here are two examples:

- Risk management and internal control are seen by some as being more separate. In their view, risk management is focused more on external (strategic, financial, and regulatory) threats and opportunities, while internal control is mainly focused on internal (operational) weaknesses. Because of the different objectives and responsibilities, risk management and internal control systems should be more separate.
- However, others view risk management and internal control as two sides of the same coin: risk is managed by having in place the right controls to safeguard against its occurrence, while internal control exists only in relation to what they do to mitigate risk. For that reason, risk management and internal control systems should be more integrated.

Question 2.0: Definitions of risk management and internal control

Question 2.0 asked the respondents provide their definitions of risk management and internal control if they would significantly differ from the views stated above.

With respect to risk management:

A total of 111 respondents commented on the risk management definition. Most of these respondents agreed with the definition or suggested adding a few elements to it. An enriched definition of risk management, taking into account some of these suggestions, could be:

¹ These definitions are based on the [COSO definitions](#) of risk management and internal control.

² COSO [defines](#) "risk appetite" as: the amount of risk, broadly defined, that an organization is willing to accept in pursuit of stakeholder value.

Risk management is an integrated part of an entity's management system, effected by an entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to (a) identify, understand, and assess potential risks and opportunities (and their interdependence) that may affect the entity, and (b) manage those risks and opportunities to be within its risk appetite, so as to provide proper disclosure and reasonable assurance regarding the achievement of entity objectives.

Risk management also relates to generating ideas and promoting good practice, and is most effective when line managers (a) embrace it and use it as part of their management process, and (b) provide their employees with a better understanding of the entity's risk appetite, to help manage risk across the organization.

Other respondents provided alternative definitions of risk management, such as the following:

- Culture, processes, and structures that are directed towards realizing potential opportunities, while managing adverse effects (AusAID risk management policy of March 2006).
- In ISO 31000, *Risk Management—Principles and Guidelines* (2009), risk management is defined as the coordinated activities to direct and control an organization with regard to risk.

With respect to internal control:

A total of 105 respondents commented on the internal control definition. Most of these respondents simply agreed with the definition or suggested adding a few elements to it. An enriched definition of internal control, taking into account some of these suggestions could be:

Internal control is an integrated part of an entity's management system, effected, understood, and actively followed by the entity's board of directors, management, and other personnel, to mitigate the entity's risks in achieving the entity's objectives through:

- effective and efficient strategic and operational processes;
- providing reliable information to internal and external users for timely and effective decision making;
- ensuring conformance with applicable laws and regulations, and also with the entity's own policies, procedures, and guidelines;
- safeguarding the entity's resources against loss, fraud, misuse, and damage; and
- safeguarding the availability, confidentiality, and integrity of the entity's IT systems.

Other respondents provided alternative definitions of internal control, such as the following:

- The COSO definition: Internal control is broadly defined as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

- The definition used by the International Organization of Supreme Audit Institutions (INTOSAI): Internal control is an integral process that is effected by an entity’s management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity’s mission, the following general objectives are being achieved:
 - Executing orderly, ethical, economical, efficient and effective operations;
 - Fulfilling accountability obligations;
 - Complying with applicable laws and regulations;
 - Safeguarding resources against loss, misuse and damage.
- Discrete control procedures or controls are defined by the US Securities and Exchange Commission (SEC) as: “... a specific set of policies, procedures, and activities designed to meet an objective.”

With respect to integrated risk management and internal control:

Still other respondents suggested that, as risk management and internal control are basically two sides of the same coin (“internal controls are risk controls”), both elements should be brought together in one all-inclusive definition, for example:

Risk management and internal control are integrated parts of an entity’s overall governance and management system that are:

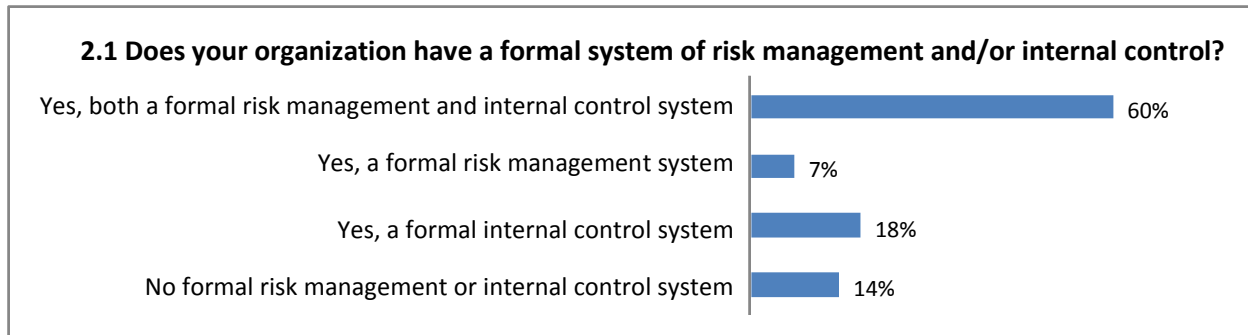
- effected and understood by the entity’s board of directors, management, and other personnel;
- applied in strategy setting, both across the entity’s operations and in its stakeholder communications;
- designed to identify, understand, and assess potential risks and opportunities (and their interdependence) that may affect the entity;

in order to:

- manage those risks and opportunities to be within its risk appetite; and
- provide reasonable assurance regarding (a) the achievement of entity objectives, and (b) proper disclosure regarding the effectiveness of the risk management and internal control systems.

Question 2.1: Formal systems of risk management and/or internal control

Question 2.1 asked respondents whether their organizations have a formal system of risk management and/or internal control.



A majority of 60% of the respondents indicated that their organization has both a formal risk management and a formal internal control system; 7% a formal risk management system; 18% a formal internal control system; and 14% indicated that their organization has no formal risk management or internal control system. The vast majority of respondents is therefore connected to an organization with either a risk management system, an internal control system, or both.

There were noteworthy differences among the various country³ responses. Respondents from the UK, South Africa, Australia, and from an international perspective⁴ reported a significantly higher percentage of organizations that have both a formal risk management system and an internal control system. Almost one-half of the respondents from Hong Kong, however, reported that their organization has no formal risk management or internal control system. From an organizational perspective there were also noteworthy differences. A significantly higher number of respondents from financial services organizations, listed companies, multinationals, and organizations with an international perspective answered that their organization have both a formal risk management and internal control system. On the other hand, significantly more respondents from non-listed, not-for-profit, small, micro, and local organizations reported that their organization has no formal risk management or internal control system.

In their additional comments, respondents described their organization's risk management and internal control systems as ranging from unofficial to formal systems, and from separate to integrated systems. In case of more separate systems, many respondents indicated that risk management focuses primarily on strategic and external risks and is often a (proactive) board responsibility. On the other hand, internal control focuses primarily on internal operations and is more a (reactive) responsibility of the accounting and internal audit departments. In the case of more integrated systems, respondents pointed out the interwoven nature of risk management and internal control: controls are in place to manage risks.

Overall conclusion on question 2.1:

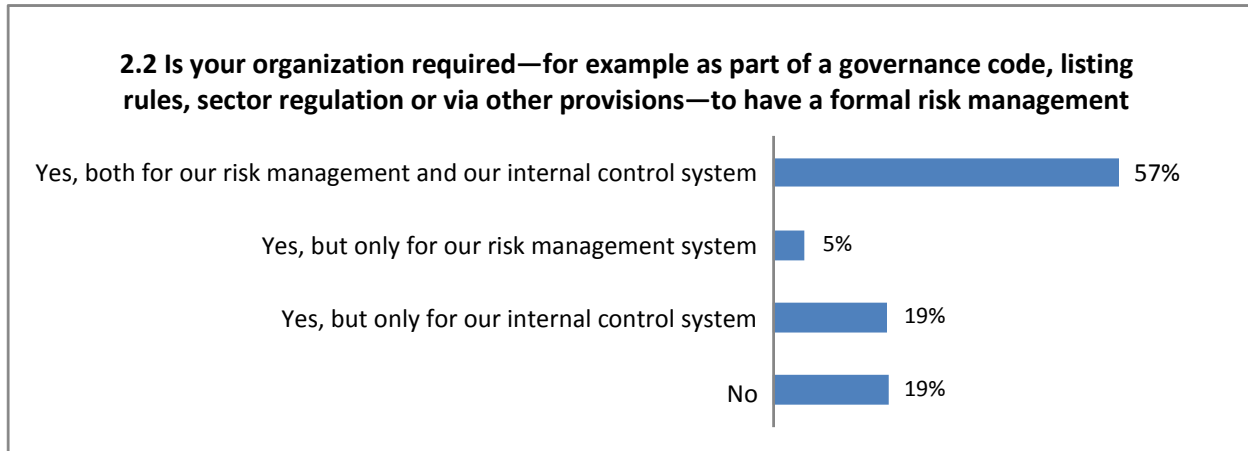
A majority of the organizations with which the respondents to this survey are associated does have a formal risk management and/or internal control system.

³ Where we say "country" throughout this analysis, we mean "country or jurisdiction."

⁴ Throughout this analysis, the various response categories are listed in descending order, from largest to smallest deviation from the average.

Question 2.2: Requirement to have a formal risk management and/or internal control system

Question 2.2 asked respondents whether their organization is required to have a formal risk management and/or internal control system, for example, as part of a governance code, listing rules, sector regulation, or via other provisions.



A majority of 57% indicated that their organization is required to have both a formal risk management and a formal internal control system; of the remainder, 5% are required to have a formal risk management system, 19% are required to have a formal internal control system, and 19% are not required to have a formal risk management or internal control system. Most of the respondents are, therefore, associated with an organization that is required to have a risk management and/or internal control system.

Respondents from the UK, the Netherlands, Canada, and South Africa reported a significantly higher requirement to have both a formal risk management system and an internal control system. Respondents from India, the US, and from an international perspective were relatively more required to have (at least) a formal internal control system. Respondents from Hong Kong, the US, and Australia also reported the least requirements. From an organizational perspective, a significantly higher number of respondents from financial services organizations, listed companies, multinationals, and organizations with an international perspective answered that their organization was required to have a formal risk management system, an internal control system, or both. Non-listed, not-for-profit, small, micro, and local organizations reported the least requirements to have a formal risk management or internal control system.

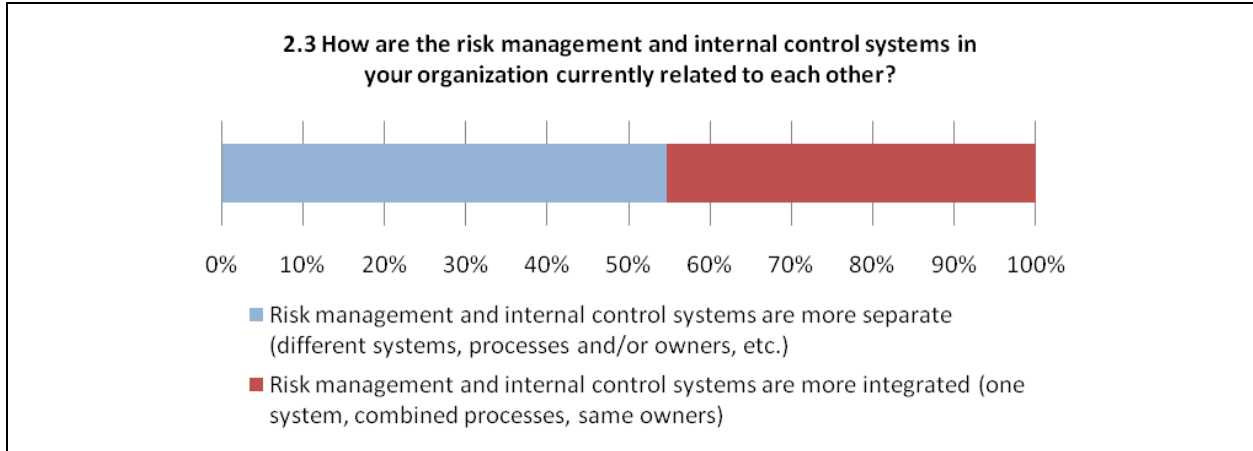
Respondents often pointed to the various requirements by (a) governments, securities regulators (for example, as part of a governance codes), professional organizations, and oversight bodies, as well as by (b) customers (for example, as part of a service level agreement) to have a risk management and/or internal control system. They especially pointed to the requirement to have a system of internal control over financial reporting, such as the US Sarbanes Oxley Act or similar acts in other countries.

Overall conclusion question 2.2:

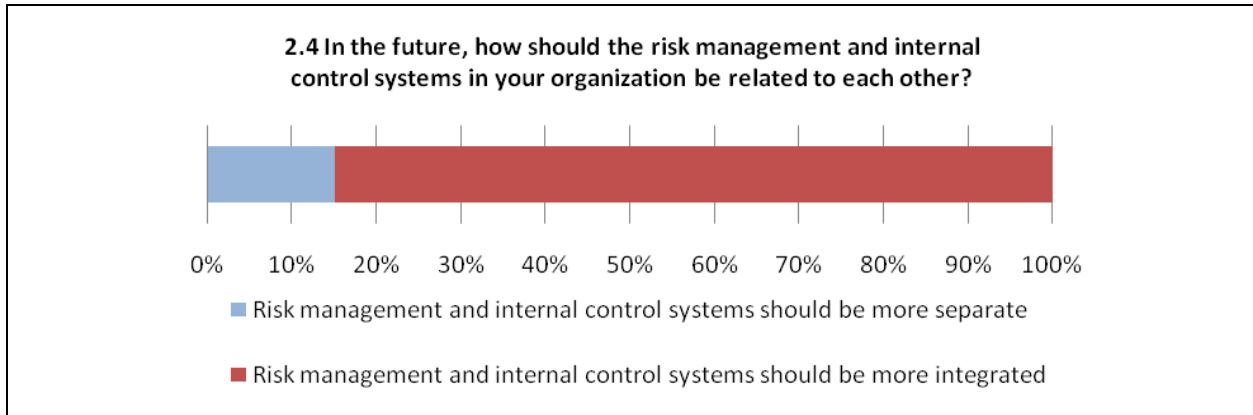
A majority of the organizations with which the respondents to this survey are associated is subject to an external requirement to have a formal risk management and/or and internal control system.

Questions 2.3 and 2.4: Relation between risk management and internal control systems

Questions 2.3 and 2.4 asked respondents how the risk management and internal control systems in their organization are currently related to each other, and how they should be related to each other in the future.



Approximately 55% of the respondents reported that the risk management and internal control systems in their organization are currently more separate (different systems, processes, and/or owners), and 45% reported more integrated systems (one system, combined processes, same owners). However, when asked how the risk management and internal control systems in their organization should be related to each other in the future, a very large majority of 85% was of the opinion that they should be more integrated.



Risk management and internal control systems are more than average separate in Canada, the US, India, and the Netherlands, and less than average separate in South Africa, Hong Kong, and the UK. Risk management and internal control systems are also more than average separate in not-for-profit, listed companies, and multinationals, versus less separate in public sector and micro organizations.

From a country perspective, respondents of all countries share the overall opinion that risk management and internal control systems should be more integrated, especially respondents of South Africa, India and the US. Least enthusiastic—although in majority still in favor of integration—are the respondents from Hong Kong. From an organizational perspective, the not-for-profit, the smaller organizations, and the locally oriented organizations are slightly more in

favor of integration than the average, while the financial, larger, and nationally oriented organizations are slightly less in favor of integration.

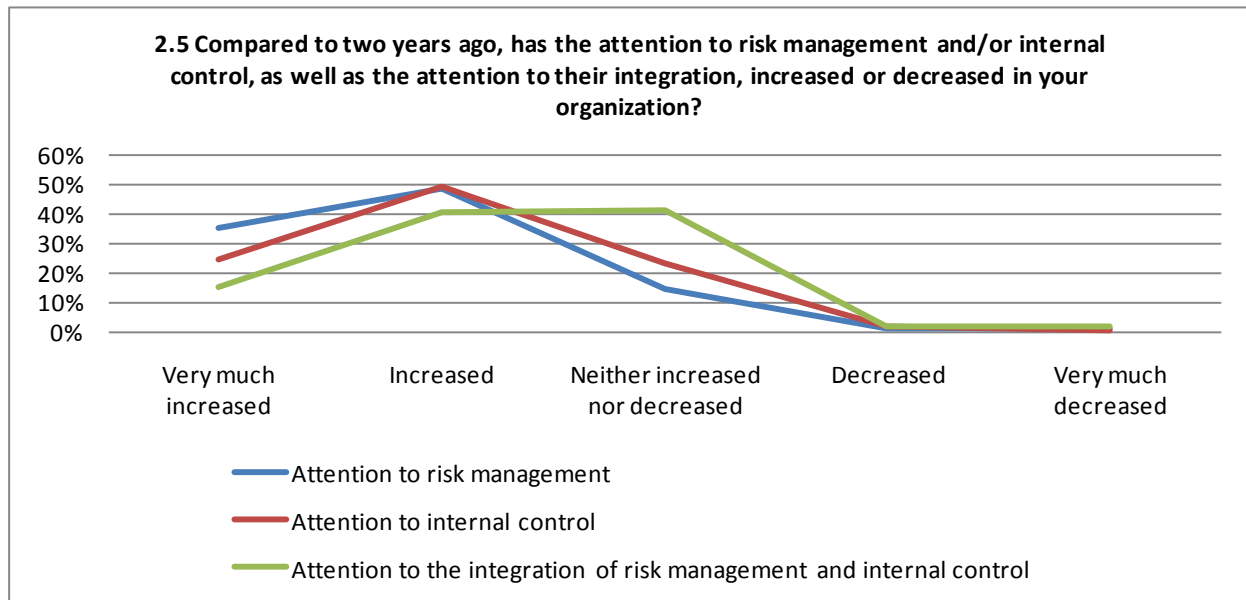
Those in favor of more separate systems pointed to the more strategic and enterprise-wide aspects of risk management and the more operational aspects of internal controls, especially internal control over financial reporting. A large majority of respondents, however, views risk management and internal control as two sides of the same coin, in that risk management concerns identification of the threats, while an internal control system is designed to manage those threats. Risk management and internal control should therefore be perceived as intertwined or complementary systems. According to one respondent, “Without assessing the risks first, you can only hope that your controls are adequate.” According to another, “Risk management cannot be effective unless it is embedded in all the processes of an organization; therefore, it only can be integrated with internal control systems.” “Internal controls *are* risk controls;” said a third respondent, “once this is properly understood, the barriers to integration will be removed.” Still other respondents see both risk management and internal control as part and parcel of a wider corporate governance system, or as an integral part of the overall business processes and not as separate and distinct systems. The bottom line, however, is that risk management and internal control both have the same ultimate goal—helping organizations achieve their objectives.

Overall conclusion questions 2.3 and 2.4:

A majority of respondents (55%) indicated that the risk management and internal control systems in their organization are currently more separate. However, a very large majority of 85% are of the opinion that risk management and internal control systems should be more integrated.

Question 2.5: Attention to risk management and/or internal control

Question 2.5 asked respondents whether attention to risk management and/or internal control, as well as attention to their integration, has increased or decreased in their organization compared to two years ago.



A very large majority of the respondents indicated that attention to both risk management and internal control has increased compared to two years ago (before the financial crisis). A smaller percentage, but still a majority, indicated that attention to the integration of risk management and internal control has increased.

From a country perspective, there is little deviation from the average, with slightly more attention to risk management and internal control, for example in Canada, and slightly less attention in the US. Attention to integration of risk management and internal control has increased most in South Africa, the Netherlands, Hong Kong, and Australia, and has increased at a slower pace in Canada and the US. From an organizational perspective, there is also little deviation, with a slightly higher increase in attention for financial services organizations and multinationals. Interestingly, attention to integration has increased most in smaller organizations with a more local perspective.

The burden of complying with SOX in the US has, according to the respondents, led to a kind of saturation with respect to the focus on internal control. However, during the financial crisis, organizations across the globe have realized how vulnerable they are to risks they have not managed properly, particularly risks associated with financial derivatives. “Risk management [therefore] became important as a means to face the world economic crisis,” as one respondent put it. Especially companies working in the financial services industry had to deal with increasing levels of volatility in financial markets, and therefore had to increasingly control their strategic and financial risks. Respondents see an increased need to quantify the financial consequences of risks. To survive in the recessionary economic environment, senior management and boards of directors now spend more time (a) on business activities that have the potential to impact the company’s continued existence, as well as (b) on day-to-day operations. In addition, regulators have made increased demands regarding organizations’ ability to demonstrate that they are “in control.” All these factors make it more necessary to ensure that both risk management and internal control are managed properly. In summary, the recent financial and economic developments have increased management’s recognition that risk management and internal control are vital to successful operations.

Overall conclusion question 2.5:

A very large majority of the respondents indicated that attention to both risk management and internal control has increased compared to two years ago. A majority also indicated that attention to the integration of risk management and internal control has increased.

Question 2.6: Job titles of risk management and/or internal control system managers

Question 2.6 asked respondents to provide the job titles of the persons who are responsible for managing the risk management and/or internal control system(s) in their organization. The most common job title of the persons responsible for the:

- **risk management system** is chief risk officer, or a variation of that title (mentioned 163 times), followed by CEO or general (line) management (64 times), then CFO or finance staff (31 times), then board members (15 times), and finally the head of internal audit, or a variation of that title (14 times).

- **internal control system** is CFO or finance staff (87 times), followed by head internal audit, or a variation of that title (83 times), followed by chief risk officer, or a variation of that title (60 times), followed by CEO or general (line) management (58 times), and finally board members (7 times).
- **integrated risk management and internal control system** (if applicable) is chief risk officer, or a variation of that title (51 times), followed by CEO or general (line) management (28 times), then CFO or finance staff (22 times), then the head of internal audit, or a variation of that title (18 times), and finally board members (2 times).

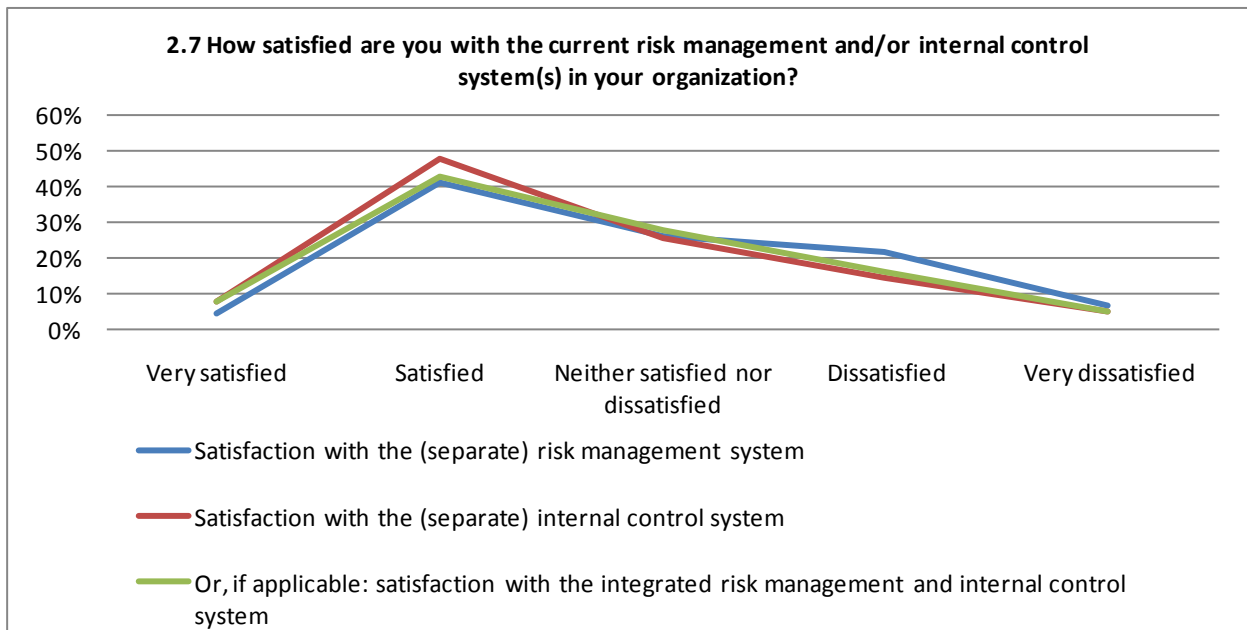
One respondent noted: “Both risk management and internal control should be owned by the persons responsible for operational functions. Persons with titles like ‘chief risk officer’ can only facilitate the risk management and internal control functions.” The accountability for risk and control should be clearly established with the functional owner and not the facilitator.

Overall conclusion question 2.6:

The survey results show clear differences in the responsibility for the organization’s risk management or internal control system: for risk management and for integrated systems, it is mainly a specific risk officer or general management; for internal control, it is mainly the finance and accounting or internal audit staff.

Question 2.7: Satisfaction with current risk management and/or internal control system(s)

Question 2.7 asked respondents how satisfied they are with the current risk management and/or internal control system(s) in their organization.



On average, the respondents are reasonably satisfied with the risk management system, the internal control system or, if applicable, the integrated risk management and internal control system in their organization. However, there is also quite a large group that is neither satisfied

nor dissatisfied with, or that is dissatisfied with, their organization's risk management and/or internal control system(s).

From a country perspective, there was not much deviation of responses from the average, with respondents from South Africa consistently slightly less satisfied, the responses from respondents from other countries alternating depending on the type of system: separate risk management system, separate internal control system, or integrated risk management and internal control system. There was also little deviation in the responses from an organizational perspective, with financial services organizations, micro companies, multinationals, and organizations with an international perspective consistently slightly more satisfied, versus public sector, large entities, and organizations with a national perspective consistently slightly less satisfied.

The respondents pointed out the following **main strengths** of the current risk management and/or internal control system(s) in their organization:

- **Increased awareness.** Respondents mentioned a greater awareness of the importance of risk management and internal control systems among boards of directors, senior management, and across the organization, nurtured by ownership of the system(s) at the top, strong top-down leadership, and a supportive culture.
- **Systematically designed and implemented.** Good risk management and internal control systems that are based on strong frameworks and best practice are comprehensive, systematically designed and implemented, not siloed, with clear roles and responsibilities, and well documented.
- **More integrated.** Successful integration of risk management and internal control into the management structure and business processes of the organization, which makes the system more effective, efficient, and manageable. Identification and assignment of responsibility for critical risks. Delegation of decision-making authority to those who really understand the processes, related risks, and ways to manage them. Making line managers/process owners accountable for overall performance, including risk management and internal control outcomes.
- **From a risk-based perspective.** Development of risk profiles, for example, strategic, operational, financial, and compliance. Risk and control self-assessments conducted by line employees and management, facilitated by risk management or internal audit staff. Systematic assessment of all categories of risk in terms of likelihood and impact and the need for adapting related controls.
- **Effective and efficient controls.** Application of an effective and efficient mix of controls—capable of identifying risks before they materialize—enabling organizations to achieve their objectives with little error.
- **Adequate monitoring and reporting.** Presence of early detection and measures for risk mitigation and overcoming of internal control weaknesses. Implementation of dashboards (KPIs) to regularly monitor risks and controls. Making main risks and risk management actions explicit and shared among boards, management teams, and employees. Increased management willingness to address identified control weaknesses.
- **Continuous improvement.** Ongoing dynamic risk management and internal control with regular reassessments of risks and controls due to changes in the organization and its environment, which leads to better organizational performance.

The respondents pointed out the following **main weaknesses** of the current risk management and/or internal control system(s) in their organization:

- **Weaknesses in the control environment.** Insufficient sense of urgency with respect to risk management and internal control. Little management buy-in of risk management framework, and no enterprise-wide view. Neither managers nor employees are risk and control conscious. Management is not realizing the benefits of risk management. Lack of training programs. Compensation is not aligned with control and risk. Hence, many employees treat risk management and internal control as a burden. Business managers and process owners have become used to compliance and are completing risk assessments just because it is required. They do not make a genuine effort to manage risks and improve controls.
- **Add-on instead of built-in.** Risk management is not visible to most of the (line) managers. Risk management and internal control are viewed as an external exercise, separate from normal business activities. This leads to incorrect understanding and use of the risk management and internal control tools. Too much attention to the paperwork associated with these systems at the expense of sorting out the risks and controls themselves. Too many policies and procedures which are difficult to understand.
- **Weaknesses in objective setting.** Risk management and internal control systems do not cover all the processes and external risks. No clearly defined risk and control objectives. Internal control program is too focused on compliance (e.g., SOX) and neglects operational controls. Tendency to focus on compliance as the goal, rather than seeing risk management and internal control as a product of good governance. Difficulties in attempting to quantify risk tolerance and/or risk appetite.
- **Weaknesses in event identification.** Insufficient integration of risk management practices in daily management activities and in the internal control system activities. Risk management and internal control operate in silos; there is no knowledge sharing on risks and/or controls. Insufficient consideration of the dynamic changes in the nature of events that are taking place. Not all stakeholders participate in the risk identification process. The lack of knowledge on external factors and developments affecting the business and the organization limits the scope of risk management. Complex risks are not interpreted correctly.
- **Weaknesses in risk assessment.** Internal control systems are often owned by audit departments (in form of operational audits); there is often a lack of practical knowledge and experience sufficient to make an effective risk assessment. No integrated way to evaluate risk; no forum for debating the need for changes in internal control practices.
- **Weaknesses in risk response.** Too much focus on formalities and not enough on a true understanding of risk and risk mitigation through controls. Different risks are poorly defined, thus control measures are not always feasible. Not using risk management and internal control as a tool to assist in planning and managing the organization's operations.
- **Weaknesses in control activities.** Lack of operational ownership by line managers. Inability of many managers and employees to see that internal control is not a separate function, but should be an integral part of their day-to-day activities. The lack of early recognition of business/technical changes and formulation of a response.
- **Weaknesses in information and communication.** Unsatisfactory documentation of risk assessment and internal control performance. Weak communication on risk management.

Companies find it difficult to tailor their periodic management information to the key risks they want to control. Sometimes there is no alignment between the management information and the risk assessment. Sometimes inappropriate key risk indicators are picked.

- **Monitoring weaknesses.** Insufficient measurement of risk management and internal control performance. The annual risk review does not involve line management and board involvement is in a supervisory capacity. Nobody is specifically responsible for risk management or internal controls. There is no accountability. People become complacent and awareness diminishes.

According to the interviewees, the following actions are needed to **further improve** the risk management and/or internal control system(s) in their organization:

- **Improved control environment.** As the higher management's tone regarding risk and control defines the effectiveness of such a system, the board and senior management should adopt a top-down "lead-by-example" approach. Address the ongoing challenge of educating everyone in the organization that risk management and internal control are everyone's responsibility and that they are not separate from other activities. Make risk management and internal control part of individual goals and objectives and hold people accountable. Align compensation with performance in the area of risk management and internal control.
- **Further integration of business processes.** Integrate risk management and internal control into one single system and embed that system into the strategic planning and operations of the organization. Create better linkage between risk management, internal control, and performance management. Unify risk management and internal control guidelines and make them easier to understand. Improve buy-in and participation from risk owners in each business area in developing an entity-wide risk management and internal control model.
- **Improved objective setting.** The board of directors should understand what risks they are overseeing, and should specify more clearly the kind of risk and control data they want to receive. Create better policies and guidelines on risk management and internal control. Do not force compliance with more overhead, but demonstrate the importance of integrated risk management and control through emphasizing the need to sustain profitability. Ensure that risk management and internal control do not dampen reasonable risk appetite.
- **Improved event identification.** Expand risk management and internal control to all major processes. Create a risk governance framework that integrates any kind of risks (strategic, operational, compliance, financial, IT security, etc.). A formal step to consider risks should be added to all strategic and operational planning discussions. Focus on the threats as well as on the opportunities. Do not lose sight of the big picture in identifying company-threatening risks. Create a clearer understanding of strategic risk and the links to operational risks. Work together with people in operations. Increase the frequency of updating risks.
- **Improved risk assessment.** Risk assessments should drive the creation and measurement of controls. Stimulate a control self-assessment methodology as a means to enhance risk management and internal control activities. (Line) management should take part in risk assessment and control activities.
- **Improved risk response.** Involve more operational staff in the process. Stimulate more but better assured risk taking. Develop a risk and control dashboard to allow management to have a real-time snapshot of the enterprise's risk management and control.

- **Improved control activities.** Control activities should be based less on formality and more on real attitudes and behaviors. Integrate the risk management process with internal control to ensure that organizations are spending their time on controls that address current risks. Better integrate internal control into business operations. Automate controls as far as possible.
- **Improved information and communication.** Increase the use of data to underpin performance evaluations: quantitative and qualitative analytics. The head of risk management and internal control should report directly to the highest level of the management for effective action. Incorporate systematized risk and control indicators into board reporting. Reporting on internal control should be integrated with reporting on strategy and risks. Make reporting of risk and control a part of the periodical business planning exercise.
- **Improved monitoring.** Develop a more comprehensive risk and control analysis, in particular in relation to controls actually meeting control objectives rather than just working as specified. Periodic review of risks and controls is essential. Learn from mistakes. More integration is required to assess whether controls are still relevant to current business risks. Internal auditors should review risk management and internal control systems, but not design and implement them.
- **Continuous improvement.** Continuous evolution of the risk management and internal control systems is required to adapt them to changes in the organization and its environment. Look for opportunities to streamline and simplify risk management and internal control processes to improve effectiveness and efficiency. Strive to achieve more continuous monitoring/reporting instead of periodic reporting. Continue to fine-tune the integrated approach to fully leverage the respective benefits.

Overall conclusion question 2.7:

Overall, the respondents are reasonably satisfied with their risk management system, their internal control system or, if applicable, their integrated risk management and internal control system. However, there is also quite a large group that is neither satisfied nor dissatisfied with, or that is dissatisfied with, their organization's risk management and/or internal control system(s).

Recommendations for further improvement deal with (a) the creation of more awareness of the benefits of an integrated risk management and internal control system, (b) the need to better integrate risk management and internal control into the governance, strategy, and operations of the organization, covering all major processes, and (c) further optimization of the various risk management and internal control steps.

3. Risk Management and Internal Control Guidelines

The questions in this part of the survey dealt with the respondents’ opinion on the risk management and/or internal control guidelines in their country or jurisdiction.

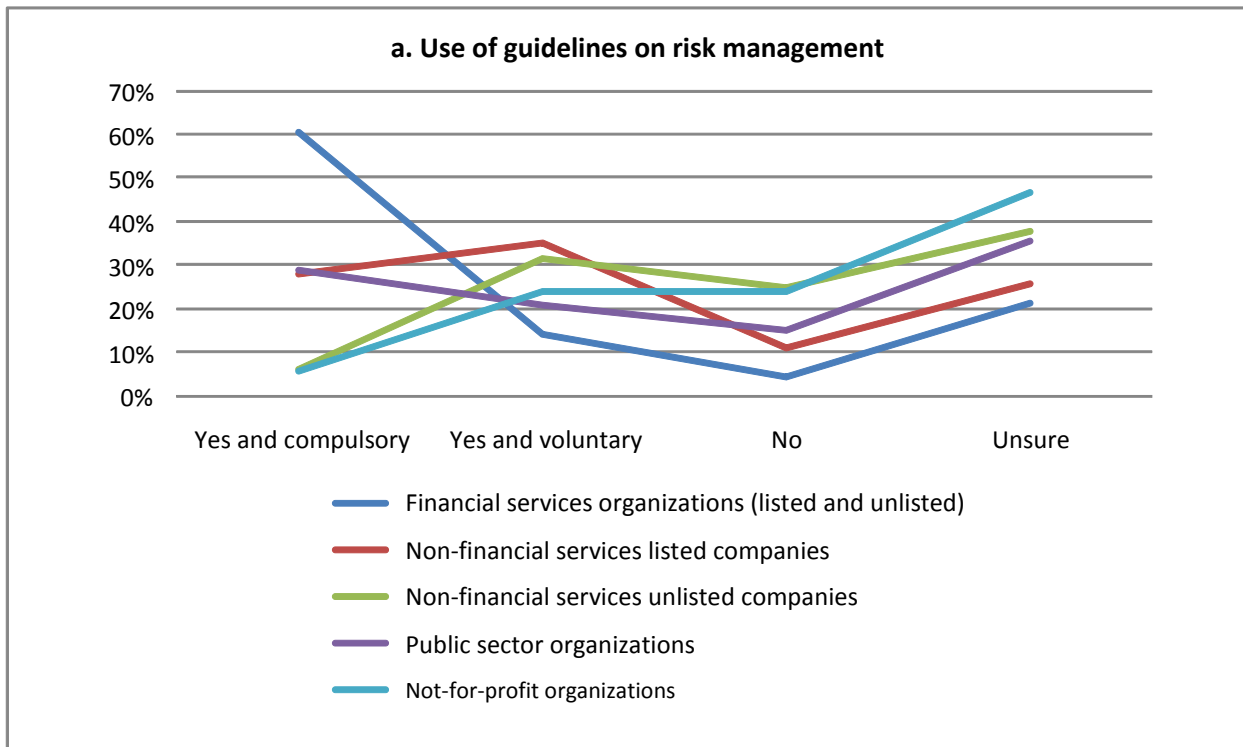
Guidelines = frameworks, standards, and/or guidance

Many countries have developed or adopted guidelines in the form of frameworks, standards, and/or guidance to support organizations in implementing, maintaining, and improving their risk management and internal control systems. Sometimes they are part of a corporate governance code. Where we say “guidelines” throughout this survey report, we mean “frameworks, standards, and/or guidance.”

Question 3.1: Use of formal risk management and internal control guidelines

Question 3.1 asked respondents which of the following types of organizations in their country generally use formal guidelines to develop, implement, and improve their risk management and internal control systems.

Use of formal risk management guidelines



A very large majority of the respondents indicated that organizations in their country generally use formal risk management guidelines, especially financial services organizations (virtually all, mostly compulsory), listed companies (either compulsory or voluntary), and also public sector organizations (either compulsory or voluntary). The use of formal risk management guidelines is somewhat less common in non-listed and not-for-profit organizations (mostly voluntary).

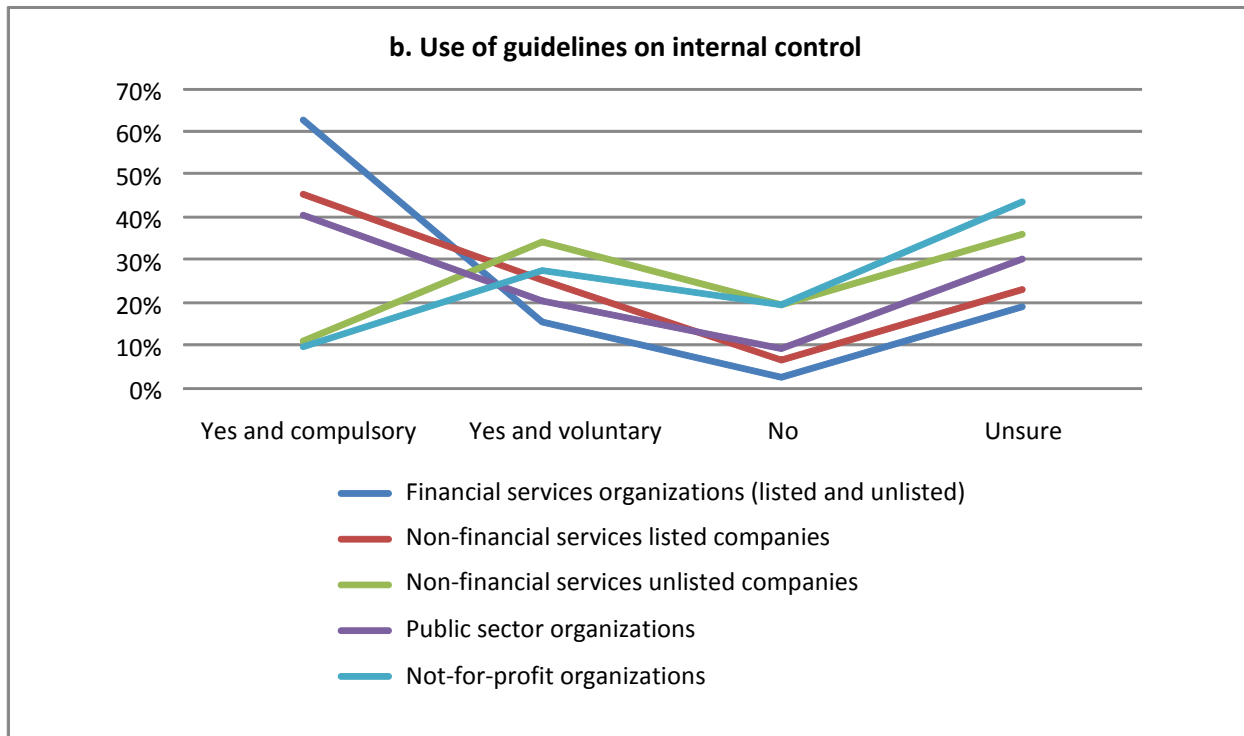
From a country perspective, there are some variations with respect to the reported use of risk management guidelines (either compulsory or voluntary):

- For all types of organizations from Australia, the Netherlands, the UK, and South Africa, a higher than average use of risk management guidelines is reported.
- For all types of organizations from Canada and Hong Kong, a lower than average use of risk management guidelines is reported.
- For organizations from India, generally a lower than average use of risk management guidelines is reported (with the exception of not-for-profit organizations, which have a higher than average use of risk management guidelines).
- For organizations from the US, generally a lower than, or equal to, average use of risk management guidelines is reported (with the exception of financial services organizations, which have a higher than average use of guidelines).

Additional noteworthy findings are:

- The much higher than average use of risk management guidelines in unlisted organizations from Australia and the Netherlands.
- The much higher than average use of risk management guidelines in not-for-profit organizations from the UK and Australia.
- The much higher than average use of risk management guidelines in public sector organizations from South Africa, the UK, and Australia.

Use of formal internal control guidelines



Also, a very large majority of the respondents indicated that organizations in their country generally use formal internal control guidelines, especially financial services organizations (virtually all, mostly compulsory), listed companies (either compulsory or voluntary), and also public sector organizations (either compulsory or voluntary). The use of formal internal control guidelines is somewhat less common in non-listed and not-for-profit organizations (mostly voluntary).

From a country perspective, there are some variations with respect to the reported use of internal control guidelines (either compulsory or voluntary):

- For all types of organizations from Australia, the Netherlands, the UK, and South Africa, a higher than average use of internal control guidelines is reported.
- For all types of organizations from Canada and Hong Kong, a lower than average use of internal control guidelines is reported.
- For organizations from India, generally a lower than average use of internal control guidelines is reported (with the exception of not-for-profit organizations, which have a higher than average use of internal control guidelines).
- For organizations from the US, generally a higher than, or equal to, average use of internal control guidelines is reported (with the exception of not-for-profit organizations, which have a lower than average use of internal control guidelines).

Additional noteworthy findings are:

- The much higher compulsory use of internal control guidelines for US financial and listed companies (due to the SOX regulation).
- The much higher than average use of internal control guidelines in not-for-profit organizations from the UK and Australia.
- The much higher than average use of internal control guidelines in public sector organizations from South Africa, the UK, and Australia.

Name and issuer of risk management and internal control guidelines

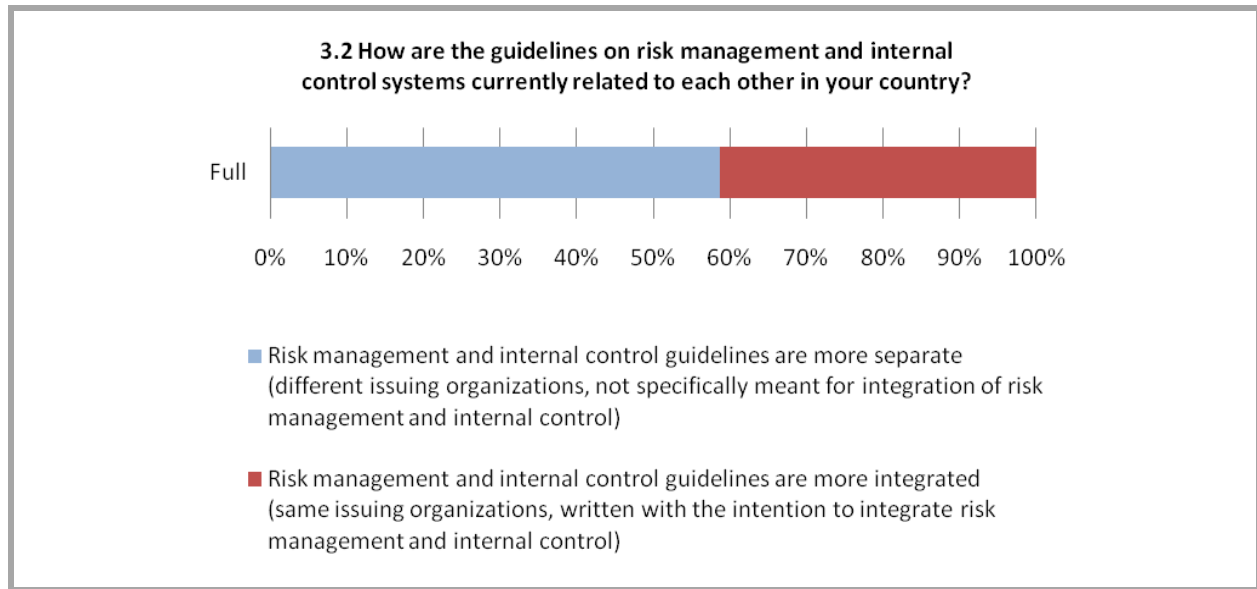
In the detailed analysis of the survey results (see link in Appendix A), an overview is provided of the various issuers of risk management and internal control guidelines that were mentioned by the respondents.

Overall conclusion question 3.1:

A very large majority of the respondents indicated that organizations in their country generally use both formal risk management guidelines and formal internal control guidelines, either compulsory or voluntary, for all types of organizations.

Questions 3.2 and 3.3: Relation between risk management and internal control guidelines

Questions 3.2 and 3.3 asked respondents how the risk management and internal control guidelines in their country are currently related to each other and how they should be related to each other in the future.



A majority of respondents (59%) indicated that the risk management and internal control guidelines in their country are currently more separate (different issuing organizations, not specifically meant for integration of risk management and internal control); and a minority (41%) indicated that they are more integrated.

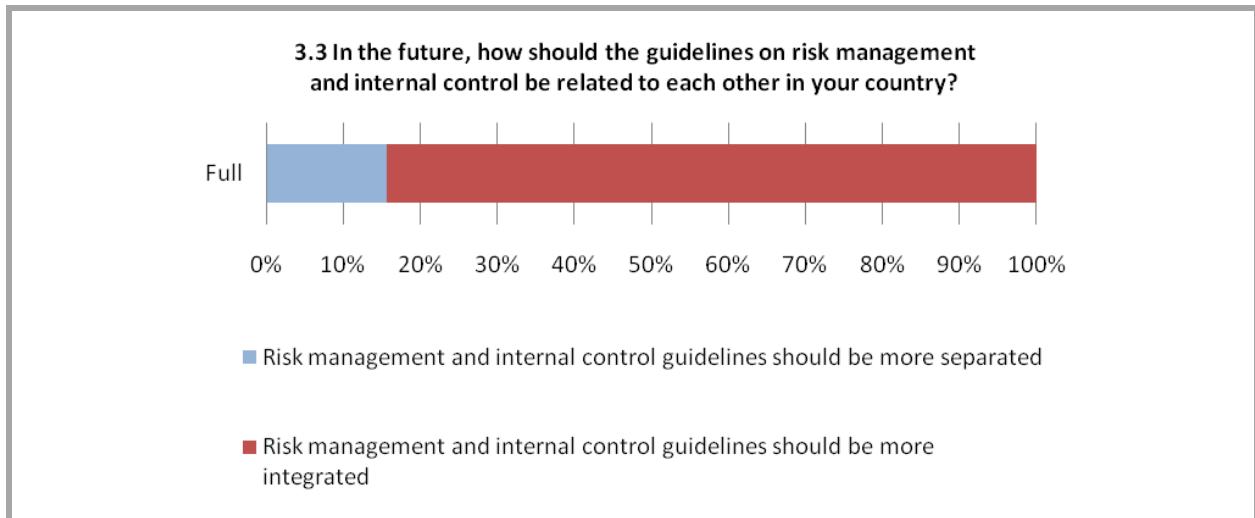
From a country perspective, responses show some variations, with guidelines in Canada, Netherlands, and Australia somewhat more separate than average, and in Hong Kong and the US somewhat more integrated. A noteworthy exception is South Africa where, according to the respondents, the guidelines on risk management and internal control are already more integrated than separate.

Respondents provided different explanations for the fact that risk management and internal control guidelines are more separate, such as:

- risk management and internal control and the respective guidelines come from different backgrounds and have developed at a different pace;⁵ and
- both areas have their own specialists and are governed by different rules and regulators.

However, as a logical next step following the respondents' conclusion from the previous chapter that risk management and internal control systems should be more integrated (see questions 2.3 and 2.4), a very large majority of the respondents (84%) believes also that risk management and internal control guidelines should be more integrated. Especially respondents from Canada, South Africa, the US, and the UK are more than average in favor of more integration (and respondents from Hong Kong slightly less than average in favor of more integration). From an organizational perspective, all response classes vary around the average and are all in favor of more integration.

⁵ For example: "Risk management is considered as a business activity whereas internal control is a financial compliance activity," as one respondent noted.



One respondent noted: “Whilst many organizations by default and design have integrated risk management and internal control, the regulatory bodies have not kept pace and updated their standards to reflect this reality.” According to another respondent, however, some regulators now require a more integrated thinking about and ownership of the two areas in question. Better integration of risk management and internal control guidelines could usefully increase the general understanding that both elements are part of a single governance framework, as various other respondents noted. One respondent said, “The various issuers of guidelines need to reach out to each other and incorporate their respective guidance into a general overall framework.” Such a new framework “should not focus attention just on assurance,” according to another respondent, “but equally focus on achievement of the entity’s objectives, which is performance.”

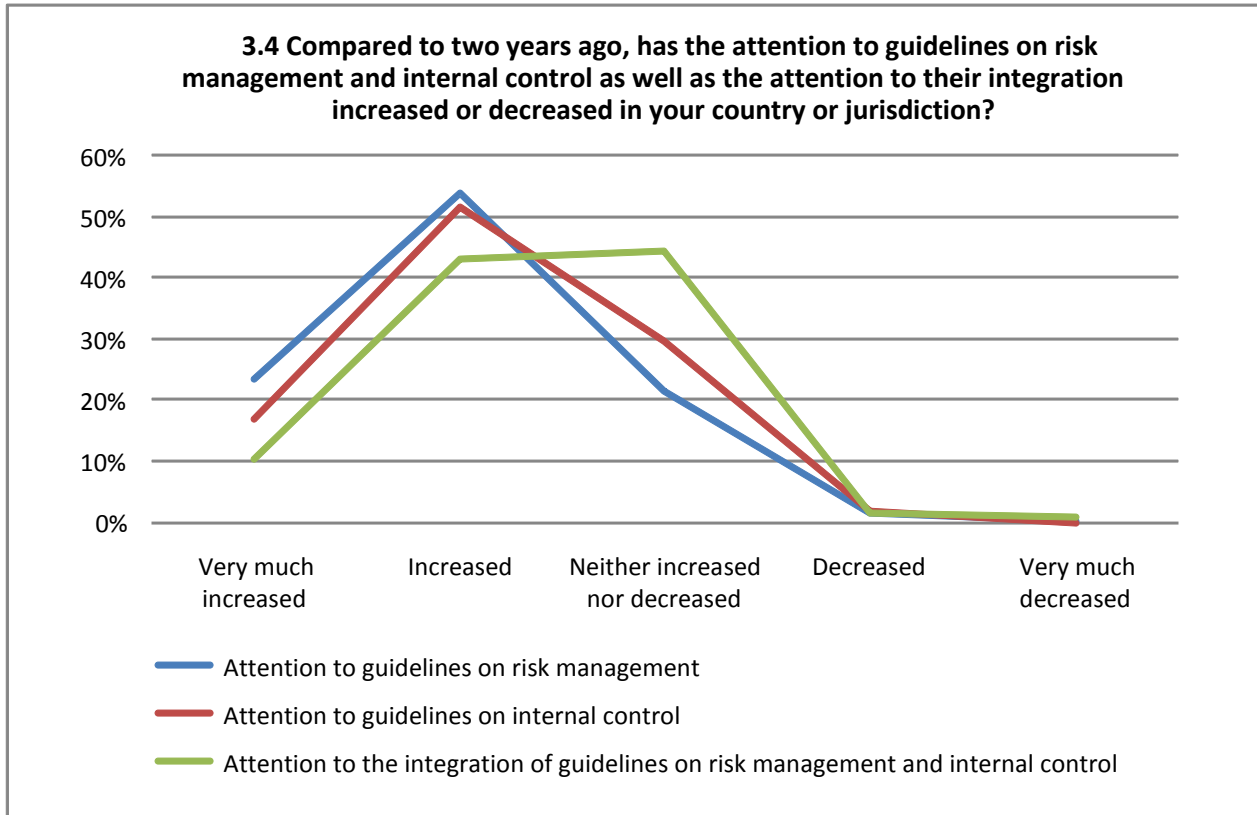
According to the respondents, “We need the best from both: the open, broadness of internal control guidance plus the more intelligent range of modeling and control ideas typical of risk management guidance,” and “Future guidelines should be one set about the one topic we are talking about.” Ideally, “There should be no reference to two separate concepts; which may go beyond ‘integrated,’” according to another respondent.

Overall conclusion questions 3.2 and 3.3:

A majority of the respondents (59%) indicated that the risk management and internal control guidelines in their country are currently more separate publications. However, a very large majority of 84% believes that they should be more integrated.

Question 3.4: Attention to risk management and internal control guidelines

Question 3.4 asked respondents whether, compared to two years ago, attention to guidelines on risk management and internal control, as well as attention to their integration, has increased or decreased in their country or jurisdiction.



A majority of respondents indicated that attention to guidelines on risk management and internal control—as well as attention to their integration—has increased, especially with respect to risk management guidelines (78%), and internal control guidelines (69%), and has increased somewhat less for the integration of guidelines on risk management and internal control (53%). Virtually none of the respondents indicated that attention to guidelines on risk management and internal control had decreased. From a country perspective, there was little variation around the average.

Respondents pointed in particular to the lessons learned from the financial crisis and subsequent economic downturn as the explanation for the increased attention to guidelines on risk management and internal control, as well as to their integration.⁶ They also provided other explanations for this increased attention, such as the need to further strengthen corporate governance (also arising from the financial crisis); the publication of the new ISO 31000 standard, *Risk Management—Principles and Guidelines* (2009); the need to reduce cost and increase efficiency and to reduce the siloed approach and streamline internal operations; pressure from rating agencies; increased regulatory scrutiny; ongoing globalization (of organizations themselves, as well as their environment, for example, via outsourcing or off-shoring); and the desire to better address fraud and corruption risks.

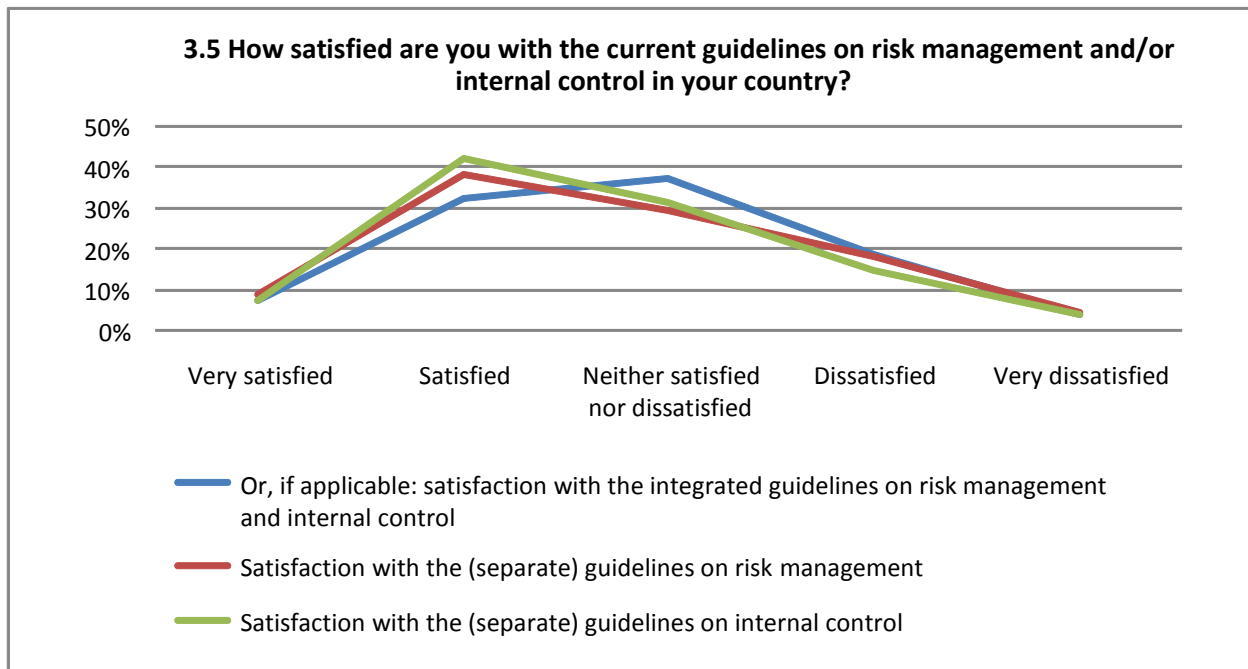
Overall conclusion question 3.4:

According to a majority of the respondents, attention to guidelines on risk management and internal control—as well as attention to their integration—has increased compared to two years ago, in particular due to the financial crisis.

⁶ Viewed as the way to help preventing future crises, as one respondent noted: “Baffled by what the financial crisis has told us about the state of the art of both [risk management and internal control].”

Question 3.5: Satisfaction with current risk management and/or internal control guidelines

Question 3.5 asked respondents how satisfied they are with the current guidelines on risk management and/or internal control in their country.



Overall, the respondents are reasonably satisfied with the current risk management and internal control guidelines in their country, and somewhat less satisfied (although still more satisfied than dissatisfied) with the integrated guidelines on risk management and internal control:

- Respondents from Australia, South Africa, and Canada are somewhat more satisfied than average with their applicable risk management guidelines, and respondents from the US, India, Hong Kong, and the UK are somewhat less satisfied than average.
- Respondents from Hong Kong, Canada, and the US are somewhat more satisfied than average with their applicable internal control guidelines, and respondents from the Netherlands and South Africa are somewhat less satisfied than average.
- Respondents from South Africa and India are somewhat more satisfied than average with their applicable integrated guidelines on risk management and internal control, and respondents from the Netherlands and Canada are somewhat less satisfied than average.

From an organizational perspective, respondents from financial services organizations and listed companies, as well as from the larger organizations, are somewhat more satisfied than average with their applicable risk management and/or internal control guidelines, and representatives from non-listed companies and smaller organizations are somewhat less satisfied. A tentative conclusion could be that the current guidelines on risk management and internal control are slightly less suitable for smaller organizations.

The respondents pointed out the following **main strengths** of the current risk management and/or internal control guidelines in their country:

- **The very existence of guidelines.** The first strength is that risk management and internal control guidelines exist, and constitute recognition of the importance of risk management and internal control. They (a) provide clear frameworks and methodologies for organizations willing (or forced by regulation) to implement risk management and internal control systems, and (b) place them in a position to be able to comply with corporate governance or legal requirements. They also provide transparency in implementation.
- **Clear and well accepted.** Guidelines are developed by professional authorities. They are generally clear and well accepted. They have been in place for a period of time and are proven. Guidelines generally provide good frameworks and are principles-based rather than overly detailed, with enough flexibility to allow adjustment to individual circumstances. They are largely in line with best practices in major jurisdictions with significant capital markets.
- **Keep the eye on the ball.** Guidelines require management to pay attention to, and the board of directors to be involved in, risk management and internal control. However, guidelines are just a good start. The rest is up to the organization.

The respondents pointed out the following **main weaknesses** of the current risk management and/or internal control guidelines in their country:

- **Paper system.** Much paper, but what is really working? People do not understand the guidelines and they trigger resistance in the organization. Guidelines can give a false sense of security due to a compliance mentality. There is a danger that too much emphasis is put on controlling the easily identifiable but limited exposure risks, while missing the bigger but less tangible risks.
- **Siloed development.** There is no common approach to risk guidelines. Various frameworks lack clear alignment with each other. The number of different guidelines makes it difficult to ensure an organization meets all the nuances of each guideline. A more standardized system of risk management and internal control would help. Some guidelines are long overdue for revision. A challenge is the lack of good translations.
- **Not focused on the real risks.** Guidelines are highly prescriptive, too generic, or too conceptual. They do not sufficiently focus on risk governance and risk control, and have insufficient attention to culture, competency, innovation, etc. Many of the internal control guidelines do not address the real risks involved. Most control failures are related to high-level decisions, versus application-level controls. The increased complexity of frameworks has made implementation more difficult. Guidelines are overly sophisticated, not tailored to the size of the companies, and are difficult to implement in smaller organizations.
- **Lack of sufficient implementation guidance.** Guidelines tend to be broad-based and cover all industries, whereas unique circumstances call for differing guidelines. Without implementation tools and techniques, there will be no standard practices. Greater attention should be given to scenario planning. Guidance on what is meant by, for example, risk appetite and tolerance might be useful, as there is widespread confusion.
- **Insufficient attention to behavioral aspects.** Guidelines are poorly linked to performance issues and do not sufficiently acknowledge the need to make risk-based decisions, that is, not every risk can or should be eliminated. A weakness is that people do risk management primarily because it is enforced, not because they themselves want to do it. The greatest challenge is human intervention to circumvent and beat controls.

- **Lack of integration.** Lack of understanding of the relationship between risk management and internal control. There is no integration of guidelines and no focus on enterprise risks other than financial risks. Guidelines have not been integrated or pieced together by the regulators yet. Lawmakers and regulators lack expertise in the area.

According to the interviewees, the following **actions to further improve** the risk management and/or internal control guidelines are needed in their country:

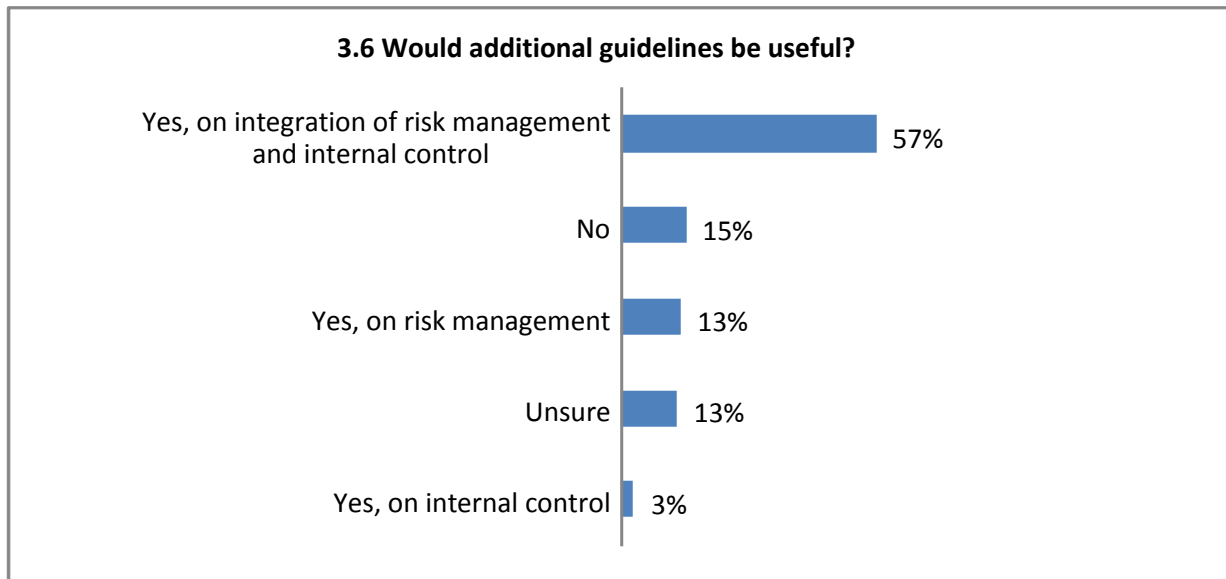
- **More integration.** An integrated approach to risk management and internal control is required. Risk and control guidelines should be brought together—controls are exercised internally, but should respond to internal and external risks. Internationally operating organizations need to comply with many different risk and internal control guidelines. Integrating all of these to form one system of risk management and internal control is therefore vital. A common global approach, a centralized issuing organization, and a credible due process are needed to assist in integrating the internal control framework with the risk management framework, as well as developing one international standard for both risk management and internal control.
- **Wider scope.** Guidelines should focus on risk management and internal control in a wider sense, not just on financial control. Increased focus on risk management should enable internal control managers to introduce and improve control procedures and expand coverage. Guidelines for smaller organizations should be further simplified.
- **Improved development.** The guidelines should be more based on research findings. Best practice in the area of risk management and internal control should be better identified and articulated. The guidelines need to keep pace with the ever-changing landscape of technological development. The various regulators should coordinate their requirements. Need better dissemination of the applicable risk management and internal control guidelines, in both public and private areas.
- **Improved content.** Develop less rules-based standards, with more focus on how to improve the business performance. Look more to higher level controls in an organization, including the area of governance. Greater attention should be given to scenario planning. Continually update risk management tools and techniques per evolution of practices; continue to improve quantitative and qualitative risk assessment and risk appetite.
- **More implementation guidance.** Additional guidance on what is meant by concepts such as risk appetite, risk capacity, and tolerance might be useful, as there is widespread confusion. More examples and more practical tips and tools are required. Provide examples of risks and controls for model organizations across multiple industries, as well as success stories, and perhaps some lessons learned. For example, determine which corporations and countries best rode out the recent financial crisis and learn from what they did. Risk management and internal control should become the normal way of conducting good business.

Overall conclusion question 3.5:

Overall, the respondents are reasonably satisfied with the current risk management and internal control guidelines in their country, although they are somewhat less satisfied with the integrated guidelines on risk management and internal control.

Question 3.6: Usefulness of additional risk management and/or internal control guidelines

Question 3.6 asked respondents whether additional guidelines on risk management and/or internal control would be useful and, if so, what kind of guidelines.



A large majority of the respondents (73%) indicated that additional guidelines would be useful, in particular on integration of risk management and internal control (57%); to a lesser degree on risk management (13%); and only in a few cases on internal control (3%). Not all respondents are convinced that additional guidelines would be useful. As one respondent noted, “Risk management is all about common sense and foresight and there is a limit to how much guidance one needs with respect to common sense.”

From a country perspective, there are some noteworthy differences. Respondents from South Africa, India, Hong Kong, and from an international perspective indicated above average that additional guidelines on integration of risk management and internal control are useful, whereas responses from Canada, the US, and UK scored somewhat below average. Respondents from Canada, the US, and the UK indicated above average that additional guidelines on risk management would be useful, and respondents from India and South Africa indicated above average that additional guidelines on internal control would be useful. Respondents from the UK, Australia, and the Netherlands indicated above average that additional guidelines would *not* be useful.

From an organizational perspective, there were mostly minor variations around the average. Especially respondents from not-for-profit, non-listed, and micro organizations indicated that additional guidelines on integration of risk management and internal control would be useful. Respondents from listed companies and financial services organizations indicated above average that additional guidelines on risk management would be useful.

The respondents provided, among other things, the following suggestions for additional guidelines on risk management and internal control:

- **More integration.** Develop a conceptual framework and guidelines on how to integrate risk management and internal control systems, from the strategic to the operational level, and to build it as part of the culture and routine of the organization. It is more a case of

better aligning [already existing] risk and control guidelines rather than developing new guidelines. Develop guidelines that do not speak of risk management and internal control as separate requirements. Issue a governance guideline in which risk management and internal control are integrated.

- **Global alignment.** No additional country guidelines are needed; instead, complete, coordinated, clear, and concise global guidelines are needed. There are too many guidelines. Respondents would wish to have them standardized worldwide. Additional guidelines are only useful if an internationally harmonized approach is still providing enough flexibility to accommodate the specifics of an individual company.
- **Wider scope.** Not more guidelines, but a broader application, for example, internal control that does not limit its focus to financial reporting, so that it becomes a management instrument and not an instrument to satisfy the auditors.
- **More good practice.** Broader explanation is required of what risk management and internal control is and how it applies to organizations. Articulate good practice in this area, addressing the relationships between risk management and internal control. Better explain how risk management and internal control should complement each other. Provide more practical illustrations and more training courses on the fundamentals.

Overall conclusion question 3.6:

A large majority of 73% of the respondents think that additional guidelines would be useful, especially on integration of risk management and internal control and more global alignment.

4. International Alignment of Risk Management and internal Control Guidelines

This section of the survey asked respondents (a) about the degree of alignment of guidelines on risk management and internal control in their country with foreign guidelines, and (b) their opinion whether (further) international alignment of the various guidelines would be useful.

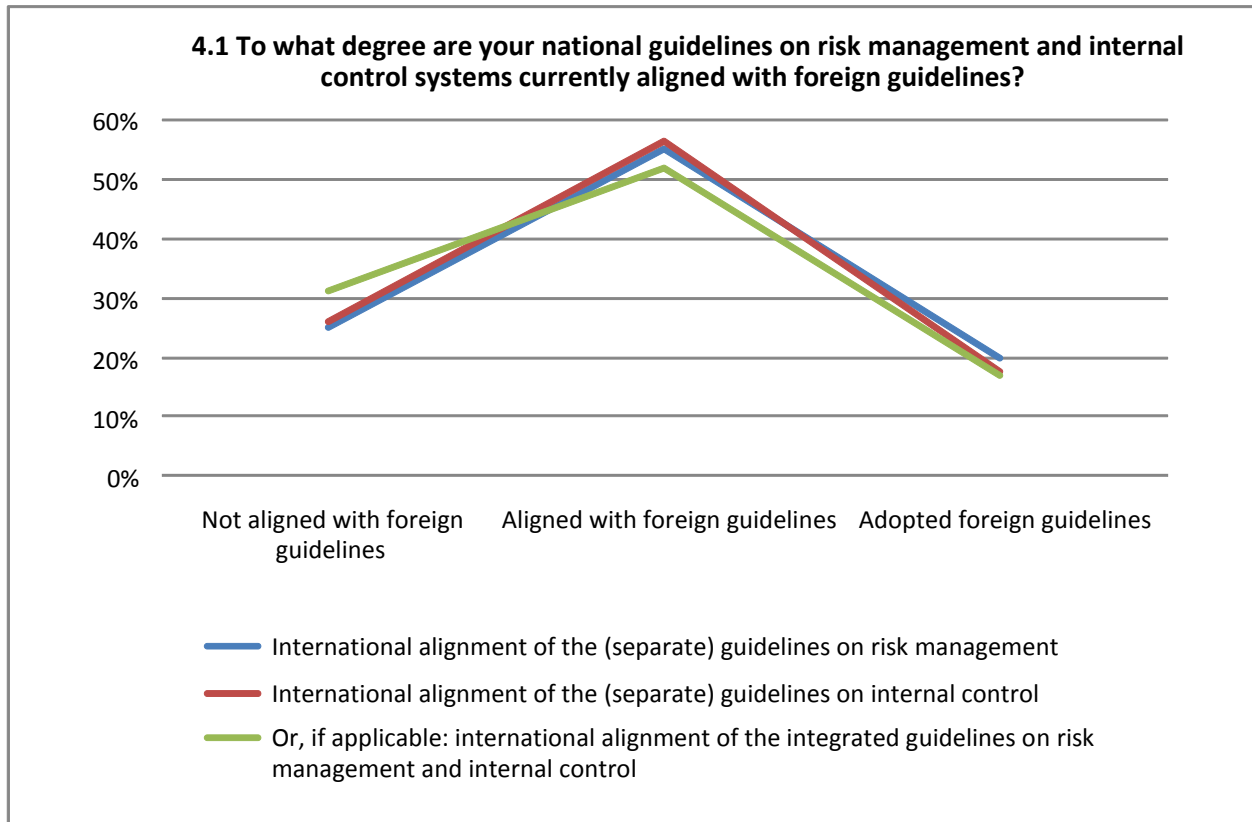
International alignment

The guidelines (frameworks, standards, and/or guidance) on risk management and /or internal control that are applicable in their country might be:

- unique for their country (no specific alignment with foreign guidelines);
- similar to foreign guidelines (a certain degree of alignment with foreign guidelines); or
- adopted from abroad (use of foreign guidelines in their country).

Question 4.1: Alignment of national and foreign guidelines

Question 4.1 asked respondents to what degree their national guidelines on risk management and internal control systems are currently aligned with foreign guidelines.



- **Guidelines on risk management.** Approximately 25% of the respondents indicated that their national guidelines on risk management are not aligned with foreign guidelines; 55% indicated that they were aligned with foreign guidelines; and 20% indicated that they adopted foreign guidelines.
- **Guidelines on internal control.** Approximately 26% of the respondents indicated that their national guidelines on risk management are not aligned with foreign guidelines; 56% indicated that they were aligned with foreign guidelines; and 18% indicated that they adopted foreign guidelines.
- **Integrated guidelines (when applicable).**⁷ Approximately 31% of the respondents indicated that their national integrated guidelines are not aligned with foreign guidelines; 52% indicated that they were aligned with foreign guidelines; and 217% indicated that they adopted foreign guidelines.

From a country perspective, there were some variations. Respondents from Hong Kong and Australia indicated a higher than average degree of alignment of guidelines on risk management, and respondents from the US and the UK indicated a substantially lower than average degree of alignment. With respect to guidelines on internal control, respondents from Canada, Hong Kong, and the Netherlands reported a somewhat higher than average degree of alignment, and respondents from the UK and the US reported a substantially lower than average degree of alignment. With respect to integrated guidelines (when applicable), respondents from the Netherlands and India reported a higher than average degree of alignment, and respondents from the UK, the US and Hong Kong reported a substantially lower than average degree of alignment.

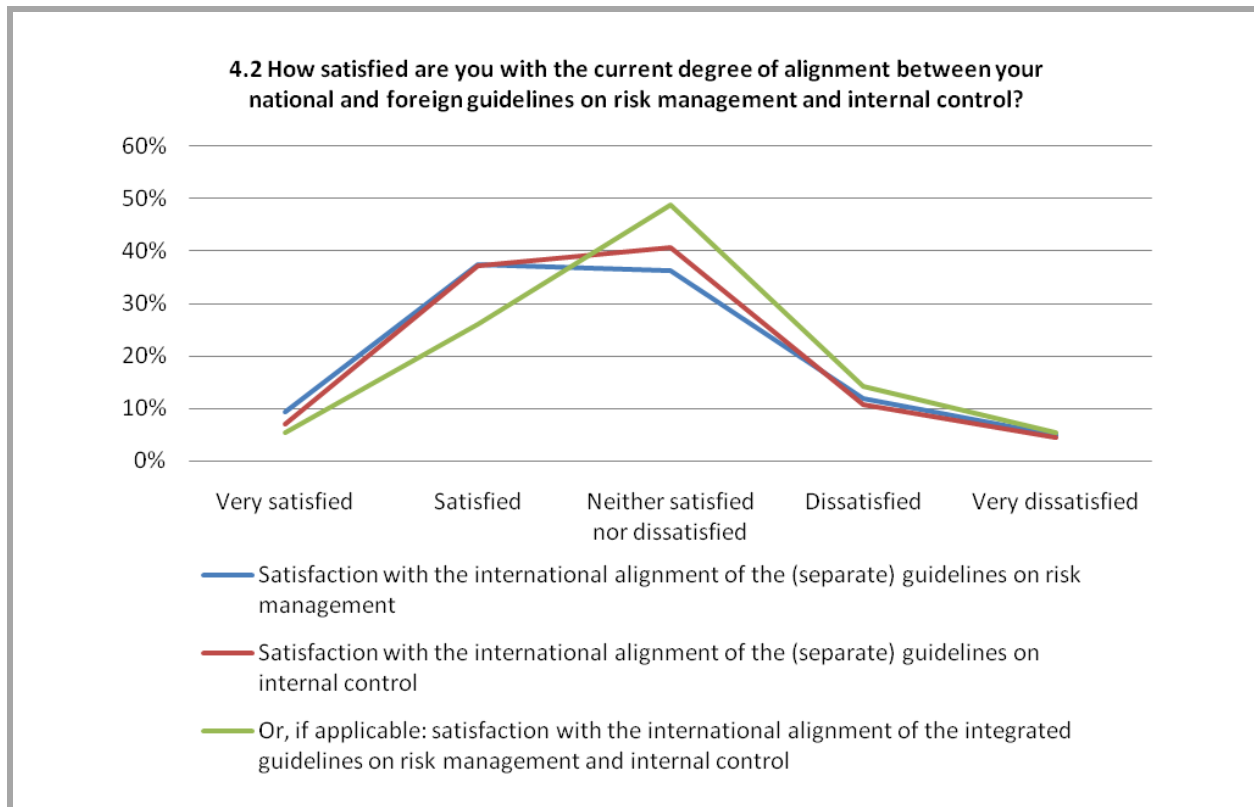
Overall conclusion question 4.1:

Approximately one-quarter of the respondents indicated that their national guidelines on risk management and internal control systems are not aligned with foreign guidelines, one-half of the respondents indicated that their national guidelines were aligned with foreign guidelines, and another quarter indicated that their country had adopted foreign guidelines.

⁷ Many respondents (43%) explicitly indicated that integrated guidelines were not applicable in their country.

Question 4.2: Satisfaction with alignment of national and foreign guidelines

Question 4.2 asked respondents how satisfied they are with the current degree of alignment between their national and foreign guidelines on risk management and internal control.



- Approximately 47% of the respondents is satisfied with the current degree of alignment between their national and foreign guidelines on risk management; 36% is neither satisfied nor dissatisfied; and 17% is dissatisfied.
- Approximately 44% of the respondents is satisfied with the current degree of alignment between their national and foreign guidelines on internal control; 41% is neither satisfied nor dissatisfied; and 15% is dissatisfied.
- Approximately 32% of the respondents is satisfied with the current degree of alignment between their national and foreign integrated guidelines on risk management and internal control; 49% is neither satisfied nor dissatisfied; and 19% is dissatisfied.

From a country perspective, there are some variations. Respondents from Australia are more than average satisfied with the current degree of alignment between their national and foreign guidelines on risk management, and respondents from the US and the UK are less than average satisfied with that alignment. With respect to guidelines on internal control, respondents from Hong Kong and Canada are more than average satisfied, and respondents from the UK and the US are less than average satisfied. With respect to integrated guidelines, respondents from Canada were more than average satisfied, and respondents from the UK were less than average satisfied.

From an organizational perspective, respondents from public sector organizations are more than average satisfied with the current degree of alignment between their national and foreign guidelines on risk management, and respondents from smaller organizations are less than average satisfied with that alignment. With respect to guidelines on internal control, respondents from public sector organizations are more than average satisfied, and respondents from smaller organizations are less than average satisfied. With respect to integrated guidelines, respondents from not-for-profit organizations were more than average satisfied, and respondents from non-listed, micro, and local organizations less than average satisfied.

The respondents provided the following **additional thoughts** with respect to further international alignment between national and foreign guidelines on risk management and/or internal control:

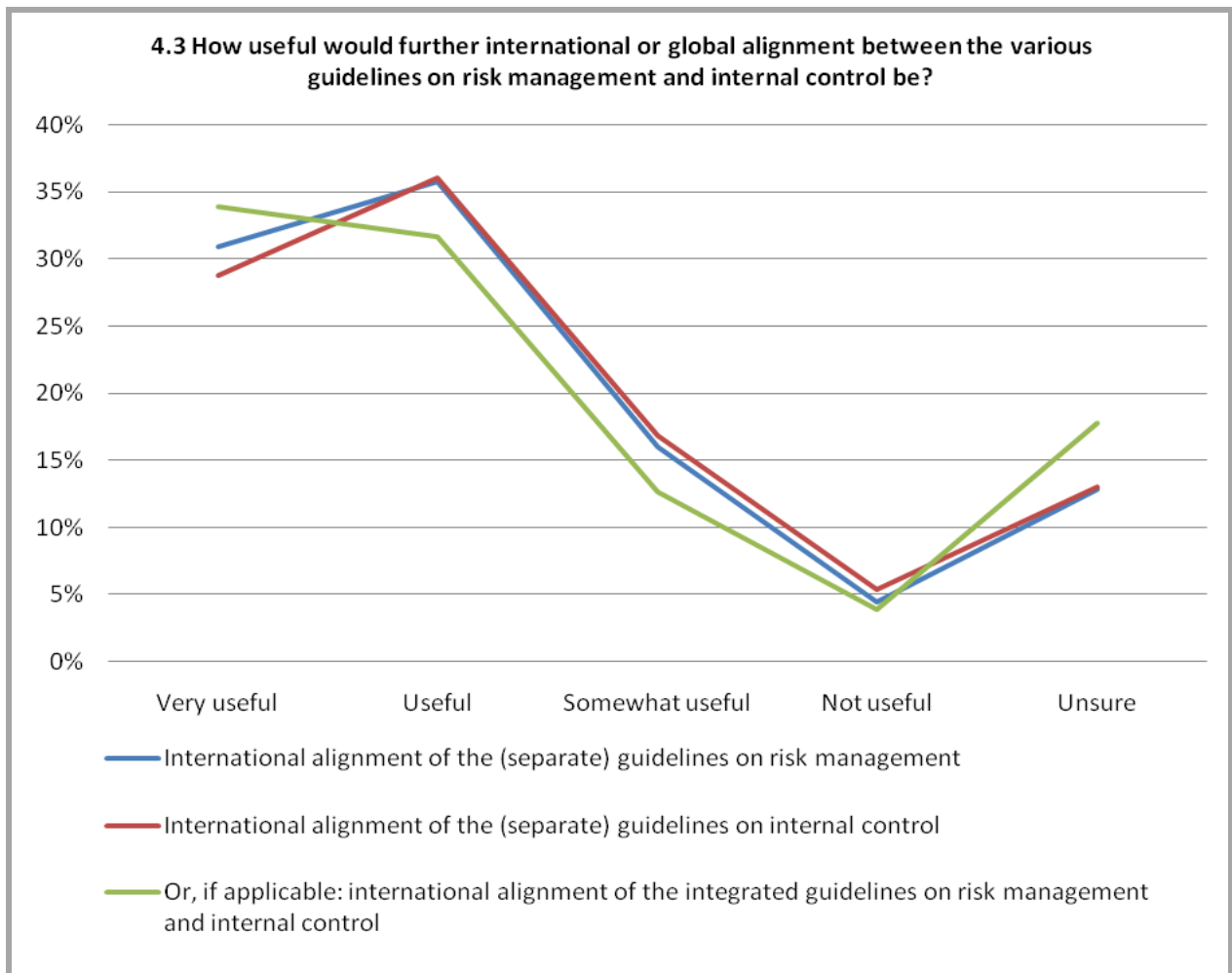
- According to the respondents, globally consistent risk management and internal control guidelines would provide a more level playing field, and would make doing business in multiple countries much easier. Local companies could be more compatible with global markets, and globally consistent guidelines would enable organizations to compare their operational capacity with other organizations in other countries. Further international alignment of risk management and/or internal control guidelines would foster uniformity and compatibility, mostly for companies and industries with cross-border operations, and would reduce costs of implementation and compliance. Regardless of the location of an organization, using the same guidelines would allow better understanding and comparison, and therefore better management of risks.
- It is also a question as to how the various national and international regulators will harmonize their financial, safety, security, environmental, etc., requirements, because harmonized laws and regulations could increase the international alignment of risk management and internal control guidelines. That will require collaboration among and working with national and international regulators from various disciplines to harmonize their management system requirements (for example, minimum standards).
- Globally aligned risk management and internal control guidelines should consist of a “best-of-breed” framework and follow international best practices. They could provide a common language and the ability to discuss and report on risk management and internal control under similar structures. Consistent application could lead to reduction of redundancies and costs. Increased consistency and transparency would improve stakeholders’ confidence and facilitate trade. Globally aligned guidelines would also allow countries that have not yet developed their own risk management and internal control guidelines to align with international best practice. However, according to the respondents, the limitations of the various existing frameworks are not really discussed both nationally and internationally, nor do they see a real discussion on international alignment of risk management and internal control guidelines.
- Respondents also noted that different countries, companies, and cultures have different needs, and adoption of foreign guidelines may not necessarily apply to some areas. Local guidelines could provide a better match for local market conditions. In addition, risk management and internal control in heavily regulated environments are likely to be different and more focused on compliance than in other countries, therefore international guidelines have to be able to accommodate such national differences.

Overall conclusion question 4.2:

Although respondents are, on average, slightly more satisfied than dissatisfied with the current degree of alignment between their national and foreign guidelines on risk management and internal control, a large group is neither satisfied not dissatisfied, or even dissatisfied. In their view, globally consistent risk management and internal control guidelines would provide a more level playing field and would make doing business in multiple countries much easier.

Question 4.3: Usefulness of further international or global alignment between guidelines

Question 4.3 asked respondents how useful further international or global alignment between the various guidelines on risk management and internal control would be.



- A large majority of the respondents (83%) thinks that further international alignment between (separate) guidelines on risk management is useful; 5% thinks it is not useful; and 12% is unsure.
- A large majority of the respondents (82%) thinks that further international alignment between (separate) guidelines on internal control is useful; 5% thinks it is not useful; and 12% is unsure.

- A large majority of the respondents (78%) thinks that further international alignment between integrated guidelines on risk management and internal control is useful; 4% thinks it is not useful; and 18% is unsure.

From a country perspective, respondents from India, South Africa, and from an international perspective generally think above average that further international alignment between the various guidelines on risk management and internal control would be useful. Respondents from the UK and Canada generally think below average that that would be useful, although a majority of them still thinks further international alignment would be useful. Noteworthy is the large percentage of US respondents that is unsure about the usefulness of further international alignment.

From an organizational perspective there are mostly minor differences. A large majority of respondents from all types of organizations thinks that further international or global alignment between the various guidelines on risk management and internal control would be useful.

According to the respondents, best practices, global awareness, and knowledge sharing would be immensely useful in this increasingly globally connected world. The global economy is now largely composed of very interdependent national economies and, hence, corporate governance, risk management, and internal control requirements and guidelines should be harmonized globally. Given the fact that many companies have international activities of some sort, further alignment would facilitate their operations and their compliance processes and would reassure the investment community.

Global alignment would mean using the same language and models, which would lead to increased efficiency and reduced overall risks. International alignment between risk management and internal control guidelines would also prevent “reinvention of the wheel.” As one of the respondents put it, “I don’t want to do the same work in different colors for the requirements by the different countries.” Integrated guidelines would be cheaper to implement and therefore agreeable to most businesses. International guidelines would also be helpful when interpreting national legislative requirements.

As countries and cultures are different, the guidelines need to be customized to meet local business environment conditions. A principles-based approach would allow for flexibility and consistency of practice. A universal core framework in a globalized business world could help keep things simple, while allowing for appropriate tailoring. However, this would not work, according to the respondents, if it becomes a bloated compromise of national guidelines. Broad, overarching guidelines from a largely global perspective, punctuated in specific areas by specific local instructions, should help eliminate national weaknesses and thus strengthen risk management and internal control practices globally.

According to one respondent, “Further international alignment would be an ambitious and difficult project, but the potential benefits are large. Just as we move into a common set of accounting principles, it would be a big advantage to also share a global framework for risk management and internal controls.”

Overall conclusion question 4.3:

A large majority of the respondents thinks that further international or global alignment between the various guidelines on risk management and internal control would be useful.

Question 4.4: Necessary actions for further international alignment of guidelines

Question 4.4 asked respondents what should be done to further align the various guidelines on risk management and/or internal control internationally.

- **Buy-in.** According to the respondents, commitment is required from standard setters and regulators to align risk management and internal control guidelines internationally. Governments need to be involved to give the guidelines “some real clout,” not necessarily in a regulatory manner, but in a clear message of support for internationally aligned guidelines. Regulators should play a vital role by determining what should be the standards to follow and by requiring compliance with them.
- **International collaboration.** Professional bodies should take a lead role in developing ideas and proposals on corporate governance, risk management, and internal control. The various (national) issuers of risk management and internal control frameworks, standards and/or guidance, regulators, and other bodies should recognize each other and align their publications. An international governing body should be set up to further develop and align global guidelines, standards, and good practice guidance with respect to risk management and internal control. Respondents warn, however, to proceed only if there is true belief in collaborative effort. Otherwise it is a waste of resources.
- **Framework.** As with the development of a single international accounting or auditing standard, a comparable international risk management and internal control guideline should be developed. A series of common basic principles should integrate corporate governance, risk management, and internal control. Respondents recommended using already existing guidelines as a common reference, and developing implementation guidelines.
- **Local circumstances.** There is a need to understand the peculiarities of the local environment and to relate them to the international practice to assist in designing a suitable guideline for a country. Individual national guidelines can build on overarching international principles and include specific national dynamics.
- **Due process.** A key component, according to the respondents, is international consultation on topics regarding risk management and internal control. Respondents recommended creating online forums and/or hold international conferences to invite participants to exchange ideas. Draft international guidelines should be widely exposed for consultation.

Overall conclusion question 4.4:

The respondents provided a number of suggestions, as follows: (a) to obtain buy-in from the various stakeholders for further international alignment of risk management and internal control guidelines; (b) to promote collaboration between the various issuers of guidelines, professional associations, and regulators; (c) to agree on an integrated framework and a set of common basic principles; (d) to preserve flexibility to adapt guidelines to local circumstances; and (e) to stimulate international stakeholder consultation on topics regarding risk management and internal control and the associated guidelines.

Question 4.5: Importance of increased international stakeholder participation

Question 4.5 asked respondents how important increased international stakeholder participation and/or an improved international due process⁸ would be for further international alignment between the various guidelines on risk management and/or internal control.



A very large majority of the respondents (89%) believes that increased international stakeholder participation and/or an improved international due process is important for further international alignment between the various guidelines on risk management and/or internal control; only 4% believes that this is not important.

From a country perspective, especially respondents from South Africa and Australia think that increased stakeholder participation is very important, while respondents from Canada and the US think slightly lower than average that it is important. Noteworthy is the relative large number of respondents from the US (21%) who are unsure about the usefulness of such increased stakeholder participation.

From an organizational perspective, there are mostly minor differences. A large majority of respondents from all types of organizations (especially from the smaller organizations) thinks that increased international stakeholder participation and/or an improved international due process are important for further international alignment between the various guidelines on risk management and/or internal control.

Respondents noted the following with respect to increased international stakeholder participation and/or an improved international due process. Globalization of standards and practice relating to risk management and internal control should naturally follow the globalization of economies. International stakeholder participation is critical for global applicability and acceptance. It also creates a sense of ownership with all those involved. Due process gives credibility to frameworks, standards, and guidance. Different countries may have different issues, and alignment can only be achieved when all work to understand and address the variety of issues, including those issues they

⁸ Following due process implies stakeholder participation in the development or revision of a guideline (framework, standard, and/or guidance). A key component is international consultation, including public exposure, before a guideline is approved. It is intended to ensure both the quality and global applicability of a specific guideline.

would not think of from their own perspective. The best global knowledge and the best global solutions should be used to develop generally applicable international guidelines.

Overall conclusion question 4.5:

A very large majority of the respondents believes that increased international stakeholder participation and/or an improved international due process are important for further international alignment between the various guidelines on risk management and/or internal control.

Question 4.6: Improvement of due process for further international alignment

Question 4.6 asked respondents who should do what (a) to increase international stakeholder participation, and (b) to improve the international due process for further international alignment between the various guidelines on risk management and/or internal control.

According to the respondents, professional bodies could conduct research on the international alignment of the various guidelines on risk management and/or internal control, publish discussion papers, and stimulate debate. They should also promote further integration and alignment and advocate at the local level. International organizations such as IFAC and the Institute of Internal Auditors (IIA) should emphasize the importance of risk management and internal control guidelines to the success of every organization.

Issuers of frameworks, standards, or guidance (such as COSO) should involve more international stakeholders to participate and to solicit their views and opinions, for example, via the creation of “communities of practice.” National and international standard-setting bodies and professional associations should collaborate to compile best risk management and internal control practices and to develop harmonized standards and guidelines. They should include industry representatives, as well as other stakeholders, to better understand the risk management and internal control processes and impacts from an implementation perspective.

National and international regulators should collaborate to achieve a common view on regulation and oversight, and should take widely recognized international guidelines into consideration when they introduce new (local) regulations.

Respondents also believe that it could be helpful to academically emphasize integration and international alignment of risk management and internal control guidelines, because new graduates should be prepared to understand and implement those guidelines.

Overall conclusion question 4.6:

To increase international stakeholder participation and to improve international due process for further international alignment of the various guidelines on risk management and/or internal control (a) professional associations could stimulate the debate among their members and others, (b) issuers of guidelines could reach out to the various stakeholder communities to obtain their opinions, and (c) regulators could collaborate to achieve a common view on regulation and oversight.

Finally, the respondents provided the following other comments, recommendations, or explanations that they believe will assist IFAC and the other stakeholders in furthering international alignment of risk management and internal control guidelines:

According to the respondents, the thinking on risk management and internal control has become more integrated, but the tools to enable a genuinely integrated system do not really exist. Further integration and international alignment would be an ambitious and difficult project, but the potential benefits are large. Just as the world moves to a common set of accounting principles, it would be a big advantage to also share a global framework for risk management and internal control.

The most important consideration is to have clear and simple guidelines that can be widely understood, adopted, and enforced. As one respondent put it: “We need to avoid 300+ page documents that often end up sitting on shelves. Guidelines should be able to be posted on anyone’s office wall and basically read through, understood, and referred to at any time.” Another respondent added, “The road has just begun. Long way to go.”

5. Conclusions and Next Steps

Summary of Conclusions

The more than 600 responses to the survey from across the globe provided important learning points and useful recommendations for further improvements with respect to risk management and internal control systems, frameworks, standards, and/or guidance. Included in the key conclusions were the following:

Risk management and internal control systems

- Most of the organizations with which the respondents to this survey are associated have a formal risk management and/or an internal control system, often required by regulators, stock exchanges, etc.
- Risk management and internal control systems are usually separate from each other. However, a very large majority of respondents believes that they should be more integrated.
- Compared to two years ago, attention to risk management and internal control has increased, including attention to the potential integration of risk management and control systems.
- There is a clear difference in the responsibility for an organization's risk management and internal control: for risk management, it is most often a specific risk officer or line management; for internal control it is most often the finance and accounting or internal audit staff.
- Survey respondents are reasonably satisfied with their risk management systems, their internal control systems or, if applicable, their integrated risk management and internal control systems. However, quite a large group is (a) neither satisfied nor dissatisfied with, or (b) dissatisfied with, their organization's risk management and/or internal control systems.
- More awareness should be created of the benefits of risk management and internal control systems, and these systems should be better integrated into the governance, strategy, and operations of the organization, covering all major organizational processes.

Risk management and internal control guidelines

- Organizations of all types and from the various countries generally use both formal risk management guidelines and formal internal control guidelines.
- Risk management and internal control guidelines are usually separately published. However, a very large majority of respondents believes that risk management and internal control guidelines should be more integrated.
- Attention to risk management and internal control guidelines and to their integration has much increased compared to two years ago, in particular due to the global financial crisis.
- Overall, the respondents are reasonably satisfied with the current risk management and internal control guidelines in their country, although they are somewhat less satisfied with their integration.
- A large majority of the respondents believes that additional guidelines would be useful, especially on integration of risk management and internal control.

International alignment of risk management and internal control guidelines

- Approximately one-half of the respondents indicated that their national guidelines on risk management and/or internal control are aligned with foreign guidelines. Approximately one-quarter of the respondents indicated no alignment, and another quarter indicated that their country had adopted foreign guidelines.
- On average, respondents are fairly satisfied with the current degree of alignment of their national guidelines on risk management and internal control with foreign guidelines. However, a large group is (a) neither satisfied nor dissatisfied with, or (b) even dissatisfied with, such alignment.
- A large majority of respondents believes that further international or global alignment between the various risk management and internal control guidelines would be useful, because globally consistent risk management and internal control guidelines (a) would provide a more level playing field, and (b) would make doing business in multiple countries much easier.
- The various stakeholders should buy into further international alignment of risk management and internal control guidelines and collaboration between the various issuers of guidelines. And relevant regulators should be encouraged to agree on an integrated framework and a set of common basic principles.
- A very large majority of the respondents believes that increased international stakeholder participation and/or an improved international due process are important for further international alignment between the various guidelines on risk management and/or internal control.

Next Steps

According to respondents, national and international standard-setting bodies and professional associations, as well as the relevant regulators, should collaborate (a) to determine the major similarities and differences between the various guidelines, (b) to compile leading risk management and internal control practices, and (c) to consider the benefits of further integration and international alignment of regulations and guidelines in the area of governance, risk management, and internal control. They should include industry representatives, as well as other stakeholders, to better understand the risk management and internal control processes and impacts from an implementation perspective.

Respondents would like to see these discussions lead to the establishment of an international, integrated framework that brings together the overall principles or commonalities with respect to risk management and internal control. To further international alignment, existing national guidelines could be expanded or modified—with allowances made for specific national circumstances—to meet the principles of an international framework.

Further international alignment is an ambitious and challenging goal, but the potential benefits are large. It's up to *all* those responsible for developing, implementing, using, and enforcing requirements and guidelines on risk management and internal control to work together to produce a globally recognized and accepted international framework that is relevant to all. IFAC looks forward to contributing to this collaborative effort.

IFAC welcomes your comments. Please send ideas and suggestions for further IFAC activities in this area to VincentTophoff@ifac.org.

Appendix A: Breakdown of Survey Results

The analysis of the survey results was conducted from the following five perspectives:

1. Analysis of the **full** results, based on all 586 useful responses. Please note that respondents were not required to answer each individual question, so the number of responses per question varies.
2. Analysis from a **country/jurisdiction perspective** (see question 1.2 in the detailed analysis of the survey results (see link below) for an overview of all 80 countries/jurisdictions from which responses were received). The countries/jurisdictions with the largest response (>2.50%) have been individually included in the analysis. These were (sorted by number of responses):
 - a. United States (US, 108 responses)
 - b. Australia (AUS, 86 responses))
 - c. Netherlands (NL, 34 responses)
 - d. United Kingdom (UK, 31 responses)
 - e. India (IN, 29 responses)
 - f. Canada (CA, 25 responses)
 - g. Hong Kong (HK, 18 responses)
 - h. Respondents with an international perspective (INT, 17 responses)
 - i. South Africa (ZA, 16 responses)
3. Analysis from a **type of organization** perspective:
 - a. Financial services organization (listed or unlisted) (Fin)
 - b. Listed non-financial services company (List)
 - c. Unlisted non-financial services company (N.list)
 - d. Public sector organization / government (Publ)
 - e. Not-for-profit organization (N.prof)
 - f. Other (not analyzed as a specific group)
4. Analysis based on the **size** of the respondent's organization:
 - a. Micro (< 10 employees) (Micro)
 - b. Small- or medium-sized (10-250 employees) (Small)
 - c. Large (> 250 employees) (Large)
 - d. Very large (multinational) (Mult.)
5. Analysis based on the **geographical orientation** of the respondent's organization:
 - a. Local orientation (Local)
 - b. National orientation (Nation.)
 - c. International orientation (Intern.)

Please follow this [link](#) to the detailed analysis of the survey results.



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