

How do I know if my GRC system or overall program is effective?

Over the past few years, organizations have focused a lot of time, energy, and resources to design, implement and improve their governance, risk management, compliance, ethics and internal control systems. Some executives are appropriately asking "Is all of this work really working? Are we actually and factually delivering outcomes that really matter?"



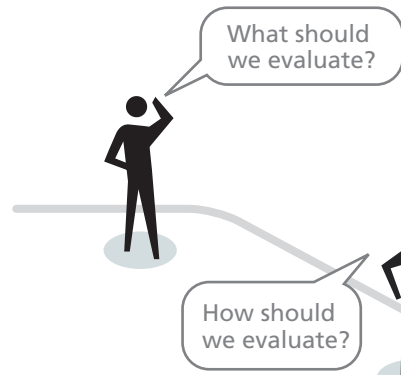
EVALUATING EFFECTIVENESS

Evaluating effectiveness helps management determine if the system under evaluation will provide reasonable assurance that material problems will be prevented or detected and that business objectives are achieved.

EVALUATING PERFORMANCE

Evaluating performance helps management understand if the system under evaluation are delivering business benefits beyond legal compliance and logical effectiveness.

1 RISK ASSESSMENT



2 DESIGN EFFECTIVENESS

Initially, an evaluator will want to know if the system of internal control is effectively designed. To determine this, an evaluator needs to take the risk assessment and, for each risk and requirement, identify what controls and incentives are in place to mitigate the risk. Ultimately, the evaluator must judge if all of these controls and incentives and the system as a whole is designed such that it will reasonably prevent or detect material problems.



LAYERING
Multiple layers of controls and incentives should be put in place to address significant risks and requirements.

CONTROLS
A combination of preventive and detective controls should be put in place to address risks and requirements.

SIGNIFICANT RISKS
The more significant the risk the greater the need to intensify monitoring and evaluation of the controls and incentives designed to mitigate the risk.

INCENTIVES
Management should focus not only on controls, but also on incentives that will promote desirable conduct and prevent (or at least dissuade) undesirable conduct.

OPERATIONAL DATA
Information produced to support general business operations may provide indirect evidence that controls, incentives and the system are operating as designed.



3 OPERATING EFFECTIVENESS

Once the design is evaluated, the evaluator should determine if the system actually operates as designed. An evaluator should analyze a combination of direct and indirect information to determine if they are "persuaded" that the controls and incentives are effectively operating.



Does it work?

TESTING AND OBSERVATION

The most explicit way of understanding if a control or incentive is operating as designed is to actually observe the control in action or via some form of control testing.

DIRECT INFORMATION
Direct information can be used to explicitly demonstrate that the system is operating effectively. Direct information is obtained through either observing or testing the control itself and provides "proof" about the degree to which the control is effectively operating - at least at a point in time.

INFERENCE
Less inference is required when using direct information; more inference is required when using indirect information.

INDIRECT INFORMATION

Indirect information can also be used to infer the degree to which the system is operating effectively. Indirect information is not obtained through observing or testing controls but, rather, through reviewing operational data related to the process that is under (or should be under) control. Examples include operating statistics, key performance indicators and other information that is produced and used in the course of business.



Am I persuaded?

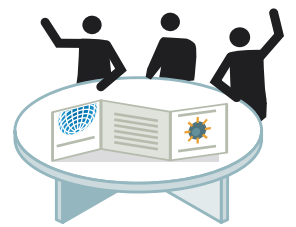
PERSUASIVENESS

An evaluator must analyze the available indirect and direct information from ongoing and periodic evaluation activities. The goal is to determine if this information sufficiently persuades the evaluator that the system is designed and operating effectively.

How much inference is required?

EVALUATORS

Appropriate evaluators should be selected based on the scope and substance of the system under evaluation. To achieve higher levels of assurance, management should use more objective evaluators and ensure that they apply professional standards. Lower levels of assurance can be delivered via self-assessments conducted by less objective evaluators.



4 REPORTING

If the evaluator(s) finds and weaknesses, deficiencies and/or problems, they should report this information to appropriate individuals up to and including the board of directors.