The Power of a Business Architecture Approach to Risk-based Audit Planning

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What are all the things that can go wrong in your life?
What must go right in your life?
What are our objectives today?

✓ Overcome challenges:
  × Different vocabularies resulting in communication barriers
  × Limitations imposed by pre-existing frameworks
  × Difficulty getting horizontal coverage efficiently
  × Relying on risk analyses not anchored in common objectives

✓ Explore tools used in other disciplines to strengthen and enrich the risk-based audit planning process
Resources...
Rick Wakeman from the rock group “Yes”
Keyboard player and composer

Thanks to the advent of the electronic/digital keyboard, he is able to write and play music that can’t be played on a regular acoustic piano.

Because the tools available to him changed, his creative expressions became unbounded.
The seven contributions of ERM

1. **Recognize the upside of risk.** The first contribution of ERM occurs when “risk opportunity” is incorporated into the definition of “risk.”

2. **Identify risk owners.** The second contribution of ERM is to assign a risk owner for every category of risk.

3. **Align risk accountability.** A third contribution of ERM recognizes the importance of aligning responsibility and accountability for risk management with the business model of the enterprise.

4. **Create a central risk function.** A fourth contribution of ERM is the recommendation to create a central risk function. This central risk function is an individual or unit responsible for coordination of risk discussions across the entity.

5. **Create an ERM knowledge warehouse.** A fifth contribution of ERM is the recommendation to create an ERM knowledge warehouse, a risk management decision support system specifically designed to help understand risks.

6. **Involve the board of directors.** A sixth contribution of ERM is the idea that the board must be concerned about the management of enterprise risk if it is properly performing its fiduciary role.

7. **Employ a standard risk evaluation process.** The seventh contribution of ERM is to encourage the use of a viable evaluation process to assess risk.
Align Risk Accountability. A third contribution of ERM recognizes the importance of aligning responsibility and accountability for risk management with the business model of the enterprise. This produces the least disruption of current successful practices while adding a new perspective on and capacity to understand business risk. This contribution recognizes that a business model is the strategy for a specific company’s success. Alignment occurs when risks are grouped together so that they can be managed by a single owner. A business model includes several items. The first is a value to be created for customers or clients. Second is the architecture of the organization, which creates a hierarchy, partnerships, and other structures to deliver the value. Next is the network of employee, partnerships, and other relationships that create and deliver value. Finally, there are resources aligned with the structure that provide capital, assets, and people needed to generate sustainable profits and cash flows. ERM can be fitted to the various units and levels of the business model, ERM is enhanced when key risks have risk owners while internal controls take care of “all” risks. Then, we can use a structure of subrisks to drill down risk ownership into the entity.
One of the important requirements of an effective ERM is alignment with the business model

1. A business model is a framework for achieving goals
2. ERM encourages us to align the hierarchy of risk categories with the business model
3. A business model includes several items:
   - The first is a value to be created for customers or clients.
   - Second is the architecture of the organization, which creates a hierarchy, partnerships, and other structures to deliver the value
   - Next is the network of employees, partnerships, and other relationships that create and deliver value
   - Finally, there are resources aligned with the structure that provide capital, assets, and people needed to generate sustainable a business
4. We can use a structure of subrisks to drill down risk ownership into the entity
5. Create an ERM knowledge warehouse
Overview of our discussion today

1. What is business architecture?
2. How can business architecture help me with audit planning?
3. Where has this been done?
4. What are the benefits and outcomes?
1. What is business architecture?

1. The Open Group Architecture Framework (TOGAF): "Business Architecture describes the product and/or service strategy, and the organizational, functional, process, information, and geographic aspects of the business environment."

2. Object Management Group's Business Architecture Working Group: "A blueprint of the enterprise that provides a common understanding of the organization and is used to align strategic objectives and tactical demands."
1. What is business architecture?

- Enterprise architecture originated out of Department of Defense of United States technology projects (similar to the evolution of project management – now widely adopted)

- Many Enterprise Architecture frameworks exist, including well-known Zachman, Federal Enterprise Architecture Framework (FEA) and TOGAF

- Frameworks allow for modeling and design of organizations to maximize value delivery, with consideration across dimensions (organizational structures, services, processes, information, geographies, technology, data and applications)
1. What is business architecture?

- A business architecture approach begins with modeling the organizational value chain (starting with the question “what are we in the business of doing?”) to understand strategic themes and drivers.

- This value chain is represented visually and provides a meaningful view of the organization that can quickly synchronize and align stakeholders to agree on the key objectives, services and activities that interact and link to deliver value for the organization.

- This view also provides the basis to more thoroughly understand the interdependencies and integration between organizational structures, technologies and information flows across the organization.
A picture says 1000 words
2. How can business architecture help me with audit planning?

- Visually represent what the organization / program is in the business of doing – how is value delivered?

- Different visual views can work – the key is to align and synchronize stakeholders on what is being examined
2. How can business architecture help me with audit planning?

✓ **Synchronize:** Have everyone – auditees, audit team, stakeholders – aligned and anchored on what the organization / program is in the business of doing and how this business gets delivered with a common vocabulary.

✓ **Leverage:** Once everyone is aligned and anchored, perspectives on risk areas can be harnessed for better risk coverage and continued business intelligence.

✓ **Change the lens:** Because the views are newly originated and explored, new interactions, dependencies, risk areas and unknowns are often raised for inclusion in planning.
2. How can business architecture help me with audit planning?

- Beyond the value chain, a business architecture defines the organizational, functional, process, information, and geographic aspects of the business environment.

- The business architecture naturally leads into views and awareness of the technology architecture and information/data architecture, allowing for a more comprehensive view of our increasingly integrated environments.

- By continually validating the views and understanding visually (starting from a baseline), the iterative learning accelerates effective audit planning and often generates value in itself.
3. Where has this been done?

- Internal audit of new / modernized program
- Internal audit of complex, integrated environment with multiple organizations and functional units involved
- Internal audit planning using robust views of the organization beyond the Program Activity Architecture

TOGAF provides an open standard and promotes methods of assembling cross-functional perspectives through activities such as facilitated workshops. The methodology is openly available, making it a sustainable approach.
4. What are the benefits and outcomes?

- **Integration and alignment:** Business architecture methods enable a well-integrated risk management approach to align with strategic planning.

- **Cross-disciplinary views:** Many strategic internal audits need professionally diverse skills and experiences to deliver more effective risk coverage, including across functional areas of higher operational risk.

- **Understanding complexity:** For large transformations, modernizations or strategic programmatic initiatives, understanding the business, technology and information architectures is a first step to identifying the inputs, outputs, interdependencies and high-risk areas across functional seams.

- **Emergent “value added”:** Business architecture approach of facilitation brings operational teams together for value-added insights throughout the audit process, in addition to ultimately delivering audit results that are immediately tied to the organization’s value chain and ultimate “so what?” questions.
Appendix

Walk-through of how approach can be applied for risk-based planning
1. Value chain
Define value chain for the organization to establish common orientation and **vocabulary**

2. Objectives
1. Establish perspectives from which objectives should be defined and identify how to engage and incorporate necessary **view points**
2. Define control objectives in linked manner aligned to the value chain in **business terms**

3. Linkages
Define **inter-dependencies** and linkages between objectives according to the hierarchical structure defined (objectives are nodes)

4. Risks
1. Establish **relationship** between risk events and control objectives
2. Define weights and frequency
3. Define dimensions of impact and establish likelihood definitions for risks of control objective failing

5. Model
Develop model to account for objectives, linkages and risks and identify sources of **business intelligence** to assess risk level and test scenarios and monitor risk on an ongoing basis and improve business outcomes with **better decision making**