



Training For The New Era Of Risk Management

By Len Filppu

The Sarbanes-Oxley Act of 2002 ushered in a new era of heightened awareness of risk management for banks. While the banking industry has long been one of the most regulated in American industry, section 404 of Sarbanes-Oxley ups the ante. Essentially, it requires most banks to issue an annual report containing management's assessment of the effectiveness of the internal control structure and procedures for financial reporting, and quarterly reports on whether any controls have changed and their impact on financial reporting. Additionally, the bank's external auditors must attest to and report on the assessment made by management.

Since the job is certainly bigger than the office of the bank's risk assessment manager, how can bank management comply thoroughly yet cost-effectively with these new regulations? The answer is proper training. Savvy banks are using compliance with Sarbanes-Oxley as the motivator to devise a simple yet comprehensive training program that informs and motivates all the bank's business managers who have a stake in the risk management equation. Whether you train bank staff internally or use an independent consulting firm to organize the process, the result can be a self-running program that provides an insightful understanding of your bank's risk management issues on a department-by-department basis each quarter.

The first and most important step toward risk management training is to gain the solid support of your bank's CEO. Persuade the CEO to send a memo to managers stating that the risk assessment training program is a priority project that should be treated accordingly. After all, Sarbanes-Oxley does have teeth that hold the bank's CEO and CFO to much higher legal standards than before.

Each bank business manager must then learn the techniques and terminology of risk assessment, as well as its implementation within his or her specific department. A risk assessment template should be developed for each business unit documenting its key business objectives, related threats, control procedures, and responsible parties.

A word of caution here: One of the biggest problems facing risk assessment managers trying to train business managers is the cacophony of confusing jargon, latest buzzwords, and faulty interpretation of regulations that conspire to create a formidable barrier to understanding. Break down that wall. Be clear, use simple language and concepts, and engage managers one-on-one to be certain they understand.

Several banks have been successful holding one-half day training seminars for all appropriate business managers to outline and communicate the overall objectives and procedures of the risk assessment program. The risk assessment manager should also meet personally with each business manager to go over questions and issues. Additionally, the bank's internal website can be used as a repository for templates, questions & answers, procedures, deadlines, responsible persons, and the like. Some banks award a small bonus or gift to managers who fulfill their risk assessment training responsibilities.

Each bank business department manager should understand and work with a basic risk assessment template that is based upon the following elements:

- a) The department's business objectives
- b) Threats and risks to the department's objectives
- c) List of controls that reduce threats and risks

- d) The person or position responsible for the control
- e) The procedure that maps to the control.

As the bank's risk assessment manager receives the results from all the business units, the information is compiled into a report that is sent to the CFO and the CEO for review and approval on a quarterly basis per Sarbanes-Oxley. The report is then sent to the Risk Management Committee, the Board, and appropriate bank executives. Follow up by reviewing the results quarterly with individual department managers. This process satisfies Sarbanes-Oxley as well as FDICIA and overall banking risk management requirements.

The beauty of this simple approach to risk assessment training is that once the process is up and running, the business departments routinely generate the required information on a regular quarterly basis, making risk assessment compliance easy and cost-effective for the bank to run and maintain going forward.

Steps to Training Staff for Effective Risk Management

- 1) Get buy-in from the CEO
- 2) Develop risk assessment templates for all bank business units
- 3) Conduct training seminar for all business unit managers
- 4) Use clear, simple language to explain process
- 5) Meet one-on-one with managers to discuss specific department details
- 6) Store resource material on internal intranet
- 7) Send compiled results to CEO, CFO and Risk Management Committee
- 8) Review results quarterly with business unit managers.

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