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## How reliable are Spreadsheets?

Those of us who rely moderately or heavily on spreadsheets and other desktop applications are generally complacent about the controls over the creation and distribution of financial information generated in this form.

That is, an unrealistic comfort level has arisen based on trust [or perhaps blind faith] over the controls that users have concerning the creation and use of financial information. Mitigating this risk is even more critical where spreadsheets have business use or relevance to financial assertions, general ledger and financial statement accumulations.

Consider the following inherent data integrity risk [i.e., accuracy, completeness, validity]:

- Input errors;
- File development, changes, versions, logic checks on key cells containing calculations or links;
- Inappropriate modifications by others;
- Key data protection and security;
- Nature and extent of review of output.

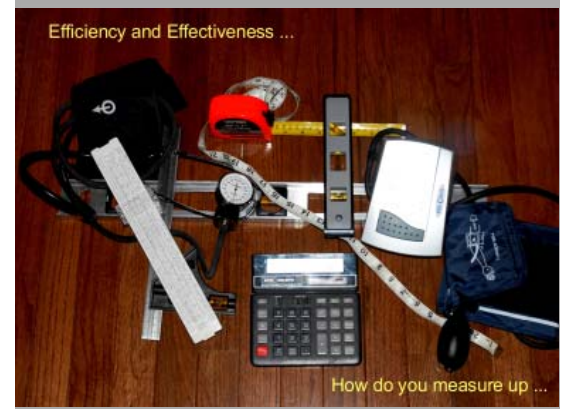
**What to do?** Colin Flood, CIA proposes five key principles in an *Audit Challenge* newsletter:

**1. Log / Catalogue:** Using a risk based approach, gain an understanding of the spreadsheets used by area, the financial statement risks and the controls. Create an inventory of each relevant spreadsheet.

**2. Assess relative risk:** Determine the criticality of the spreadsheets in terms of financial risks, usage and complexity. Usage can be categorized as *Financial* [supports/determines financial statement amounts], *Analytical* [reasonability analysis, disclosures] and *Operational* [logging/tracking data].

Criticality is based on structure/complexity: *High* [complex calculations, modeling], *Moderate* [simpler calculations such as using formulas to total certain fields]; and *Low* [used for logging/tracking].

Generally, a spreadsheet is critical if (i) it is used in the financial reporting process, (ii) directly impacts initiation, authorization, recording, processing or reporting of financial transactions, and (iii) the spreadsheet [or aggregate of all related sheets]



transacts a significant dollar value in the process.

Where a sheet is [or is part of] a key process control, such sheet would also be critical. A control design assessment should dictate the strength of the control environment.

**3. Evaluate "as is" controls:** By walk-throughs with business units, prepare an evaluation of the extent of controls by considering these objectives:

- Input data is accurate, complete and authorized
- Data is processed as intended
- Stored data is accurate and complete
- Output is accurate and complete
- Processing is tracked [input / storage / output].

In this process, consider the strength of management review controls to capture data errors or anomalies.

**4. Remediation:** Action plans should be developed to address deficiencies and mitigate the risks which may result in inaccurate financial information and inappropriate business decisions.

**5. Sustainability, Awareness, Acceptance:** Instilling an awareness of the importance of controls over spreadsheets will help gain acceptance of the need for these controls. Once installed, the reliability comfort zone over the use and management of financial information will improve and be easier to sustain.

SM

## SUSTAINABILITY: GOING GREEN

To promote an environmentally, socially and economically sustainable community, many are engaged in campus key initiatives to help McMaster reach this goal. The former A.C.T. Office (All-modes Commuting and Transportation) has been transformed to encompass a more university-wide sustainability focus. Kate Whalen, Manager, Sustainability will help coordinate sustainable initiatives.

The Office of Sustainability will take a holistic approach to include Environmental factors [Waste, Water, Energy, Alternative Transportation, Campus Buildings and Green Space], as well as Social factors [Health & Wellbeing and Education]. The Sustainability Steering Committee will be working closely with Kate to help engage the campus community. The committee holds open meetings quarterly, so feel free to attend.

The new Sustainability Website includes information about recycling, sustainable courses offered at McMaster, L.E.E.D. Certified buildings and tips on how to 'green' your everyday routine. The main page of the website also includes a list entitled 'Did You Know', aimed at communicating facts related to Sustainability @ McMaster University. This list is updated weekly so be sure to check back often. Also, look for the Sustainability Office Audit that can be used as an educational tool to help green your office and will be incorporated in the Internal Audit program.

Through innovation, communication, community and implementation, the Sustainability Office aims at campus wide engagement to work toward fostering a culture of sustainability. For more information visit <http://sustainability.mcmaster.ca>

KW

# RISK MANAGEMENT

## PART II: REPUTATION

**“It takes many good deeds to build a good reputation, and only one bad one to lose it.” - Benjamin Franklin**

In 2004, McMaster undertook an entity review process entitled “Enterprise – Wide Risk Management”. Basically, the process involves the examination of McMaster’s mission and the key risks which it must mitigate and deal with effectively in order to meet its objectives.

Through a series of meetings, a group of key stakeholders compiled a “risk universe” and concluded that there were eleven high level risk categories, 10 of which are listed below:

### Leading and Managing

Government Relations  
Partner Relations  
Leadership  
Competitor Awareness  
Change Readiness

### Resources and Processes

Technology  
Student Experience  
Physical Infrastructure  
Financial  
Human Capital / Relations

Each category was rated [1 to 5 scoring] for two variables: risk event **likelihood of occurrence** and its **impact**. The product of the two variables provides a composite score for each criteria, firstly without considering mitigation and secondly, considering the effectiveness of the mitigation plan. For example, the highest [most risky] unmitigated score may be judged 25 for a particular risk element [i.e., 5 x 5], but 15 after mitigation. This approach requires sound judgment, relying heavily on the knowledge and experience of the respective risk champions.

The consolidation of these category ratings provides a schematic of the critical risks which need to be addressed, and an insight of the **eleventh** risk: the perception of our **Reputation**. Reputational Risk is defined at Mac as:

*“the failure to establish or maintain the University’s reputation, which impacts its ability to achieve its mission, goals and strategies.”*

Figuratively, the Risk Management equation might be stated as:

$$Or = Sr \times Scr$$

Where: Or = Overall reputation risk  
Sr = Stakeholder risk, and  
Scr = Specific category risk

**Annually**, the Office of the Vice President [Administration] and Internal Audit meet with key “risk champions” to review and update the Risk Category “Registers” which articulate the:

- key risk criteria within each risk category
- results of the prior year’s mitigation strategy
- ranking the risk criteria by composite scores [high, medium, low risk]
- summary of the action plans to address the risks [who, what, when] in the new cycle.

This process is currently underway, the results of which will be presented to the Audit Committee at its May meeting.

And finally, some food for thought: Peter Drucker, widely considered to be the “father of modern management” once said, “All management ... is risk management”. Think about it.

Ed.

## Processes:

Are you frustrated by a process element or design and looking for a “fix”? Perhaps we can help.

Using our techniques, methodology and software, our consultants can help you:

- document process design and controls
- review process inputs, activities and outputs
- evaluate process strengths and weaknesses
- evaluate forms design
- consider process risk elements
- provide performance improvement opportunities.

If you are interested in exploring ideas for process design efficiency, effectiveness and accuracy, or enquire about technology tips and techniques, call Jorma Larton.

## ETHICSPPOINT

McMaster is committed to the highest standards of integrity. It is our policy to investigate any alleged dishonest or fraudulent activities related to funds or property owned by, or in the care of, the University.

The Dishonest or Fraudulent Activities **Statement of Policy** provides a framework for reporting non compliance, dishonest and fraudulent behavior. If you have cause to make a report, please use the following link:  
[https://secure.ethicspoint.com/domain/en/report\\_custom.asp?clientid=15480](https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=15480)

For more information, please visit:  
<http://www.mcmaster.ca/internalaudit/>

### McMaster University

Internal Audit Department  
Downtown Centre  
Room 509  
1280 Main Street West  
Hamilton ON L8S 4L8