### SUPERIOR UNIVERSITY

****

***Risk Management***

***SUBMITTED***

***TO***

***Mam. Maryyam Khawar***

***BY***

***Abu baker 11353***

***MBA Finance***

***5th Semester***

***Section (A)***

**Risk and its Management**

**Risk** is described as there is any situation where there is uncertainty about what outcome will occur. The probability that an actual [return](http://www.businessdictionary.com/definition/return.html) on an [investment](http://www.investorguide.com/definition/investment.html) will be lower than the [expected return](http://www.businessdictionary.com/definition/expected-return.html).

**For example**

Industry risk

Following are the risks that Sugar mills, Leather industry and cotton mills were face:

* Change of fashion
* Inventory
* Secrecy
* Raw material
* Prices
* Govt.polices
* Plant
* Foreign currency
* Inflation
* Safety risks

**Risk Management**

The process of identification, analysis and either acceptance or mitigation of uncertainty in investment decision-making.

In specific sense risk is describe variability around the expected value and sometimes it describes as expected losses.

**For example**

50 million invest by investor and he think that what he invest it returns to him by increase or decrease in original invested amount, and that thinking of return of investor is expected value.

**One situation is riskier that another if it has greater**

* Expected loss
* Uncertainty (variability around the expected loss)

**Risk is costly**

Greater risk usually implies greater cost

**For example**

2 houses located in attractive locations

Both value say Rs 10 million

Scientist announce that there might be a chance of 1 house hit by lightning

If measure probability 1 house hit by lightning with 0.1 and other house lightening hit is zero

1 house completely destroy if it hits (Rs.10 million would be lost)

Expected loss of one house is greater by an amount equal to 0.1 times Rs 10 million or Rs 1.0 million if owner sell house immediately

Rational people would pay at least less than 1.0 million

Thus, greater risk ---in the sense higher expected losses ----is costly to the original homeowner.

**Direct verses Indirect Expected Losses**

When considering the potential losses from a risky situation, one must consider indirect losses that arise in addition to direct losses.

**For example**

If meteor destroyed the house then the direct loss would be Rs 10 million

**Indirect losses** arise as a consequence of direct losses

**For example**

When a person’s car damage the times spend getting it repaired is an indirect loss.

**Types of indirect losses**

1. Loss of normal profit (net cash flow)
2. Extra operating expenses
3. Higher cost of funds and foregone investment
4. Bankruptcy costs (legal fees)

**For example**

Damage to productive assets can produce an indirect loss by reducing the normal profit that asset would have generated if that damage not occurred.

Large direct losses also lead also can lead to indirect losses. If they threaten the viability of the business and thereby reduce willingness of customers and suppliers to deal with the business or change the terms at which they transact.

**For example**

If sales of production are reduced in response to direct losses that certain types of normal operating expenses may not decline in proportion to the reduction in revenues, thus increasing indirect losses.

**Direct risk**

When supplier goes and another supplier comes it is related to direct risk.

If long interruption in production would cause many customers to switch suppliers, the firm has binding contractual commitments to supply the products, may be firm to increase operating cost above normal levels following direct losses.

**For example**

Some businesses may find desirable to maintain production by leasing replacement equipment at a higher cost so as to avoid loss of sales. The increased operating cost would create an indirect loss.

**For example**

A business decide to recall defective products that have produced liability claims will incur product recall expenses and perhaps increased advertising costs to reduce damage to the firm’s reputation.

**Types of risks facing businesses and individuals**

**Business risk Personal Risk**

Price risk Credit risk Pure risk Earnings

Output price risk Input price risk Damage of Assets - disability

Commodity price risk Legal liability -aging

Exchange rate risk Worker injury - unemployment

Interest rate risk Employee benefit - death

Medical expense

Liability

Auto Home

Physical assets

Auto Home Jewellery Electronics Financial assets

Shares Investment

Longevity

1. **Business risk**

A business risk is a circumstance or factor that may have a negative impact on the operation or profitability of a given company.

**Major types of Business risk**

* Price risk
* Credit risk
* Pure risk

1. **Price risk**

It refers to uncertainty over the magnitude of cash flows due to possible changes in output and input prices

**Types of price risk**

* 1. **Output price risk**

It refers the risk of changes in the prices that a firm can demand for its goods and services.

**There are three types of price output risk**

1. **Commodity price risk**

It arises from fluctuations in the prices of commodities.

**For example**

Forces behind a specific product price increase or decrease such as coal, cooper, oil, gas and electricity that are input for some firms and output for others.

1. **Exchange rate risk**

For many firms the output and input prices for many firms affected by fluctuations in foreign exchange rates.

**For example**

Yoro and dollar rate increase or decrease.

1. **Interest rate risk**

Output and input prices also fluctuate due to changes in interests rates.

**For example**

Increase in interest rate may alter a firm’s revenues by affecting both terns of credit allowed and spend with which customers pay for products purchase on credit. Changes in interest rates also affect the firm’s cost of borrowings funds to finance its operations. Changes in interest rates affect value through their effect on the present value of the firm’s net cash flows, as reflected in the values of the firm’s assets and liabilities.

* 1. **Input price risk**

It refers to that risk of changes in the prices that a firm must pay for labor, materials, and other inputs to its production process.

1. **Credit risk**

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised.

**For example**

The risk of loss due to a debtor's non-payment of a loan

1. **Pure risk**

The only consideration is the possibility of loss or a situation that can only become a loss.

**For example**

The possibility that a person's house will be destroyed due to a natural disaster is pure risk.

**Types of pure risk**

1. **Damage of assets**

The risk of reduction in the values of business assets due to physical damage, theft and expropriation

**i.e.** Seizure of assets by foreign government.

1. **Legal Liability**

It harm for customers, suppliers, shareholders and other parties.

**For example**

A person is legally liable to his wrong doings which cause damages to third parties body, reputation or property. He can be legally sued and the most horrible thing is there is no maximum in the compensation amount if you are found guilty.

1. **Worker injury**

The risk associate with paying benefits to injured workers compensation laws and risk of legal liabilities for injuries or other harms to employees.

**For example**

Employees work in iron melt company here is a chance of swear kind of injury so in order for harm injury to employees occur then according to compensation law company compensate them and use some tools to avoid that kind of injuries.

1. **Employee benefit**

Companies have agreed to payments under employee benefits plans including obligations to employees under pension and other retirement saving plans.

**For example**

Risk of death, illness and disability of employees and some family members of employees to cover that risk company can get insured their employees or other retirement saving plans to cover those risks.

1. **Personal risk**

This is the risk that affects the income earning capacity of an individual.

**For example**

Death, disability, illness, accident, unemployment.

**Types of personal risks**

1. **Earnings**
   1. Disability
   2. Aging
   3. Unemployment
   4. Death

**For example**

It refers to potential fluctuation in the families, earnings which can occur as a result of decline in the value of income earners productivity due to death, disability, aging or a change in technology.

1. **Medical expenses**

Health expenses

1. **Liability**
   1. Auto
   2. Home

**For example**

It suits for non-payments of motor vehicle/house lease payment.

1. **Physical assets**
   1. Auto
   2. Home
   3. Jewellery
   4. Electronics

**For example**

A family also faces the risk of a loss in the value of the physical assets that it owns. Automobiles, homes, jewellery, and computers can be lost, stolen, or damaged.

1. **Financial assets**
   1. Shares/stocks
   2. Investments/bonds

**For example**

Financial assets, values also are subjects to fluctuations due to changes in inflation and changes in the real values of shares and investments.

1. **Longevity**

Finally, longevity risk refers to the possibility that retired people will outlive their financial resources.

**For example**

Retirement pathetic benefits

**Comparison between Pure Risks and its management with other types of risks**

1. The pure risk never results in profits/gains, meaning that they never affect the business value positively. Whereas other types of risks result in profit to certain parties and losses to others

**For example**

When Input prices increase, suppliers will make profit whereas manufacturers will suffer losses

1. Pure risks can only be covered by Governmental parties (GOSI) or Insurance contracts. Damage to assets can for example be covered by a “Property All Risks” policy; Legal Liability can be covered by “Comprehensive General Liability” policy; workers injuries can be covered by “Workmen Compensation” policy and finally employees’ benefits can be covered by “Life and  Personal Accidents” policy.
2. Pure risks can, to a certain extent, be controlled. For example, additional precautions can help reduce the severity and frequency of a pure risk. Oppositely, other risks cannot be controlled because they are affected/influenced by external/out-of-hand changes and alterations such as rises and falls in Exchange and/or interest rates.

**Risk Management**

Risk Management is the technique aiming at the control of the severity and frequency of the risk.

**Risk Management Process**

The secret to a successful Risk Management plan resides in following the five following steps:-

1. Identifying all the risks

**For example:**

Ice cream melts due to load shedding

1. Evaluating the frequency and severity of those risks

**For example:**

Flood risk for godown storage items

1. Choosing the adequate Risk Management method

**For example:**

Fire in industry

1. Implementing the method chosen
2. Monitoring the method chosen and assessing its convenience to the situation.

**Risk Management methods**

There are three methods for managing risks:

1. Loss control
2. Loss financing
3. Internal Risk Reduction
   1. **Loss Control:**
4. Reduced level of risky activity
5. Increased precautions

Multidisciplinary approach in which human, engineering, and risk [practices](http://www.businessdictionary.com/definition/practice.html) are employed to reduce the frequency or severity of losses When the loss control method aims at reducing the risk’s frequency, it is called “Loss Prevention”; when the loss control method aims at reducing the risk’s severity, it is called “Loss Reduction”. There are two types of loss control. The first is called risk avoidance. It consists of reducing the activity to try and reduce the risk’s frequency and/or severity. The second consists on increasing precautions to try and reduce the risk’s frequency and/or severity.

**Loss financing**

The means by which your company can finance a risk after the event are

* Using cash available at the time
* Borrowing from central funds
* External loans
* Raising additional capital from shareholders
* Retrospectively rated plans

Using cash, central funds or credit lines may dislocate the normal working pattern, though these can sometimes be an efficient answer to a risk financing problem.

Asking shareholders for a contribution after a large loss may be difficult, as the adverse publicity surrounding a large uninsured claim may depress the value of their original investment.

Retrospectively rated plans relate to claims-driven programmed where the “insured” pays a deposit at the beginning of the period and the balance when the claims are known. These programmes maximize cash flow advantages.

[Money](http://www.businessdictionary.com/definition/money.html) consumed in losses, funded either from internal [reserves](http://www.businessdictionary.com/definition/reserves.html)or from[purchase](http://www.businessdictionary.com/definition/purchase.html)of insurance. There are four types of loss financing classified in two categories:

1. **Retention**

Retention consists solely on self-insuring the business Transfer can be insured through three different types of contracts:

Insurance contracts, derivatives (non-insurance contracts) such as forwards and swaps, and finally sub-contracts.

**For example**

Those purchased by a contractor in the name of a property owner to protect the latter’s liability towards third parties resulting from damages caused by contracting works.

**For example**

In construction contract the owner always retain some amount after the completion of project then he give it to the contractor

1. **Insurance**

**For example**

We transfer our risks to pay some lump sum amount to insurance company in order to save our financial losses

1. **Hedging**

**For example:**

Forward, Optional, Future contracts and swaps.

1. Other contractual risk transfers.

**Internal risk reduction**

The [systematic](http://www.businessdictionary.com/definition/systematic.html) [reduction](http://www.businessdictionary.com/definition/reduction.html)in the extent of exposure to arise and the likelihood of its occurrence. Such reduction can be divided into two types:

1. Diversification; and
2. Investment in information

**Diversification**

Diversification is a practice under which a firm enters an industryor [market](http://www.businessdictionary.com/definition/market.html)different from its core[business](http://www.businessdictionary.com/definition/business.html).

Reasons for diversification include

1. Reducing[risk](http://www.businessdictionary.com/definition/risk.html)of relying on only one or few income [sources,](http://www.businessdictionary.com/definition/source.html)
2. [avoiding](http://www.businessdictionary.com/definition/avoiding.html) cyclical or seasonal[fluctuations](http://www.businessdictionary.com/definition/fluctuation.html) by  producing [goods](http://www.businessdictionary.com/definition/goods.html) or [services](http://www.businessdictionary.com/definition/services.html) with different [demand](http://www.businessdictionary.com/definition/demand.html) [cycles](http://www.businessdictionary.com/definition/cycle.html),
3. Achieving a higher  [growth rate](http://www.investorwords.com/2261/growth_rate.html), and
4. Countering a competitor by invading the [competitor's](http://www.businessdictionary.com/definition/competitor.html) core industry or market. In contrast to[vertical integration](http://www.businessdictionary.com/definition/vertical-integration.html), diversification does not increase a[firm's](http://www.investorwords.com/1967/firm.html) market or monopolistic[power](http://www.businessdictionary.com/definition/power.html).

Daewoo produces motor vehicles, motor bikes and electrical appliances

**For example:**

In portfolio management (all eggs not put in a bucket).

**Investment in information**

Investment in information refers to market studies and researches as well as accurate forecasts of cash flows. In some cases, it is recommended to use the expertise of companies specialized in such forecasts and researches.

**Understanding the cost of risk**

The cost of risk is misunderstood. Far too many businesses calculate the total “cost of risk” as the money they pay away in insurance premiums. Nothing could be further from the truth. Insurance – the transfer of risk to a third party – is an efficient method of financing the severity of a risk. Many people consider the insurance premium to be the total cost of risk – but there are “costs of risk” that are not transferred to the third party. In other words the critical components of “costs of risk” include the price paid for insurance and the cost of any uninsured losses.

A company’s decision to insure or retain risk is guided by the cost of insurance relative to the perceived benefit of the protection purchased, the capacity and appetite of the insurance market to accept the relevant risk, the ability and capacity of the company to retain risk, and the relevance the company assigns to the particular risk.

The cost of risk is often misunderstood because it covers such a wide spectrum, namely the entire cost of risk to a business.

Once a company has successfully identified and assessed the many varied risks it faces.

**For example**

fire, explosion and theft, employee risks like staff turnover, loss of key individuals and poaching, regulatory compliance, environmental risks, and business risks relating to the changing market place such as product obsolescence and economic turndown, to name but a few, each risk should is rated in terms of severity and probability.

**Severity and Probability Severity:**

Severity, usually expressed as a financial impact, refers to the impact the event would have on the business.

**For example:**

Would it cause a complete collapse of the business, or just a temporary interruption of business activities should the event occur?

**Probability:**

Probability refers to the likelihood of the event occurring.

**For example:**

The risk of a competitor poaching a key individual from a company is far greater as a result boy the critical skills shortage. While the rating of risks is subjective and unique to each business and its particular circumstances, all companies face a serious risk when high or medium probability intersects with high or medium severity. Hence, actions to mitigate those risks should be taken as a priority.

**Expected Loss**

In general, expected loss as the name suggests is the expected loss from a loan exposure. On the other hand unexpected loss is the loss that exceeds the expectations. In statistical terms, the expected loss is the average credit loss that we would expect from an exposure or a portfolio over a given period of time.

**Unexpected Loss**

The unexpected loss is the average total loss over and above the mean loss. It is calculated as a standard deviation from the mean at a certain confidence level at a certain confidence level. It is also referred to as Credit.

A business will safeguard itself from unexpected losses by allocating capital. Unlike expected loss, the expected loss of a portfolio is not calculated by adding the unexpected loss of individual assets. This is because unless there is perfect correlation, the standard deviation of sum will not be the same as the sum of standard deviation.

**cost of loss financing**

Cost of loss financinginclude

* Cost of self insurance

(To avoid and transfer risk)

* Loading in insurance premium
* The transaction cost in arranging negotiating and enforcing hedging and other contractual risk transfer.

**Consider both Inherent & Residual Risk**

**Inherent**

Risk without any management activity or before controls are in place.

**for Example**:

Inherent risk mitigated by payment card’s policies and procedures.

**Residual**

Level of risk that remains after management has a plan in place to deal with the risk.

**For Example**:

Residual risk remains after payment card policies are in place.

**the nature of risk**

INTRODUCTION

Risk Analysis helps you identify and manage potential problems that could undermine key business initiatives or projects.

Risk is made up of two things: the probability of something going wrong, and the negative consequences that will happen if it does.

You carry out a Risk Analysis by first identifying the possible threats that you face, and by then estimating the likelihood that these threats will materialize.

Risk Analysis can be quite involved, and it's useful in a variety of situations. To do an in-depth analysis, you'll need to draw on detailed information such as project plans, financial data, security protocols, marketing forecasts, or other relevant information.

**Risk Assessment**

A process used to identify and evaluate risks and their potential effect.

Once risks have been identified, the next logical step in risk management is assessment. Risk assessment, as mentioned earlier, measures the probability of an identified risk actually taking place, as well as the amount of loss that would be suffered were the risk to actually occur. Loss and probability are usually placed in a prioritized list, with those risks that are most probable and that stand to generate the most loss given the most attention. In reality, a lot of guess work goes into this phase of risk management as at times it is almost impossible to evaluate and know the true likelihood as to whether a potential risk will occur or not.

**Risk identified**

The identification and classifications of what the risks are and their characteristics

**For example**

Goods store on a godown near to the sea port so in case we assess the risk first of all we identify how the goods can be damage on seaport so flood can damage the store goods here flood is identify of risk

**Risk measurement and evaluation**

The measurement of possible consequences.

**Risk prioritizing**

Once risk has been identified and prioritized according to probability and loss, those issues that are at the top of the prioritized list (those of highest risk) can be addressed.

**Risk Management Methods**

Risk management uses formulas and templates to narrow in on and to identify risk. Which formulas and templates are used is often determined by the industry that they are being practiced in. Some common methods of risk identification are: Scenario-Based Risk Identification, Objectives-Based Risk Identification, Taxonomy-Based Risk Identification and Common Risk Checking.

**Diversify, or avoid the risk**

Changing the nature of the activity to spread the exposure over multiple activities.

**Sharing the risk**

A form of diversification where the parties in the activity take share of risk in the activity. Sharing can be with customers, suppliers or third parties (like insurance)

**Contingency planning**

Establishing the controls for known risks.

**Basic Law of decision analysis**

It states that system ignores uncertainty. An imprecise tool is better than no tool at all. The corolly this rule is that we must not accept too much of risk analysis. Risk analysis is only a guide; we still have a lot of work to do after we assess risk.

**For example**

Risk managers predict future risk.

**Examples of using risk analysis in decisions**

Chief executive needed to make a decision. The headquarters organization had grown and needed more space for operations. There are several alternatives.

1. Purchase land and expand existing facility
2. Build an additional facility
3. Build new modern buildings large enough to handle all the extra capacity and then cell the existing older building
4. Lease additional facilities

The Ceo thought about the sharing the risk and other alternatives came to mind :the organization could outsource or subcontract some of the headquarters functions with a company to share the risk of a downturn in the market. There would be higher cost associated with this rather than doing job in-house, so the opportunity for gain would be smaller than any of the other alternatives.

**Strategic Risk**

[Exposure](http://www.businessdictionary.com/definition/exposure.html) to [loss](http://www.businessdictionary.com/definition/capital-gain-loss-holding-period.html) resulting from a [strategy](http://www.businessdictionary.com/definition/strategy.html) that turns out to be defective or inappropriate.

The primary role of the management is to put assets at risk to achieve objectives.

1. Human
2. Physical
3. Financial
4. Intangible-informational

Your company has back-up data systems, earthquake insurance and other forms of risk protection. But are you prepared to mitigate the many types of strategic risk. These include new technologies that can render your products obsolete, and sudden shifts in customer tastes that could redefine your industry. If you're not thinking about strategic risk, you may be putting your company in danger. To escape this fate, apply powerful countermeasures for each form of strategic risk.

**For example**

To protect against dangerous shifts in customer preferences, gather and analyze proprietary information to detect signs of change. Then conduct fast, cheap experiments to identify attractive offerings for different customer micro segments.

Business risk assessment begins with strategic plans of management and the risks of changing environment.

**Risk terms**

Risk is a concept .It is measure of uncertainty. Positive consequences are known as opportunities and most negative consequences are called threat or risks.

Consequences are tangible outcomes of risk on the decisions, events, or processes. We cannot see he intangible risks. When we think of risks most of us think in terms of consequences rather than the pure probabilities.

**Consequences can vary in severity depending on number of factors**

1. The assets at risk (our exposure)
2. The type of threat
3. The duration of the consequences
4. The effectiveness of controls in place

**Exposure**

It is the susceptibility to loss or a perception of a threat to an asset or asset-producing process, usually quantified in rupees.

**For example**

1.3 m is an amount in which 0.3 million is deposited by customers and 1million is exposure.

**Threat**

It is a combination of risk, the consequences of that risk, and the likelihood that the negative event will take place.

**The duration of the consequence**

It affects the severity.

**For example**

As in most computer centers managers will tell you. If the computer is down for an hour, that’s one kind of consequence. If it is down for a day that’s another. If it is down for a week, the organization is likely out of business.

**Absolute risk**

It is a term for the threats and consequences without considering the controls likely to be present and operating.

**Strategic influence on business risk assessment**

The origin of risk assessment lie in management strategic planning. It tries to take into account the long-term view of operations. The larger the view the more uncertainty that has to be considered. Business can be affected by business development risks related to new markets, business acquisitions and investments, and new products and services, as well as by risks related to brand and reputation.

The inherent risk of any activity is a function of the mix of assets and the nature of the activity.

**For example**

A cash teller operation (ATM) has a degree of business risk within the activity. The asset employed could be:

1. Physical assets (building and furniture etc)
2. Financial assets (the cash)
3. Human assets (teller)
4. Intangible assets (policies and procedures)

**Risk and opportunity**

Risk is the potential of negative results(less than expected) and opportunity is the potential for positive results(greater than expected).[Probability](http://www.businessdictionary.com/definition/probability.html) of [loss](http://www.businessdictionary.com/definition/capital-gain-loss-holding-period.html) arising when [resources](http://www.businessdictionary.com/definition/resource.html) are irreversibly committed for one [opportunity](http://www.businessdictionary.com/definition/opportunity.html) and a better opportunity presents itself. Market volatility, pricing pressures, variations in market performance and demanding stakeholders have all contributed to the global economy that encourages competitive drive. And with that drive comes opportunity.

**For example**

The adidas Group is regularly confronted with risks and opportunities which have the potential to negatively or positively impact the assets, liabilities, financial position and profit and loss of the Group, or intangible assets such as brand image.

**Control**

Control is a term used to describe a process to mitigate risk. Controls are designed into systems to deny risks consequences the opportunities to affect operations and to provide feedback when certain risk consequences do affect operations.

Negative controls create friction that slows the business process from reaching its objectives. Red tape is a characteristic of negative controls and positive controls tend to assist the business process in meeting its goals.

**COSO (Coso stands for committee of sponsoring organizations)**

**Coso is an important step in understanding internal control. One of the most important concepts in coso is the principle of universal applicability: the in internal control process contains the same elements at the lowest level of the organization as it does in the highest level.**

**COSO report defines internal control**

According to COSO, the three primary objectives of an internal control system are to ensure

1. Efficient and effective operations,
2. Accurate financial reporting, and
3. Compliance with laws and regulations.

The report also outlines five essential components of an effective internal control system:

1. **MONITORING**

It covers the external oversight of internal controls by management or other parties outside the process; or the application of independent methodologies, like customized procedures or standard checklists, by employees within a process.

**For example**

CCTV cameras

1. **INFORMATION AND COMMUNICATION**

This support all other control components by communicating control responsibilities to employees and by providing information in a form and time frame that allows people to carry out their duties.

**For example**

Hr policies

1. **CONTROL ACTIVITIES**

The policies, procedures, and practices that ensure management objectives are achieved and risk mitigation strategies are carried out.

1. **RISK ASSESSMENT**

Which involves the identification and analysis by management—not the internal auditor—of relevant risks to achieving predetermined objectives.

1. **THE CONTROL ENVIRONMENT**

It establishes the foundation for the internal control system by providing fundamental discipline and structure.

**Risk Assessment**

Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

**Control Activities**

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

**Step one: Establish objectives**

This enterprise risk management framework is still geared to achieving an entity's objectives; however, the framework now includes four categories: Strategic: high-level goals, aligned with and supporting its mission Operations: effective and efficient use of its resources Reporting: reliability of reporting Compliance: compliance with applicable laws and regulations.

**For example**

Make vision then extract mission from it then make swot on it and last Lto’s make swot and Lto’s vary industry to industry.

**For example**

Make objectives in 2010 by a company that he increase its revenues from 100 to 35% additional revenues in 2015

**Step two Assess risk**

1. Identification
2. Measurement
3. Risk prioritizingonce risk has been identified and prioritized according to probability and loss, those issues that are at the top of the prioritized list (those of highest risk) can be addressed.

**Step three: determine controls required**

The process should determine the controls required to mitigate the risks identified. In control design the efforts should be to design as possible, since each control consumers some amount of resources. Controls should be operating only for the risks with consequences that are material to reaching the goals and objectives. Excess controls are all negative. (Speed bumps)

**COCO**

The Canadian Institute of charter accountant (CICA) criteria of control committee (COCO) has been developing an internal control model that is similar to COSO, but it focus significant differences. Although using same components of control. COCO focus on asking four important questions

1. Do we have the right objectives
2. Do we have appropriate control activities
3. Do we have the capabilities, the commitment and the right environment in place
4. Do we monitor learn and adopt

A person performs a task, guided by an understanding of its purpose (the objective to be achieved) and supported by capability (information, resources, supplies and skills). The person will need a sense of commitment to perform the task well over time. The person will monitor his or her performance and the external environment to learn about how to do the task better and about changes to be made. The same is true of any team or work group. In any organization of people, the essence of control is purpose, commitment, capability, and monitoring and learning.

**The criteria: The COCO Guidance on control**

**Purpose**

1. Objectives should be established and communicated.
2. The significant internal and external risks faced by an organization in the achievement of its objectives should be identified and assessed.
3. Policies designed to support the achievement of an organization's objectives and the management of its risks should be established, communicated and practiced so that people understand what is expected of them and the scope of their freedom to act.
4. Plans to guide efforts in achieving the organization's objectives should be established and communicated.
5. Objectives and related plans should include measurable performance targets and indicators.

**Commitment**

1. Shared ethical values, including integrity, should be established, communicated and practiced throughout the organization.
2. Human resource policies and practices should be consistent with an organization's ethical values and with the achievement of its objectives.
3. Authority/responsibility and accountability should be clearly defined and consistent with an organization's objectives so that decisions and actions are taken by the appropriate people.
4. An atmosphere of mutual trust should be fostered to support the flow of information between people and their effective performance toward achieving the organization's objectives.

**Capability**

1. People should have the necessary knowledge, skills and tools to support the achievement of the organization's objectives.
2. Communication processes should support the organization's values and the achievement of its objectives.
3. Sufficient and relevant information should be identified and communicated in a timely manner to enable people to perform their assigned responsibilities.
4. The decisions and actions of different parts of the organization should be coordinated.
5. Control activities should be designed as an integral part of the organization, taking into consideration its objectives, the risks to their achievement, and the interrelatedness of control elements.

**Monitoring and Learning**

1. External and internal environments should be monitored to obtain information that may signal a need to re-evaluate the organization's objectives or control.
2. Performance should be monitored against the targets and indicators identified in the organization's objectives and plans.
3. The assumptions behind an organization's objectives should be periodically challenged.
4. Information needs and related information systems should be reassessed as objectives change or as reporting deficiencies are identified.
5. Follow-up procedures should be established and performed to ensure appropriate change or action occurs.
6. Management should periodically assess the effectiveness of control in its organization and communicate the results to those to whom it is accountable.

**For example**

In footwear industry1 shoe made in 10 minutes after monitoring and learning of an employee he makes 10 shoes in 10 minutes