



Attitudes towards risk

- It is important to be realistic about what can go wrong while performing a risk assessment.
- Employees may be overly optimistic, rather than skeptical when it comes to assessing risk.
- Management can send subtle signals that pointing out problems is not appreciated.

Employees are motivated to be optimistic and “can-do,” rather than skeptical when it comes to performing their duties. Most people are aware that having a positive outlook reflects well on them, while dwelling on what could go wrong is generally frowned upon. We all want to appear confident in our work, even if outcomes may, in fact, be in doubt.

Understanding how people perceive and think about risk is helpful when evaluating internal controls. For instance, optimism from employees can be a great motivator, but there is also a need for a reality-check. Bad things can and do happen, and a carefully constructed risk assessment should not paint an overly rosy picture but must, instead, identify and consider all significant things that could go wrong.

It is important to be realistic about all possible risks when performing a risk assessment. Part of the risk assessment process is brainstorming about what can go wrong. Do not start the discussion by downplaying any legitimate risks. There needs to be an open atmosphere in order to fully explore all significant business process vulnerabilities.

Managers must be especially aware of the type of atmosphere they are promoting. Management can send subtle signals that pointing out certain risks or problems is not appreciated. Nobody likes bad news, a fact which might lead a manager to associate negative sentiments with the messenger, rather than seriously

considering the information being provided. Some managers may not even want to know about the risks in a particular area, in an attempt to avoid responsibility if things go wrong.

Suggested Action Steps: Think about how agency attitudes about risk influence its internal controls. Here are some internal control framework examples:

Control Environment – Do employees generally feel that they can come to management if they uncover a potential weakness or problem?

Risk Assessment – Are certain risks being downplayed or ignored?

Control Activities – Are some controls easily circumvented without anyone raising the alarm?

Information and Communication – Can employees communicate concerns easily, without fear of reprisal?

Monitoring – Is high value placed on knowing both the strengths and the weaknesses of the agency’s internal control structure?

If you have questions, please contact Brennan Coatney, Internal Control Specialist at (651) 201-8127 or Brennan.Coatney@state.mn.us.