

Assessing the Risk-Taking Nature of Auditors

Scott Paton, Marketing Manager,
Exemplar Global

Geoff Trickey, Managing Director, PCL

How Risk Type influences YOUR professional performance

Geoff Trickey, Managing Director,
PCL

Research

- Exemplar Global collaboration with PCL
- Sponsored the first major international, profession-wide survey of practitioner propensity for risk in 2012
- Explored the implications of Risk Type for Auditing professions and ISO guidelines

In a Nutshell.....

- Audit fieldwork involves:
investigation, observation, interpretation,
formulation, conclusions and recommendations.....
- These all require personal judgment
- Personality (Risk Type) influences your
judgment and the way you make decisions

No Avoiding Personal Judgment

Decision-making draws on both the **analytical** and the **emotional** systems in the brain.

We make decisions **instinctively**

“INNOVATION Managing risk, not avoiding it”

Annual Report of the UK Government Chief Scientific Adviser 2014.

Illusions of Objectivity

- There are no truly objective ways of quantifying risk
- There is no single metric applicable to all kinds of risk
- Measures have to be arbitrary or ad hoc
- We must rely heavily of **JUDGMENT**

Risk Evaluation is Subjective



Risk Evaluation is Subjective



Focus on the risk? – Focus on the person?

The Human Factor

“Risk failures are mostly attributable to Human Factors”

Michael Mazzar, Rand Corporation (RIMS Article)

Negative influence: “overconfidence, personalities, group dynamics, organizational culture, and discounting outcomes”.

Positive attributes: “being careful, informed, self-aware, self-critical, rigorous, and open to information and alternative perspectives”.

Personality and Why it Matters?

Risk and Personality

- We know a lot about personality
- It is clearly defined
- We can measure it very reliably
- It's about human nature
- It is relevant to everyone
- The domain is riddled with risk themes

Risk Themes in Personality

Many risk-related personality characteristics:

- Fearless
- Impulsive
- Complacent
- Curious
- Reckless
- Easygoing
- Casual
- Vigilant
- Anxious
- Inflexible
- Apprehensive
- Cautious
- Organized
- Disciplined

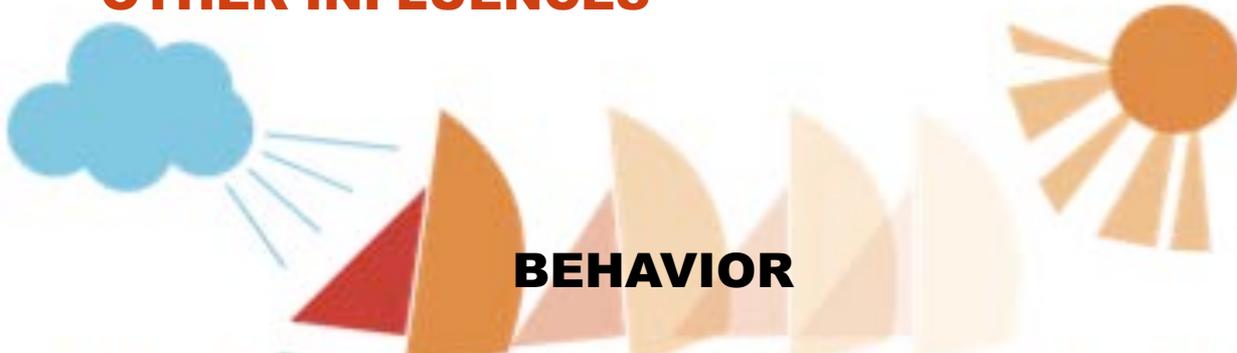
Profiling Risk Personality

- Personality remains stable over adult working life
- It has a persistent and consistent influence on day-to-day behavior
- We ALL have particular personality strengths and limitations
- Personality assessment identifies these deep-rooted individual differences

Balancing Will and Dispositions

- Personality can't choreograph behavior
- We are sentient beings - we have free will
- BUT we have our own behavioral bias
- Your Risk Type is where you are anchored

OTHER INFLUENCES



BEHAVIOR



PERSONALITY

The Risk Type Compass (RTC)

Critical Personality Dispositions

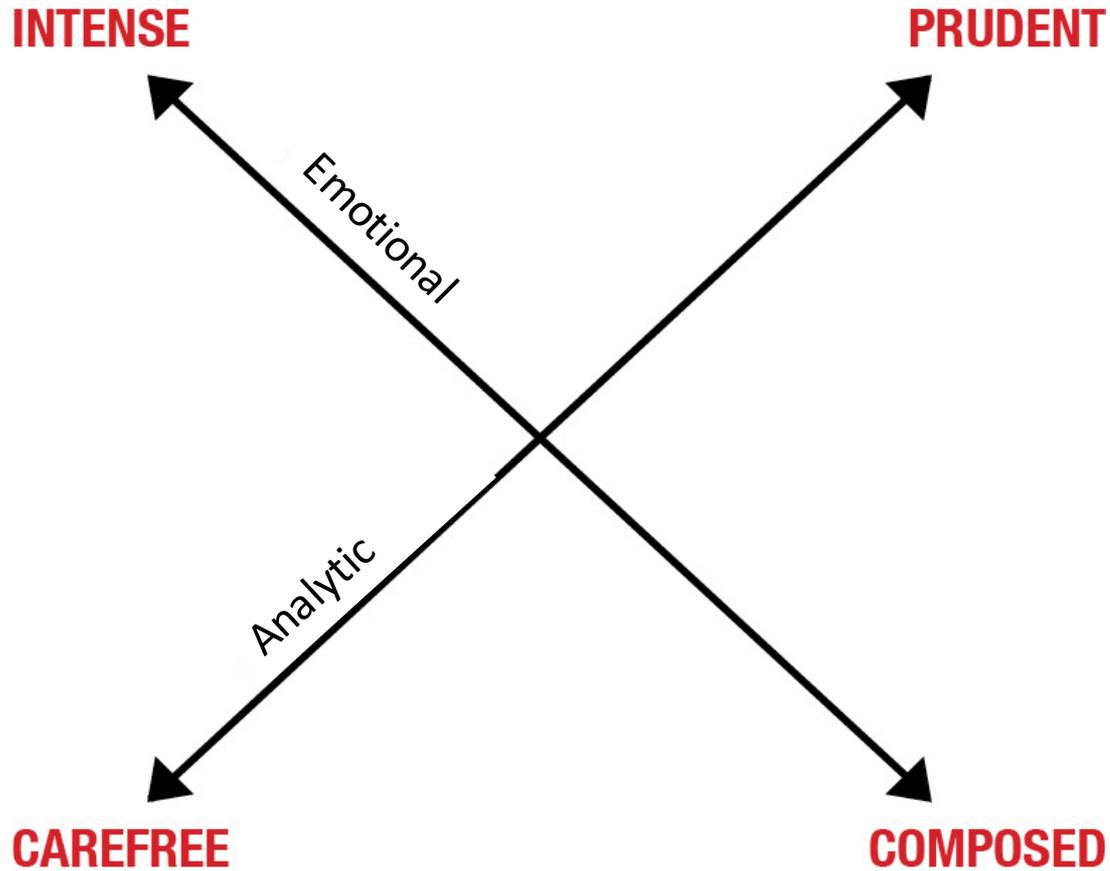
Emotion:

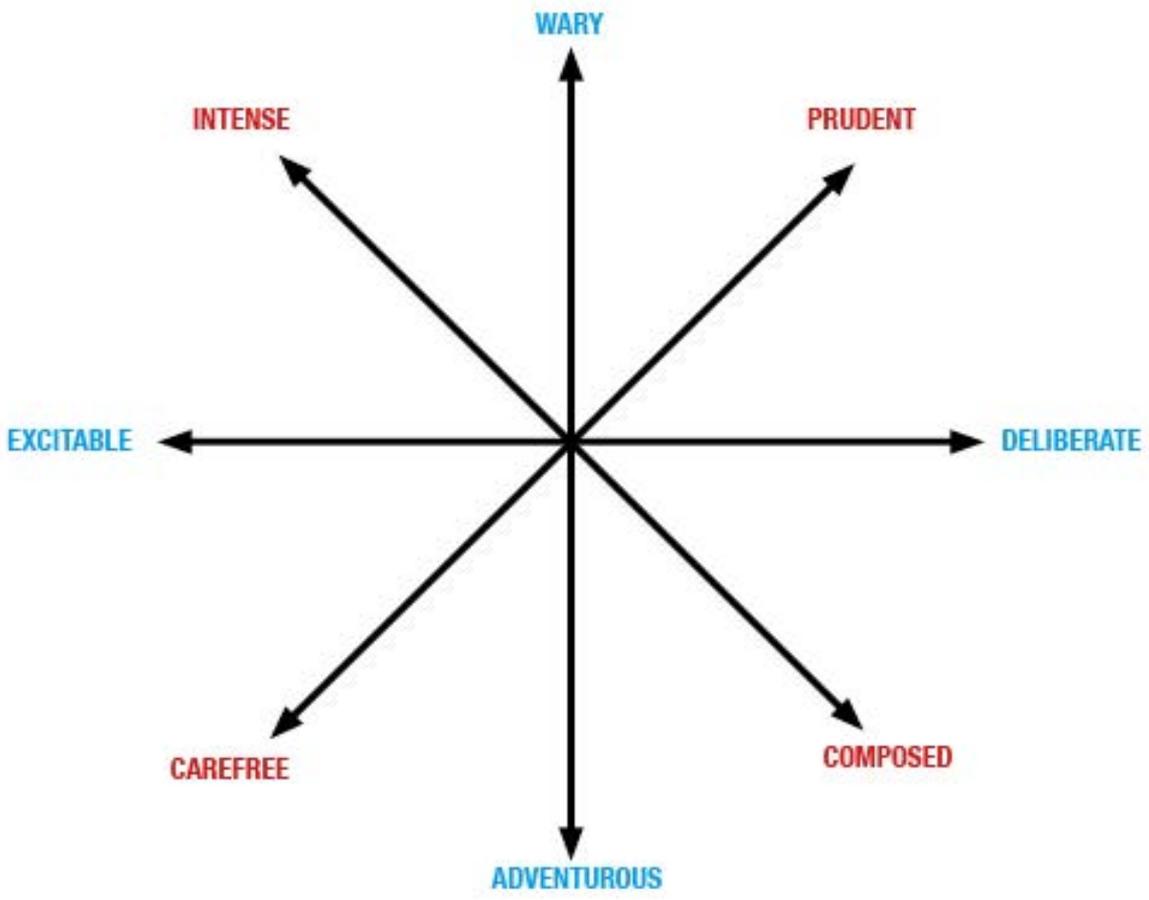
Fearful pessimists.....Calm optimists

Analysis:

Excitement-seekers..... Systematic planners

Risk Type





The Risk Type Compass

Wary

Prudent

Deliberate

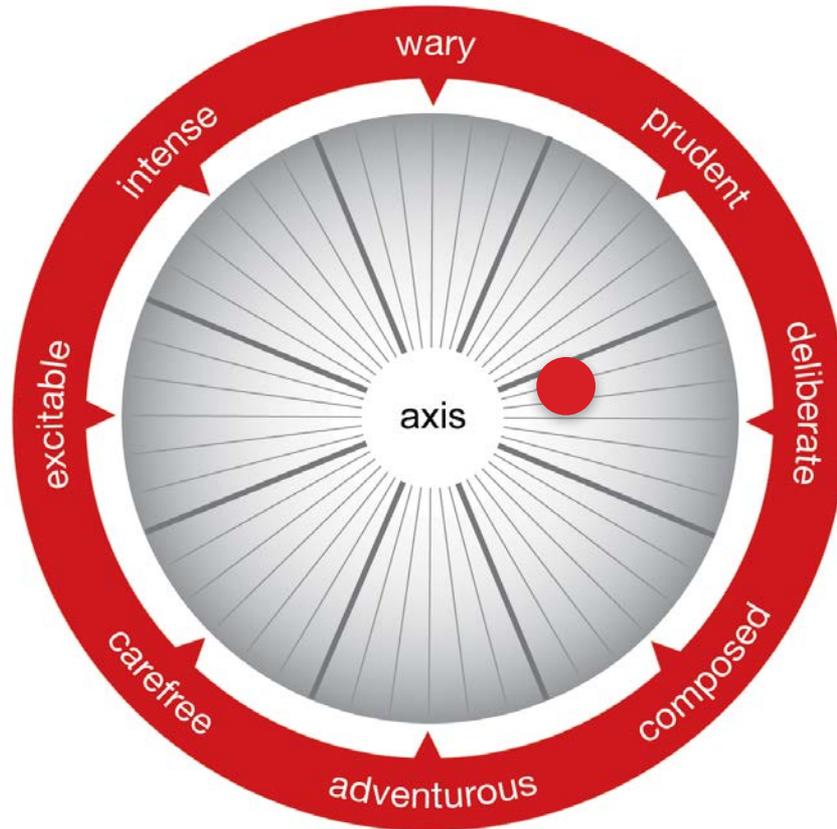
Composed

Adventurous

Carefree

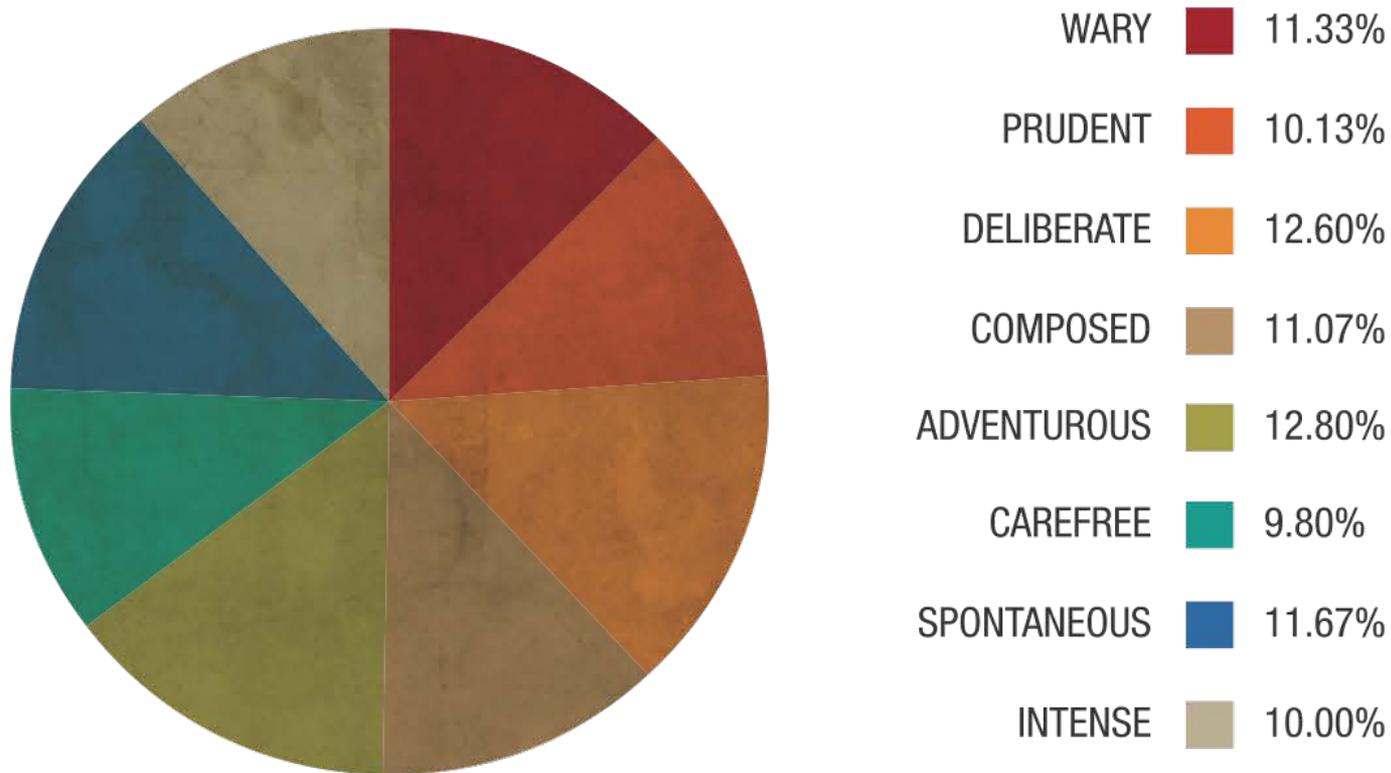
Excitable

Intense



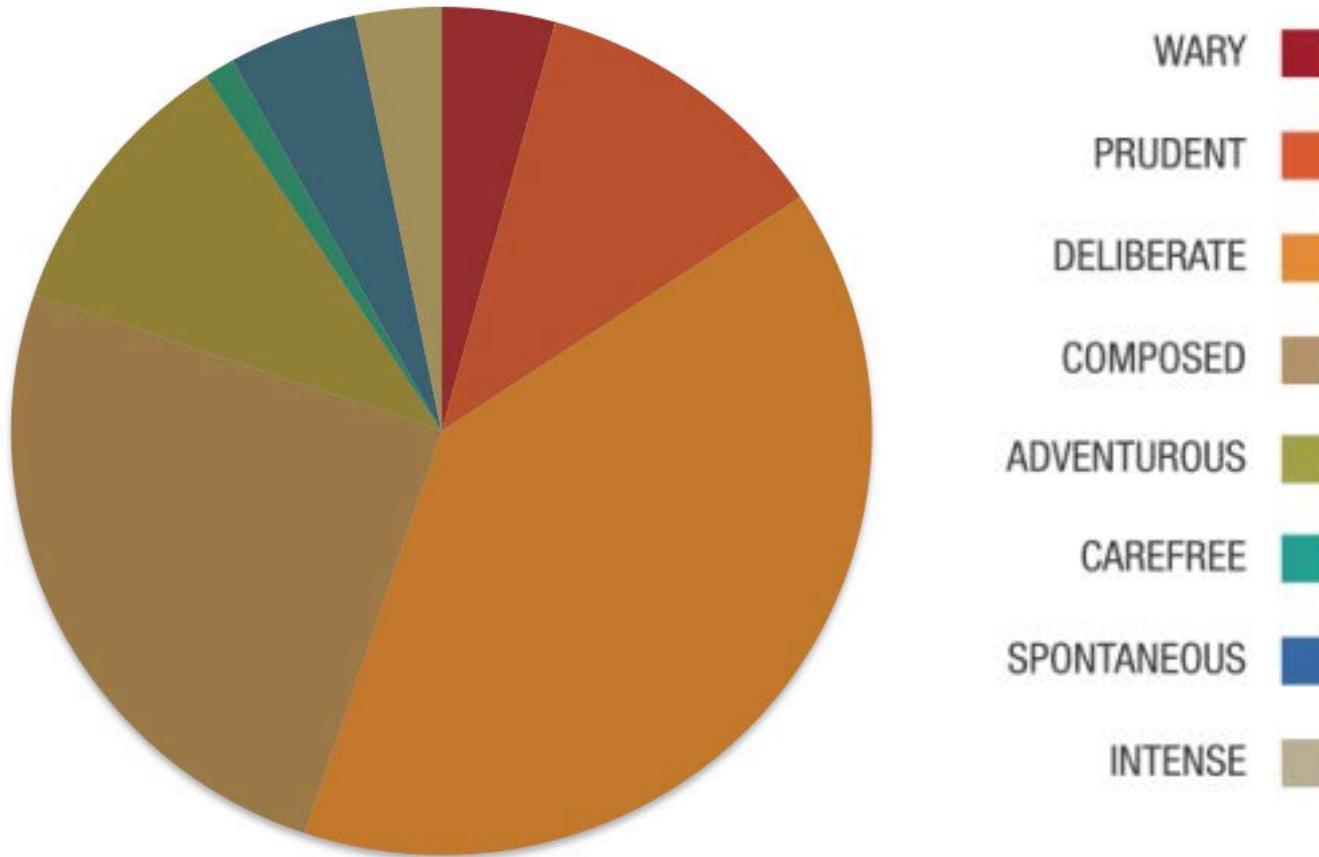
Risk Type Prevalence:

General Population



Exemplar Global - Auditors

Distribution of Risk Types



Implications for Professional Development

Risk Type and You

- Which Risk Type are you?
- What is your own disposition towards risk?
- What are your strengths?
- How can you maximize them?
- What are your potential blind-spots ?
- How can you manage or compensate for them?
- How will your Risk Type impact on others?
- How does Risk Type influence you as an Auditor?

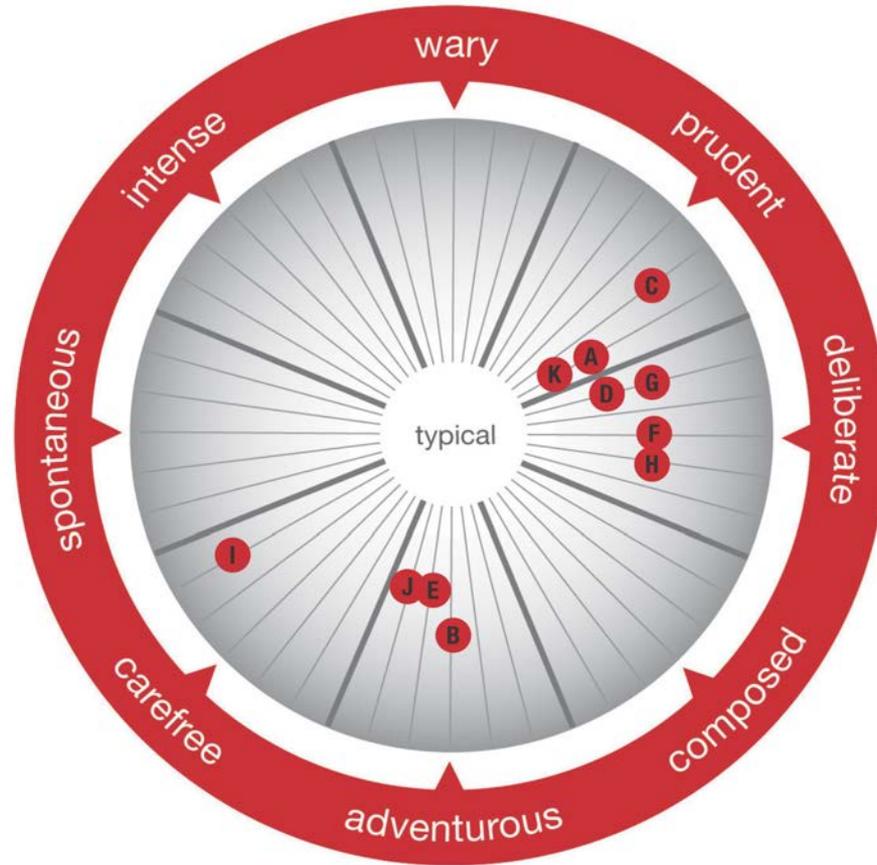
Risk Type and Others

- Risk dispositions of those you deal with
- Relevance to engagement & co-operation
- Team constitution and dynamics
- Risk culture: the prevalence of Risk Types

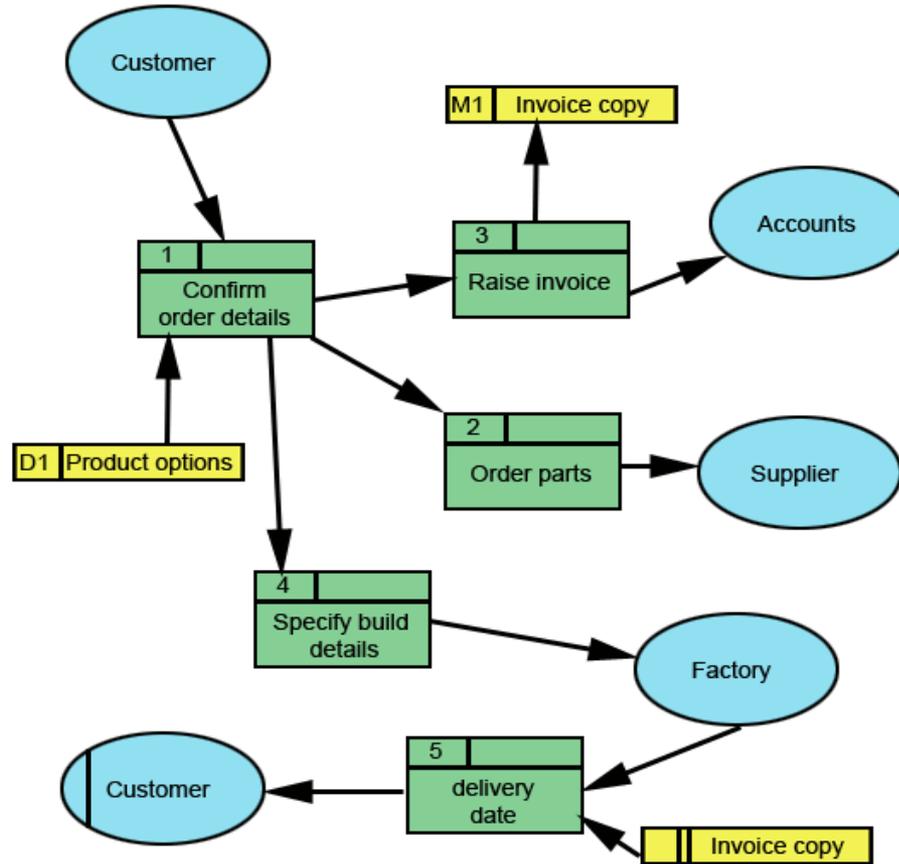
RTC as a team auditing tool

- Organizations are made of teams
- From board to project team to shop floor
- Success depends on team performance
- Team risk dynamics influence decisions
- The RTC Team Report is an auditing tool
- Highlights functional issues
- Used for review or development

RTC Team Report



What's in the box?

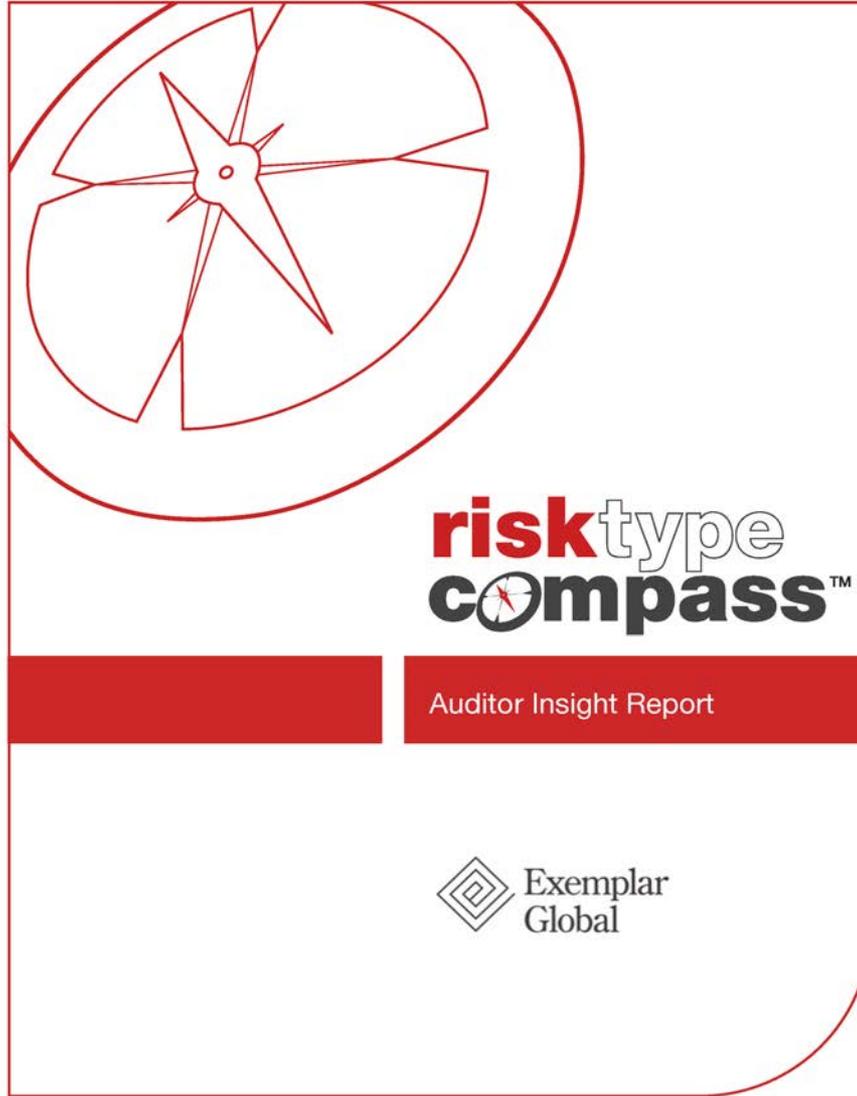


Teach-ICT.com

International Standards – New Expectations

- (ISO 19011:2011, clause 7.2.3.2) evaluating and controlling the risks associated with an audit program
- (ISO 19011:2011, clause 7.2.3.3) applying risk management principles, methods and techniques relevant to your own discipline or sector

The Risk Type Compass Report



risktype
compass™

Auditor Insight Report



PCL | 8 Mount Ephraim | Tunbridge Wells
Kent | TN4 8AS

www.psychological-consultancy.com





Introduction

Understanding this Report

The Spectrum of Risk Types

Ranked according to risk comfort zone

WARY: Shrewd, vigilant, controlling

Ultra sensitive about vulnerability and exposure to risk in any situation, they are zealous about eliminating uncertainty and fervently seek to establish order and control events.

INTENSE: Apprehensive, risk aware, ardent

They invest enthusiastically in people and projects but are alert to the prospect of things going wrong. Feeling strongly about disappointment, they don't make the same mistake twice.

PRUDENT: Systematic, orthodox, detailed

Their primary concern is to establish clarity and order in objectives and processes. They adopt a systematic and methodical approach and seek to eliminate all ambiguity.

EXCITABLE: Enthusiastic, anxious, committed

Decisions are fueled by enthusiasm for exciting ideas and opportunities but tempered by sensitive risk antennae. They may wrestle over decisions but will go in deep once committed.

THE AXIAL GROUP: Balanced, proportionate, conventional

Conservative and equitable, their central position allows a uniquely balanced view and appreciation of the other Risk Type extremes; potentially a mediating influence in any group.

DELIBERATE: Analytical, investigative, calm, business-like

Calm, calculated and sure-footed, they are not easily unnerved, but they test the ground thoroughly and like to do things 'by the book'. They like to plan ahead and be well prepared.

CAREFREE: Audacious, curious, unconventional

They see opportunity before risk and relish the adrenaline of the on-the-fly decision making required in fast moving situations and at times of urgency or change.

COMPOSED: Calm, resilient, optimistic

Strangers to anxiety and dispassionate in their decision making, they deal well with stress and will be a steadying and reassuring influence through challenging times.

ADVENTUROUS: Intrepid, enterprising, undaunted

Fearless and confident, they enjoy the excitement of breaking new ground and reaching for ambitious objectives. They will be frustrated by resistance and keen to take things forward.

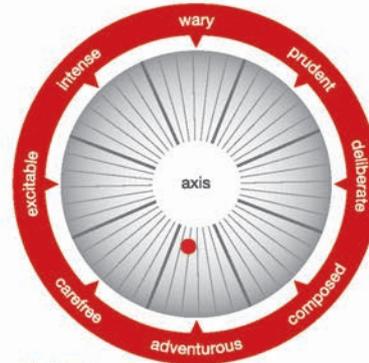


Risk Type

Interpreting the Risk Type graphic

How strongly do you reflect your Risk Type?

The marker (+) denotes which of the 8 Risk Types best fits your disposition towards risk. The nearer it is to the outside edge, the more accurate that type description will be for you. For those nearer the center, their Risk Type will color their disposition towards risk, but not so intensely. The Risk Type Compass® is a continuous spectrum, with each type sharing some characteristics with its neighbors and with facing types being opposites.



The Adventurous Risk Type

At the root of this Risk Type is a combination of a gung-ho impulsivity and fearlessness. The most extreme examples are people who are neither anxious about risk nor much restrained by caution. They combine impulsivity with a deeply constitutional calmness and are not in awe of custom, tradition or convention. These are imperturbable, intrepid excitement seekers who keep their nerve.

At a more general level, this type are resilient and attracted by excitement. They will be open to new experiences and will deal unemotionally with disappointments and unexpected turns of event. Their positive, upbeat outlook, and desire for stimulating challenges allows them to pursue their adventures with equanimity. Not particularly well organised or prudent, their decision-making is likely to be influenced by both their lack of anxiety and their impulsiveness.

The Opposite Risk Type - Wary

This Risk Type combines anxiety about risk with a methodical approach and a shrewd and persistent skepticism. The most extreme examples are fearful of uncertainty and ultra sensitive about vulnerability and risk. At a more general level, the Wary Risk Type is cautious, vigilant and pessimistic and puts security at the top of the agenda.



The pervasive influence of your Risk Type

Risk Perception

Because of their calm optimism, the Adventurous Risk Type may be the last to recognize impending risk. With a fearless disposition and a tendency to see the bright side of any situation, their sole focus will be on opportunity and their threshold for risk detection will be high.

Reaction to Risk

The Adventurous Type will be calm and unflappable; this is the most risk tolerant of all the Risk Types. They will be attracted to the opportunities arising from any new trend, change or uncertainty, holding their nerve in the expectation that, whatever the risks, there may be benefits and opportunities to be gleaned from the new order of things

Risk Taking

People of this Risk Type tend to be excited by ideas that are radical, different, unconventional or counter-intuitive; ideas that cast things in a new and different light, suggesting new ways of doing things and offering the prospect of new opportunities. They want their work to be exciting, to make a difference and to break out of traditional constraints.

Decision-making

With a priority for stimulation and excitement and low attention for detail and due process, the Adventurous Type is prone to making risky decisions. Ideally, accountability to stake holders needs to be built into their decision-making process, along with some counterbalancing representations or procedures that will highlight and pin down any potentially negative implications.



Risk Type

Any personality characteristic will have its advantages and its disadvantages, depending on the situation. What works for someone in one context may work against them in another. This page highlights some of the most common benefits and limitations associated with your position on the Risk Type Compass®. The bullet points below will be most characteristic of the more extreme Risk Types – those positioned nearest to the outer edge. Those closer to the Axis will be less influenced by these points. Those falling within the Axis center circle will have distinctive benefits as well as potential disadvantages.

Upside tendencies:

The following points highlight the potential benefits for people of this Risk Type:

- Excited by novelty, this type may welcome radical ideas and new experiences
- Calm and level-headed, they remain composed, even in extreme situations
- Taking everything in their stride, they are not bothered by the unexpected
- Straight forward to deal with, they don't hold grudges or dwell on past events
- Being optimistic, it seems nothing is impossible, there is always a way
- These people are flexible and able to change course easily
- Their impulsive, freewheeling nature allows them to make quick decisions
- It may sometimes appear that they feel indestructible

Downside tendencies:

The following points highlight the potential disadvantages for people of this Risk Type:

- This type can be impulsive and capable of hasty decisions
- Their confidence sometimes makes them unrealistically optimistic
- At times they may seem almost oblivious to the level of risk they are taking
- Being self-assured but impulsive, they may miss vital detail or new information
- Impetuous and unpredictable, they may not evaluate the possible consequences
- These people are not always attentive or receptive to advice from others
- They may have a casual approach to rules and procedures
- Probably somewhat disorganized in their affairs, they may struggle with the detail
- They can be impatient with bureaucracy and repetitive or routine tasks



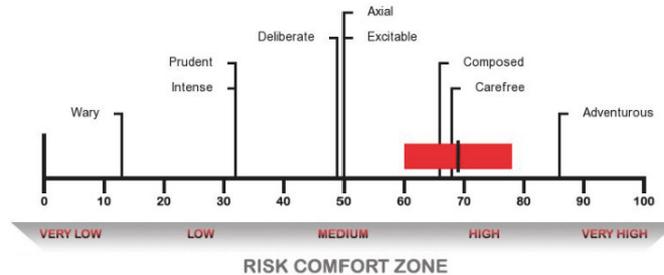
Risk Tolerance

Prominent Characteristics

This assessment identifies you as a mild example of the Adventurous Risk Type. The following points identify the most distinct characteristics for you, as defined by your questionnaire responses. They may help you to moderate or elaborate your Risk Type description:

- You may react emotionally to events and be inclined toward fluctuating moods.
- You are unlikely to worry unnecessarily or to become unduly apprehensive.
- It seems that you will generally trust others and have faith in their good intentions.
- You may appear less emotionally expressive and sentimental than others.
- You appear to be excited by variety, novelty and change.
- You seem to be open to quite extreme activities and risky ventures.
- You may sometimes find it irksome to follow rules or procedures.

Risk Tolerance



This graphic shows how you compare with others in terms of Risk Tolerance. The width of the red bar reflects the likely margin of error for this estimate and the range within which your 'true score' would be expected to fall. Very low Risk Tolerance scores are associated with a strong resistance to risk taking and very careful preparation of procedures when significant levels of risk taking have to be accommodated. Very high scores on the Risk Tolerance scale tend to focus more on the opportunities in any situation rather than the potential risks. High scorers are also associated with higher levels of resilience when faced with risk and uncertainty.

Want to Know Your Risk Type?

- Contact info@psychological-consultancy.com to gain a \$10 discount on your first Risk Type Compass Assessment
- Speak about your individual results with an organizational psychologist to understand how your Risk Type impacts your behavior. Special 30% discount for webinar attendees (\$150 for 45 mins) until end of September.

QUESTIONS?

Contact

PCL

info@psychological-consultancy.com

Tel: +44 1892 559540

Twitter: @pclconsultancy

Exemplar Global

info@exemplarglobal.org

Tel: +61 2 4728 4600



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