

Risk Management in Accounting

(22E14000), Jan-Feb 2023



Aalto University
School of Business

Course Info

It is a private presentation for the course Risk Management in Accounting (22E14000) at Aalto University, and we request you not to share the presentation publicly.

Instructor

**Vikash Sinha,
Assistant Professor
vikash.sinha@aalto.fi**

Contact me if you want to write your master's thesis under my supervision on risk management/scandals, corporate governance, internal auditing, management accounting, digitalization and accounting, accounting, and ethics/behavioral theories

Both quantitative and qualitative methods are welcome

**Aalto University, Department of
Accounting**

**Have 8+ years of experience as a
consultant in risk management and
automation in Global Financial services**

Teaching Assistant

**Matteo Vacca,
PhD candidate
matteo.vacca@aalto.fi**

Aalto University, Department of Finance

**Work experiences in the financial
industry in Italy and in the UK, including
a stint at Morgan Stanley in London**

Learning Objectives

After completing the course,

- Students will have knowledge of risk management in organizations, including risk identification, risk analysis, and risk responses. (ILO1)
- Students will be familiar with the process-oriented and accounting focused perspective on risk management. (ILO2)
- Students will be able to analyze and question the covered theoretical/empirical perspectives on risk management. (ILO3)
- Students will be able to apply their conceptual understanding in risk management to the empirical and practical problems in contemporary organizations. (ILO4)

Topics

The major topics covered in the course include:

- Organizational/Process perspectives on risk - enterprise risk management, risk culture
- Corporate governance and risk management - three lines of defence, COSO ERM & IC - risk appetite, risk oversight, risk analysis
- ISO 31000 standard and *network and individual perspectives on risks**
- Risk management, management accounting & risk regulation
- Risk reporting

Risk Management: Check-o-meter

What do you
know about risk
management?

What do you expect to learn in this
course?



Hall of Fame Forever



Hall of Fame New Entrants



theranos



wirecard



FTX

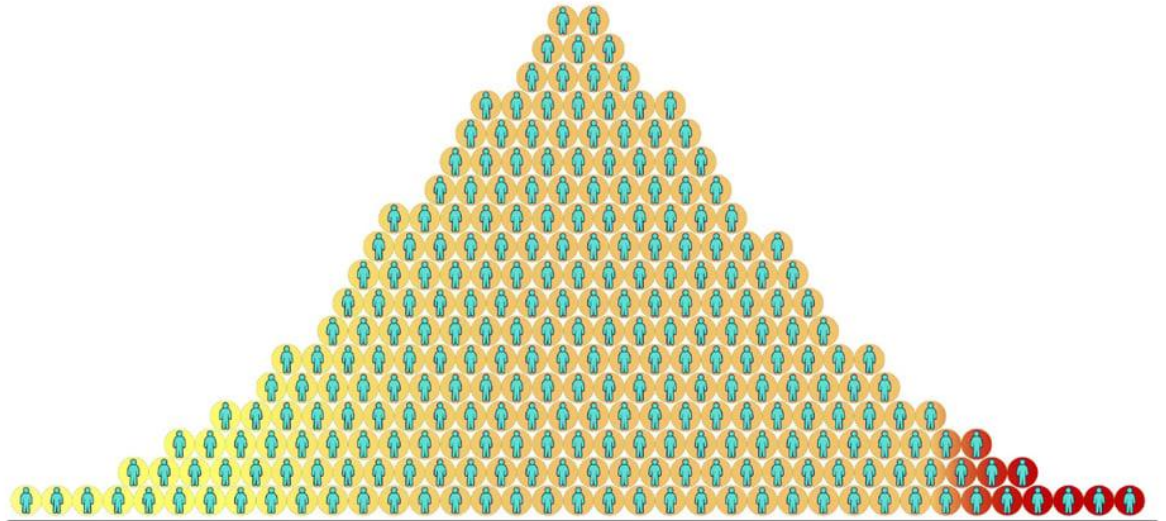
- Luckin Coffee
- Wells Fargo
- Volkswagon
- Enron
- WorldCom
- ZZZZ Best
- BP
- Danske Bank
- Olympus
- Boeing
- Toshiba
- Pharmaceuticals price – Turin, Martin Shkreli
- Oxycodone scandal Purdue, Mckinsey
- WeWork
- Uber Travis Kalanick
- Amazon working conditions

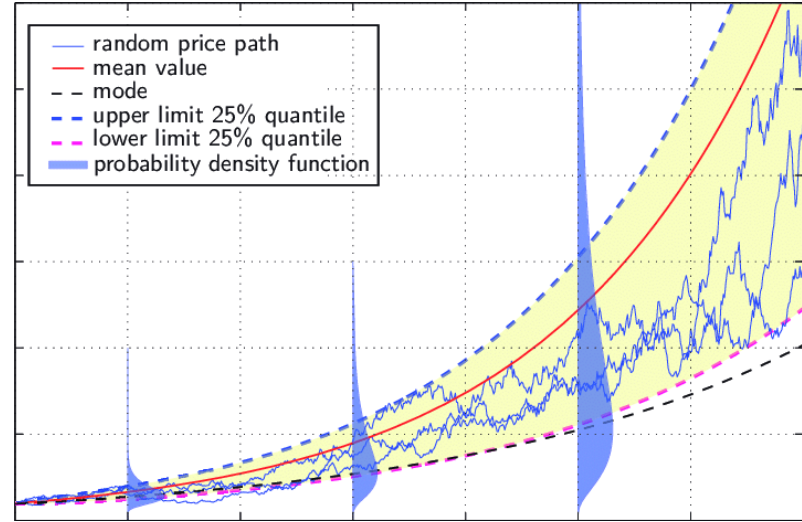
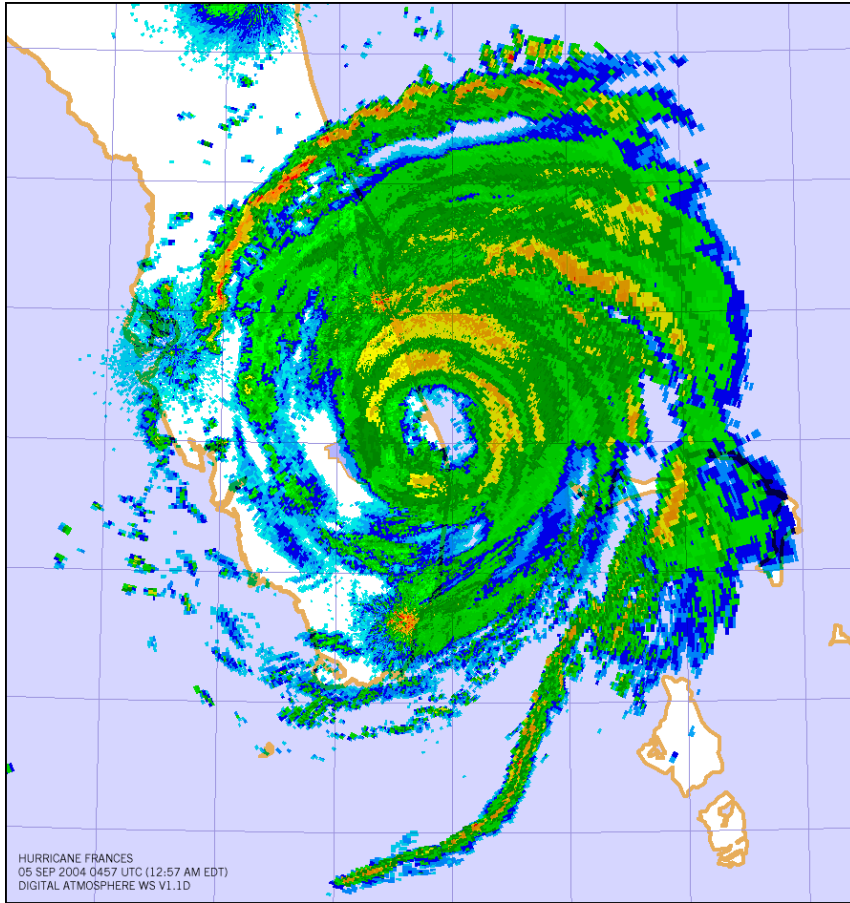
Risk Management: Check-o-meter

Why do risks
materialize?

Can we prevent all risks?

Can we eliminate all fraud?





shock $(\sigma\epsilon\sqrt{\Delta t})$

drift $(\mu\Delta t)$

shock $(\sigma\epsilon\sqrt{\Delta t})$

drift $(\mu\Delta t)$

$$\Delta S = S_{t-1}(\mu\Delta t + \sigma\epsilon\sqrt{\Delta t})$$

Risk Management: Check-o-meter

Climate risk?



Risk Management: Check-o-meter

Climate risk?

Counties more likely to be affected by climate change pay more in underwriting fees and initial yields to issue long-term municipal bonds compared to counties unlikely to be affected by climate change. This difference disappears when comparing short-term municipal bonds, implying the market prices climate change risks for long-term securities only.



Journal of Financial Economics

Volume 135, Issue 2, February 2020, Pages 468-482



An inconvenient cost: The effects of climate change on municipal bonds ☆

Marcus Painter ^{a, b}

Show more ▾

+ Add to Mendeley Share Cite

<https://doi.org/10.1016/j.jfineco.2019.06.006>

[Get rights and content](#)

Risk Management: Check-o-meter

Climate risk?

Homes exposed to sea level rise (SLR) sell for approximately 7% less than observably equivalent unexposed properties equidistant from the beach. This discount has grown over time and is driven by sophisticated buyers and communities worried about global warming.



Journal of Financial Economics


Volume 134, Issue 2, November 2019, Pages 253-272



Disaster on the horizon: The price effect of sea level rise ☆

Asaf Bernstein ^a ✉, Matthew T. Gustafson ^b ✉, Ryan Lewis ^a ✉

Show more ▾

+ Add to Mendeley  Share  Cite

<https://doi.org/10.1016/j.jfineco.2019.03.013>

[Get rights and content](#)

Risk Management: Check-o-meter

**Bad behavior of
endorsers?**



Risk Management: Check-o-meter

Bad behavior of endorsers?

We estimate the stock market effects of the Tiger Woods scandal on his sponsors and sponsors' competitors. In the 10–15 trading days after the onset of the scandal, the full portfolio of sponsors lost more than 2% of market value, with losses concentrated among the core three sponsors: Electronic Arts, Nike, and PepsiCo (Gatorade). Sponsors' day-by-day losses correlate strongly with Google search intensity regarding the endorsement-related impact of the scandal, as well as with qualitative indicators of “endorsement-related news.”

[Home](#) > [Management Science](#) > [Vol. 60, No. 1](#) >

Celebrity Endorsements, Firm Value, and Reputation Risk: Evidence from the Tiger Woods Scandal

Christopher R. Knittel, Victor Stango

Published Online: 16 Sep 2013 | <https://doi.org/10.1287/mnsc.2013.1749>

Reality & Theory

Some jokes that are too close to reality



Risk of 'risk management'



Risk management in 'real life'



Risk enables 'blame-game'



@SCOTTADAMSSAYS
DILBERT.COM



7-12-19 2019 Scott Adams, Inc./Dist. by Andrews McMeel



Assessment and Grading

- **Grading scale 0 – 5**
- **Final grading is based on the total score of final exam and exercises, max 100 points, which consists of**
 - Exam: 40 points; 40 % **[NB: there will be one (1) course exam and (1) one re-exam]**
 - Assignments: 60 points
 - Individual assignments: 3 Assignments, max 24 points (8 points each), 24 %
 - **Group report:** max 26 points, 26%
 - **Group presentation:** max 10 points, 10 %
- To pass the course, a student must obtain:
 - a) **At least 20 points from the exam, and**
 - b) At least 50 points from the whole course (exam + assignments)

First Task

1. Contact other course participants and form a team of 4.
 - In MyCourses → 'General discussion', you may indicate that you are searching for a team.
2. In MyCourses → 'Assignments' → 'Please choose your team' → Click the checkbox of the team number of your choice

❖ **The choice has to be made by Mon 16.1.2023, 16:00**

Please indicate name, topic, group members, and case compan(y)/(ies) or scandals for your group work (group choices)

In MyCourses → 'Assignments' → 'Please indicate name, topic, group members, and case company/ies or scandals for your group work (group choices)' → Type the information and submit

- ❖ **The choice has to be made by Monday 23.1.2023, 16:00**
- ❖ **After you have submitted your choices, I will fix time slots for your presentations on the 14th and 16th of February.**
- ❖ **It is strongly recommended to students – please attend all presentations. Respect your colleagues who have spent time preparing the project!**

Individual Assignments (24 points)

- **Instructions and submissions in MyCourses → ‘Assignments’**
 - Detailed instructions are in the Mycourses page
 - Individual assignments
 - You have to submit all 3 assignments
 - All assignments will be available in the Mycourses page on 10th January

Group work (report: 26 points, presentation: 10 points)

- **Detailed instructions**

- In a group of four, prepare a report and presentation on a topic.
- The group presents the results according to the agreed time schedule. All members should be involved in the presentation
- •The group will prepare a report on the agreed topic.
- The final version of your report must be returned no later than Feb 14th at 9 am
- The final group report may be checked for plagiarism through turn-it-in software.
- Please incorporate relevant articles from the reading material.
- I will also share good articles with all groups after 26th Jan and before 4th February.

Suggested Topics

1. Risk management and big data/AI
2. Risk management in startup firms
3. Risk management in family firms
4. Risk management in small and medium enterprises
5. Risk management and supply chain management
6. Integrating risk management with strategy
7. Integrating risk management with performance management
8. Integrating risk management with planning and budgeting
9. Corporate governance and risk management
10. Behavioral approach to risk management
11. Role of audit and risk committees in managing risk
12. Internal audit and risk management
13. Role of internal auditors in risk management
14. Corporate tax risk and accounting
15. Internal control over financial reporting
16. Risk of material misstatement
17. Climate risk (management) and disclosure
18. Risk disclosure
19. Auditor's risks
20. Auditor's litigation risk and expanded audit reporting
21. Initial Coin Offering frauds and institutional void
22. Other topics

Exam

Applied questions – mini case analysis

Thu 23 February 9:00 – 12 in person
(Check Sisu for location)

Schedule of Assignments

Assignment	Date and time of submission
Please choose your team	Mon 16 Jan 2023, 4:00 PM
Individual Assignment 1	Fri 20 Jan 2023, 4:00 PM
Please choose your topic for group work	Mon 23 Jan 2023, 4:00 PM
Individual Assignment 2	Fri 27 Jan 2023, 4:00 PM
Individual Assignment 3	Fri 03 Feb 2023, 4:00 PM
Group report and presentation submission	Tue 14 Feb 2023, 9:00 AM
Presentation of group reports in the class	As scheduled*



Schedule I of II

Date	Responsible Teacher	Room	Topic
Tue 10.01.23 14:15-16:00	Vikash Matteo	V002	Introduction/Different perspectives on risk management
Thu 12.01.23 10:15-12:00	Vikash	V002	Three lines of defense, risk management and corporate governance, COSO- CG & IC, risk appetite and integration
Tue 17.01.23 14:15-17:00	Vikash	V002	Three lines of defense, risk management and corporate governance, COSO- CG & IC, risk appetite and integration (continued) Risk management and other management accounting systems
Thu 19.01.23 09:15-12:00	Vikash	V002	9:15 – 10:30 Risk management and other management accounting systems 10:45 – 12:00 Class interview and discussion on strategy and risk with Hamed Salehi (Quantitative strategist - Varma)
Tue 24.01.23 14:15-17:00	Vikash	V002	14:15 – 15:15 – Guest discussion with Timo Viherkenta (Audit and Risk Committee member in various firms) on risk, corporate governance, and board work 15:30 – 17:00 - Risk reporting and financial reporting
Thu 26.01.23 09:15-12:00	Vikash	V002	9:15 – 10:15 Risk reporting and financial reporting 10:30 – 12:00 – Guest discussion with Gautum Basu (Partner - Private Equity) on risk as an opportunity
Tue 31.02.23 14:15-17:00	Vikash	V002	Risk reporting and financial reporting COSO 31000 framework
Thu 02.02.23 09:15-12:00	Vikash	Q101	COSO 31000 framework Guest Discussion on Corporate Governance, Risk Management, and Internal Audit with IA insight – Eero Suomela

Schedule II of II

Date	Responsible Teacher	Room	Topic
Two week break for group work			
Tue 14.02.23 14:15-17:00	Matteo	V002	Group presentation (Mandatory presence)
Thu 16.02.23 09:15-12:00	Matteo	V002	Group presentation (Mandatory presence)
One week break for exam preparation			
Thu 23 February 9:00 - 12			Physical Exam (Check Sisu)

Thank You

READINGS

- are listed in MyCourses → Materials
 - Please read all the articles (Most of them are also summarized in the slides)
 - For COSO ERM 2017 and ISO 31000 frameworks, slide material are shared separately (Please do not circulate or share them – it is a copyrighted material for internal use)
-

Questions about the course should be asked primarily

- During the lectures
- In the course website (in MyCourses) → General discussion