

Compliance Risk Assessments – An Introduction

Chapter 5. Step Three: Determining Impact of Occurrence

Chapter Goals:

- Develop compliance risk factors that are specific to your business, industry, and country.
- Understand how to prioritize those compliance risk factors, which includes assessing the impact of occurrence of the risk.

Two main risk factors must be quantified to determine the risk level of a compliance issue—*likelihood of occurrence* and *impact of occurrence*.

The previous chapter explained how to determine the *likelihood of occurrence*. This is the probability that noncompliance with a specific law or regulation will occur daily, monthly, yearly, once every five years, once every ten years, etc. Next, let's consider how different risk factors can create a range of impacts.

Impact of occurrence is the probability that a noncompliant incident will have a measurably negative effect on the business, such as financial resources being depleted; damage to the business's reputation; destruction of vital documents due to a data security breach; or even the potential incarceration of the CEO, CFO, or other key management personnel.

Just as *likelihood of occurrence* factors are used to determine the level of risk your business faces, *impact of occurrence* factors must also be considered. Each risk factor is unique and independent of other factors. Thus, each factor needs to be evaluated separately and an appropriate numerical value established.

Figure 2 shows how to quantify the impact of occurrence factors on a business. Obviously, customization of this tool for your business and industry is required.

Note: This example considers factors ranging from compliance to financial outcomes to reputation. If your organization is conducting a narrowly defined compliance risk assessment, it is possible that you may only want to consider the compliance outcomes detailed in the "Level of Noncompliance" column. And, from a strictly construed compliance risk assessment model, that factor truly represents one way to establish the impact of noncompliance on the business.

It is also possible that your entity's compliance risk assessment may require use of more factors—perhaps all the factors identified in this sample. After all, while the impact of noncompliance with a law, regulation, or established rule can involve going to jail or getting a fine, noncompliance can also affect a business's reputation, financial assets, health and safety, strategic direction, and operations.

The importance of customization in impact of occurrence factors cannot be stressed enough. Quite frankly, it would be easiest to simply use "Level of Noncompliance" to establish impact and ignore the impact emanating from that outcome. However, from a practical perspective, it is likely that upper management will want to see not

only the legal risk but also the associated impact factors quantified. A decision on what factors to consider *must* occur prior to designing and utilizing the assessment tool.

Figure 2: Impact of Occurrence Factors

Impact of Occurrence Factors								
Rank/Scale		Measure of Impact						
		Level of Noncompliance	Health and Safety Outcomes	Financial Outcomes		Ability to Pursue Strategic Goals	Potential Disruption of Business Operations	Change in Reputation
				Monetary	Non-monetary			
1	Insignificant	In compliance	No injuries	TBD dollar amount or percentage of budget	Little or no impact	Little or no impact	< 1/2 day	Unsubstantiated, low impact, low profile, or no news items
2	Minor	Civil violation with little/no fines	First aid treatment	TBD dollar amount or percentage of budget	Minor loss or damage	Minor impact	< 1 day	Substantiated, low impact, low news profile
3	Serious	Significant civil fines/penalties	Medical treatment	TBD dollar amount or percentage of budget	Major damage	Major impact	1 day–1 week	Substantiated, public embarrassment, moderate impact, moderate news profile
4	Disastrous	Serious violation, criminal prosecution probable	Death or extensive injuries	TBD dollar amount or percentage of budget	Significant loss	Significant impact	1 week–1 month	Substantiated, public embarrassment, high impact, high news profile, third-party actions

5	Catastrophic	Significant violation, criminal conviction probable, loss of accreditation or licensure	Multiple deaths or several permanent disabilities	TBD dollar amount or percentage of budget	Complete loss of assets	Loss of accreditation or license	> 1 month	Substantiated, public embarrassment, very high multiple impacts, high widespread news profile, third-party actions
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