

Risk Index as a Measure of Internal Controls Effectiveness

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Abstract

This paper examines a well-constructed 'Risk Index' to quantify and disclose the maturity levels of internal controls and their effectiveness in Indian companies. The paper reviews the current regulatory norms governing risk disclosures. The recent corporate debacles, namely the fall of Jet Airways and 'Conflict of Interest' allegations at ICICI Bank are studied with respect to the governance standards and the study highlights that while these companies were in compliance of the regulatory norms, their risk management and internal controls and governance standards exhibit glaring gaps. The paper analyses the strengths and gaps in global practices, specifically the US based Risk Maturity Model and Chinese Index and explores the possibility of their applicability and suitability in Indian context, and concludes that a well-structured and comprehensive Risk Index duly addressing the gaps highlighted in global practices could be adopted as a tool to measure and quantify risk management effectiveness.

JEL Code : M41; M48

Keywords : Risk Index, Internal Controls, Risk, Measure, Risk Disclosures, ICICI, Jet Airways, US, China, India.

I. Introduction

A COMPANY'S SUCCESS is measured largely by its financial performance. The financial parameters that define success are quantifiable and measurable. Lot of emphasis is laid on, and rightly so, on accuracy and fairness of processes leading up to measurement and reporting of these financial parameters. The performances of CEO and Senior Management members of a Company are rewarded based on the financial performance of the Company.

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