

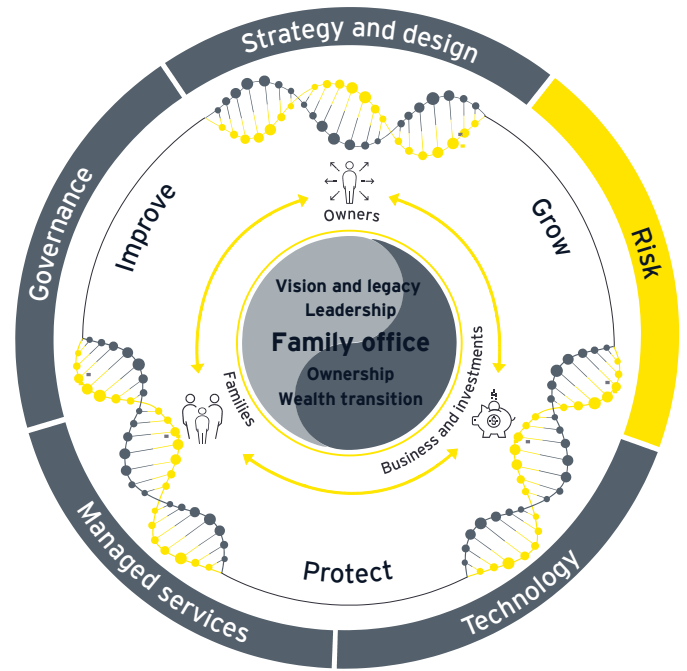
Risk assessment and planning support for family offices

Today's plans for your family office can mean the difference between surviving and thriving in the future.

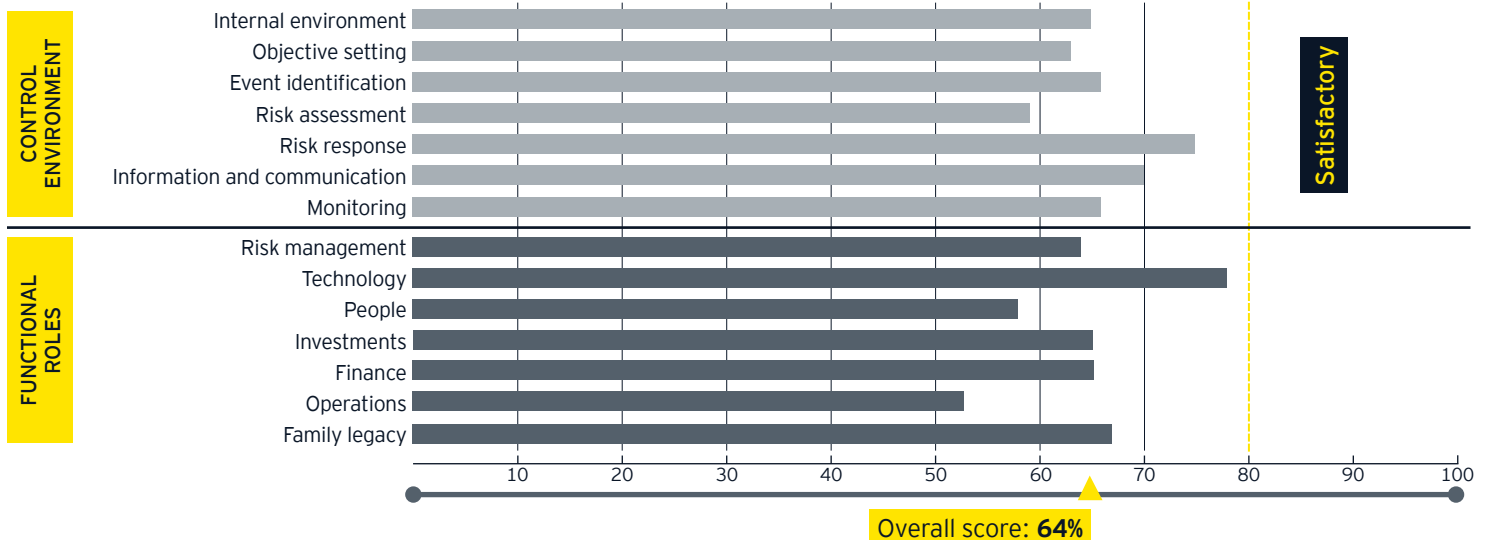
Risks arise from a variety of sources, including the business, investments, technology or operations. A primary goal of most family offices is to protect the family from damage and loss, whether that is financial, physical or reputational.

Risk review

Our Family Office Advisory Services supports family offices by assessing the levels of risk in the family office through our risk score index. The risk score index is based on our database of questions that are applied across the five dimensions of the Committee of Sponsoring Organizations framework and across seven categories of risk, resulting in a score for each dimension.



Risk index scorecard



Once we present our findings, our team then supports you by prioritizing the risks within a risk management framework. The goal is an action plan that has a meaningful impact on the office.

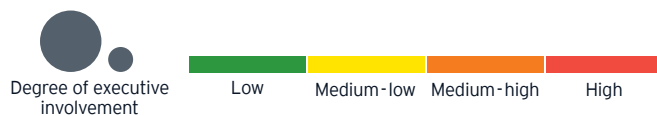
Our key recommendations and prioritization

- 1 Review cyber and information security
- 2 Identify services you will provide and determine eligible generations
- 3 Develop IT technology strategy based on cyber and information security review
- 4 Implement an in-house general ledger system for US accounting operations
- 5 Develop governance framework and succession plan to support family and family office strategy
- 6 Establish control standards for offshore entities
- 7 Document policies and procedures for key office processes

Note: Based on our observations, the family office will need to add or leverage external resources to implement the strategic initiatives outlined above.

Methodology notes

- ▶ We determine priority recommendations by focusing on risk control gaps for functional areas ranked as having a higher degree of residual risk.
- ▶ The degree of executive involvement is defined by the degree of judgment required by the executive team in the design and implementation of the recommendation



Risk heat map

The risk index is supported by a report to management that provides a heat map that outlines areas of high residual risk, our key recommendations, and detailed analysis of drivers and sub-drivers that affect risk in your organization.


Identifying areas of high residual risk

Functional driver	Inherent risk	Control environment	Residual risk
Vision and legacy	High	Medium	Medium-high
Operations	High	Low	High
Technology	High	Medium	Medium
Business	Medium	High	Low
Investment	Medium	Medium	Medium
Disaster	Medium	High	Medium-high

Inherent risk	Control environment	Residual risk	Inherent risk	Control environment	Residual risk	Inherent risk	Control environment	Residual risk	Inherent risk	Control environment	Residual risk
Low	Low	Medium - high	Medium - low	Low	High	Medium - high	Low	High	High	Low	High
Low	Medium - low	Medium - low	Medium - low	Medium - low	Medium - high	Medium - high	Medium - low	High	High	Medium - low	High
Low	Medium - high	Low	Medium - low	Medium - high	Low	Medium - high	Medium - high	Medium - low	High	Medium - high	Medium - high
Low	High	Low	Medium - low	High	Low	Medium - high	High	Low	High	High	Medium - low

Excerpt from a report to management with our findings and key recommendations to improve management and financial control over the family’s complex and business interests.

Our key findings and recommendations



Management and financial control


The family office is not equipped with the tools or processes to maintain control over the complex and diversified business interests of the family.

Findings

- ▶ The CFO does not have access to accurate and complete information or have authority to effectively control financial activities.
- ▶ The CIO does not have access to accurate and complete information or have authority to effectively prioritize portfolio management activities.
- ▶ Policies and procedures are required to control service quality and consistency as well as mitigate key person risk.

Recommendations

- ▶ Adopt a financial control methodology to manage the complexity of the family office’s financial environment:
 1. Adopt an in-house general ledger program with a payable module
 2. Insource US accounting operations
 3. Establish control standards for offshore entities, including standard reporting requirements and periodic external review
- ▶ Clearly prioritize strategic portfolio management over ad hoc requests and resource the transformation to ensure timely implementation.
- ▶ Document accounting and content management policies and procedures, define key performance metrics to support adoption/adherence.


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Sample page from a detailed analysis of sub-drivers that affect risk.

Functional risk sub-driver analysis

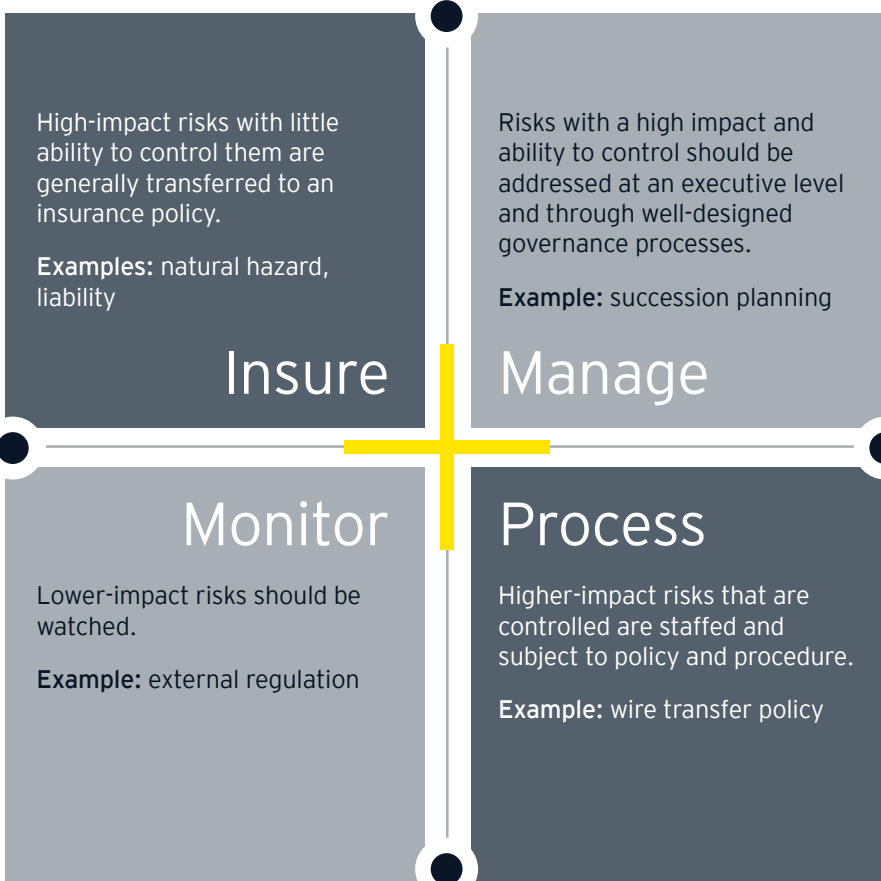
Focus: Technology

Sub-drivers	Risk classification			Risk control commentary	Leading practice recommendations
	IR	CE	RR		
Planning & architecture	H	ML	H	A strategic problem solving approach has not been leveraged to address key technology architecture decisions. There is a need for an overall technology strategy and associated implementation and change management protocols.	<ul style="list-style-type: none"> • Develop a near and long-term technology strategy that is reviewed and updated regularly. • Document a technology implementation and change management process. • Consider other systems that may better suit financial accounting needs.
Asset tracking & monitoring	H	ML	MH	The family office has a large data footprint and does not employ secure data transfer protocols with all outsourced partners. Symantec email encryption is not exclusively used to ensure data and information security.	<ul style="list-style-type: none"> • Establish enterprise wide data relationship management protocols, especially with respect to accounting operations that remain outside of the US (assuming US accounting operations are insourced). • Issue ABC email addresses for all stakeholders and ensure it is exclusively used with Symantec encryption for communication of sensitive information.
Policies, testing & compliance	H	ML	H	IT business requirements and systems continuity and disaster recovery plans are not documented. IT policies and procedures are in process.	<ul style="list-style-type: none"> • Document IT business requirements and develop a systems continuity and disaster recovery plan. • Complete IT policies and procedures, including implementation and testing procedures, minimum security standards, IT performance quality metrics, and acceptable technology use policy. • Regularly conduct external review of systems security. • Consider ethical phishing.
Data governance & continuous improvement	H	ML	H	IT internal controls testing, monitoring of end-user needs and formal review of technology assets is not performed. Sufficient IT and cybersecurity training is not required or readily available to family office employees.	<ul style="list-style-type: none"> • Conduct an enterprise-wide cybersecurity review to determine potential gaps and additional cyber risks. • Regularly monitor employee IT activities and IT service quality. • Outline preventative and detective controls in IT policies and procedures. • Conduct periodic review of technology assets to confirm alignment with strategy and stakeholder needs.

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Path forward in supporting your plan

During the process and in our report as we look at high residual risk areas, we will work with management to determine where risk can be mitigated with process or management and which risks need to be insured or monitored. For the monitored risks we will support the development of a risk response framework.



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