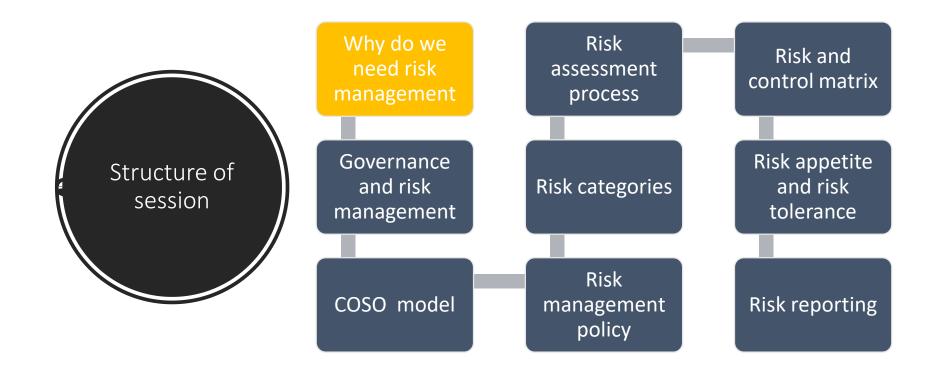




Risk management

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# Need for risk management



Risk management creates and protects strategic value to all stakeholders



Risk management is an integral part of all organizational processes



Risk management is part of decision making



Risk management explicitly addresses uncertainty and opportunity



Risk management is systematic, structured and timely



Risk management facilitates continual improvement of the organization



### The Risk Agenda

### The RISK Agenda: client issues

Turning

risk into

results

#### Enhance risk strategy

- Improve the overall alignment of risk with corporate goals, major initiatives and emerging market trends
- Clarify the definition of "risk" and determine the management and board's risk appetite and overall tolerance levels
- Communicate overall risk strategy to key stakeholders
- Clarify and strengthen risk oversight at the board and executive management levels
- Deliver greater transparency and accountability at all levels in the organization

#### Improve controls and processes

- Reduce cost of controls spend
- Leverage automated controls vs. manual controls
- Implement more prevent vs. detect controls
- Optimize controls around key business and IT processes
- Monitor critical controls and KPIs continuously to improve decision-making and performance results

#### Embed risk management

- Define the key "risks to own" that drive growth and create value (day-to-day business, change programs, emerging business)
- Invest differentially in the strategic "risks that matter" to better enable performance
- Link risk management to business planning and performance management
- Align key risk indicators (KRIs) with key performance indicators (KPIs)
   and key control indicators (KCIs)

#### Optimize risk management functions

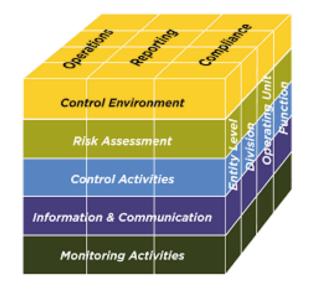
- Improve the effectiveness and efficiency of individual risk management functions
- Reduce redundancies and overlap in risk coverage
- Coordinate risk activities and align skills to better leverage existing infrastructure and resources

### Enable risk management | Communicate risk coverage

 Harness technology to enhance and more effectively enable risk management, controls and processes

- Improve transparency and frequency of stakeholder communications
- Provide greater assurance to customers and stakeholders through independent, third-party verifications









Best practice risk management frameworks

### 20 key principles within each of the five components



- Exercises Board Risk Oversight
- Establishes Operating Structures
- 3. Defines Desired Culture
- Demonstrates
   Commitment to Core Values
- Attracts, Develops, and Retains Capable Individuals



#### Strategy & Objective-Setting

- Analyzes Business Context
- 7. Defines Risk Appetite
- Evaluates Alternative Strategies
- Formulates Business Objectives



### Performance

- Identifies Risk
- Assesses Severity of Risk
- Prioritizes Risks
- Implements Risk Responses
- Develops Portfolio View



### Review & Revision

- Assesses Substantial Change
- Reviews Risk and Performance
- Pursues improvement in Enterprise Risk Management

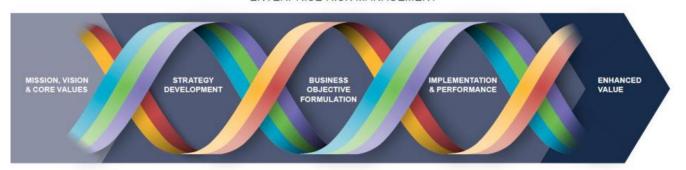


#### Information, Communication, & Reporting

- Leverages Information and Technology
- Communicates Risk Information
- Reports on Risk, Culture, and Performance

### Graphic has stronger ties to the business model

#### ENTERPRISE RISK MANAGEMENT







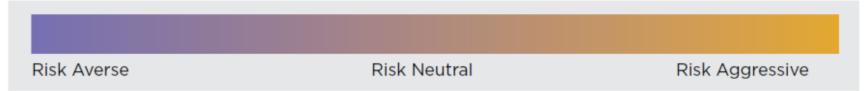






### Importance of culture

- Addresses the growing focus, attention and Importance of culture within enterprise risk management
- Influences all aspects of enterprise risk management
- Explores culture within the broader context of overall core
- Depicts culture behavior within a risk spectrum



- Explores the possible effects of culture on decision making
- Explores the alignment of culture between individual and entity behavior

- Explores strategy from three different perspectives:
  - The possibility of strategy and business objectives not aligning with mission, vision and values
  - The implications from the strategy chosen
  - Risk to executing the strategy



# Integration= improved decisions = enhanced performance

- It helps organizations to:
  - Anticipate risks earlier or more explicitly, opening up more options for managing the risks
  - Identify and pursue existing and new opportunities
  - Respond to deviations in performance more quickly and consistently
  - Develop and report a more comprehensive and consistent portfolio view of risk
  - Improve collaboration, trust, and information sharing





### Links to performance

- Enables the achievement of strategy by actively managing risk and performance
- Focuses on how risk is integral to performance by:
  - Exploring how enterprise risk management practices support the identification and assessment of risks that impact performance
  - Discussing tolerance for variations in performance
- Manages risk in the context of achieving strategy and business objectives – not as individual risks

# KPI's and KRI's

Key Performance Indicators (KPIs) help a firm see how it is performing in relation to its strategic goals and objectives.

Key Risk Indicators (KRIs) are leading indicators of risk to business performance, giving early warning about potential risk event

Use KRIs to monitor risks are in the areas such as:

natural catastrophe risks (as % of group shareholder equity)

asset-liability matching (duration mismatch)

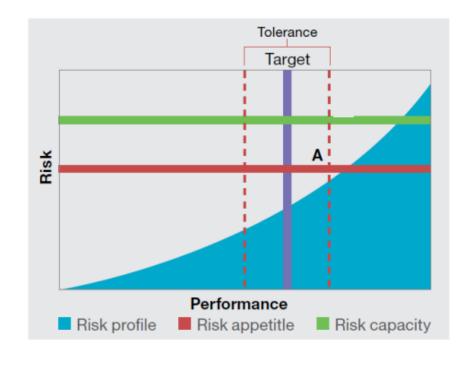
strategic asset allocation (% allowed in investment category)

credit risk (weighted average credit rating)

other risks specific to business or functional areas

### Risk versus performance

- Introduces a new depiction referred to as a risk profile
- Incorporates:
  - -Risk
  - -Performance
  - -Risk appetite
  - Risk capacity
- Offers a comprehensive view of risk and enables more riskaware decision making



 The framework provides a complete depiction of how to build a risk profile in an appendix

### Design, build and implementation of Key Risk Indicators

### Design

- Establish extent of existing management information and other data flows – indicators in place if applicable
- Identify committees, forums, management meetings etc currently in place that can be used to discuss risk and control issues on an ongoing basis
- Define and document roles and responsibilities of risk and control owners

#### **Build Process**

- Assign ownership for risks and controls
- Communication with risk and control owners relating to their ongoing responsibilities
- Carry out workshops with all risk and control owners to design indicators to be put in place
- Define how existing information flows and committees etc are to be used to minimise additional workload
- Risk and control owners refine the indicator monitoring process
- Overall analysis of indicators for gaps and dual coverage
- Design reporting protocols

### **Ongoing Operation of Process**

- Design review mechanism (i.e. Corporate Risk department or Internal Audit, etc.)
- Create storage mechanism for information
- Perform ongoing consistency checks of indicators set up across the organisation

#### Example KPI, KCI and KRIs

Clients default on deals

Control:

procedures. Collateral cover

Number of deals executed for clients who have defaulted in the past

KCI:

Number of clients identified with

KRI:

Number of deals executed for clients who have defaulted in the past who do not have sufficient collateral cover

Loss of key personnel

Bonus Pool

Number of staff leaving without a planned successor

Number of employees kept as a result of remuneration change bonus payment

KRI:

Number of staff leaving without a planned successor due to remuneration / bonuses not being sufficient

### Risk aware decision-making

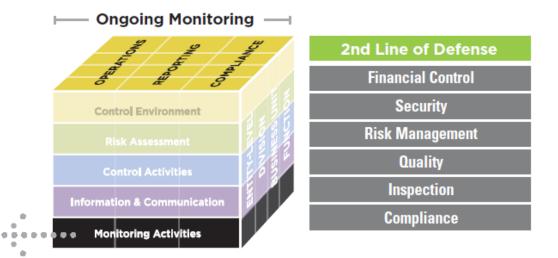


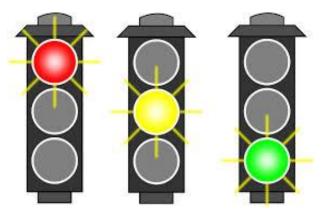
### Second line of defense



### **Monitoring Activities**

- 16. Conducts ongoing and/or separate evaluations
- 17. Evaluates and communicates deficiencies

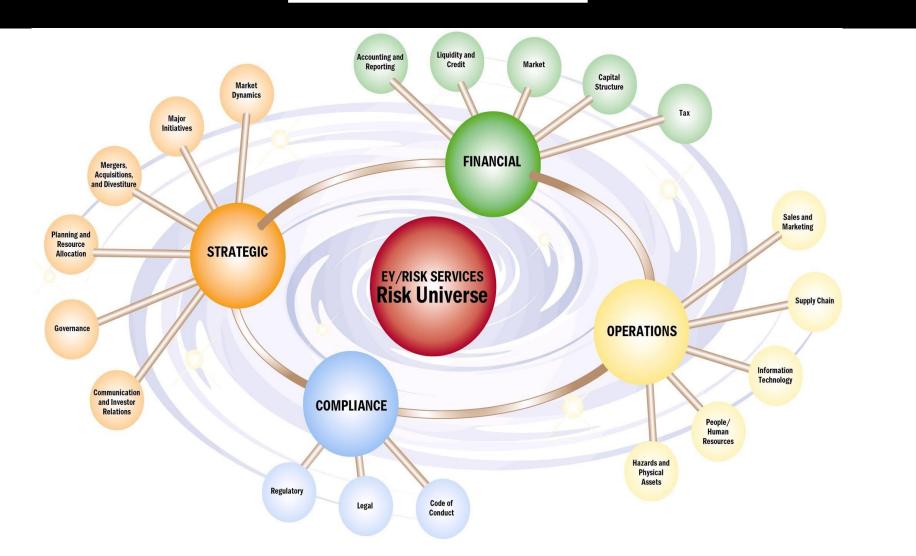








### Risk universe

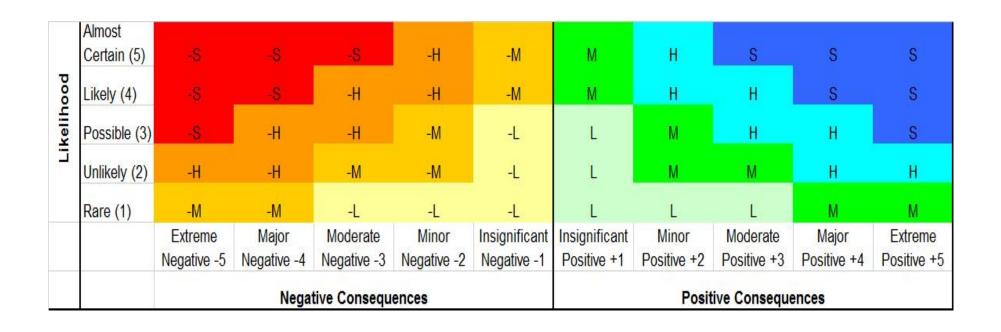


### Risk Management

- Identifying areas of threat to the business
- Assessing the potential impacts and managing these
- Growth and continued existence of the business



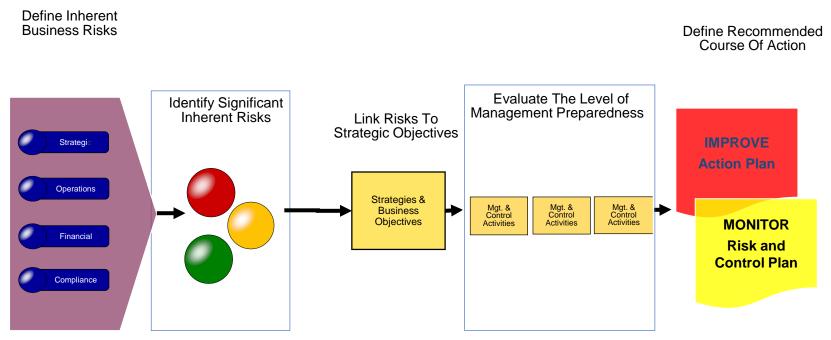
### Risk versus opportunity



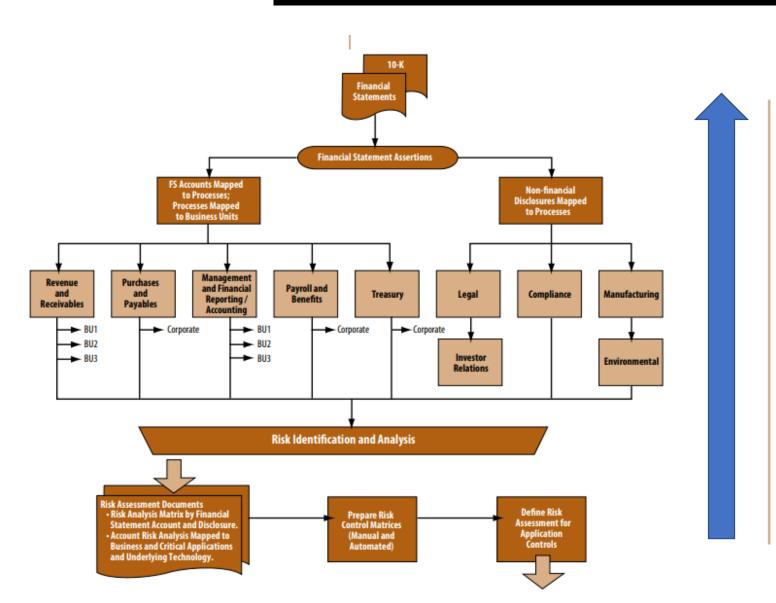


### **Enterprise Risk Management (ERM) Approach**

The structured ERM approach defines the key risks to business objectives across the organization and evaluates the level of management preparedness to clearly define opportunities to improve and/or monitor risks.



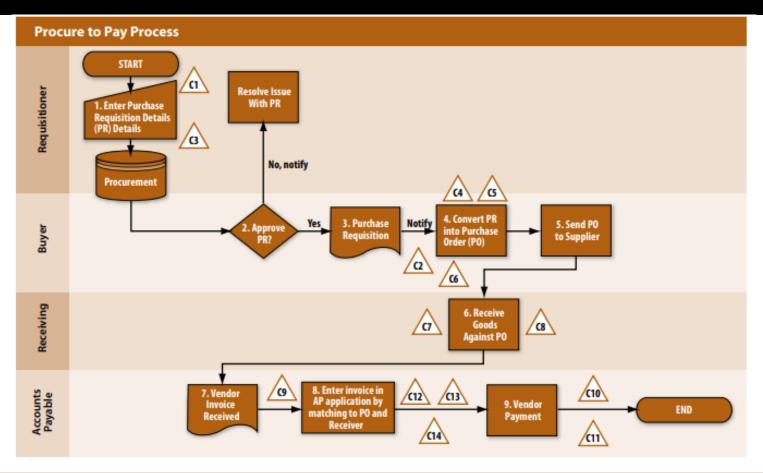
### Process universe



Mega Pro	cess (Level	1): Procure-to-Pay							
Major Process (Level 2)	Subprocess (Level 3)	Activity (Level 4)  Create, change, and delete							
Procurement	Requisition processing								
	Purchase order processing	Create, change, delete, approval, and release							
Receiving	Goods receipt processing	Create, change, and delete							
	Goods return processing	Create, change, and delete							
Accounts Payable	Vendor management	Create, change, and delete							
	Invoice processing	Create, change, and delete							
	Credit memo processing	Create, change, and delete							
	Process payments	Create, change, and delete							
	Void payments	Create, change, and delete							

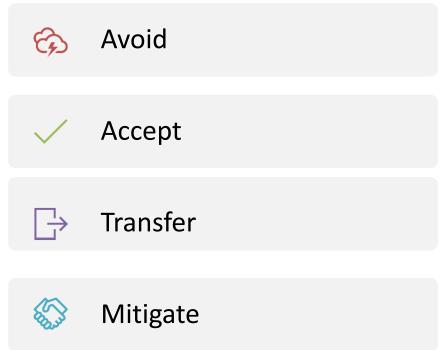


### Process overview flowchart

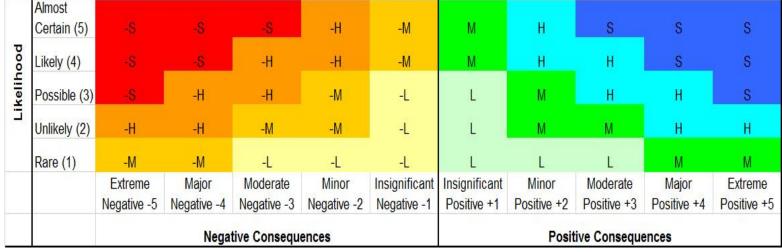


Ris	Risk and Control Matrix: Procure-to-Pay																				
	BUSINESS PROCESS & CONTROL OBJECTIVES	hicke I		CONTROL ACTIVITIES	СС	COSO COMPONENTS			CONTROL ATTRIBUTES			_	CONTROL CLASSIFICATION					TESTING			
Number	Control Objectives	Risks	Impact/ Likelihood	Control Activities	Œ	RA	CA	1/C	M	K (Y/N)	Man/Auto	Pre/Det	Real	Recorded	Valued	Timely	Classified	Posted	Test Results	Operational Effectiveness (Y/N)	Notes

### Risk management strategy

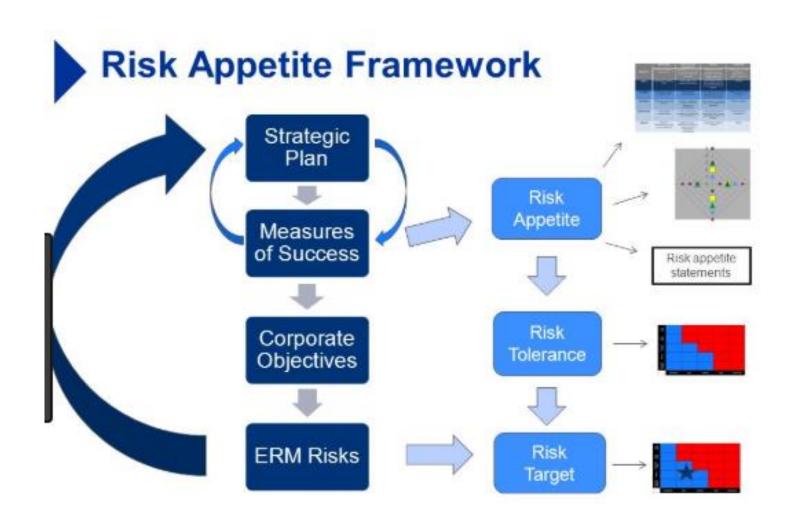


### Take risk



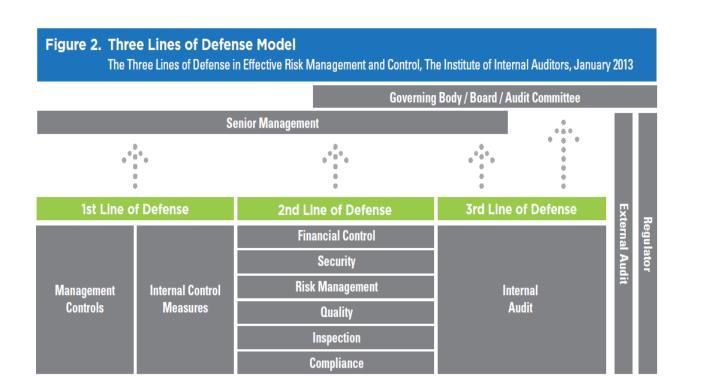


### Residual risk versus risk appetite





### Combined assurance



#### **FIVE LINES OF ASSURANCE**

The Five Lines of Assurance model significantly elevates the role of CEOs and boards of directors in risk governar

#### **Board of Directors**

The Board has overall responsibility for ensuring there are effective risk management processes in place and the other four lines of assurance are effectively managing risk within the organization's risk appetite and tolerance. The Board also has responsibility for assessing residual risk status on board level objectives (CED performance and succession planning, strategy, etc.).

#### **Internal Audit**

Internal audit provides independent and timely information to the board on the overall reliability of the organization's risk management processes and the reliability of the consolidated report on residual risk status linked to top value creation and potentially value eroding objectives delivered by the CEO and/or his or her designate.

#### Specialist Units

These groups vary but can include ERM support units, operational risk groups in financial institutions, safety, environment, compliance units, legal, insurance and others. They have primary responsibility for designing and helping maintain the organization's risk management processes and working to ensure the frameworks and the owner/sponsors of individual objectives produce reliable information on the residual risk status linked to the top value creation and potentially value.

#### CEO & C-Suite

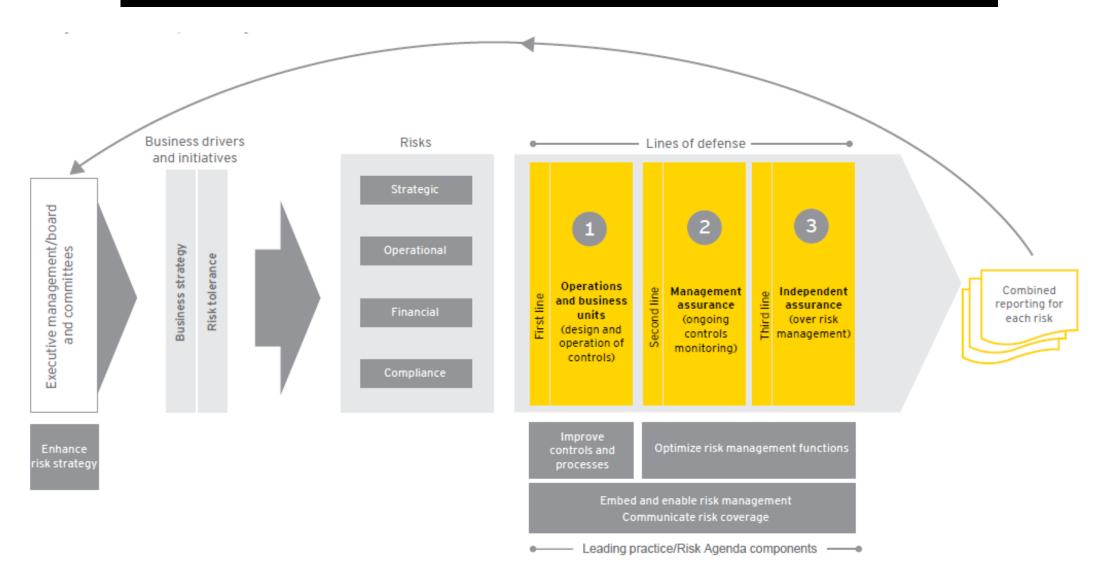
CEO has overall responsibility for building and maintaining robust risk management processes and delivering reliable and timely information on the current residual risk status linked to top value creation and potentially value eroding objectives to the board. This includes ensuring objectives are assigned owner/sponsors who have primary responsibility to report on residual risk status. Owner/sponsors often include C-Suite members.

#### **Work Units**

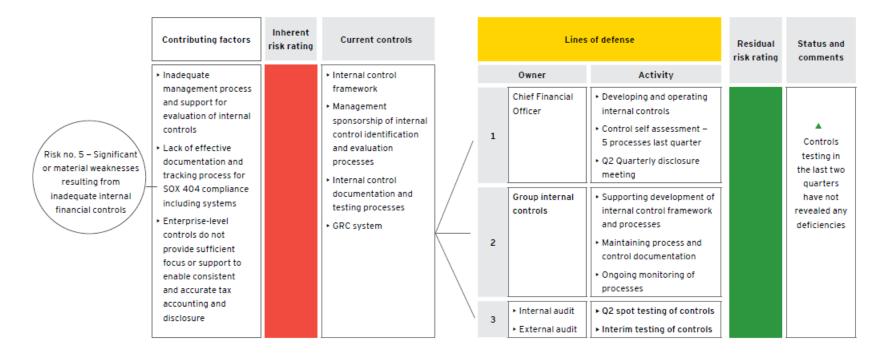
Business unit leaders are assigned owner/sponsor responsibility for reporting on residual risk status on objectives not assigned to C-Suite members or other staff groupslike IT. These may be sub-sets of top level value creation/strategic objectives and high level potential value erosion objectives.

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### Integrated LOD (Lines of Defense) Model



### Example: Risk Status Report



#### Key:

- ▲ No issues
- Process improvement or increased formalization
- ▼ Gap or control failure warranting attention