Risk, Risk Assessments and Risk Management

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Agenda

- A Few Thoughts…
- Fundamentals of Risk Assessments
- Fundamentals of Risk Management
- Assessments vs. Management
- Questions
Learning Objectives

 Gain a working understanding of:

- The Fundamentals of an Effective Enterprise Risk Assessment Process
- The Fundamentals of an Effective Enterprise Risk Management Function
A Few Thoughts

Successful Enterprises…

… have unique goals and objectives

… grow and develop at its own pace

… maintain an individual identity in the market

… have a unique way of achieving objectives

… operate within a unique risk environment
A Few Thoughts

View of Risk…

...is unique to every organization and individual

...has both up and down sides

...is a function of change

...accumulates in processes over time

...it is often best understood in hindsight
A Few Thoughts

**Discipline vs. Structure**...

...disciplined people don’t need hierarchy

...disciplined thoughts don’t need bureaucracy

...disciplined actions don’t need excessive controls
Risk Assessment

Scope

Enterprise Risk Classifications

- **Strategic**
  - Entry/Exit
  - Product/Services
  - Market/Location
  - Competition
  - Brand/Reputation
  - Paid To Take

- **Financial**
  - Credit
  - Liquidity
  - Investment
  - Exchange Rates
  - Counter Party
  - Paid To Manage

- **Operational**
  - Qualified Personnel
  - Transaction Processing
  - Internal Reporting
  - Vendor Management
  - Paid To Mitigate

- **Compliance**
  - Laws & Regulations
  - Covenants & Obligations
  - External Reporting

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Risk Assessment

Planning

- Use size & complexity as a guide:
  - Organizational hierarchy and structure
  - Level of Board oversight
  - Number of employees
  - Geographic proximity of locations
  - Reliance on key employees
  - Complexity of support systems
  - Nature of products and services
  - The ability to determine a clear cost-benefit
Risk Assessment

Approach

- Focuses on Business Objectives
- Considers External and Internal Risks
- Recognizes the Upsides and Downsides of Risk
- Qualitative or Quantitative
- Scalable from Project to Enterprise
- Is Time Bound
Risk Assessment

Results

- Establishes a realistic baseline risk profile:
  - Takes credit for the activities in place
  - A baseline for resource allocation
  - Agree scope, timing and nature of risk response activities
  - Differentiate risk response and process change activities
  - Does not require “gold standard” practices
Real Life Risk Management
Risk Management Activities

Principles of Risk Management

1) Creates Value
2) Aligns with Business Objectives
3) Integral Part of Organizational Processes
4) Part of the Decision Making Process
5) Explicitly Addresses Uncertainty
6) Systematic, Structured and Timely

7) Based on Best Available Information
8) Tailored to the Entity
9) Considers Human and Cultural Factors
10) Transparent and Inclusive
11) Dynamic: Iterative and Responsive to Change
12) Facilitates Continual Improvement

Source ISO 31000
Risk Management Activities

- A framework to address layers and boundaries of the entity
- The three essential elements of any risk management function
- These elements vary in capabilities and effectiveness
Risk Management Activities

Assumptions

- Activities must be based on business objectives
- Perceived and real risk conditions can interfere in achieving these objectives
- There is a finite set of resources available to achieve these objectives
- Transparency and visibility are key
- Risk management decisions may have to be explained to stakeholders
Risk Management Activities

Risk Management Framework

Mandate and Commitment

Create Framework

Continual Process Improvement

Implement Processes

Monitor and Review Processes

Source ISO 31000

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Risk Management Activities

Establish Risk Context

Risk Assessment
- Identification
- Analysis
- Evaluation

Risk Treatment

Monitoring and Review

Communication and Consultation

Risk Management Model

Source ISO 31000
Risk Management Activities

Risk Context

- Organizational business objectives and goals
- Nature of operational environment
- Governance and risk management practices
- Industry and regulatory specific requirements
- Stakeholder perceptions and values
- Capabilities of people practices and systems
Risk Management Activities

Risk Context

Risk Level

Time

Very High

Failure

Tolerance

Appetite
Risk Management Activities

Communication and Consultation

- Improves the transparency of the process and builds consensus for risk management plans
- Clarifies roles and responsibilities for risk management activities
- Recognizes the interests of various stakeholders
- Ensures that risks are adequately identified
- Considers the appropriate change management requirements
- Promotes a culture that recognizes the appropriate treatment and value of risk taking activities
Risk Management Activities

Monitoring and Review

- Provides feedback for:
  - Risk factors associated with business objectives and goals
  - Identification of changing or emerging risks
  - Allocation of risk management resources
  - Identification of events that trigger the need for new assessment activities
  - Measurement of risks associated with internal and external reporting
Risk Management Activities

Risk Treatment

- Modify – change/process improvement
- Monitor – watch/wait and prepare to respond
- Transfer – insure or outsource
- Exit – remove the source of the risk
Risk Management Activities

Challenges

- Dynamic objectives and goals
- Refining the risk universe to relevant risks
- Risk tolerances and acceptable risk taking
- Organizational boundaries
- Visibility and transparency
- Integration efforts
Compare and Contrast

**Risk Assessment**
- At point in time
- Qualitative or quantitative
- Often measured against external standards
- Historical and structured
- Time bound baseline

**Risk Management**
- Continuous activities
- Continual improvement
- More quantitative (upper and lower limits)
- Forward looking & dynamic
- Supports the decision process in real-time
Sometimes the questions are complicated and the answers are simple.

- Dr. Seuss