ro risk oversight
A better response to risk.

What is "Demand Driven" Assurance & ERM?

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What is “demand driven” assurance and ERM?

Indicator #1 – Board formally/publicly acknowledges responsibility for risk

Signs:

- Public disclosures acknowledge the board’s responsibility to oversee risk and clearly describes what the board does.
- Board charters make specific reference to risk oversight and clearly defines the board’s responsibilities including training.
- Risk oversight responsibility is referenced in the charters of all board committees.
- Board truly believes it is their job to oversee management’s risk appetite/tolerance.

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Indicator #2 – Diligent boards “demand” IA provide assurance they are receiving reliable information on residual risk status

diligent - *Marked by persevering, painstaking effort*

SIGNS:

- IA must, by charter, report their opinion on the organization’s risk management processes, including reliability of risk status reports, to the full board.
- Board “demands” the IA charter state that IA’s number one goal is to provide the board with an opinion on the reliability of the information they receive on risks.
- A formal service level agreement exists between IA and the board.
- Adequate time is allocated to IA to report on the organization’s consolidated report to the board on residual risk status

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Indicator #3 – Management is formally responsible for reporting to the board on risk

Signs:

- Corporate risk management policy assigns formal responsibility to the CEO/CRO and/or Risk Oversight Committee to report to the board on risk status/composite uncertainty of achieving objectives.
- Management at all levels are assigned risk-related responsibilities.
- Senior management, assurance units, and work units receive training on how to identify and assess risks that create uncertainty important objectives will be achieved.

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Indicator #4 – IA exists because the board believes IA can/should help them discharge their risk oversight responsibilities

Signs:

- Board demands regular opinions from IA on the reliability and completeness of risk information provided by management.
- Stock exchanges require boards’ oversee, and concur with, management’s risk appetite/tolerance and seek independent assurance that they are receiving reliable/complete information.
- Senior executives, if asked “What is primary value add from IA?”, respond “More confidence we are getting reliable and complete information on risk and more certainty objectives will be achieved”.

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Indicator #5 – IA charter focuses on IA’s responsibility to report on the reliability of risk management processes and reports

Signs:

- IA metrics focus on the reliability and completeness of the information on risk status provided by management to the board.
- IA focuses their efforts on helping management build and maintain reliable risk management processes, and quality assuring that those processes are, in fact, producing materially reliable information on the organization’s residual risk status related to key value creation objectives and value eroding risks.

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Indicator #6 – IA forms objective opinions on whether management is reliably reporting on residual risk status – not whether IA thinks controls are “effective”

Signs:

- IA focuses on quality assuring the organization’s risk management processes and consolidated reports to the board on risk status.
- Management and IA use an ISO 31000 compliant assessment approach and terminology to assess and report on risk.
- IA staff are trained to quality assure and, if necessary, complete ISO 31000 compliant risk assessments.

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Indicator #7 – ERM use an “objectives register” not a “risk register” as a foundation

Signs:

- Board and senior management believe ERM is a tool to increase certainty objectives are achieved and value eroding events avoided.
- Focus is on deciding which objectives warrant the additional cost of formal assurance, and deciding how much risk assessment rigor is warranted .
- Management assigns and reports composite Residual Risk Ratings (“RRRs”) on important value creation/value eroding objectives.
- Board is able to clearly see what is in, and isn’t in the objectives register and decide if they want more, or less, formal assurance.

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Indicator #8 – ERM efforts are fully integrated with IA work

Signs:

- Assessment approach and terminology used for ERM efforts is the same approach and terminology used by IA in their work.
- Groups that produce reliable risk assessments/reports receive less attention than groups that produce incomplete or, worse, misleading incomplete reports on residual risk status. Candidness is rewarded.
- IA uses the objectives register as the core foundation for all IA work.
- IA reports opinions on the completeness of the process used to populate the objectives register, determine risk assessment rigor, determine refresh frequency, complete risk assessments and more.

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Indicator #9 – ERM efforts are integrated with compliance, safety, environment, quality, insurance, SOX 404, etc.

Signs:

- ERM & SOX 404/NI 52-109 are fully integrated.
- ERM is used to assess identify and assess risks linked to important compliance objectives.
- Insurance groups integrate insurance buying and coverage decisions with ERM assessments.
- Safety/environment groups use ISO 31000 compliant methods.
- All specialists work from objectives in the Objectives Register.

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Indicator #10 – ERM efforts fully integrated with strategic planning

Signs:

- Board ask to see risk assessments completed by management linked to key strategic objectives in annual and mid-term plans.
- Management completes documented risk assessments on key result objectives in strategic plans.
- Planning staff have advanced level risk assessment training/skills.
- Boards and management monitor composite uncertainty of achieving objectives, key risk indicators, key performance indicators and the link between performance and risk status.

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