

# **Strong 1<sup>st</sup> Line/Objective Centric Risk and Certainty Management Overview & Business Case**

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# Module Coverage

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## **Strong 1<sup>st</sup> Line/Objective Centric Risk & Certainty Management Overview & Business Case**

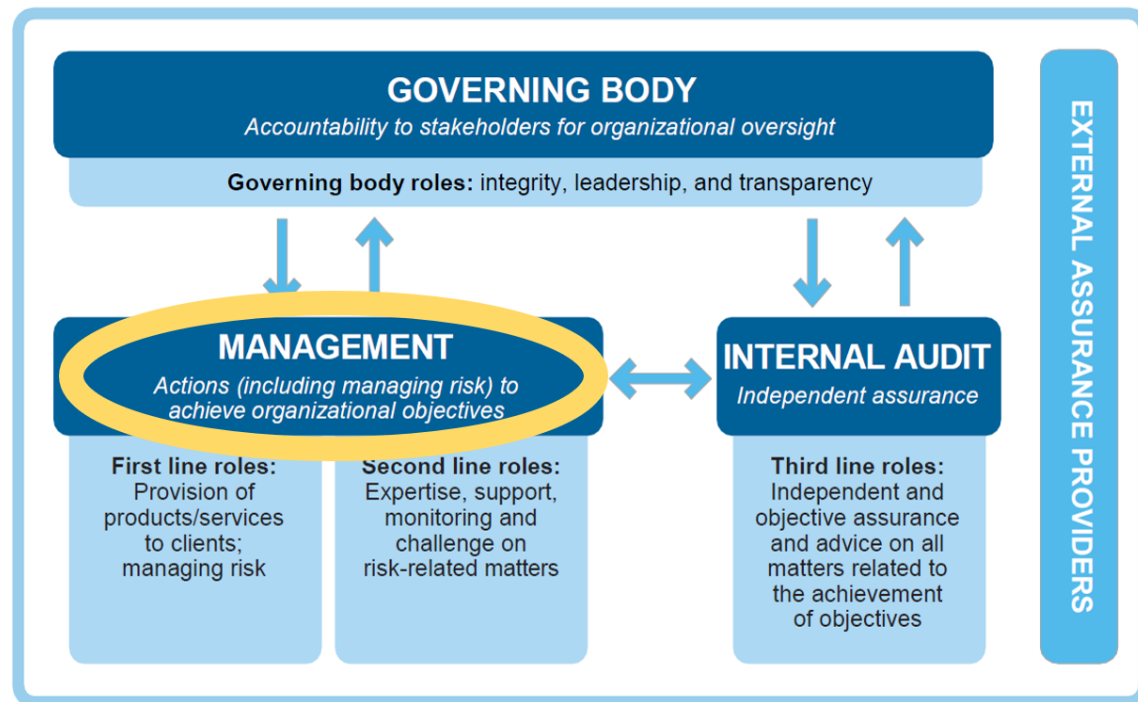
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- OCRCM Risk Management Benefits
- Measuring Success

# OCRCM Goals

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Re-position primary responsibility for formal risk/certainty assessment and reporting from 2<sup>nd</sup>/3<sup>rd</sup> Lines to 1<sup>st</sup> Line -  
“Strong 1<sup>st</sup> Line Risk/Certainty Management”

## The IIA’s Three Lines Model



**KEY:**    ↑ Accountability, reporting    ↓ Delegation, direction, resources, oversight    ↔ Alignment, communication coordination, collaboration

# OCRCM Goals

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Put equal focus on strategy/value creation and value preservation objectives with clear links to performance in line with COSO ERM 2017 and institutional investor demands



Source: COSO Enterprise Risk Management: Integrating with Strategy and Performance 2017

# OCRCM Goals

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Transition 2<sup>nd</sup> line risk functions and 3<sup>rd</sup> line Internal Audit from “supply driven” to “demand driven” service functions with clarity on what CEOs and Boards really need/want from RM/IA



# OCRCM Goals

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Produce dramatically better risk/certainty status information to help management and the board make better resource allocation decisions

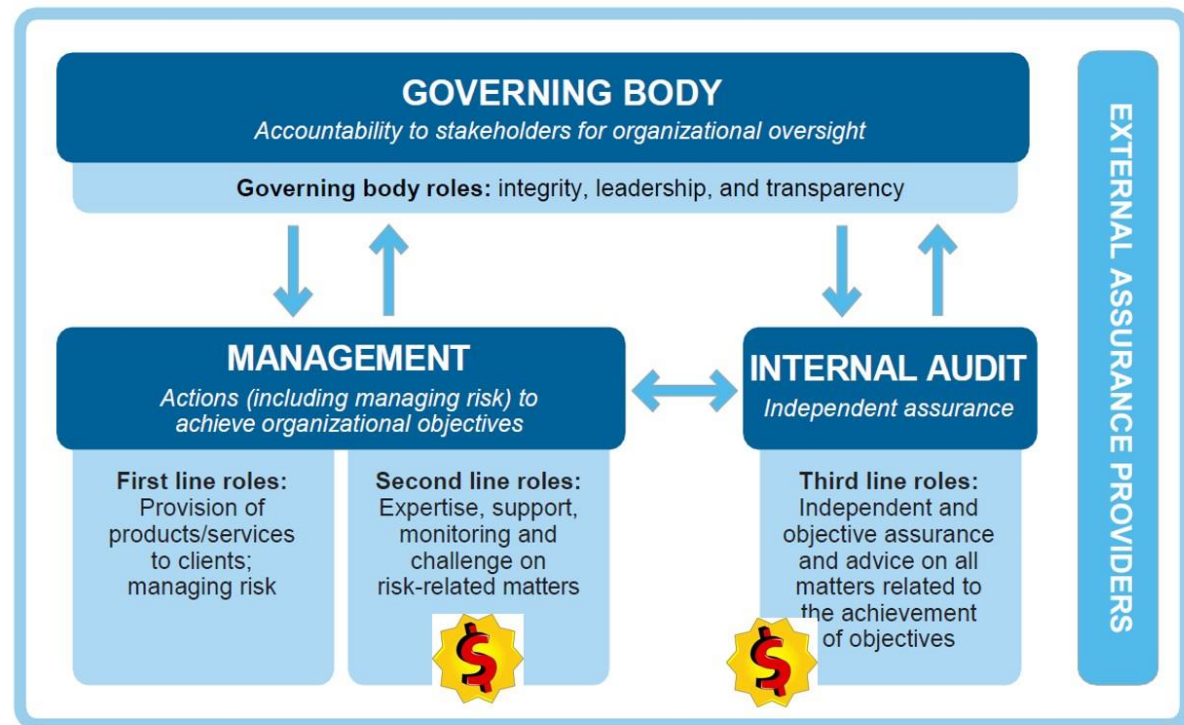


# OCRCM Goals

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Increase the value added from money spent on 2<sup>nd</sup> and 3<sup>rd</sup> line functions/staff

## The IIA's Three Lines Model



**KEY:**    ↑ Accountability, reporting    ↓ Delegation, direction, resources, oversight    ↔ Alignment, communication coordination, collaboration

# OCRCM Goals

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Better respond to regulators who want assurance an “effective risk appetite framework” is in place/operating

Post 2008 Global Financial Crisis conclusions:

- **the failure of some boards of directors and senior managers to establish, measure, and adhere to a level of risk acceptable to the firm;**
- compensation programs that conflicted with the control objectives of the firm;
- inadequate and often fragmented technological infrastructures that hindered effective risk identification and measurement; and
- institutional arrangements that conferred status and influence on risk takers at the expense of independent risk managers and control personnel.

Source: Senior Supervisors Group Summary Observations Post 2008, Bank for International Settlements October 2009

# OCRCM Goals

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Respond to regulators/stakeholders who want assurance on corporate governance, including board oversight of strategy and risk

Source: OSFI Corporate  
Governance Guide  
Sept 2018

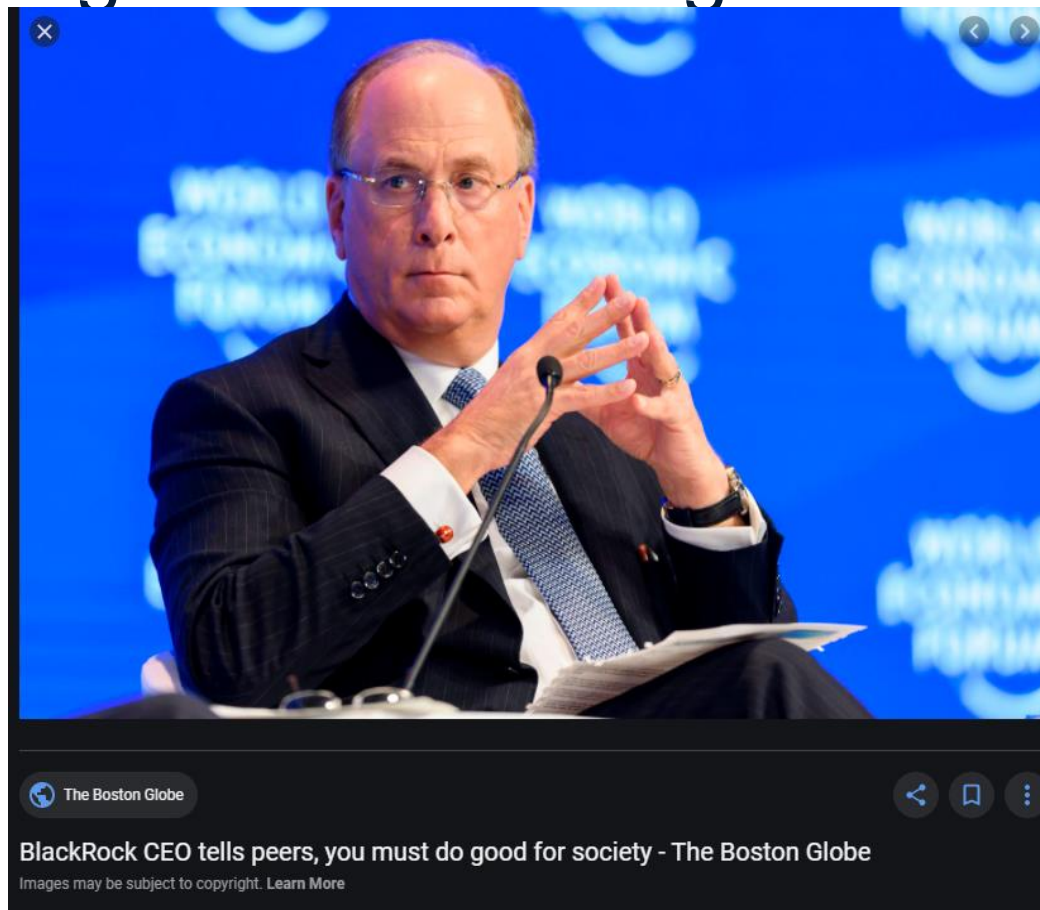
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# OCRCM Goals

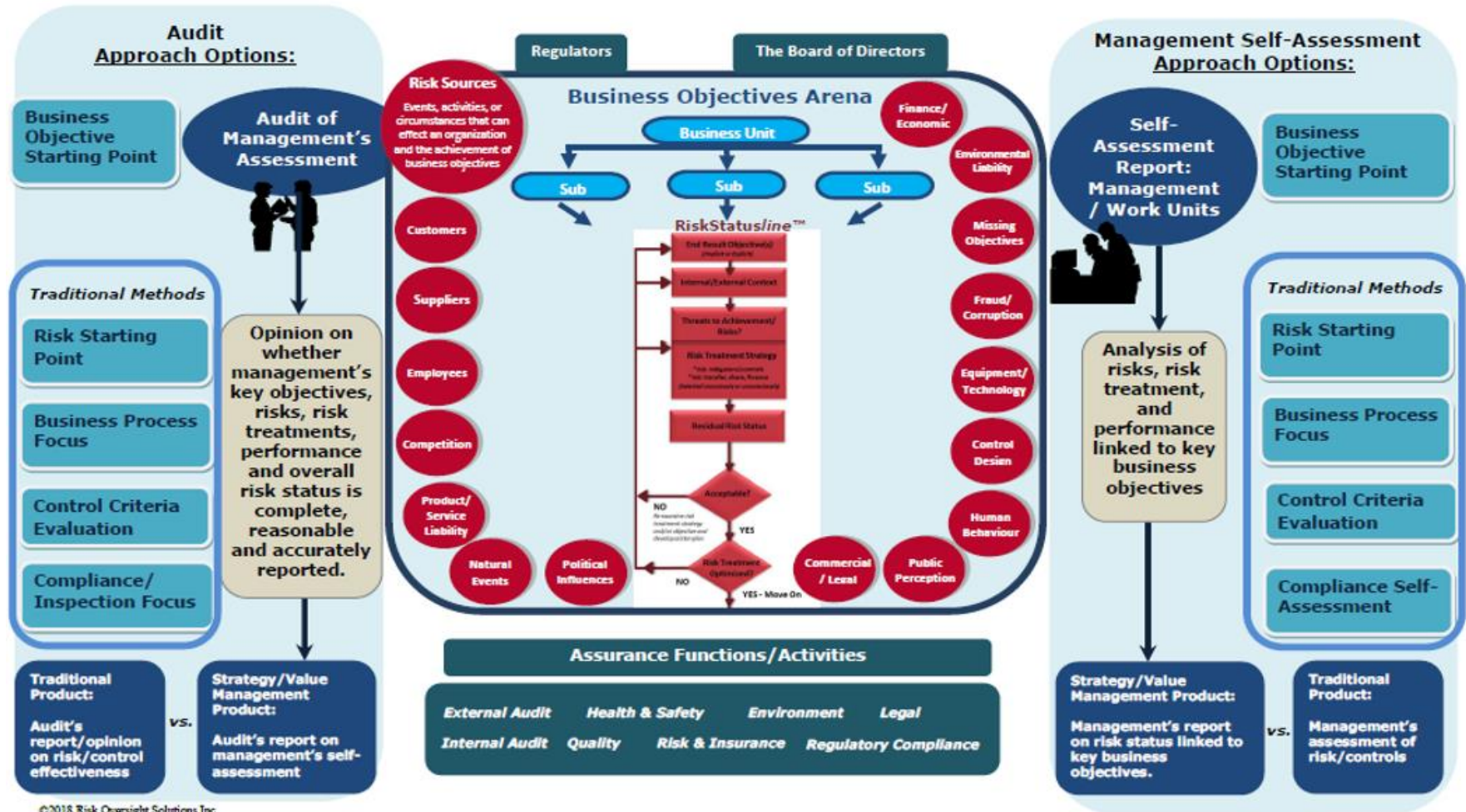
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Respond to powerful institutional investors who want better/more board oversight of strategic planning and risk management



# OCRCM Core Elements

## Strategy & Value Oversight ERM/Audit Overview



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# OCRCM Core Elements

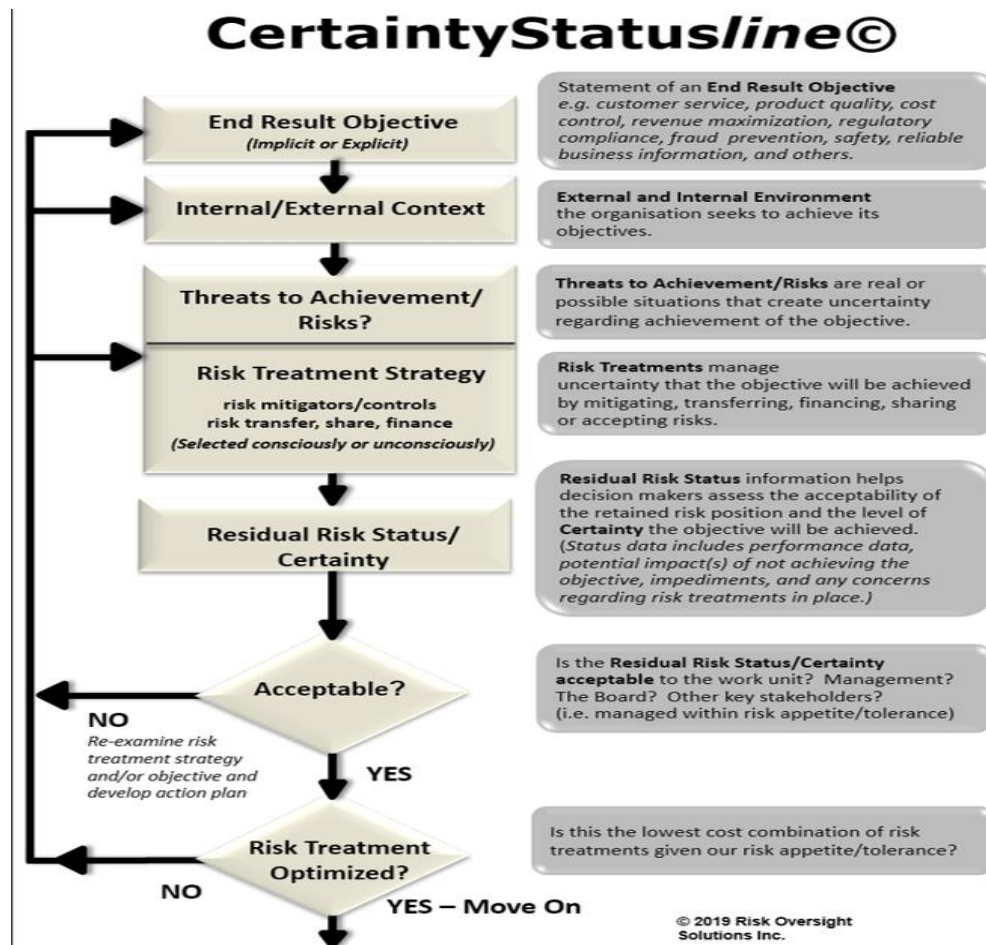
## Objective Centric Risk and Certainty Management Five Step Overview



# OCRCM Core Elements

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## CertaintyStatusline© is the foundation building block



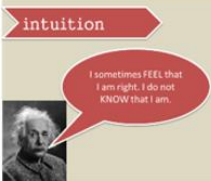



# OCRCM Core Elements

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## Conscious and transparent decisions on Risk/Certainty Assessment Rigor

Risk Assessment Rigour ("RAR") User Guide

RAR LEVEL	DESCRIPTION
Not Assigned (NA)	
Not Rated (NR)	
Intuitive/Experiential	
Traffic Light/Time Limited	
Full Risk/Risk Treatment Assessment	More work and time required to identify risks, risk treatments, RESIDUAL RISK STATUS information, and COMPOSITE RESIDUAL RISK RATING.
High (H)	Quite a bit more work and time reserved for very important objectives
Very High (VH)	A lot of work and time required reserved for absolutely the most important objectives.
Very High + (VH+)	This amount of effort and time is reserved for situation where there is a desire to be as certain as humanly possible.

# OCRCM Core Elements

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## Conscious and transparent decisions on “Independent Assurance Level”

**NIA** – No independent assurance

**LOW** – A high level assurance review has been completed and a feedback report provided to the OWNER/SPONSOR and STRATEGY AND VALUE OVERSIGHT COMMITTEE

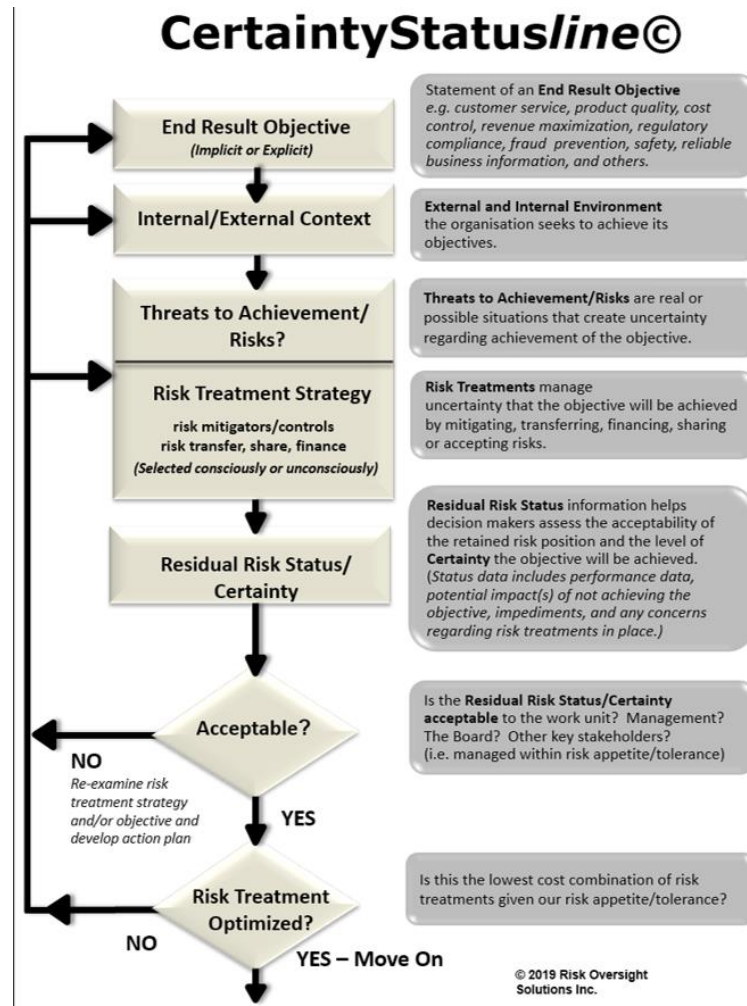
**MEDIUM** – An independent review has been completed to assess the completeness of risks identified, assessment of those risks, risk treatments and residual risk/certainty status information and a report provided to the OWNER/SPONSOR and STRATEGY AND VALUE OVERSIGHT COMMITTEE

**HIGH** – In addition to the steps defined for MEDIUM, steps have been taken to confirm facts re risk assessments, existence and effectiveness of risk treatments and performance/impact/impediment data.

# OCRCM Core Elements

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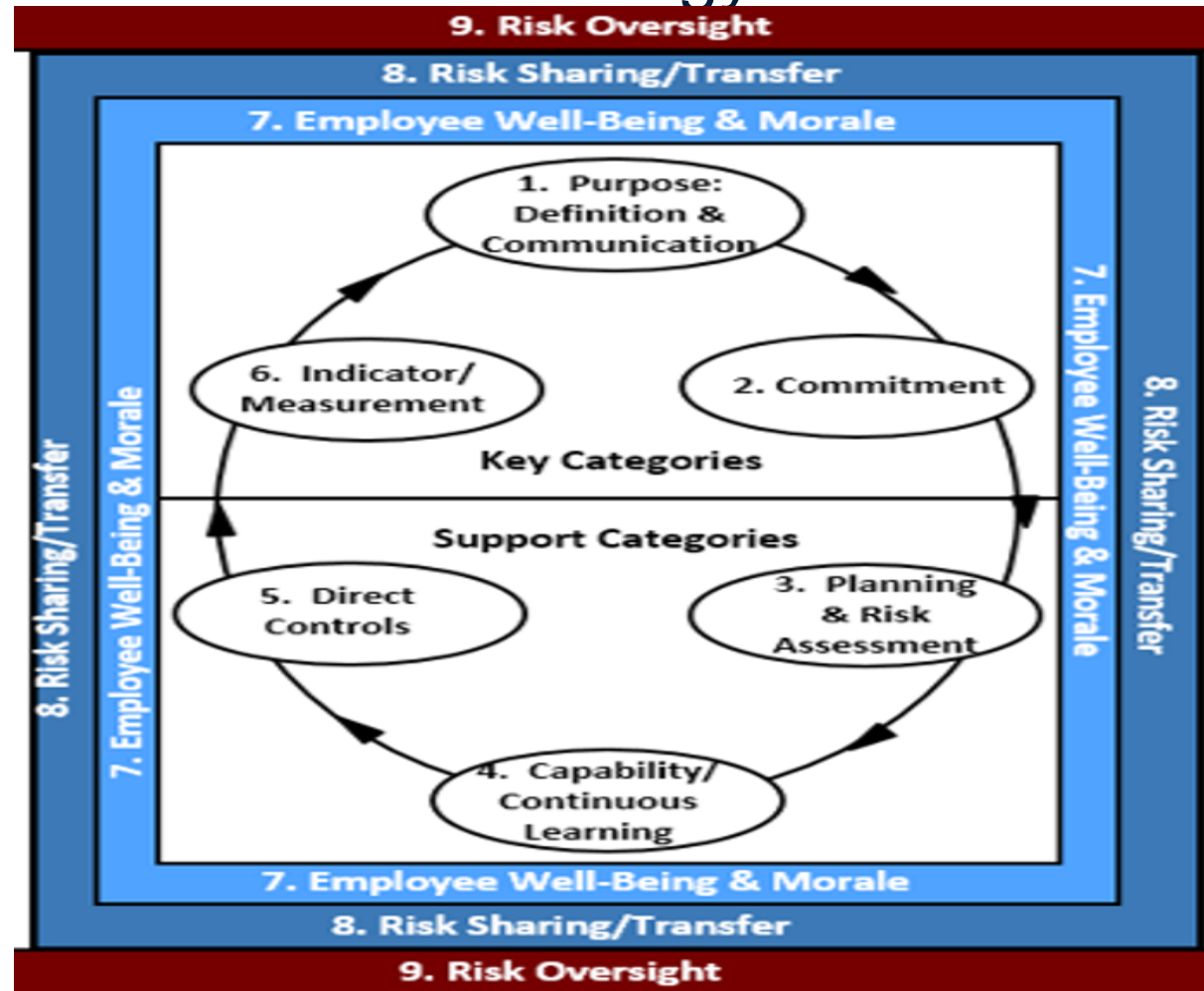
Consider the full range of “Risk Treatments” when completing Risk Treatment Strategy section



# OCRCM Core Elements

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Consider the full range of “Risk Treatments” when completing Risk Treatment Strategy section



# OCRCM Core Elements

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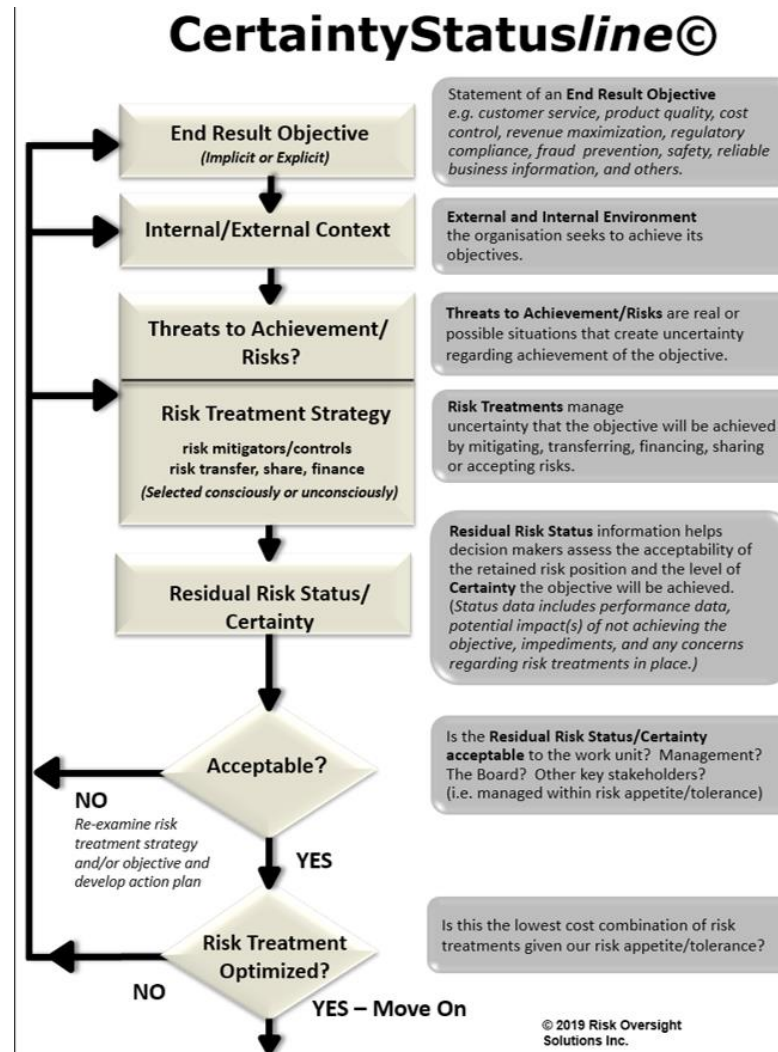
## Conscious decisions on “Objective Certainty Rating”

### Objective Certainty

	Fully acceptable level of certainty of achievement. Any significant concerns have been identified and shared upwards
	Some management effort is required to increase certainty of achievement to an acceptable level.
	Considerable management action is required to increase certainty of achievement to an acceptable level.
	Significant analysis and corrective action by Senior Management and the Board is urgently required to increase certainty of achievement to an acceptable level.
	Massive corrective action by Senior Management and the Board is required now to increase certainty of achievement to an acceptable level.

# OCRCM Core Elements





After the decision on acceptability of residual risk status/certainty has been made, assess if the Risk Treatment Strategy is “Optimized” © Risk Oversight Solutions Inc.



# OCRCM Core Elements

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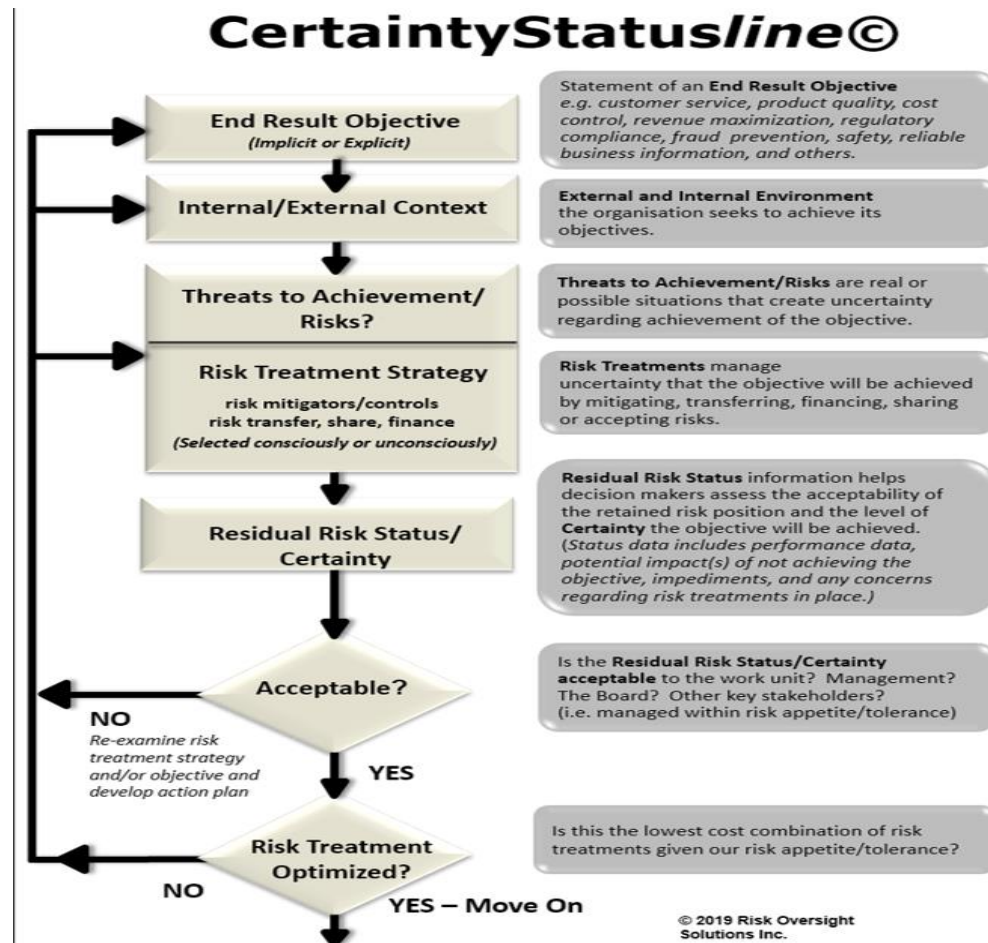
Provide consolidated reports on residual risk status/certainty to the board

Core Objectives		
	Owner	Certainty
Achieve 8% return on private equity investments in excess of the sector benchmark.	Mary Brown	
Increase customer retention by 15% year over year.	Chuck Smith	
Increase customer satisfaction ratings from 3.2/5.00 to 4.0/5.00 by year end 201X	Elaine Ford	
Reduce lost time due to accidents by 30% year over year.	Paul Stevens	

# OCRCM Top Management Benefits

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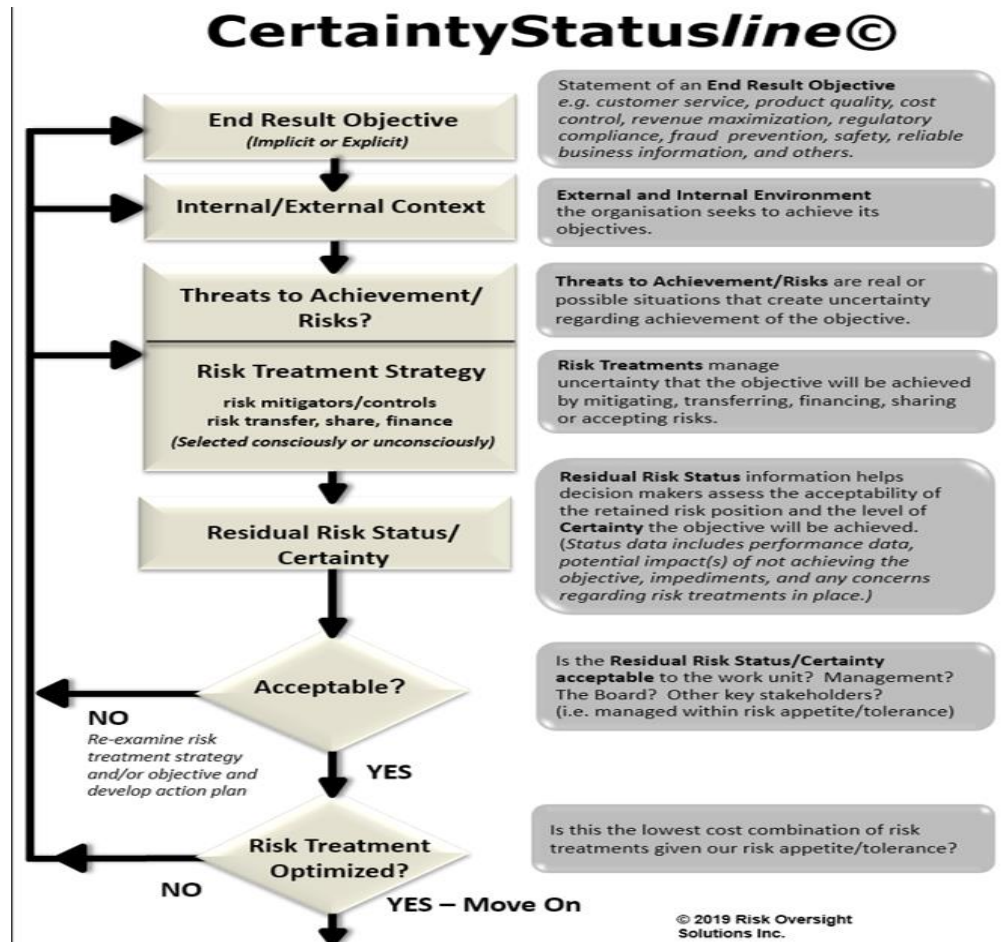
Increased certainty objectives will be achieved



# OCRCM Top Management Benefits

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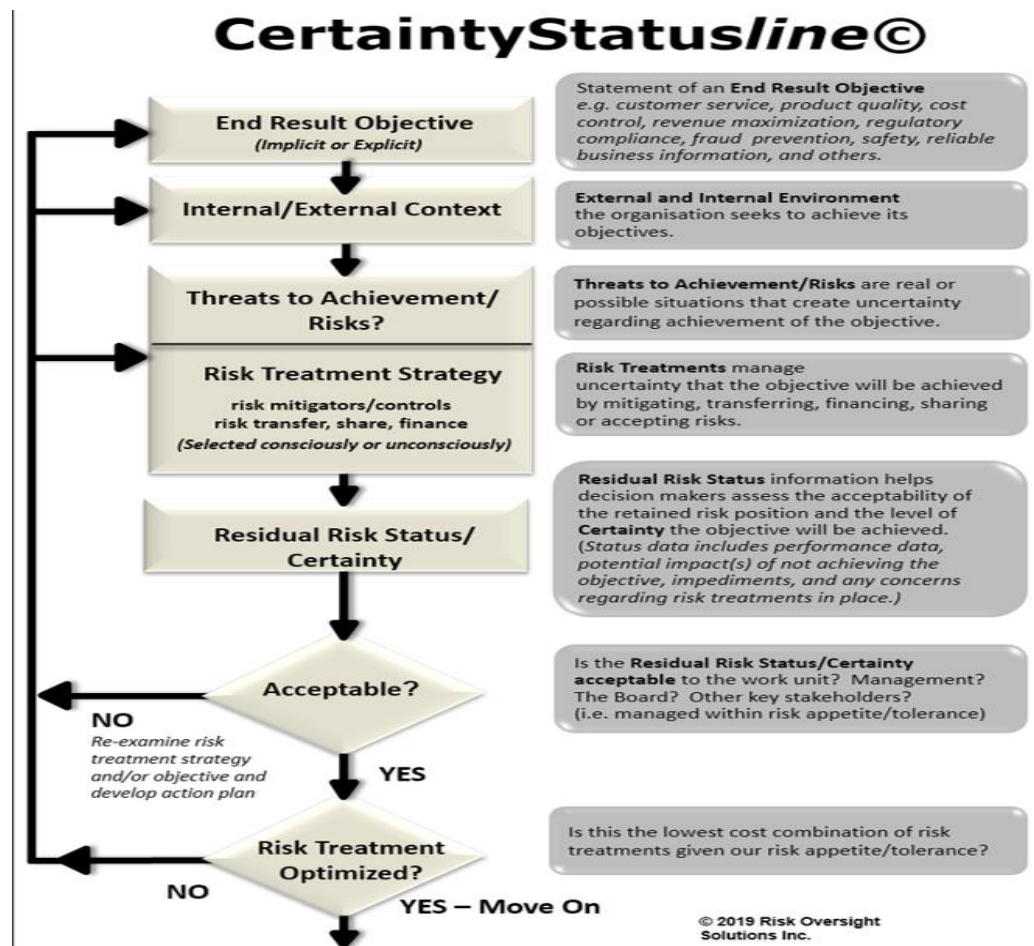
Management can see the relationship between risks/risk treatments/residual risk and performance



# OCRCM Top Management Benefits

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Management makes a conscious decision on acceptability of current risk/certainty status

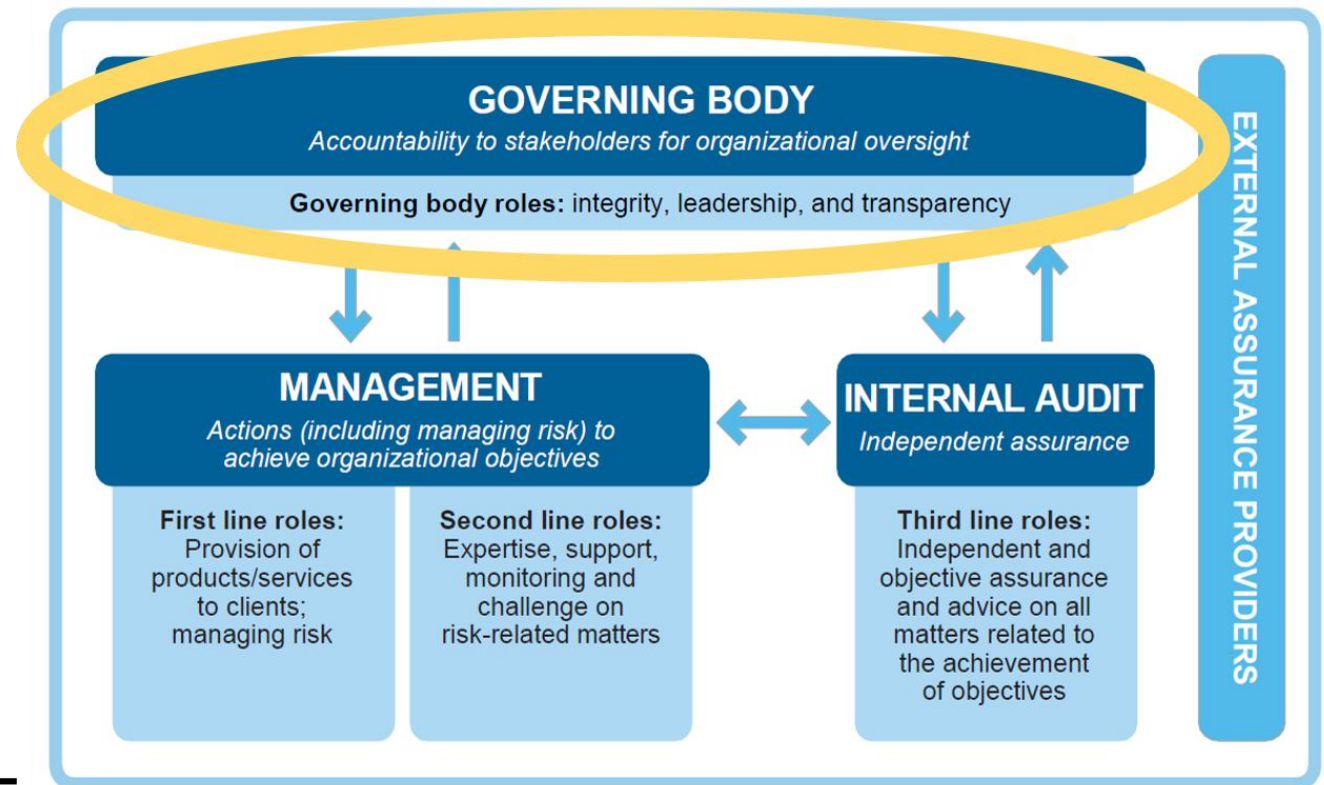


# OCRCM Top Board Benefits

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Boards are better positioned to meet stakeholder risk governance expectations

## The IIA's Three Lines Model




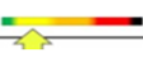







# OCRCM Top Board Benefits

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Boards get concise data on risk/certainty status linked to “mission critical” objectives

## Core Objectives

	Owner	Certainty
Achieve 8% return on private equity investments in excess of the sector benchmark.	Mary Brown	
Increase customer retention by 15% year over year.	Chuck Smith	
Increase customer satisfaction ratings from 3.2/5.00 to 4.0/5.00 by year end 201X	Elaine Ford	
Reduce lost time due to accidents by 30% year over year.	Paul Stevens	

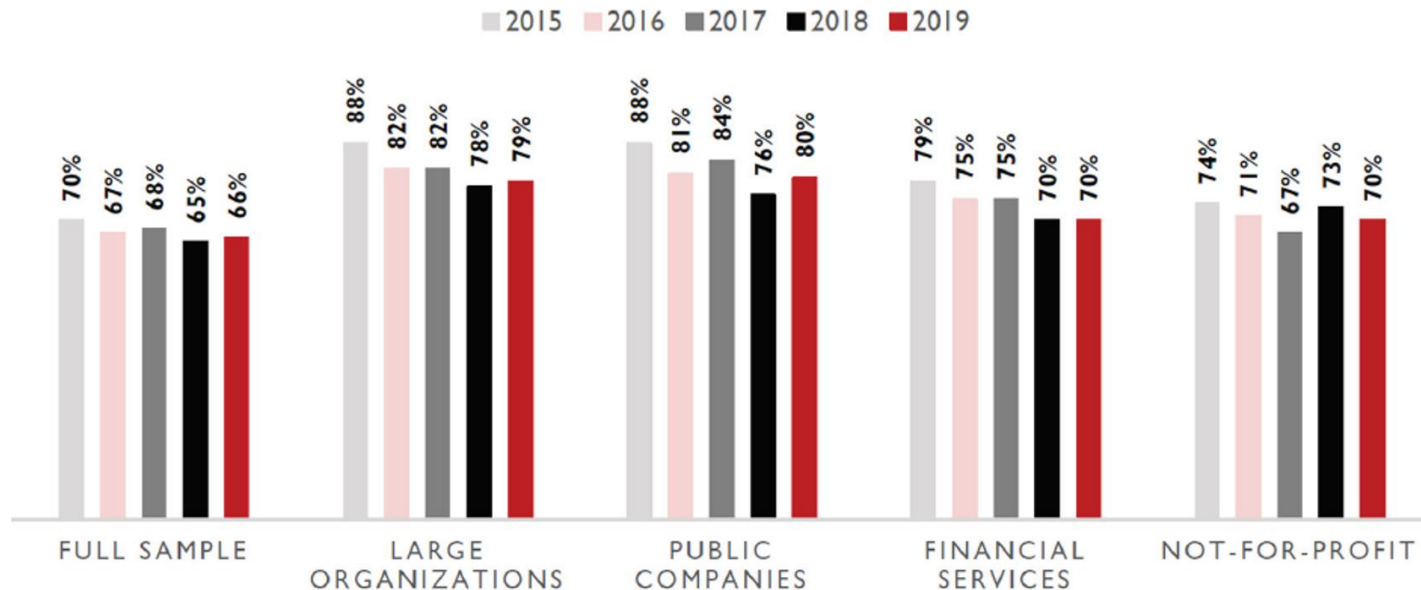
	Fully acceptable level of certainty of achievement. Any significant concerns have been identified and shared upwards
	Some management effort is required to increase certainty of achievement to an acceptable level.
	Considerable management action is required to increase certainty of achievement to an acceptable level.
	Significant analysis and corrective action by Senior Management and the Board is urgently required to increase certainty of achievement to an acceptable level.
	Massive corrective action by Senior Management and the Board is required now to increase certainty of achievement to an acceptable level.

# OCRCM Top Board Benefits

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Boards get what they have been saying for 5 years they want from senior management

## EXTENT TO WHICH BOARDS ARE ASKING FOR MORE SENIOR EXECUTIVE INVOLVEMENT IN RISK MANAGEMENT



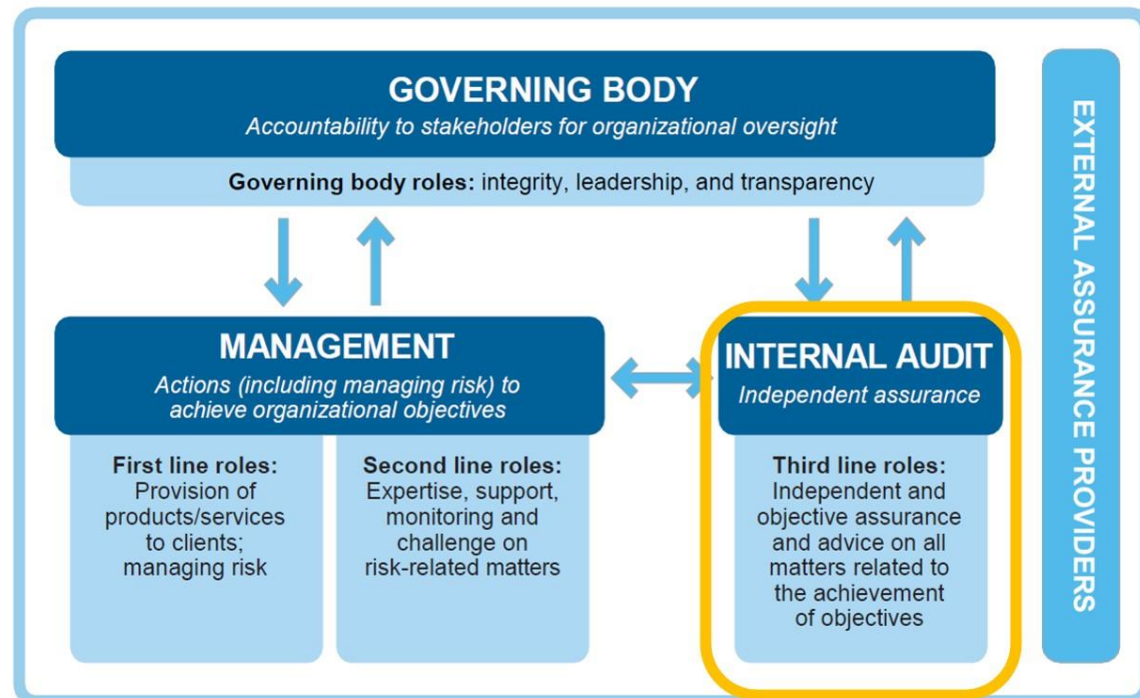
Source: AIPCA/NCS 2020 Risk Oversight Survey

# OCRCM Internal Audit Benefits

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Internal audit services are “demand driven” not “supply driven”. IA resourcing/staffing is linked directly to Board/CEO requirements

## The IIA's Three Lines Model







# OCRCM Internal Audit Benefits

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Counterproductive conflict with management is reduced.  
Management can take any level of risk they think is appropriate as long as they are prepared to share the risk/certainty status with those above them.

## Core Objectives

	Owner	Certainty
Achieve 8% return on private equity investments in excess of the sector benchmark.	Mary Brown	
Increase customer retention by 15% year over year.	Chuck Smith	
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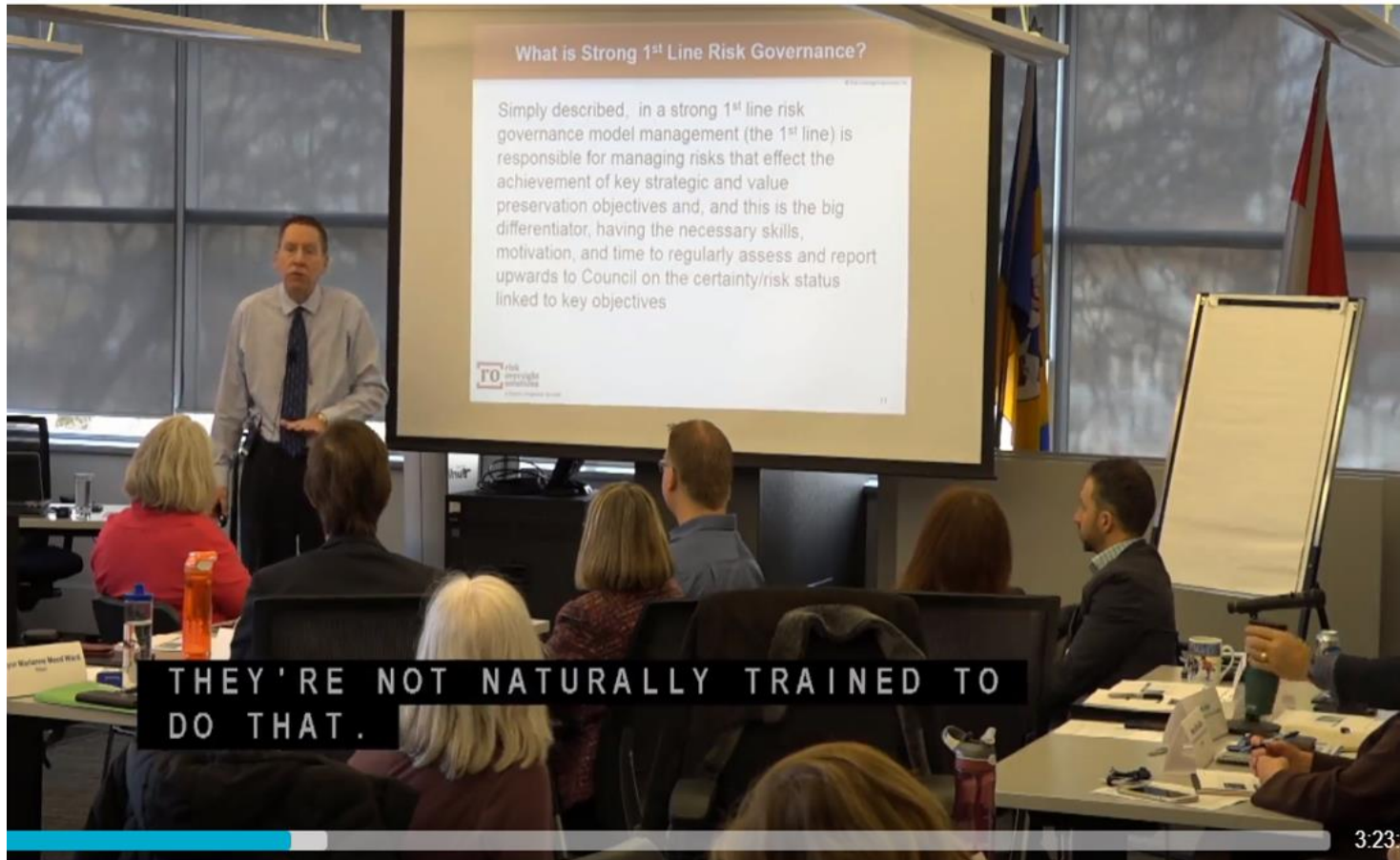
Internal audit is focused on helping management increase certainty the most important “mission critical” objectives, including strategic objectives, are achieved while operating with an acceptable level of residual risk status/certainty



# OCRCM Internal Audit Benefits

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Internal audit staff learn skills that will be incredibly valuable in any future management/IA/RM positions



# OCRCM Risk Management Benefits

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RM resources are focused on helping management increase certainty “Mission Critical” objectives are achieved with acceptable levels of residual risk/Certainty

## Board Oversight 2021: “Mission Critical” Risks and the Corporate “Mission” Converge

By Adé Heyliger, Lyuba Goltser, and Ellen Odoner, Weil, Gotshal & Manges<sup>1</sup>

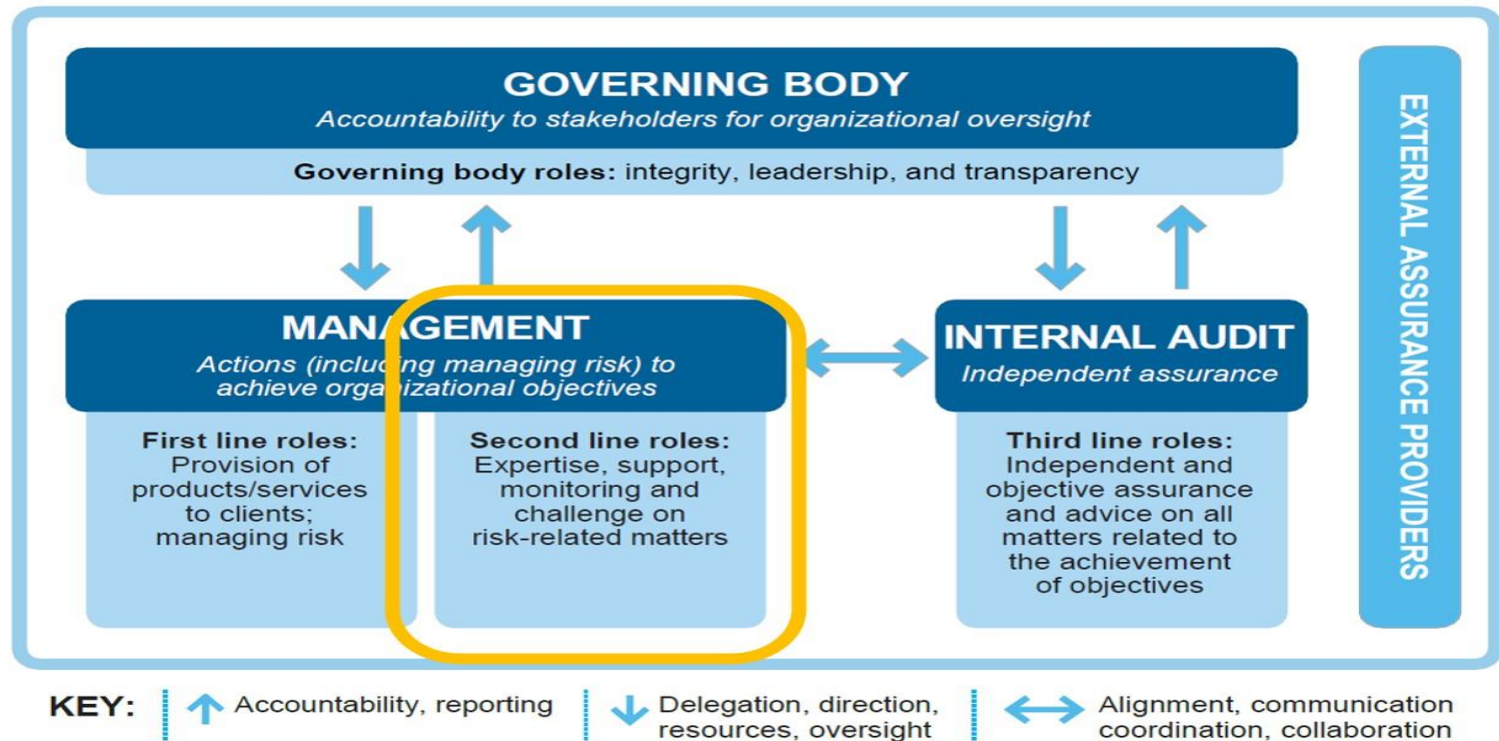


# OCRCM Risk Management Benefits

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Risk management resourcing is determined by board/CEO requirements for reliable risk/certainty status information from Owner/Sponsors linked to mission critical objectives

## The IIA's Three Lines Model



# OCRCM Risk Management Benefits

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In highly regulated sectors 2<sup>nd</sup> line work directly supports meeting regulatory expectations the company is operating within acceptable risk appetite/tolerance boundaries

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# Measuring Success

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Tim's view is "effective risk management" provides the C-Suite and Board with a materially reliable picture of the risk/certainty status of achieving top strategic/value creation/value preservation objectives". Few RM/IA functions do that today

## 5 – Optimized

Risk appetite	Once the risk appetite has been approved by the board, management and key employees implement it throughout the organization in a format and level of detail appropriate for decision-making.
Risk assessment	Management uses a common process to conduct risk assessments, document risk information, and monitor its performance against risk-adjusted KPIs. Management has protocols in place to ensure that significant risks are addressed when they arise, rather than during or after next scheduled risk assessment.
Common language	The entire organization, from the board to line/operational management and employees, has a common understanding of the terms used in the risk management process (e.g., risk, contributing factor, control, impact, likelihood) and uses a common language to discuss risk.
Use of risk information	Risks are tied to the organization's objectives at every level. Further, risk information is communicated throughout the organization on an ongoing basis, and compensation and incentives for management are linked to KPIs driven by identified and assessed risks.

# QUESTIONS???

## Thank you

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