

# CONTINENTAL ACCOUNTABILITY SEMINAR – LIVINGSTONE ZAMBIA



## Management @ the Board

**Risks**  
are part of business, but  
business doesn't need  
to be risky.



# Speaker Background



**MBA (Strategic Mgt), Bsc (Applied Acc.), CPA, FCCA, Dip (Risk Mgt)**



**13years – Banking, DPFB (Meriedien Biao, Pan African Bank, EuroBank, Trust Bank, Delphis Bank, Bank Supervision, Internal Audit, Finance and National Debt Registry**



**2 years – Credit Risk & Enterprise-wide Risk Management**



**6.5 years – Enterprise-wide Risk Management, specialization on Non-financial Risks**



**Todate – HELB – Board Leadership**

# Who we are



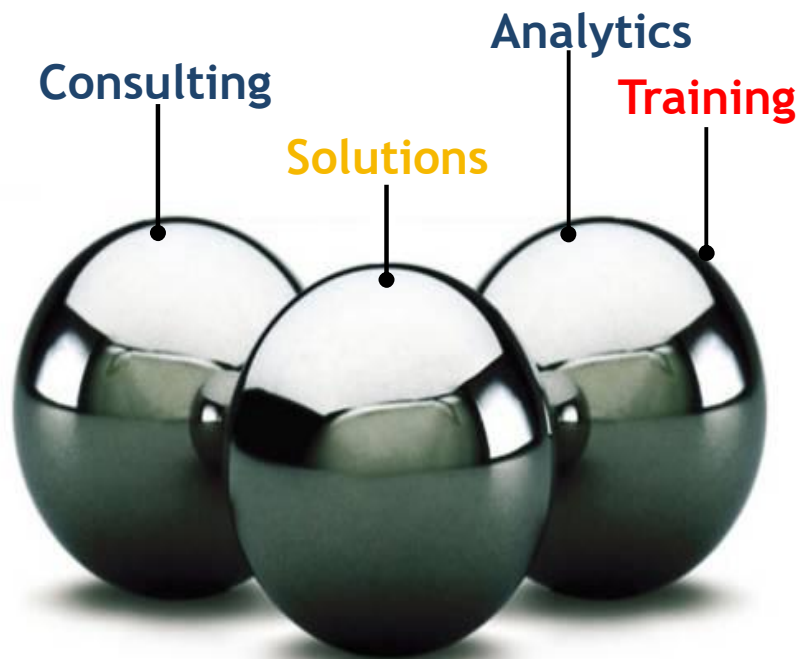
*Risk Management/Corporate /Advisory/Supply  
Chain Risk/Feasibility Studies/Financial Modelling*



[www.novel.co.ke](http://www.novel.co.ke)

Information and Communications Technology Solution Providers

**Transforming process  
through automation**



## Infocell Corporate Profile

- Infocell Consulting is an African Risk Management Consultancy firm, a Consulting house based out of Nairobi offering in East, Central and Sub-Saharan Africa.
- Our main focus in terms of client relationship is to ensure that there is adequate knowledge transfer and build enterprises to **DIY** capacity through extended handholding in formalization of institutional risk management process.
- We specialize in leading risk management practices, within an overall **enterprise risk management framework**. We have, both as individuals and collectively, a depth of established relationships with leading players and regulators in the field of risk management.
- We pride ourselves as leading financial advisory services firm in Eastern Africa and have championed the adoption of risk management practices in the financial markets, healthcare, manufacturing, educational, agriculture and general business arena.
- Infocell also deals in Corporate Advisory Work and Enterprise Development projects.
- It has dealt in the following sectors - Banking, Insurance, Healthcare, Manufacturing, Construction, Telecommunication, Transport and international organizations like IFC.
- Our mission is to raise latent risk management, entrepreneurial and managerial competency of Kenyan and regional businesses, communities and organizations to become increasingly competitive and to seamlessly integrate into regional and international arena.

### **Our vision –**

*"To be a leading and professional firm in business and management training and consulting in Africa and Developing world".*



# Select Clients



KENYA INSTITUTE OF BANKERS





# Select Clients

## OUR CLIENTS



Central Bank  
of  
Kenya



Promoting child rights  
to end child poverty



KENYA  
BROADCASTING  
CORPORATION



KENYATTA  
NATIONAL  
HOSPITAL



MINISTRY OF  
EDUCATION



MINISTRY OF  
LIVESTOCK  
DEVELOPMENT

ORACLE



NOVEL OFFERS ORACLE SOLUTIONS  
AS A GOLD PARTNER

ORACLE  
GOLD PARTNER

NOVEL + SAFARICOM = CONNECTIVITY

NOVEL HAS PARTNERED WITH  
SAFARICOM TO OFFER  
COMMUNICATION SOLUTIONS



Safaricom



# Collaborations

**Aptivaa**

150+  
implementations



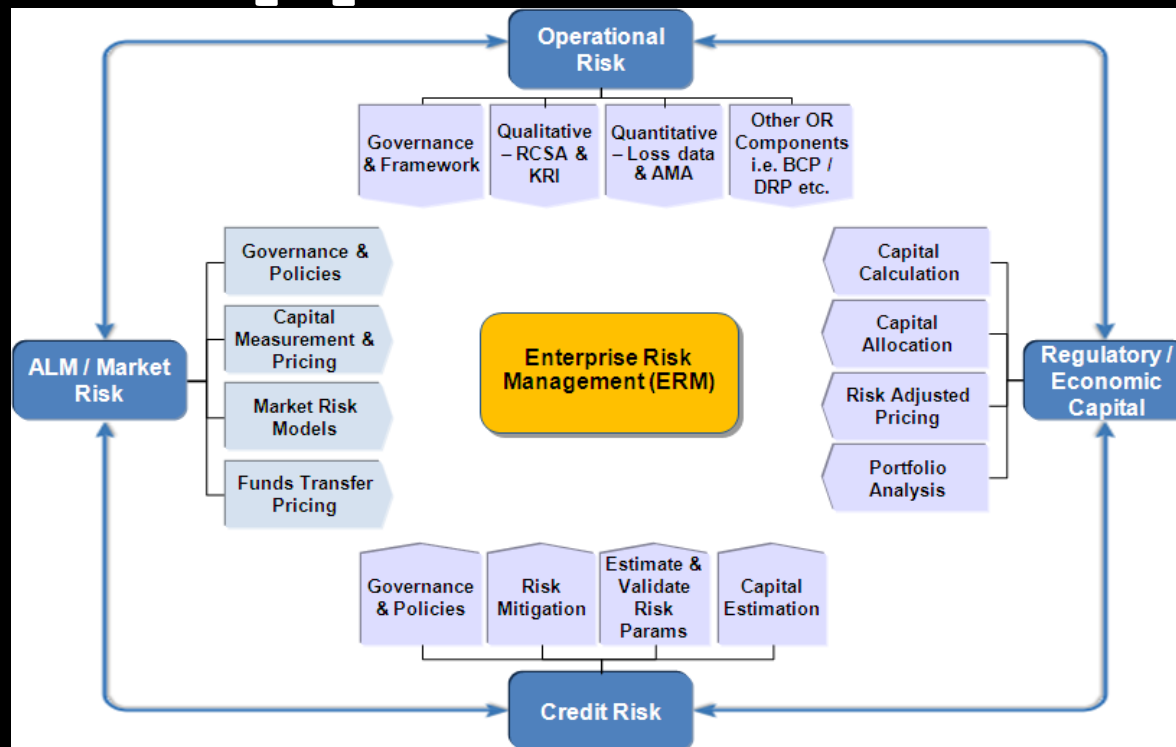
**AA2SH**  
the ideal approach



**CHASE COOPER**  
A Dion Global Solutions Company



# Our Approach



## Consulting

The Consulting and advisory services provides clients with solutions to the issues faced at every stage of the risk management process. We look to provide value based services by using our cutting edge skill sets to put clients on par with globally suited best practices.

## Solutions

Solutions provides the backbone of implementation of the risk management goals ensuring that activities are process dependant rather than on a person

## Analytics

Analytics forms the risk / business interpretation of the risk management vision leveraging the technological platform and is result oriented

# Contact



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# Outline

1

2

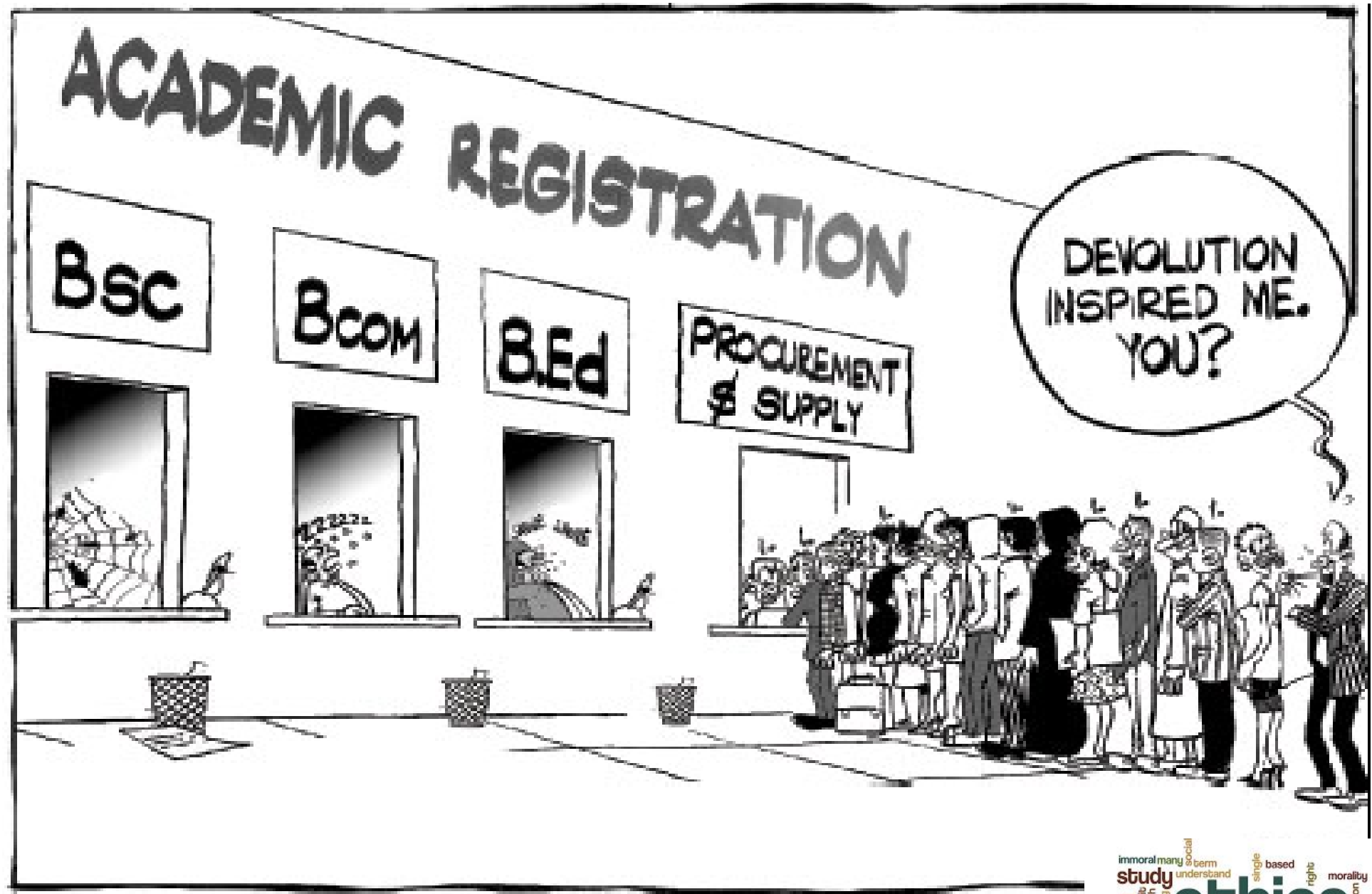
3

5

4

2





**I can Understand Governance BUT**

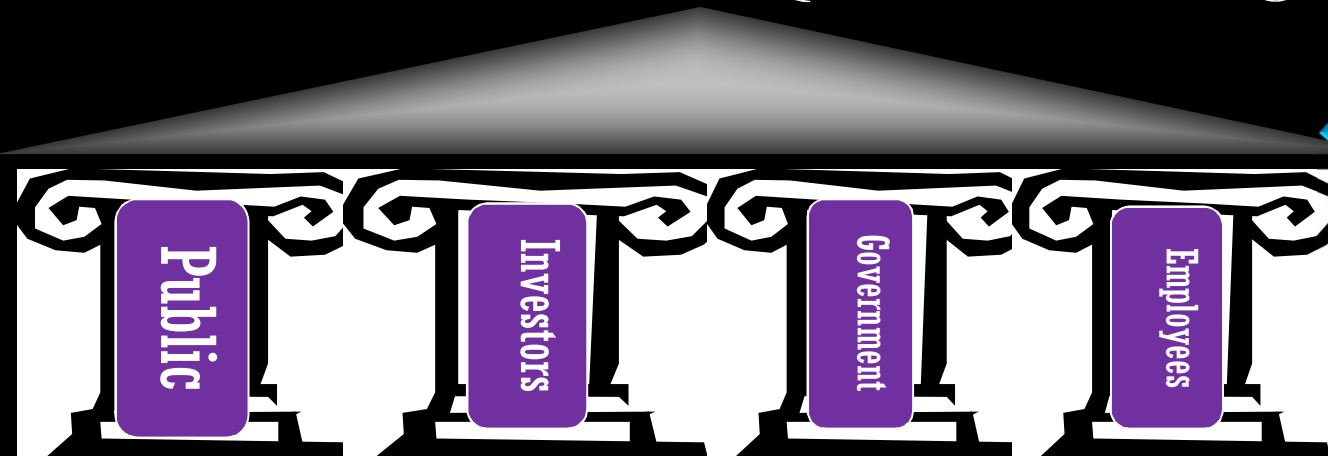


**Risk = Anything that impedes from achieving corporate objectives**

# ERM DEFINED

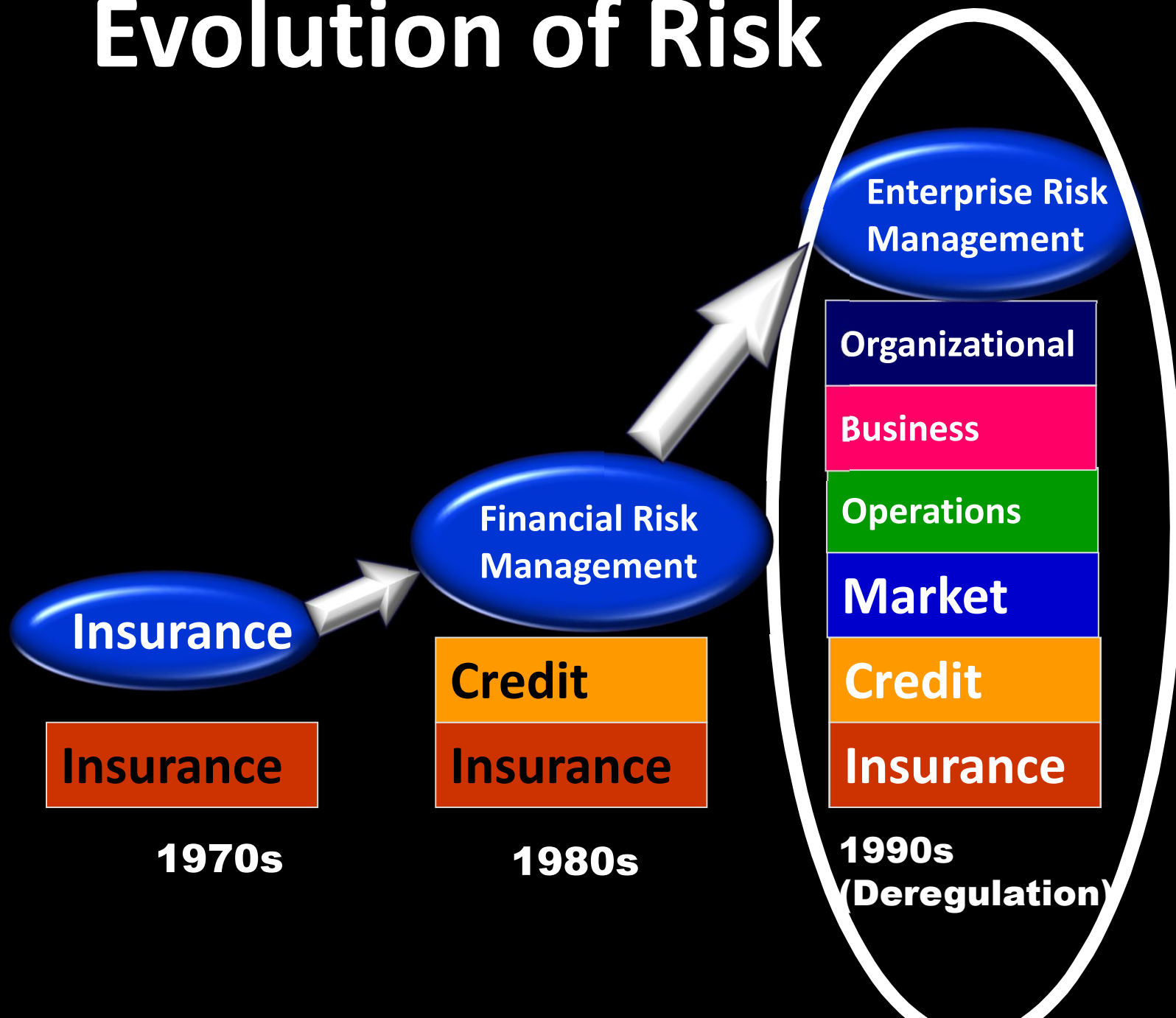
*“... a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”*

*Source: COSO Enterprise Risk Management*

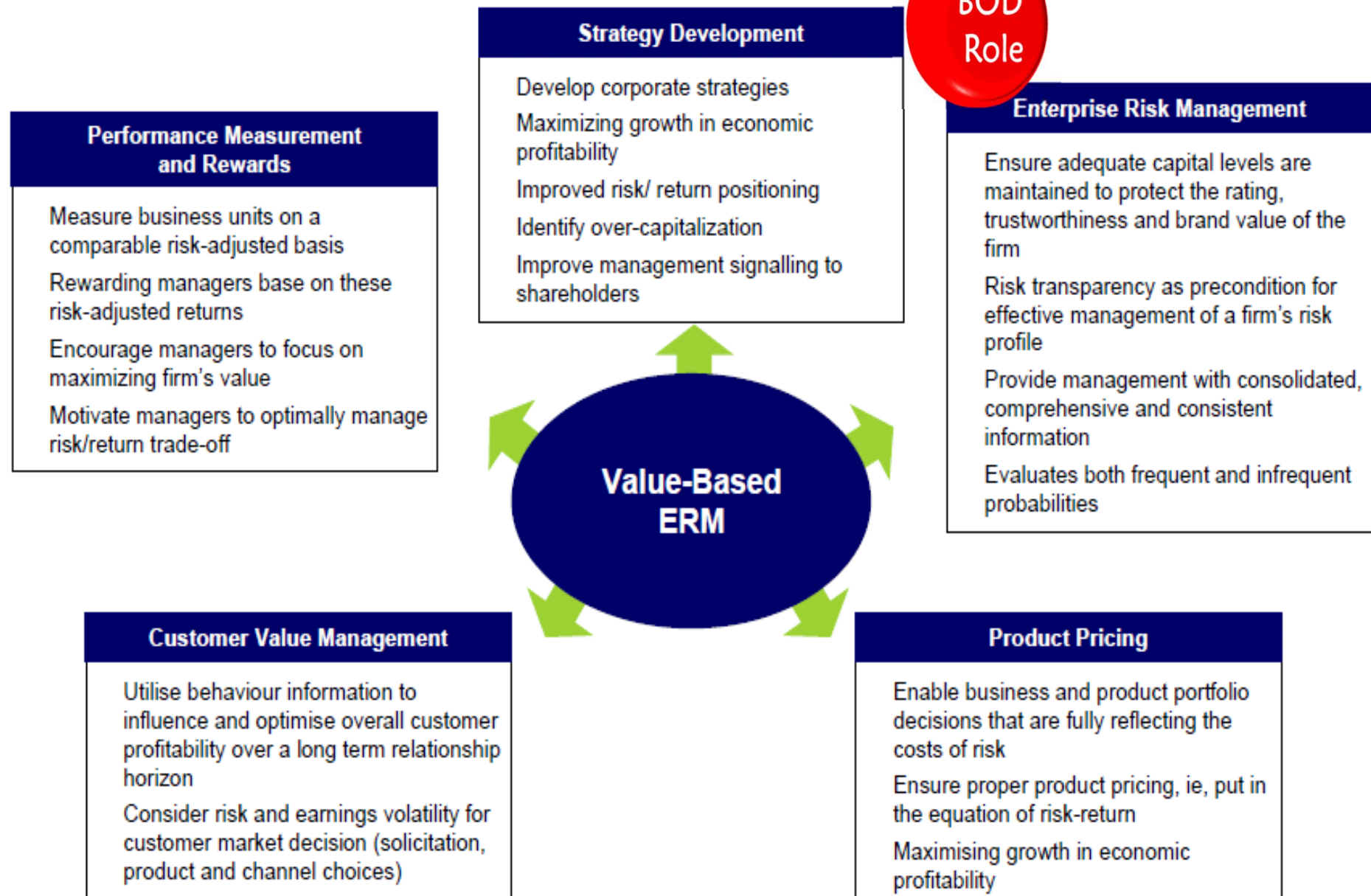


What are your  
pillars

# Evolution of Risk

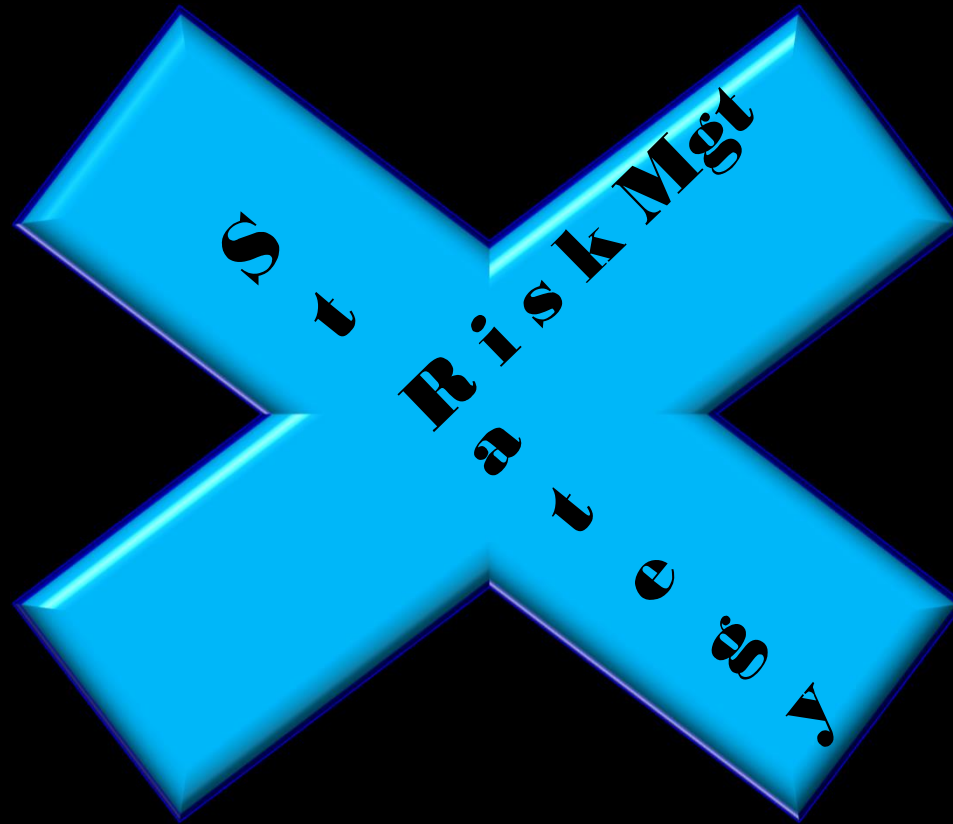


# Linking strategy to ERM

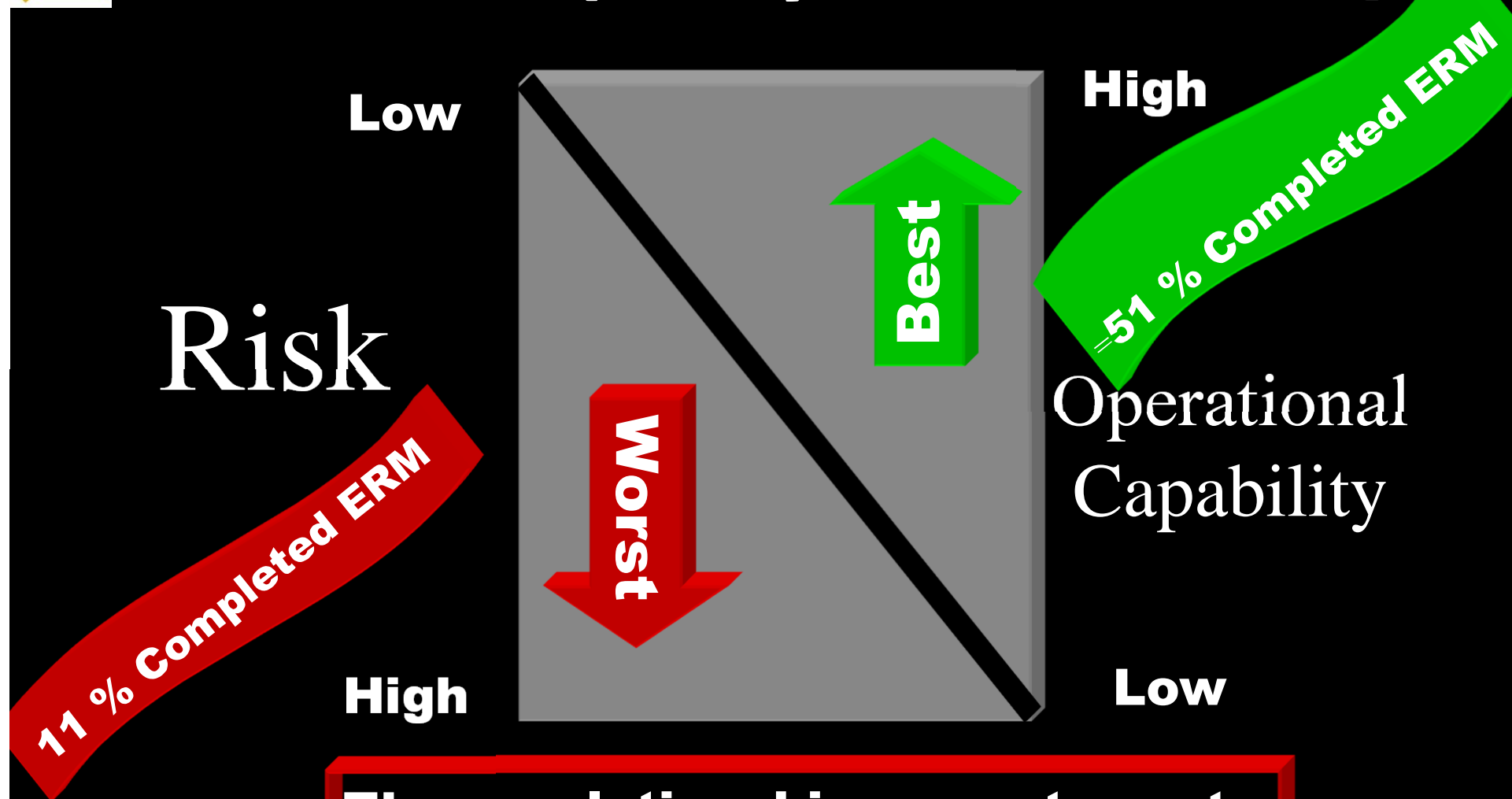


# ERM and Strategy are intertwined

*Best Practice Model aims at creating a comprehensive view of the alignment of ERM and business risks @ strategy formulation and execution*



# Risk & Capability: a core relationship



**These relationships are strong to  
achieve operational efficiency**

# Board Enablers to ERM - Best Practice Model

*Mckinsey 2010*



# Boards Behavior post - *Global Financial crisis*



# Shortcomings – *immense proportion*

The Great meltdown    2008 Financial crisis



# Lessons from the Global Financial Crisis

*Who will save the world against the global financial system?*

**Wake up Mr. Regulator**

***"Too Big to fail"***



**APRA**



**HONG KONG MONETARY AUTHORITY**  
香港金融管理局



## Basel III

*"... The general consensus is that the failure to understand the true nature of enterprise-wide risk exposures was one of the core reasons behind collective downfall of organizations."*

**Regulations  
Regulations  
Regulations**

**Change  
of Investor  
Behavior –  
RISK**

**Reduction  
In margin  
Of error**

**Managing  
Risk profile  
Now a must  
4  
survival**

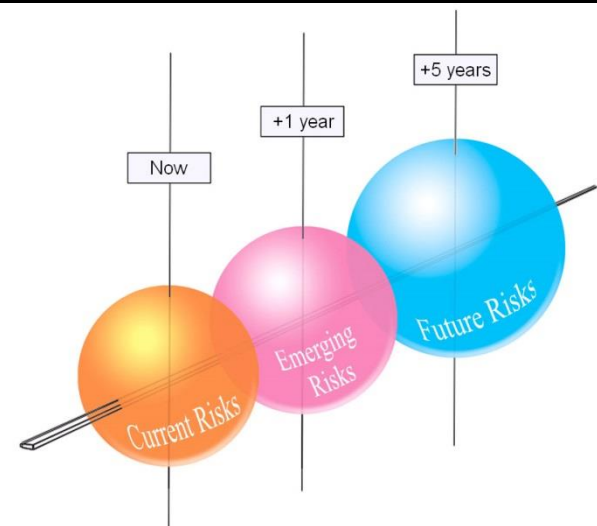
**Decision  
Making now  
Purely based  
On associated  
risk**



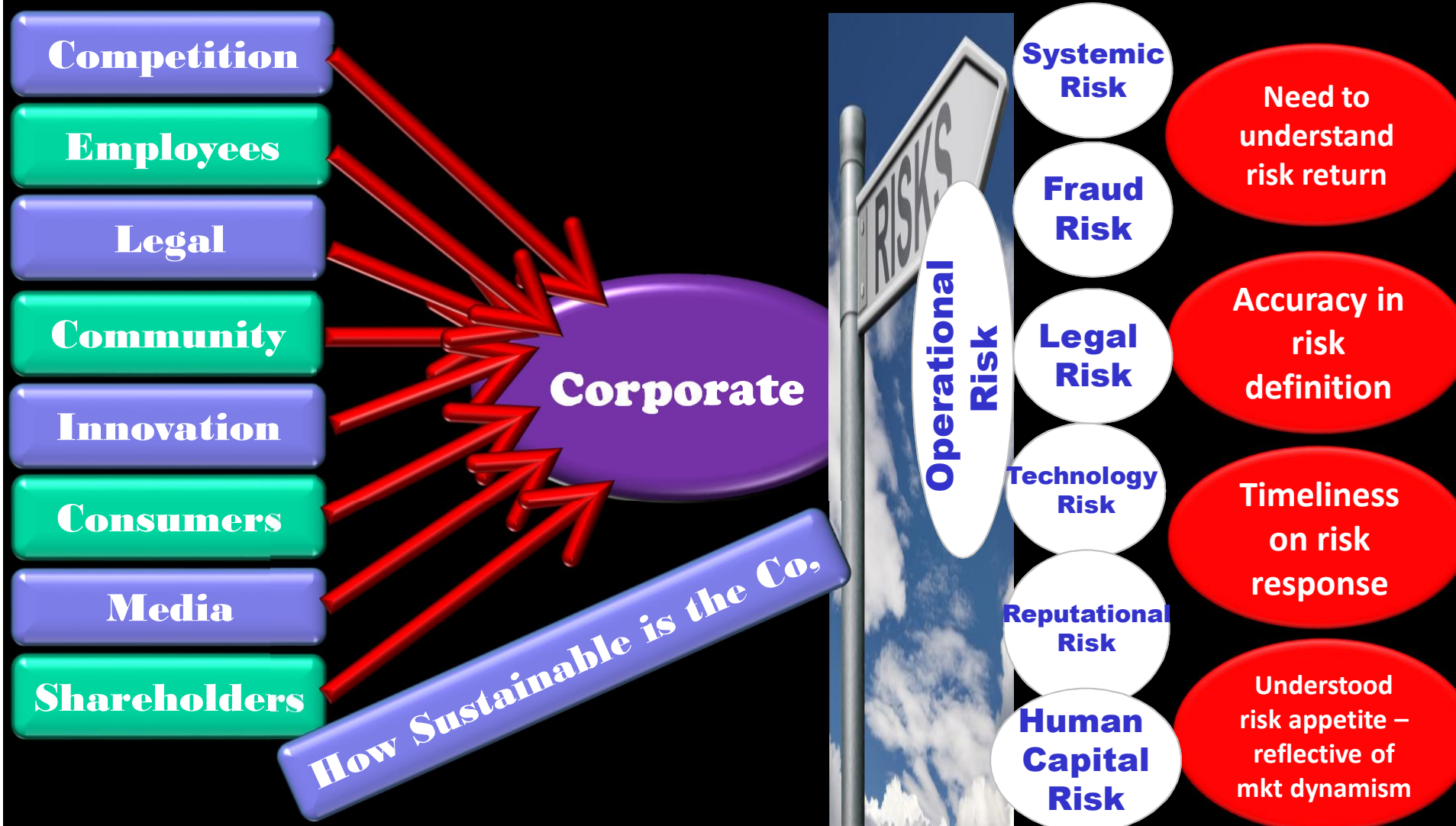
# Balancing Risk and Rewards



“... BOD = midpoint of Shareholders & Management. This critical role requires BOD to understand risk appetite & Corporate actions around risk appetite. Being an independent entity, the board has the perspective to spot emerging risks and areas of concern that may be missed by risk managers immersed in the daily functioning of the organization.”



# Board Risk nightmares



*"We remain prepared to lose \$6 billion in a single event, if we have been paid appropriately for assuming that risk. We are not willing, though, to take on even very small exposures at prices that don't reflect our evaluation of loss probabilities" ..Warren Buffer*

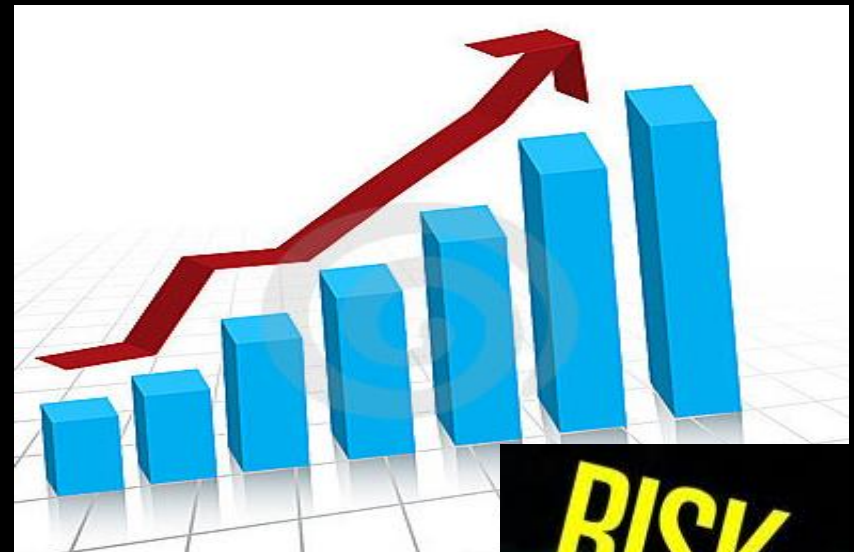
## ***Common Tendency for most Boards is to avoid***

# **Risks**

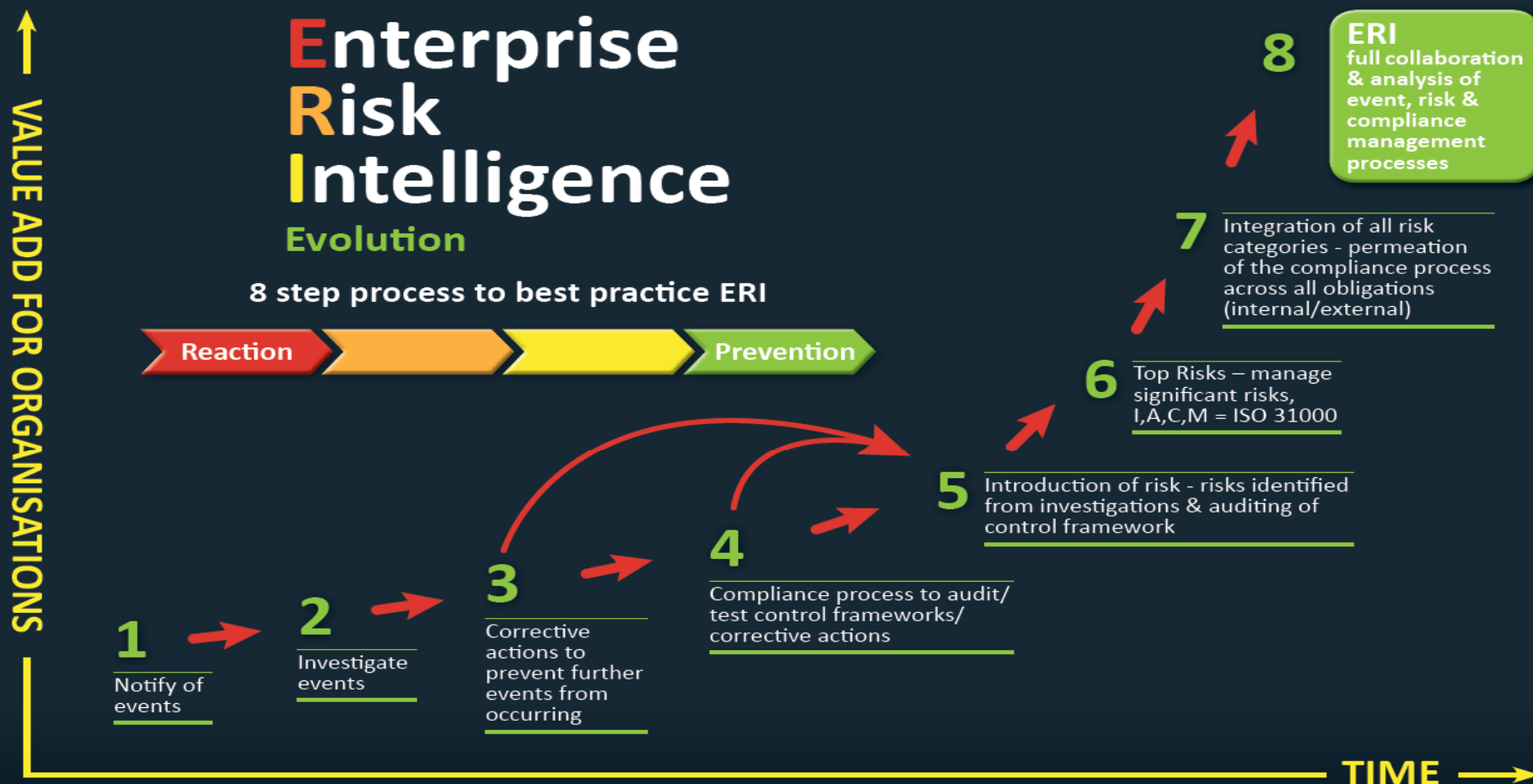
**are part of business, but  
business doesn't need  
to be risky.**

*Visionary Boards  
however know “there  
can be no rewards  
without risk”*

*These Boards are able to distinguish, successfully,  
between risks that need to be mitigated and  
risks that can be capitalized on or  
optimized. They know which RISKS to focus on  
for maximum and effect. What gives them this  
advantage is, to a large extent, the quality of  
risk intelligence/information that  
they receive.*



**RISK**  
Intelligence



RMSS Copyright © 2011

- Essential to the Board
- Risk Appetite is now prominent in the Board
- Boards must now consistently speak of their largest risks, & present facts that facilitate dialogue on risk.
- Boards must now understand deeply their organization risk profiles – this improves decision making and maintains firm competitive edge.

# THE ROLE OF THE BOARD IN ERM



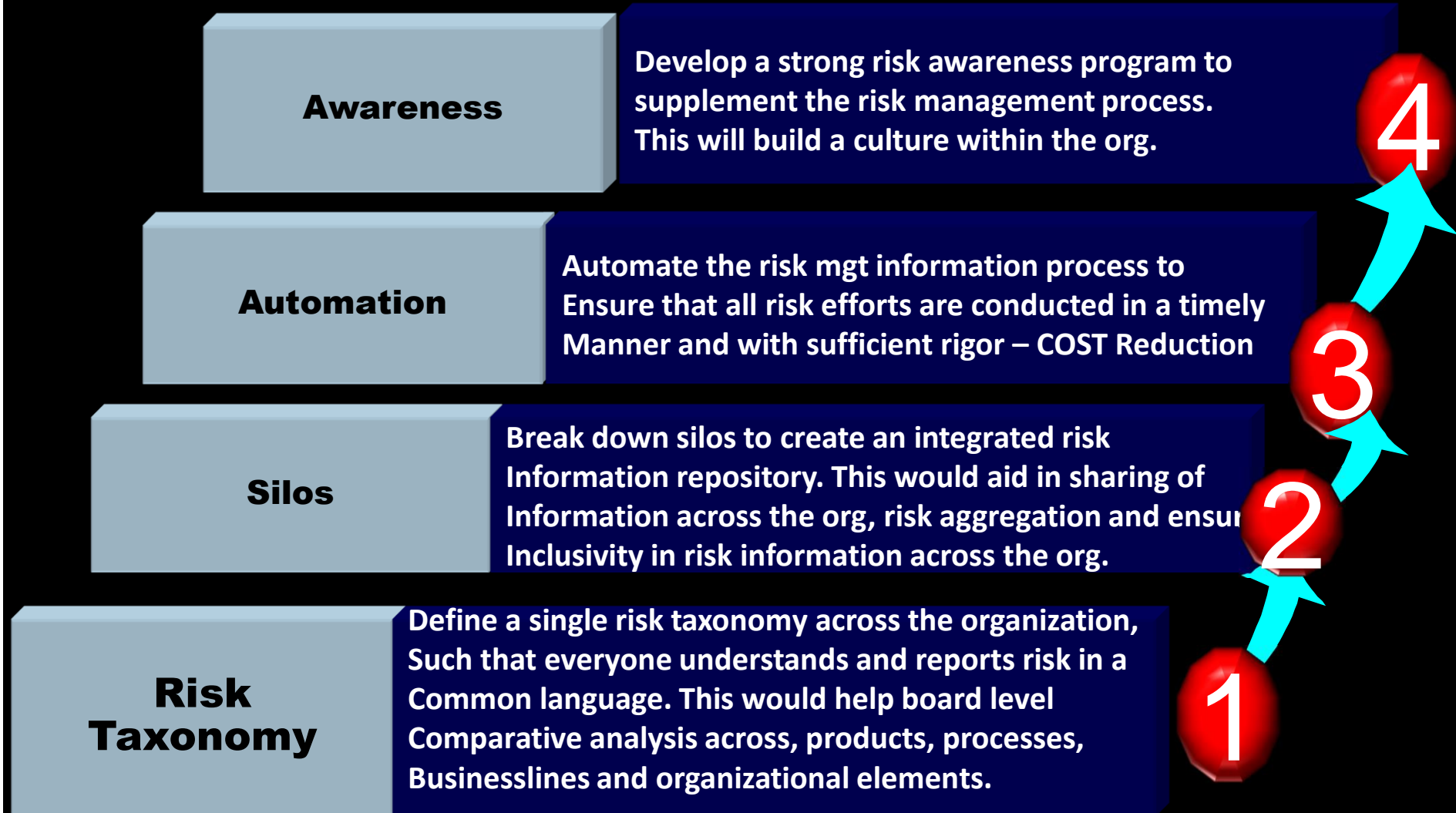
Role of the  
Board



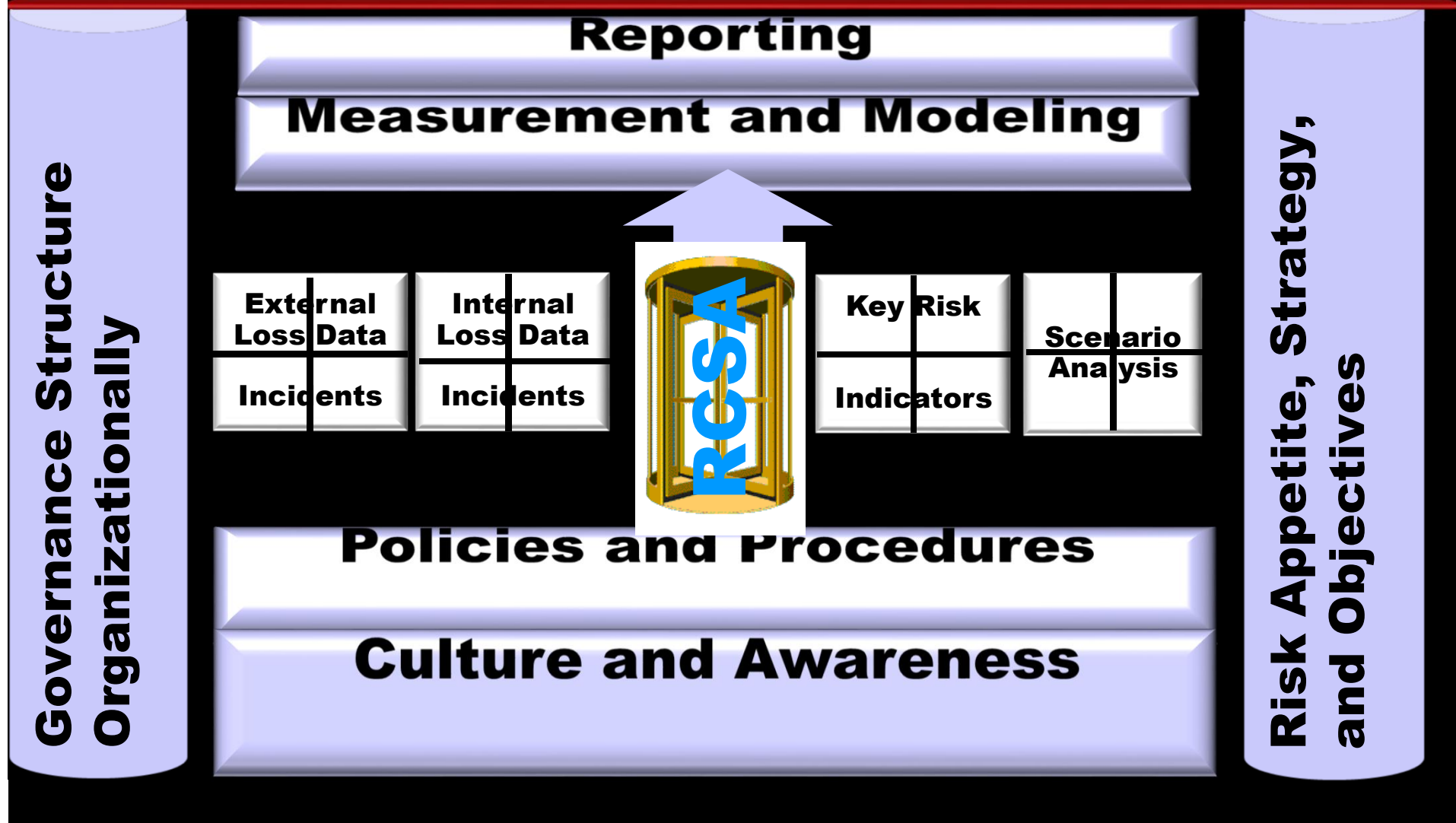
## Building a Risk Intelligence Programme

*“... Even though the need for risk intelligence in strategic decision making is critical, the actual practice of providing relevant, timely and forward looking risk information to the board requires meticulous planning and seamless execution of an integrated and enterprise-wide risk management program”*

To develop a risk program that is efficient and effective in providing information to the board – consider the following steps

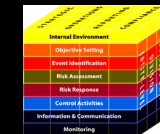


# Framework Structure

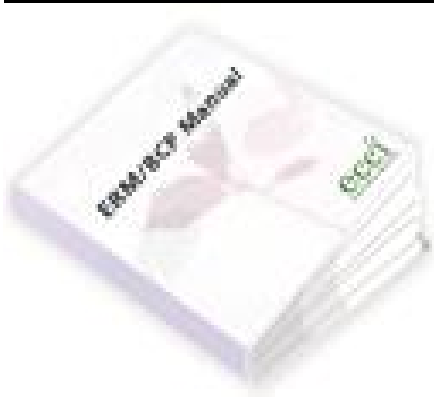




- **Go short of nothing but *International best practice* -**



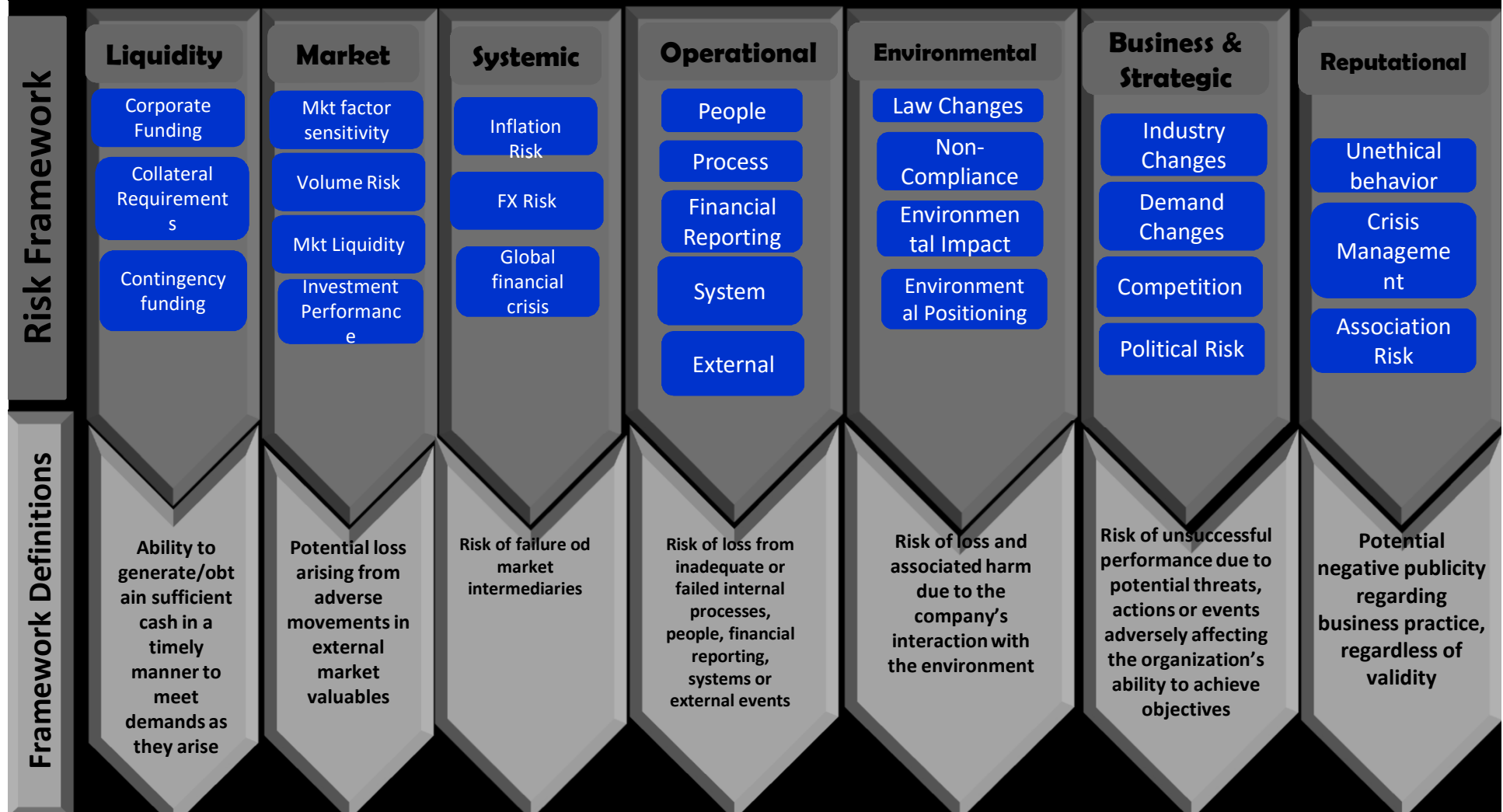
- **It must be a consultative document**
- **Win the mind and souls of people**
- **Senior Mgt must approve it and adopt the implementation road map**
- **Internal Audit must give concurrence about resiliency of the framework**
- **BOD must approve**



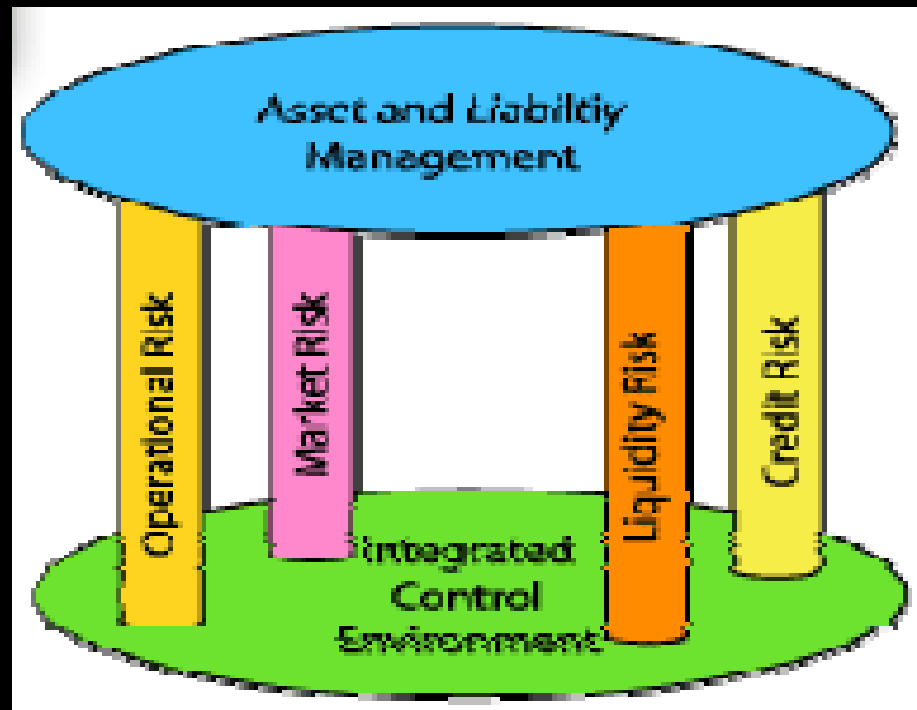
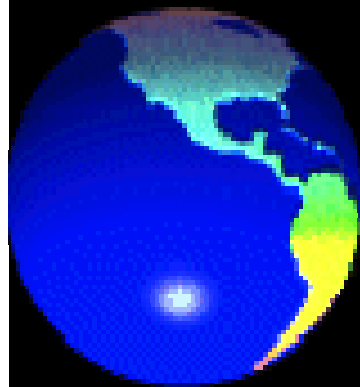


# Your Risk Universe

A company focused on ERM constantly assesses risk factors to ensure they reflect business realities – both quantifiable or non-quantifiable risks or Financial & Non-financial risks



# Why Risk Universe Description is Key



**Risk Taxonomy**

**Clarity**

**Consistency**

**Focus**

**Relevancy**

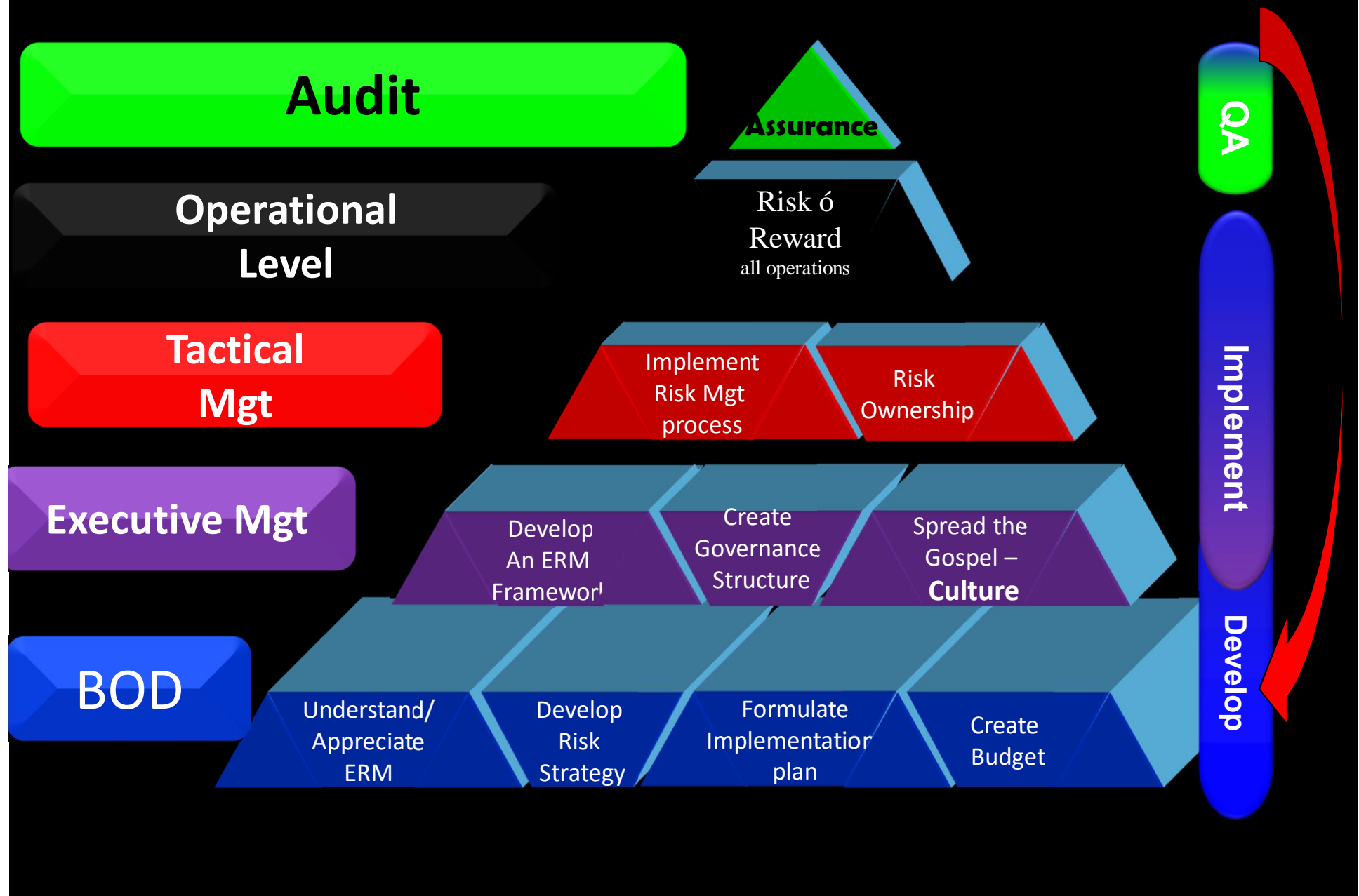
**Resonates with  
Corporate strategy**

**Training**

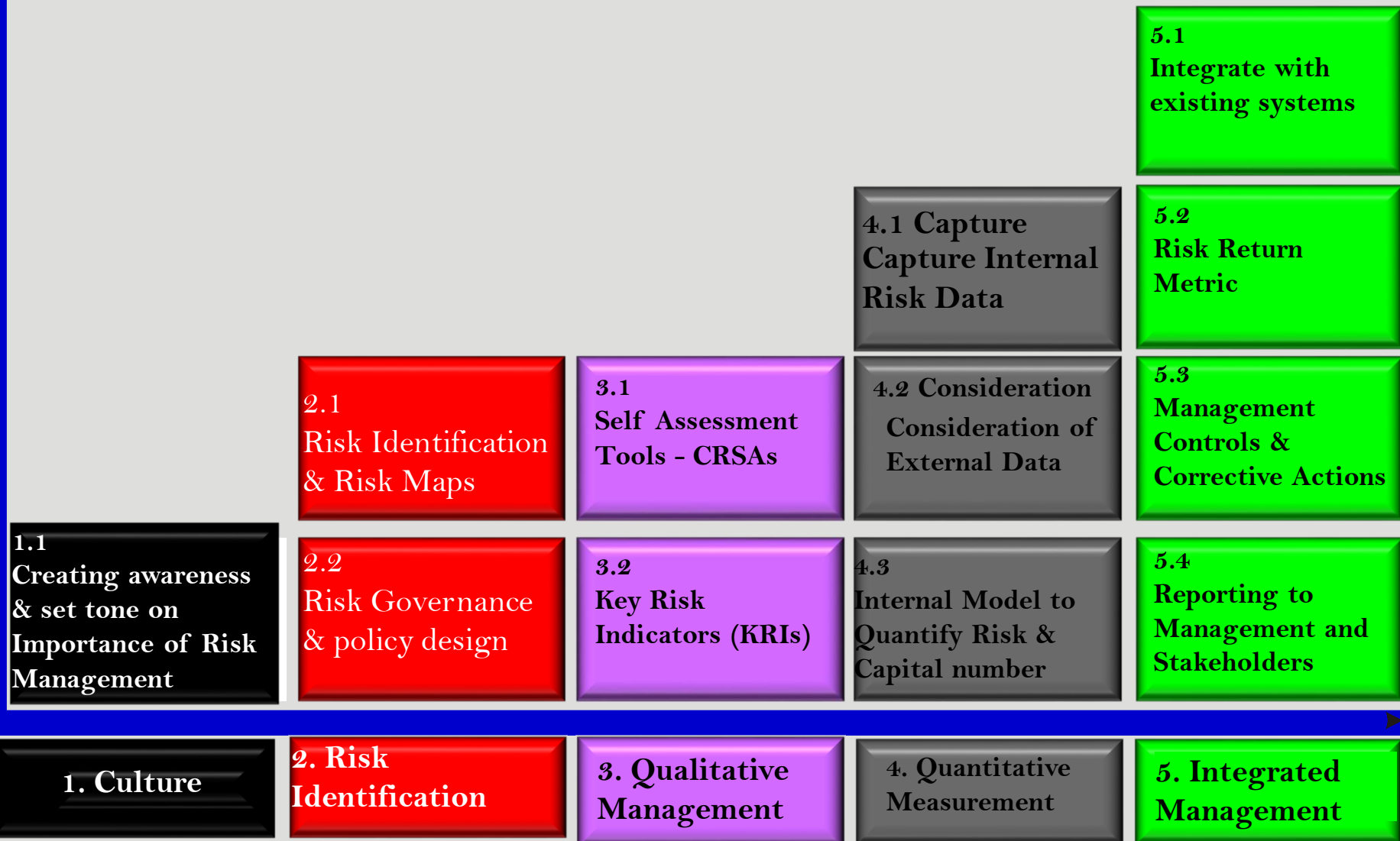
**Culture**

**Automation**

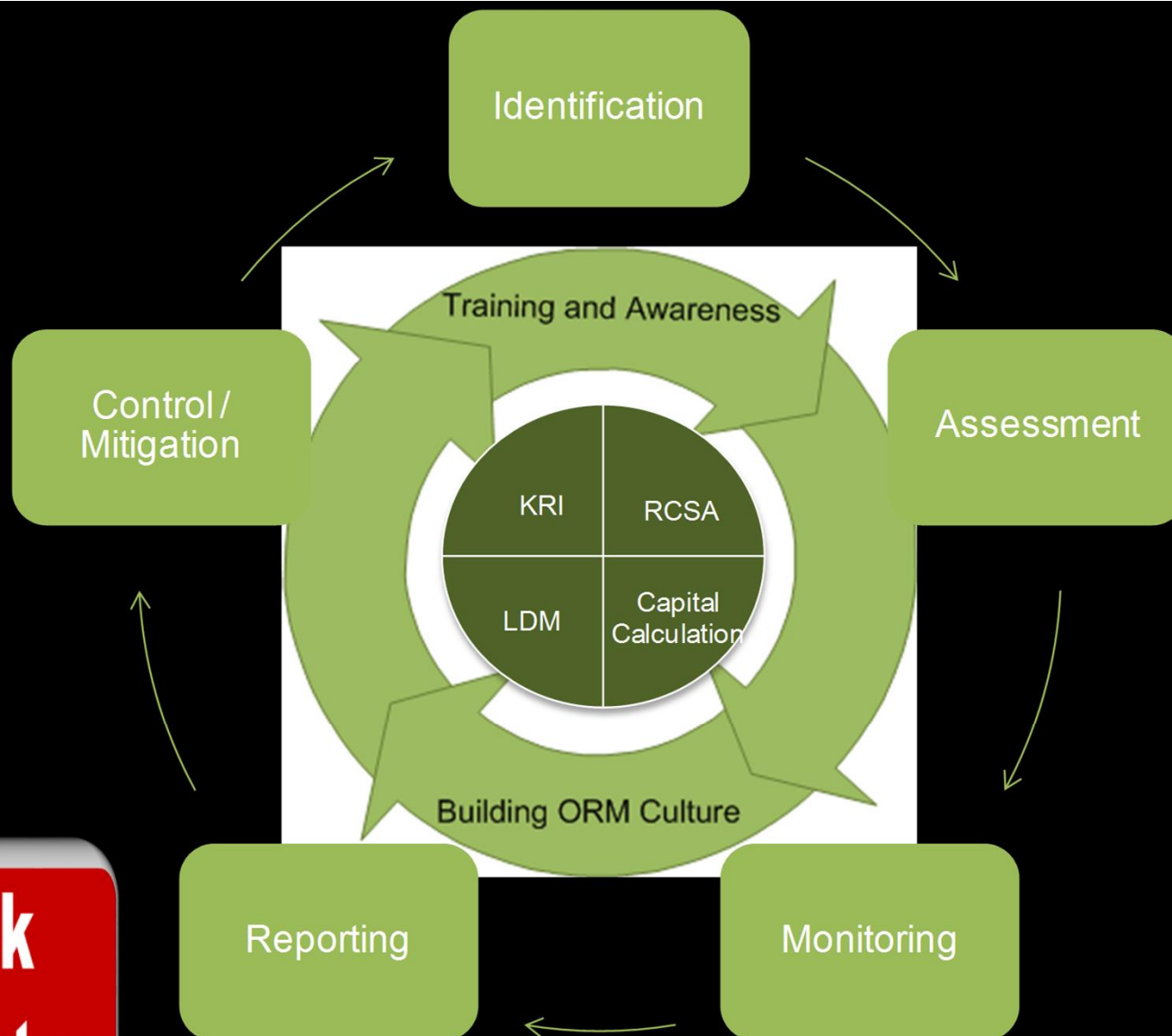
# Implementation Building Blocks



# Are we succeeding? – Measuring success



# Formal risk management processes



Risk Event  
Description

Inherent  
Impact

Inherent  
Likelihood

Description of  
Standard  
Controls

Control  
Rating

Residual  
Impact

Residual  
Likelihood

Action  
plan

Responsi  
ble  
Person

Due  
Date

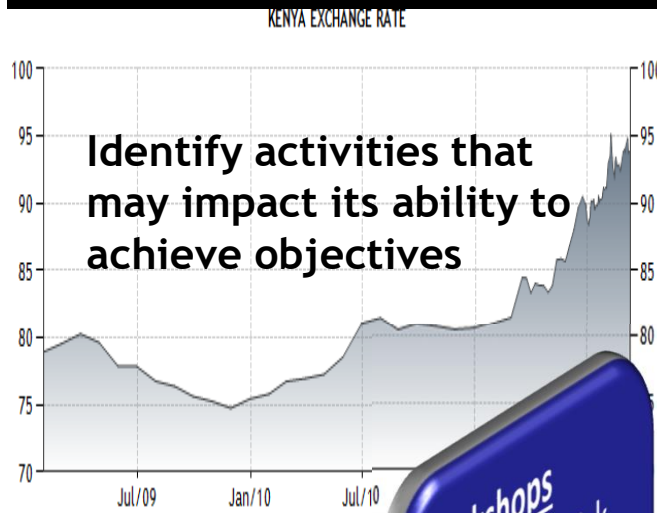
# Objective Setting



# Risks Identification Process – Risk *in* Strategy



# Risk Identification



Distinguish risks from opportunities

Egypt/Tunisia/Bahrain/Libya



**Workshops**  
 • Business & Risk expert  
 • Collaborative  
 • Produce a list of risks – focus on key  
 • Non-victimization  
 • All responses are correct

**Events Losses & Incidents**  
 • Understand business “as is”  
 • performance shocks  
 • Look at Audit report  
 • Media publicity, shareholder/investor expectation to stimulate a “fact-based discussion”

**SWOT Analysis**  
 Internal: Strengths, Weaknesses  
 External: Opportunities, Threats

**Use analytical tool PESTEL**  
**Scenarios**  
 “Managers invent and then consider, in depth, several varied stories of equally plausible futures. The stories are carefully researched, full of relevant detail, oriented toward real-life decisions, and designed (one hopes) to bring forward surprises and unexpected leaps of understanding.”

# Risk Assessment

# Risk Assessments

**Inherent** risk would be identified on the basis of the likelihood and impact of risk event – No Controls considered

**The control** effectiveness would be assessed in terms of **design effectiveness** and operating effectiveness

**Residual risk** would be identified on the basis of the likelihood and impact of risk event after considering overall control effectiveness

## Scale

### Inherent Risks Assessment

- 5 Critical** - Inability to achieve business objectives
- 4** - Constrained ability to achieve business objectives
- 3** - Moderate - Moderate impact on achievement of business objectives
- 2** - Low - Limited impact on achievement of business objectives
- 1 Minor** - Relatively insignificant impact on the achievement of business objectives

SCALE	Description	IMPACT (KES)
5	Critical	Inability to achieve business objectives, e.g.: • Loss of significant business • Massive reduction in company reputation with stakeholders • Excessive costs dramatically impacting long term profitability and viability • Inability to attract new business • Significant IT disruptions leading to significant delays in business operations • Estimate total cost is over KES 20 Mn
4	High	Constrained ability to achieve business objectives, e.g.: • Significant but recoverable reduction in company credibility and/or reputation • Significant reduction in service and business capability incurring excessive costs that impact current earnings and profitability • Loss or misappropriation of significant assets • Loss of significant number of key personnel • Estimate total cost is > KES 5 Mn and < KES 20 Mn
3	Moderate	Moderate impact on achievement of business objectives, e.g.: • Loss of high value customers or alliances Temporary loss of service or business capability • Temporary, but recoverable reduction in credibility/reputation • Short term increase in costs or loss of revenue • Estimate total cost is > KES 1 Mn and < KES 5 Mn
2	Low	Limited impact on achievement of business objectives e.g.: • Temporary delay in reaching objectives • Short term or limited reputation damage • Limited impact on customer retention • Limited increase in costs • Minimal impact to revenue or earnings • Estimate total cost is > KES 500,000 and < KES 1 Mn
1	Minor	Relatively insignificant impact on the achievement of business objectives. Estimated total cost < KES 500,000

SCALE	RATING	PROBABILITY
5	Expected	Above 60%
4	Highly Likely	40 to 60%
3	Likely	20 to 40%
2	Not Likely	10 to 20%
1	Remote	0 to 10%

**Residual risks**  
These consider risk net of controls on both likelihood and impact axis

# Controls Evaluation

Risk Event Description	Inherent Impact	Inherent Likelihood	Description of Standard Controls	Control Rating	Residual Impact	Residual Likelihood
<b>Controls Effectiveness Scoring Criteria</b> <ul style="list-style-type: none"> <li>Efficient</li> <li>Acceptable</li> <li>To Improve</li> <li>Defective</li> </ul>			<div>Checker</div> <div>Maker</div>	<div>Rating</div> <div>Efficient</div> <div>Acceptable</div> <div>To Improve</div> <div>Defective</div>		

Each Control or a set of controls effectiveness is /are rated on a four point scale of

**Efficient** - The internal control system is efficient and adequate

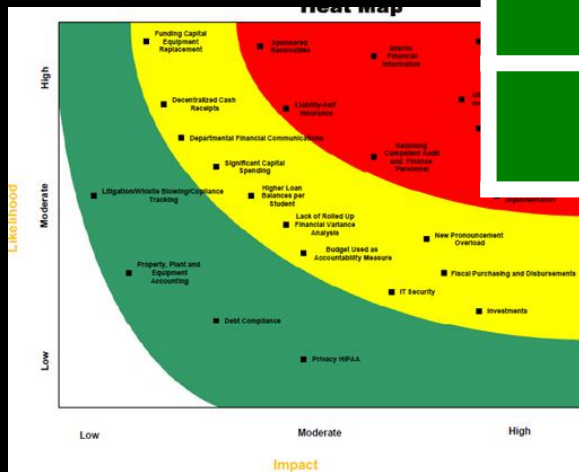
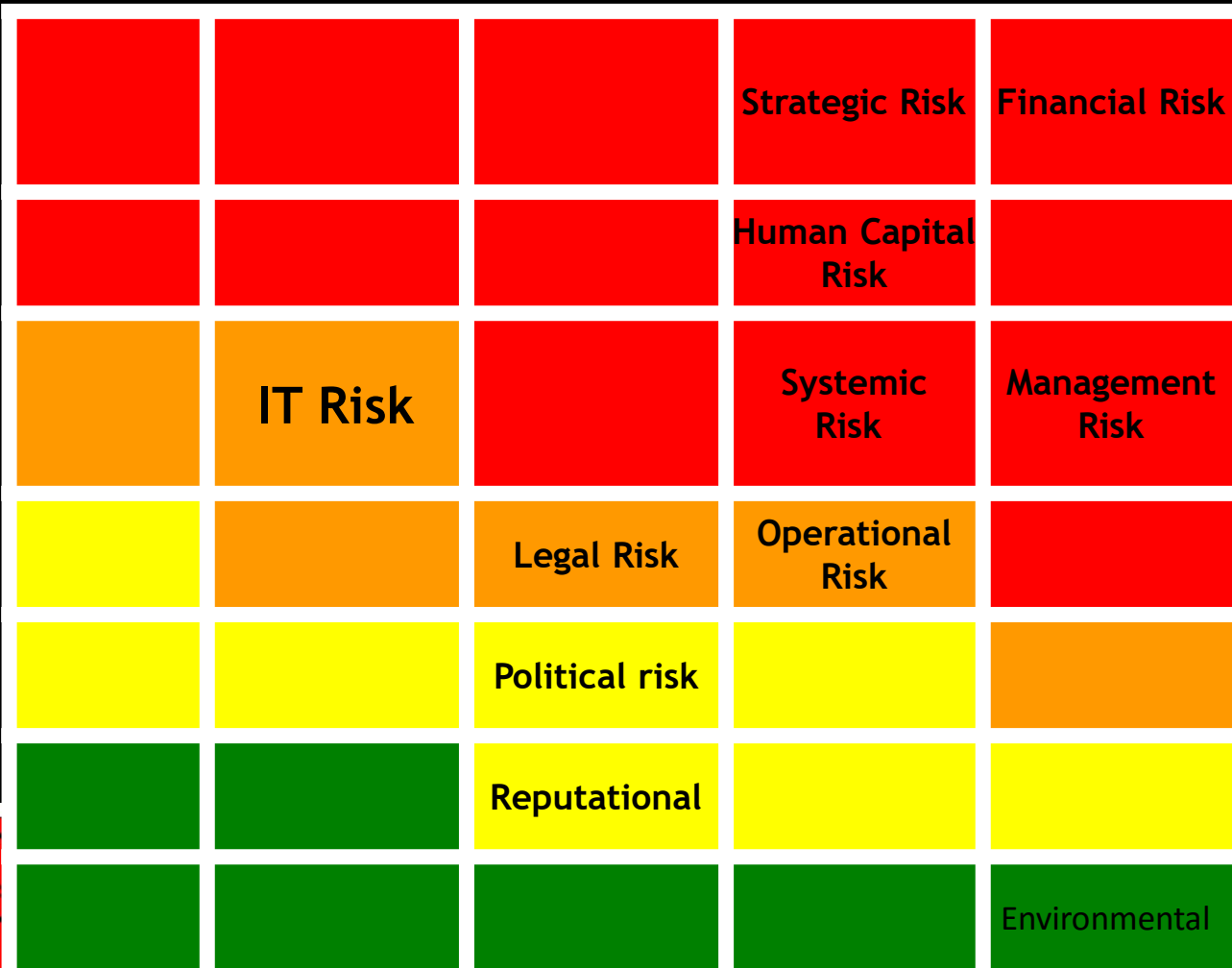
**Acceptable** - A few corrections should make the internal control system satisfactory

**To Improve** - The internal control system has to be enhanced and the process monitored more closely

**Poor** - The internal control system of the process has to be reorganized

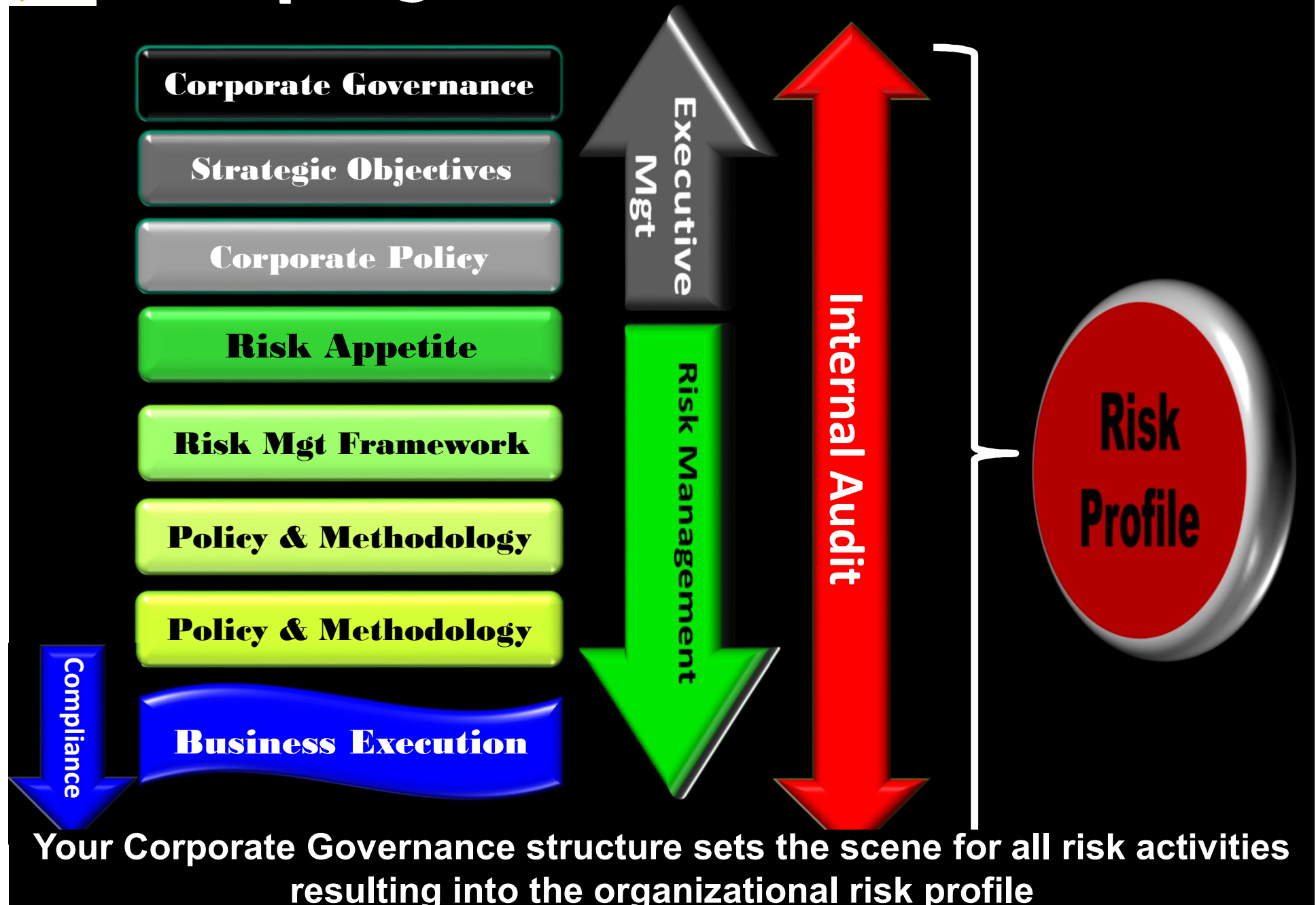
# Organizational Risk Heatmap - Profile

Impact



Probability

# Adopting the various blocks

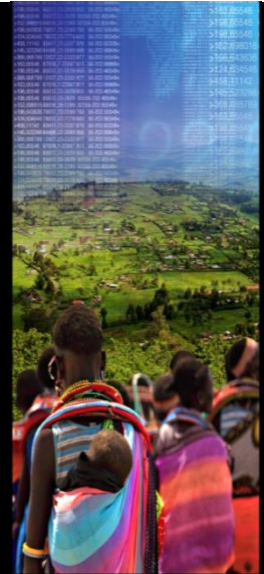




**Desired  
Risk  
Profile**

**Actual  
Risk  
Profile**

**Perceived  
Risk  
Profile**



**Spend time to think what the Risk profile means**

# Impact of Risk profile

## Risk Universe



**Liquidity**

**Credit**

**Market**

**Operational**

**Environmental**

**Business & Strategic**

**Reputational**

### PROFIT/LOSS STATEMENT

INCOME	EXPENSE
MARKET RISK	OPERATIONAL RISK
CREDIT RISK	
LIQUIDITY RISK	

Which Risk  
impact more on  
my P&L

What are the  
priorities

Profit

Do I have the right  
infrastructure

### BALANCE SHEET

ASSET	LIABILITIES
STRATEGIC RISK	LIQUIDITY RISK
ASSET/LIABILITY MANAGEMENT	

# Risk Response

Action plan

Responsible  
Person

Due  
Date



**RISK/BREAKDOWN/BREACH RANKING**

Impact ↑	Very High	H	VH	VH	VH
	High	H	VH	VH	VH
	Moderate	M	H	VH	VH
	Low	L	M	H	H
	Insignificant	L	L	M	M
		Unlikely	Possible	Likely	Materialized
		Likelihood ←			

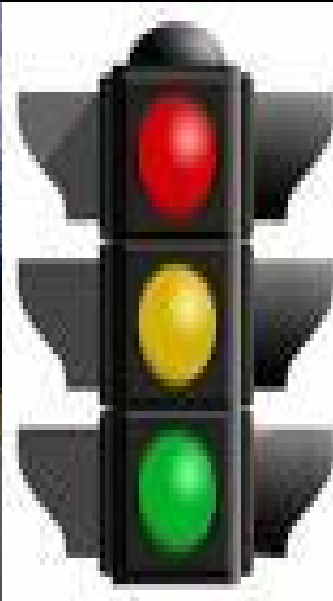
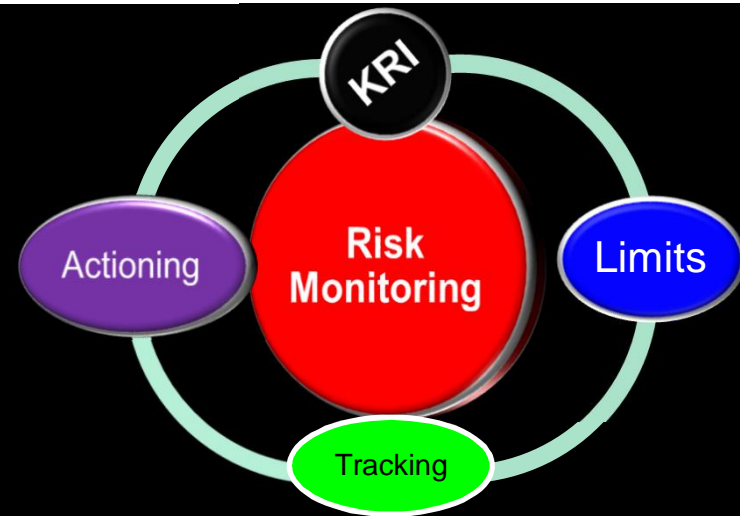
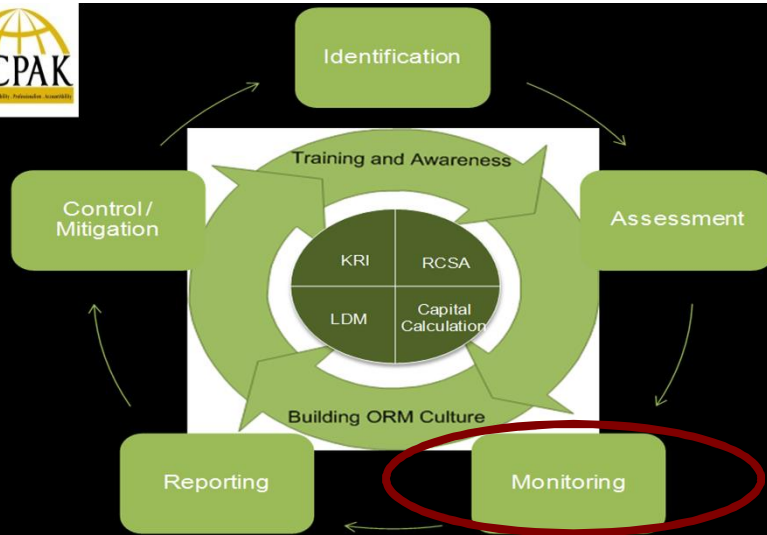
**The 4 T Response  
plan**

**Tolerate**

**Treat**

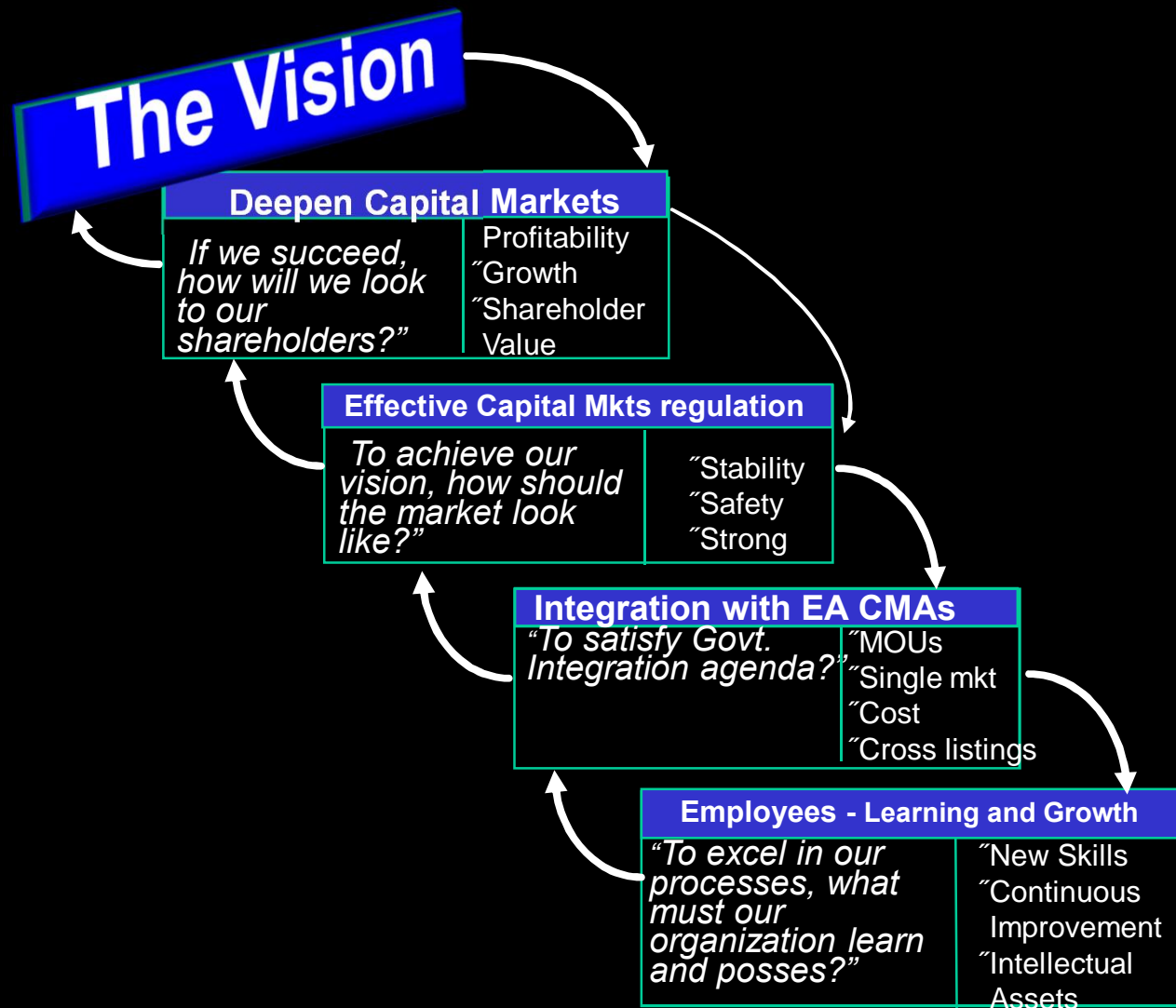
**Transfer**

**Terminate**



**Risk Monitoring**

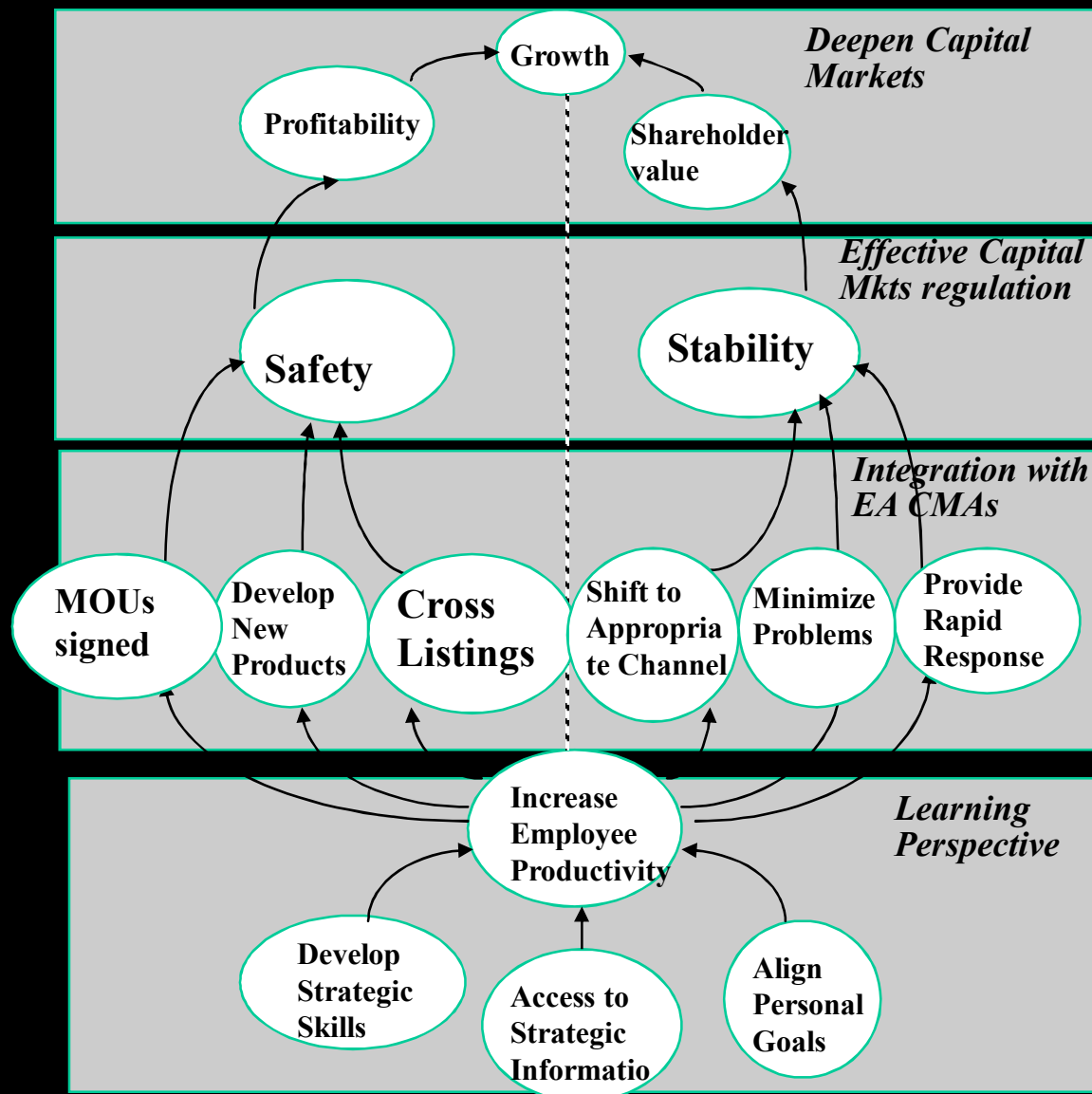
# Objective Setting



*Deepening  
Financial  
Markets”*

## Market Stability

## The Productivity Strategy

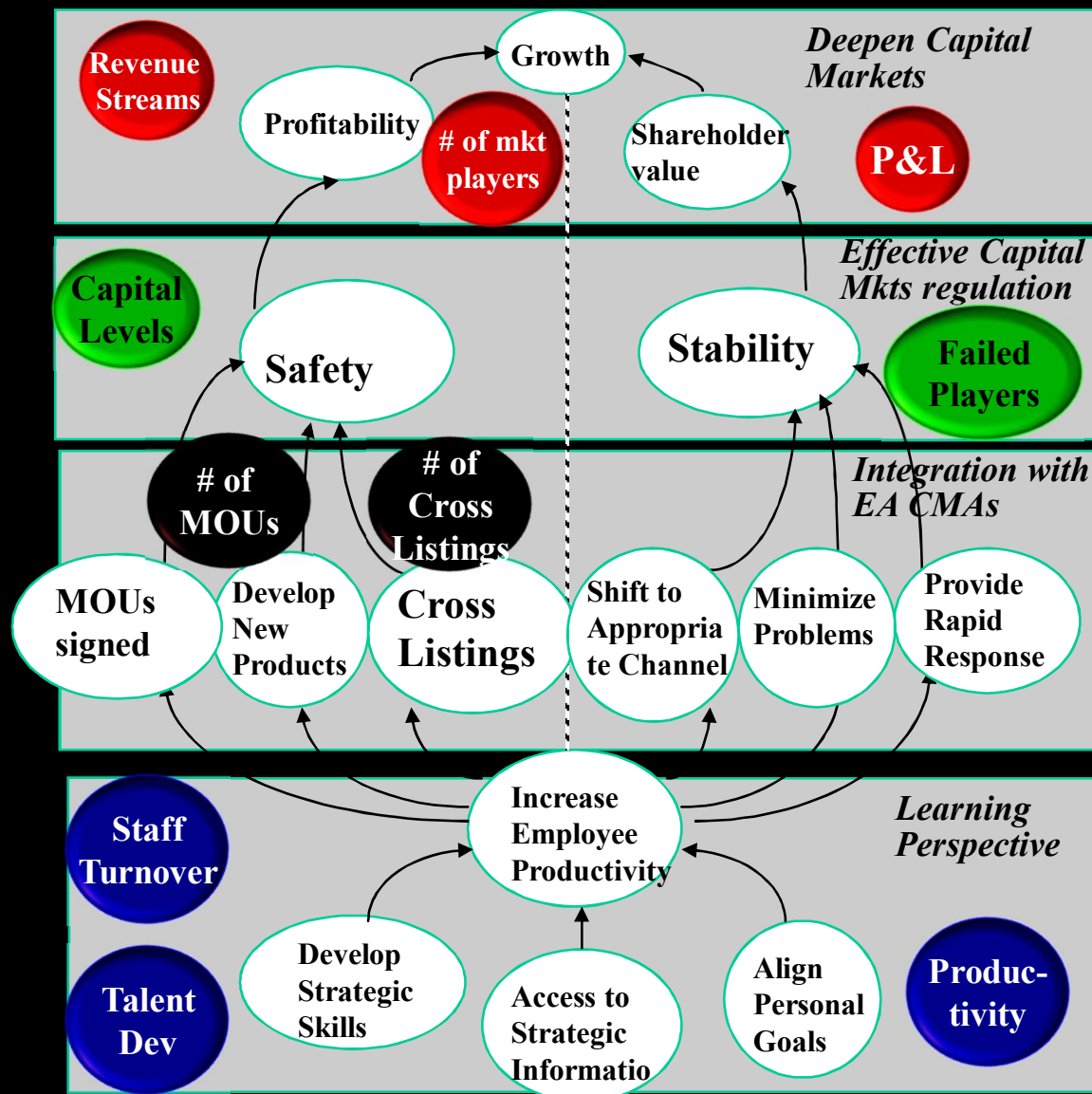


*“Improve  
operating  
efficiency”*

*Deepening  
Financial  
Markets”*

## Market Stability

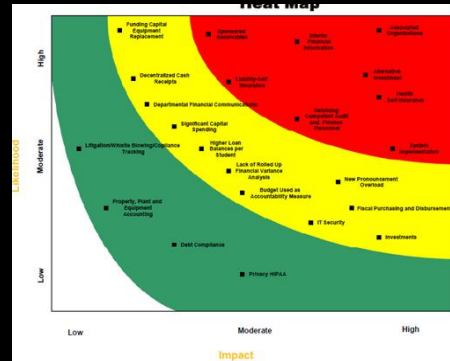
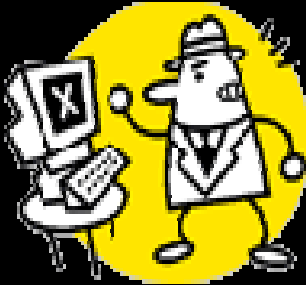
## The Productivity Strategy



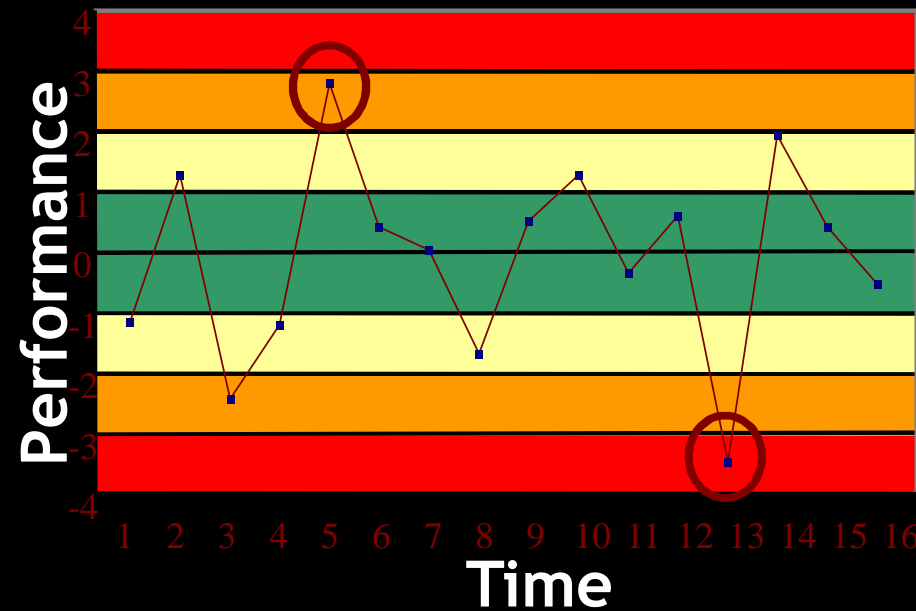
*“Improve  
operating  
efficiency”*

# KRI – Risk Monitoring

## Computer Breakdowns



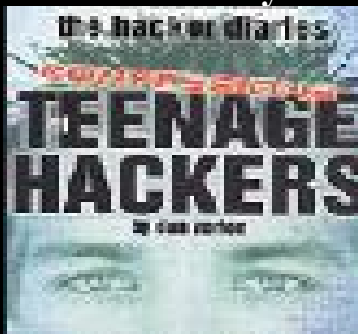
## Internal Limit Violations



## Staff Turnover



## Electronic Security Breaches

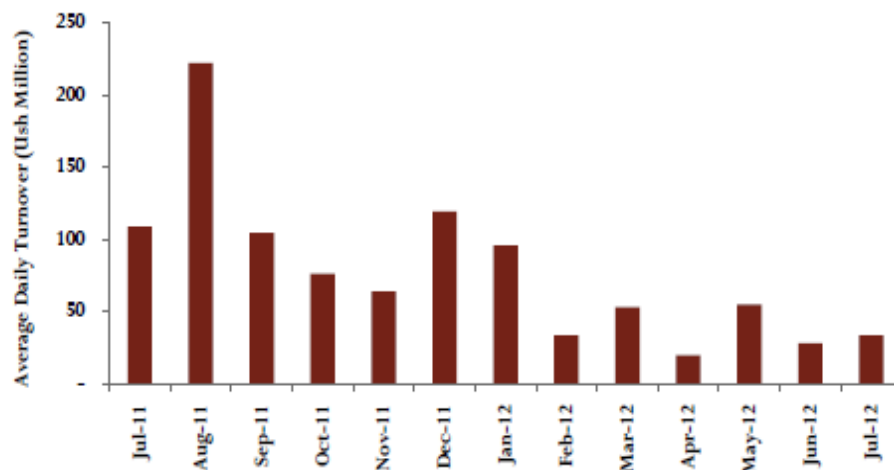


## Customer Complaints



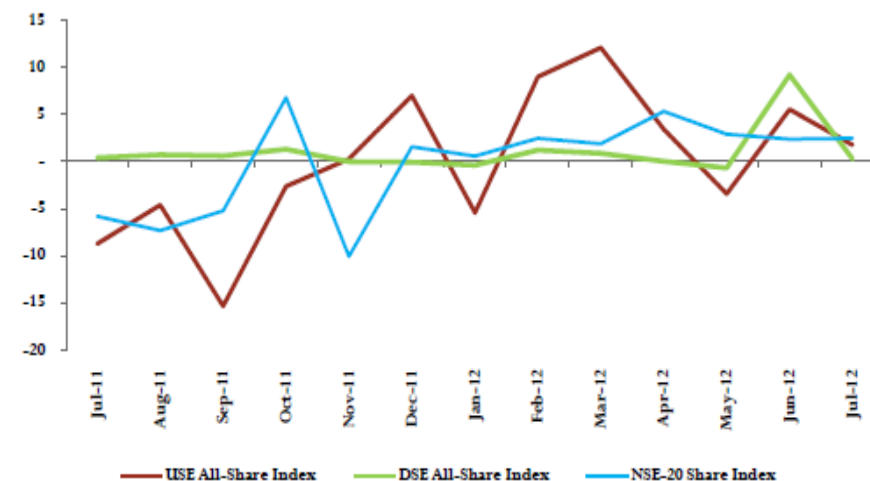
# Sample selected KRI

Figure 3: Trends in Average Daily Turnover at the USE (July 2011-July 2012)



Source: USE Market Reports.

Figure 4: Percentage Change in the USE All-share, DSE All-share and NSE-20 Share Indices<sup>4</sup>



Source: USE Market Reports, NSE Monthly Bulletins, DSE Market Reports.

Figure 1: Trends in Market Capitalization for the DSE, NSE, RSE and USE<sup>1</sup>

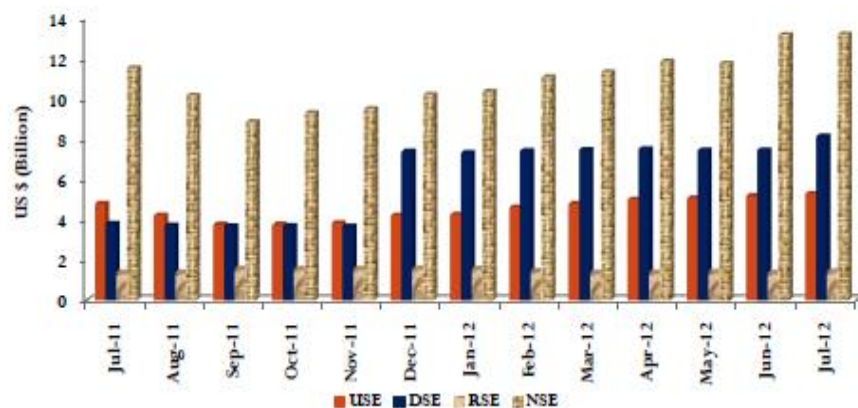
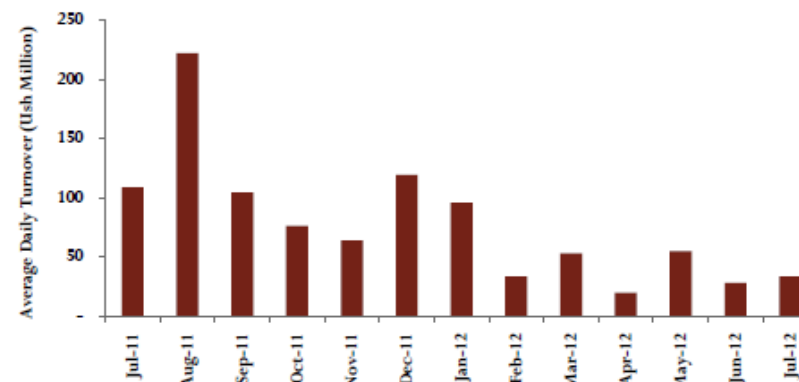
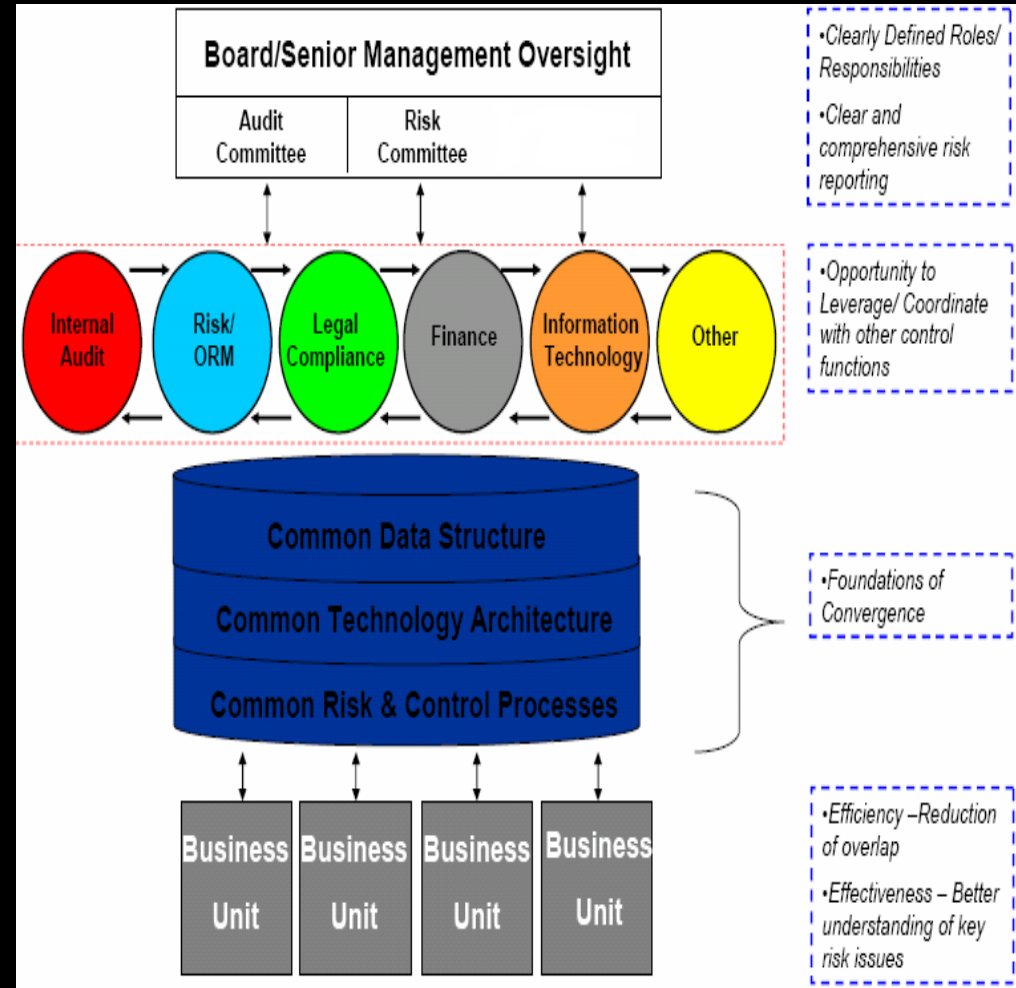
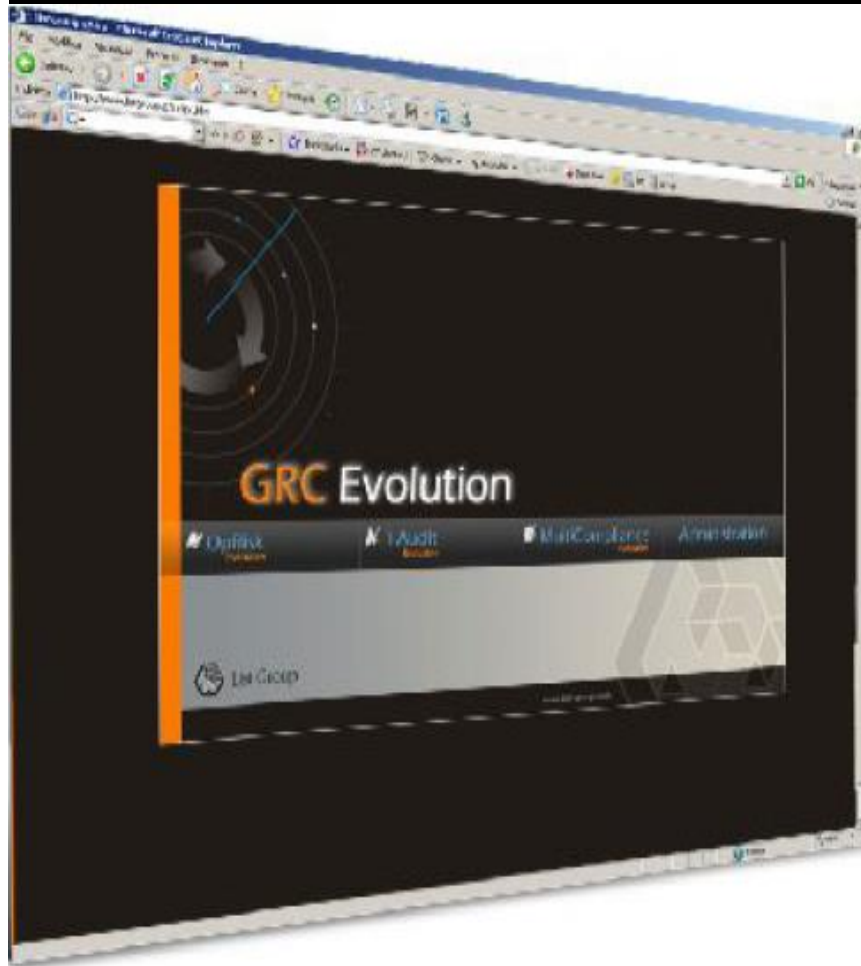


Figure 3: Trends in Average Daily Turnover at the USE (July 2011-July 2012)



Source: USE Market Reports.

# Risk Reporting





Q-RADAR - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Back Forward Stop Home Search Favorites

Address http://belgium/roots/index.htm Go Links

Search Web Get IE7 now! Mail My Yahoo! Answers Games Music Personals

Q-RADAR

Your Quantum Leap to Excellence

System Admin Change Password Log Off

User Name : Senior Manager, Operational Risk  
Screen ID : DSBFRM003

Dashboard Home Help

Risk Dashboard

Scorecard Name : All Search

0.00%

Gross Rating

My Risks

No.	Risk Factor	Gross	Nett	Target
1	Business Continuity Management	◆	◆	◆
2	SERVE project	◆	◆	◆
3	Manpower planning	◆	◆	◆

14.29%

23.81%

38.10%

23.81%

Nett Rating

My Exception

Category : Audit Risks Review Pass Due Date

No.	Risk Factor	Description
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Page : [1] | Total Record : [0]

38.10%

23.81%

4.76%

33.33%

Target Rating

QA

QB

QC

QD

To be reviewed

start

Microsoft PowerPoint ... Q-RADAR - Microsoft ... untitled - Paint

Local intranet 11:43 AM

# NAVIGATING CORPORATE POLITICS

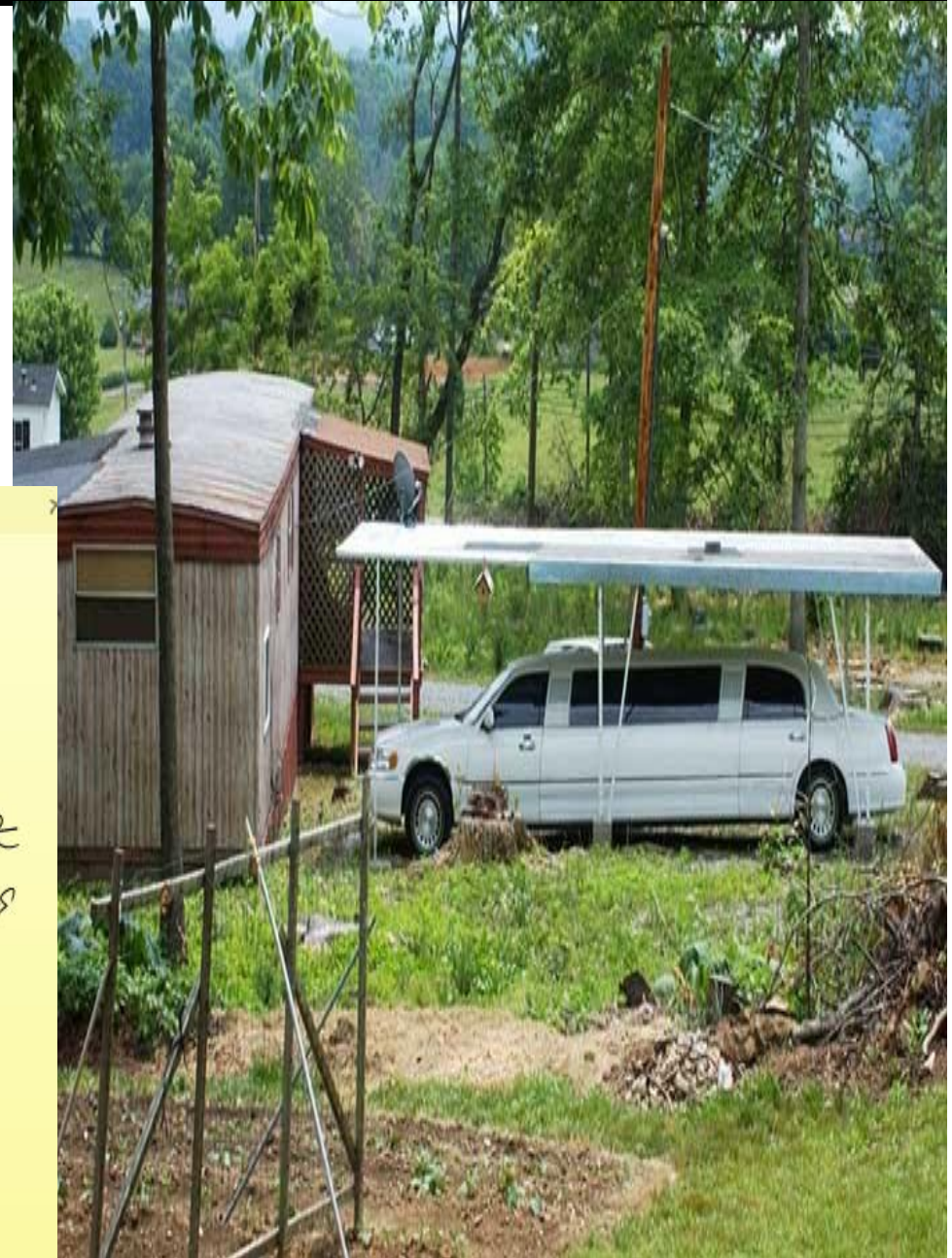


CAUTION:  
MINES  
AHEAD

**TOM SPEARS**


# Corporate Acceptance

- Prioritizing Risk...budgets!
- Relevance to biz.
- Talk business language
- Risk as part of strategic planning



CMA EX DIARY-20/9/2012

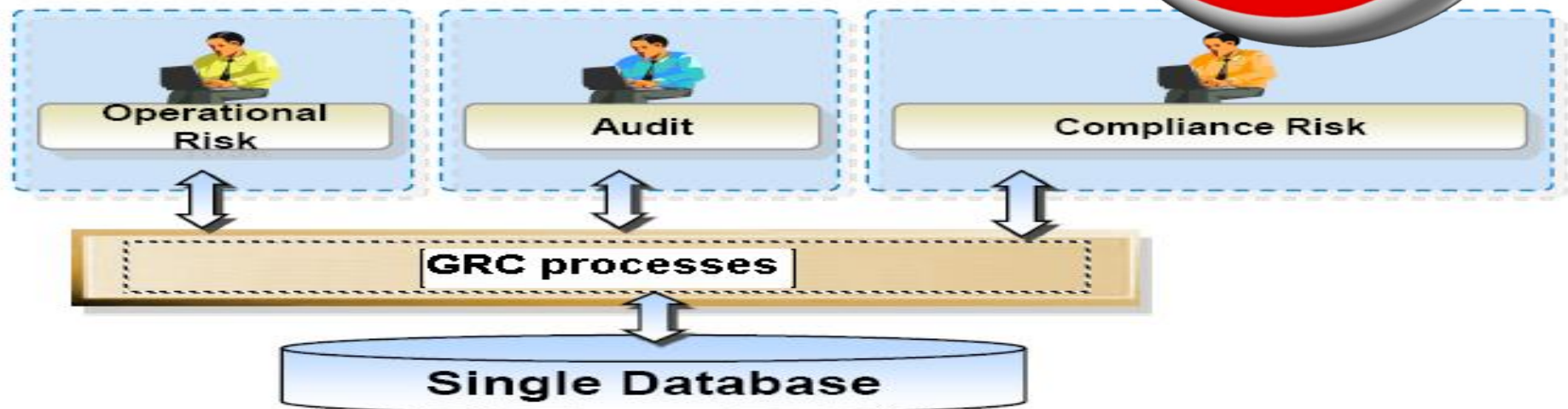
CEOs to do list:

- ① Review Risk mgt Report for August
  - ② Enquire action plan progress from Aps
  - ③ Review top 10 Risk Report with Head of Risk
  - ④ Give progress action to Chair Risk Comm.
- 

# Linking - Risk, internal controls & enterprise value

**Confusion**

**Three communities:  
Different roles / Different  
disciplines / Different risks**



**A Strategic GRC Framework**



# Communication Barriers



"Turf battles;  
"Developing a risk communications process and taxonomy;  
"Making risk management relevant and meaningful for the business





# **Integration -Risk Language & Culture**

**How quickly can this management and cultural change take place?**

You can't change it overnight. When you get to be a CRO, the likelihood is that you have a pretty sizable organization. Many traders understand risk, and with all the traders unemployed right now, you might say there are plenty who can do risk management. That's probably true at some level. But the other piece of the job is managing the people, having a strategic framework for thinking about the kind of technology support those people need to do their jobs well. You also have a massive data collection problem, and once the data is collected, it has to be distilled into something that is usable. And you have to use influencing skills to reach the conclusions that allow the institution to take enough risk to deliver a return to shareholders, but not so much that it becomes dangerous or too concentrated. It's a blend of past experience, some quantitative skills, the ability to ask tough questions and to challenge and to manage people. You also have to be something of a diplomat – and a dictator if all else fails after you've done your best to facilitate an outcome. On rare occasions you may end up having to go head-to-head.

**Develop a Common Risk and Control Language:**

**"Take an inventory of all current risk practices and taxonomies.**

**"Determine which ones best meet our business needs.**

**"Align remaining practices and taxonomies with the ones we determined are best.**

**Train**

**Train**

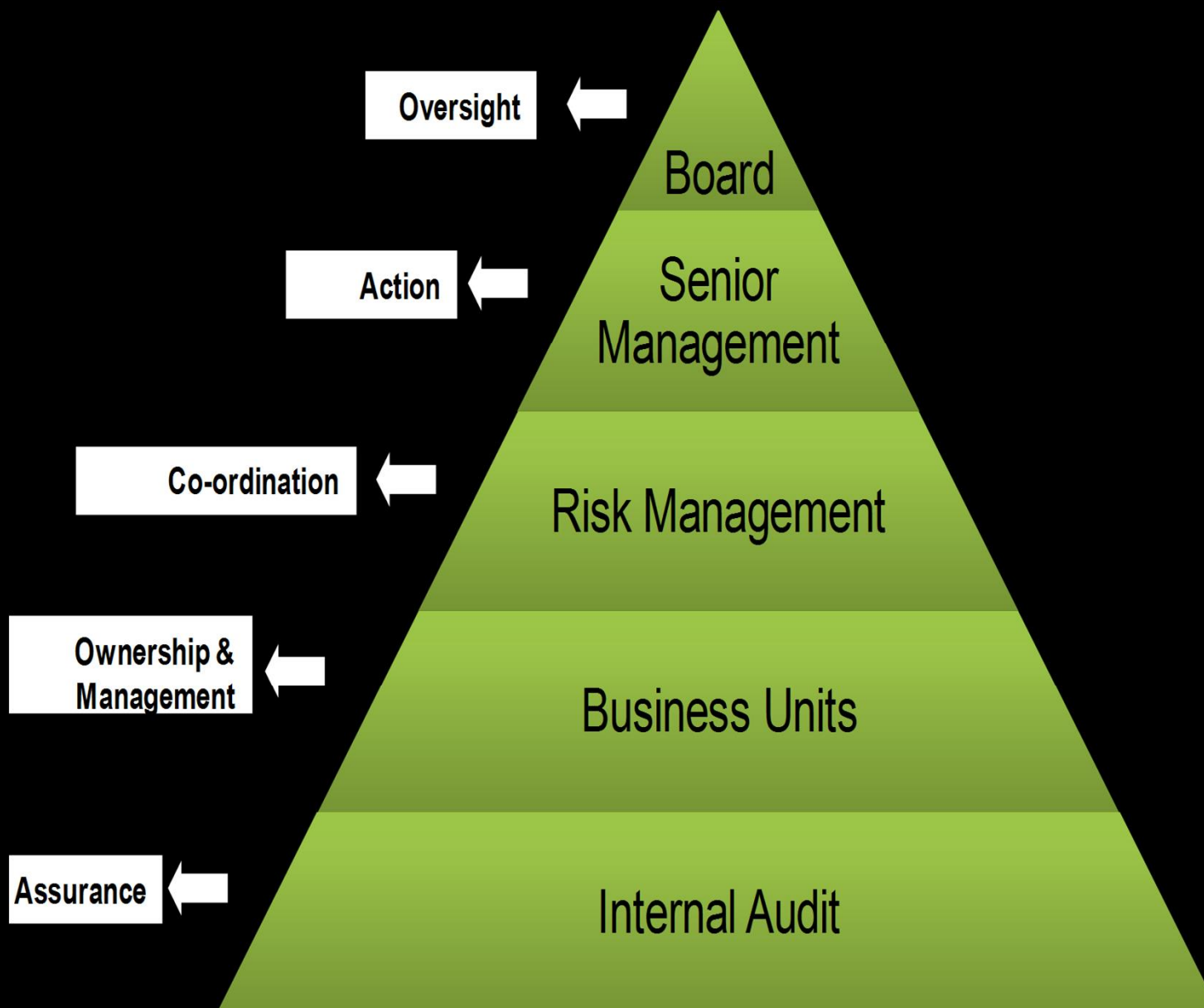
**Train**

**Train**

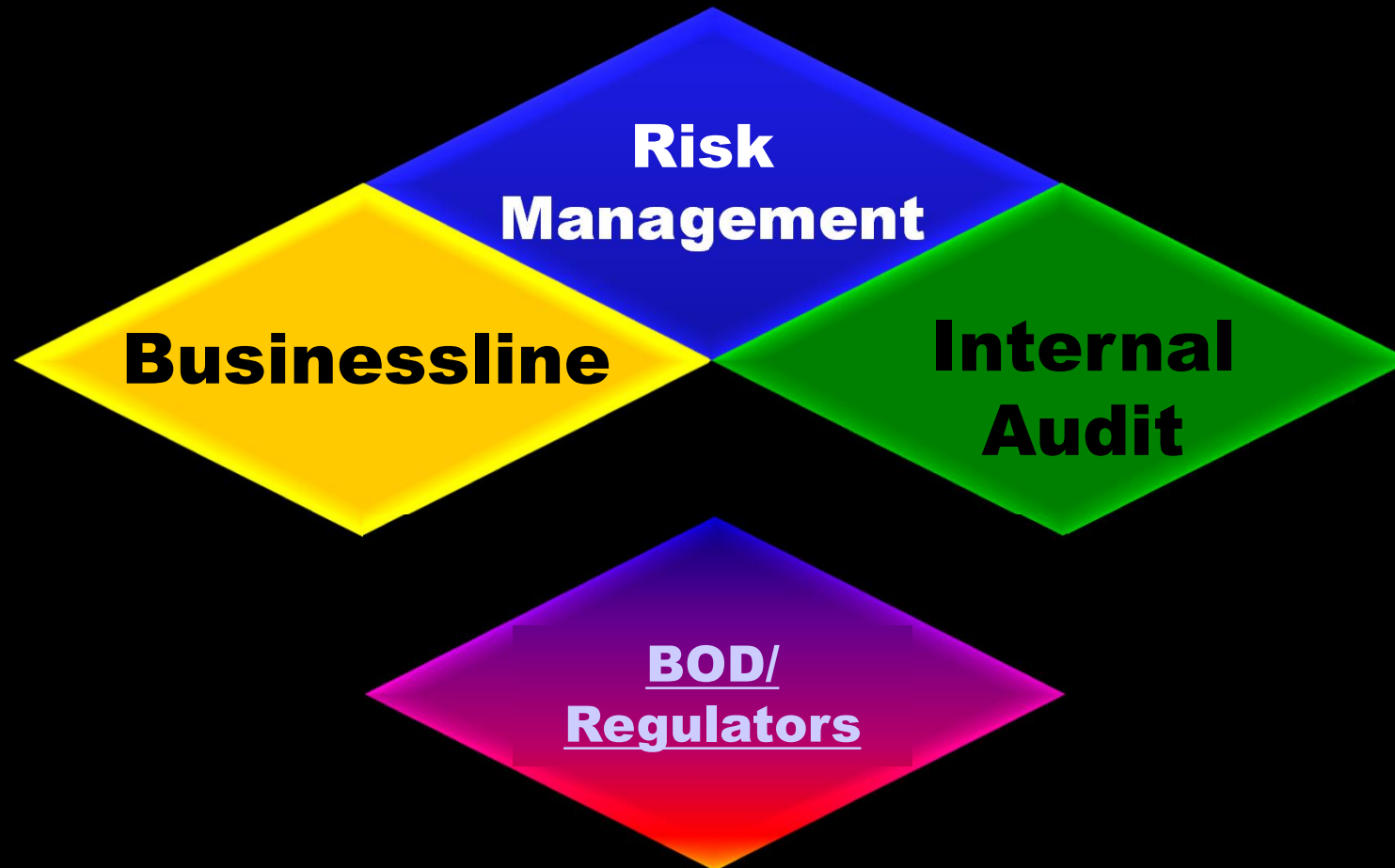
# Let the Board Drive Roles & Responsibilities



# Who does what?



# The Holy Trinity



# The 3 Lines of Defence

*"Fit for purpose"*

1<sup>st</sup> Line of Defence

2<sup>nd</sup> Line of Defence

3<sup>rd</sup> Line of Defence

**WHO?**

Business function

Senior Risk Committee (s)

Internal Audit

**Does What?**

Manages & owns risks  
Executes Risk methodologies

Drives consistent  
Deployment of EMRF  
Group wide

Asks whether the risks  
identified are the right  
risks; & are the right  
controls chosen

**And Why?**

Effective Assurance

Ensures right governance  
Check self assurance is  
working as designed

Reviews overall  
control  
appropriateness and  
effectiveness



*Your Voice*



Risk bulletin

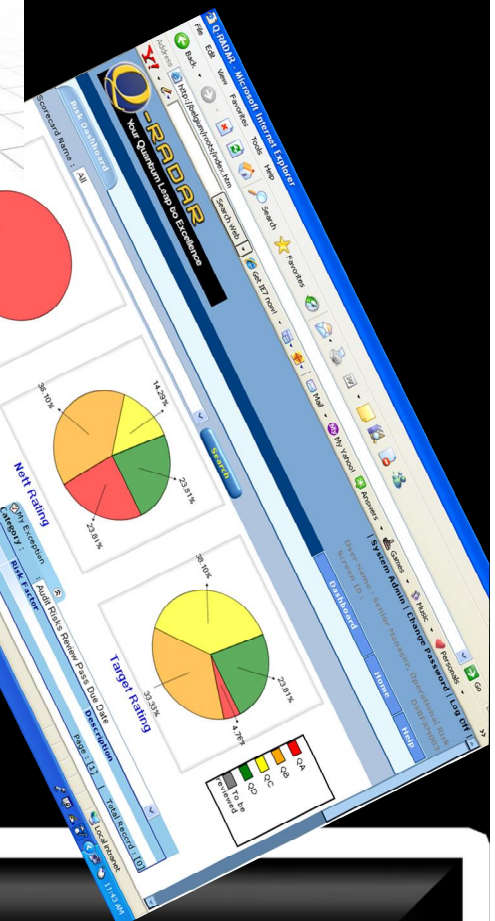
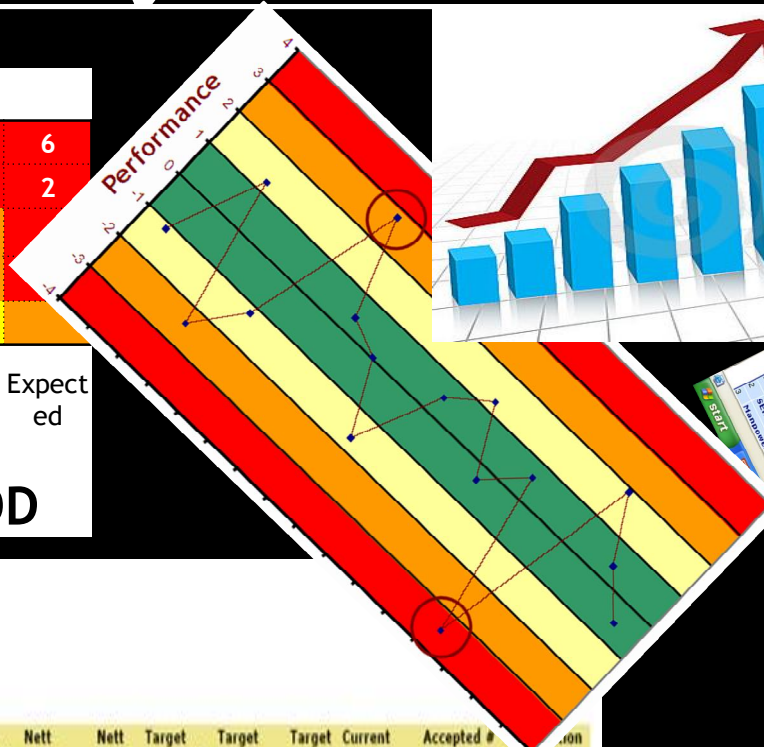
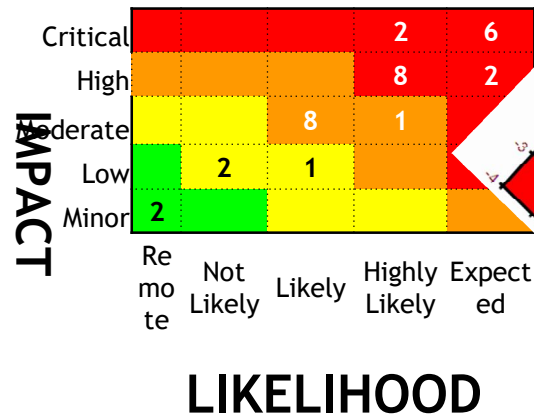


# Best practice Governance Arch



	Jan	Feb	Mar	Apr	May	Jun	Jul
Mrs XXX	✓	X	A	✓	✓	A	✓
Mr YYY	✓	L	✓	X	A	✓	✓
M/s WWW	✓	✓	✓	A	A	X	✓

# What do you discuss at the Risk Meetings



## CORPORATE RISK SCORECARD REPORT

### Top 20 Risks (Nett)

Scorecard Name : Finance Department  
 Scorecard Owner : General Manager, Finance  
 Report Date : 08-Nov-2006

No	Risk Factor	Ref	Possibility	Impact	Gross Score	Nett Possibility	Nett Impact	Nett Score	Target Possibility	Target Impact	Target Score	Current Status	Accepted # Risk	Action	Due
1.	Government policies	Ei1101	Very High	Very Significant	QA	Very High	Major	QA	Medium	Major	QA	May Need Improvement	N	1	0
2.	Clearance of Contributions With Incomplete Information (CTML)	Oct1108	Very High	Very Significant	QA	Very High	Major	QA	High	Major	QA	May Need Improvement	N	2	0
3.	Management Information System	Oct1110	Very High	Very Significant	QA	Very High	Major	QA	Unlikely	Major	QB	May Need Improvement	N	1	0
4.	Manpower planning	Hc1105	High	Major	QA	Medium	Major	QA	Medium	Major	QA	Within Expectation	N	0	0



**Risks**  
 are part of business, but  
 business doesn't need  
 to be risky.

# Board's Oversight Role - ERM





***Are u sure?***



***Yes we Can***