KPMG

# Governance Risk and Compliance

## THE 2ND PUBLIC SECTOR AUDIT CONFERENCE

Institutional Risk Management Policy Framework (IRMPF) and GRC

October 2016

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# Agenda

- What is GRC – Understanding the need for a coordinated approach
- Key challenges in implementation of the IRMPF and other risk management frameworks
- GRC drivers in the current environment – What does GRC look like in the public sector?
- GRC transformation in the public sector. What we need to look at:
  - Culture and governance
  - Managing change
  - Adoption by users
  - Governance and risk. What questions should board members be asking?
- Key messages

*The goal of GRC convergence is to breakdown traditional silos and replace this fragmented approach with a single view of risk*

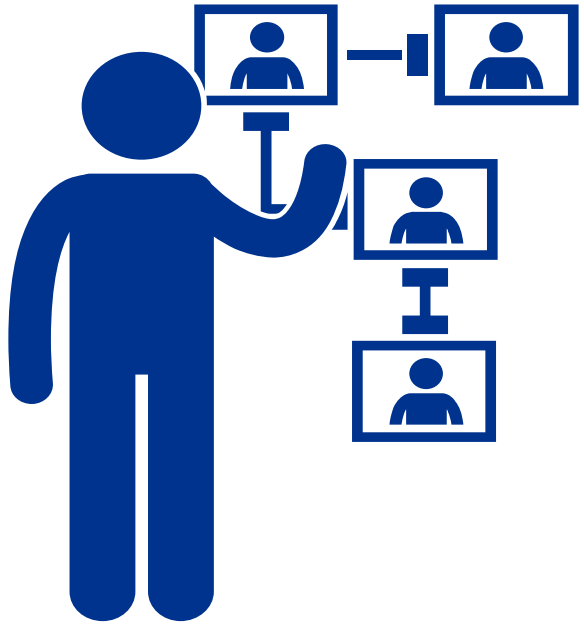
# What is GRC?


- GRC is the integration of all *governance*, *risk assessment* and *mitigation, and compliance and control* activities to operate in synergy and balance.
- GRC is a *continuous process* that is embedded into the culture of an organization and governs how management;
  - identifies and protects against relevant risks,
  - monitors and evaluates the effectiveness of internal controls, and;
  - responds and improves operations based on learned insights.

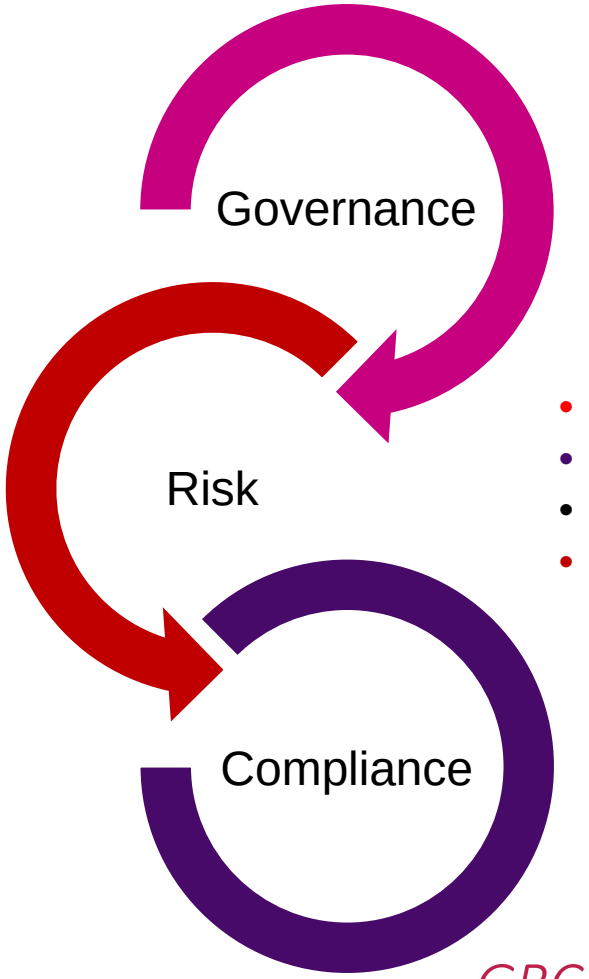
*A GRC strategy can help create business value by reducing costs, identifying operational inefficiencies, rationalizing controls, and enabling identification and management of risks*

# Key challenges in implementation of the IRMPF


- Inadequate tone at the top – Governance role in risk oversight
- Silo approach to risk management
- Risk management not linked to strategy
- Lack of a clearly defined risk appetite
- Three lines of defence not working effectively
- Risk management is not a one size fits all. There is need to define the risk universe prior to implementation



# What does GRC look like in the Public Sector




- Leading practices – The King code of Corporate Governance
- Mwongozo code of corporate governance
- Emerging regulations – The CMA Code of Corporate Governance for issuers of Security to the public 2015.

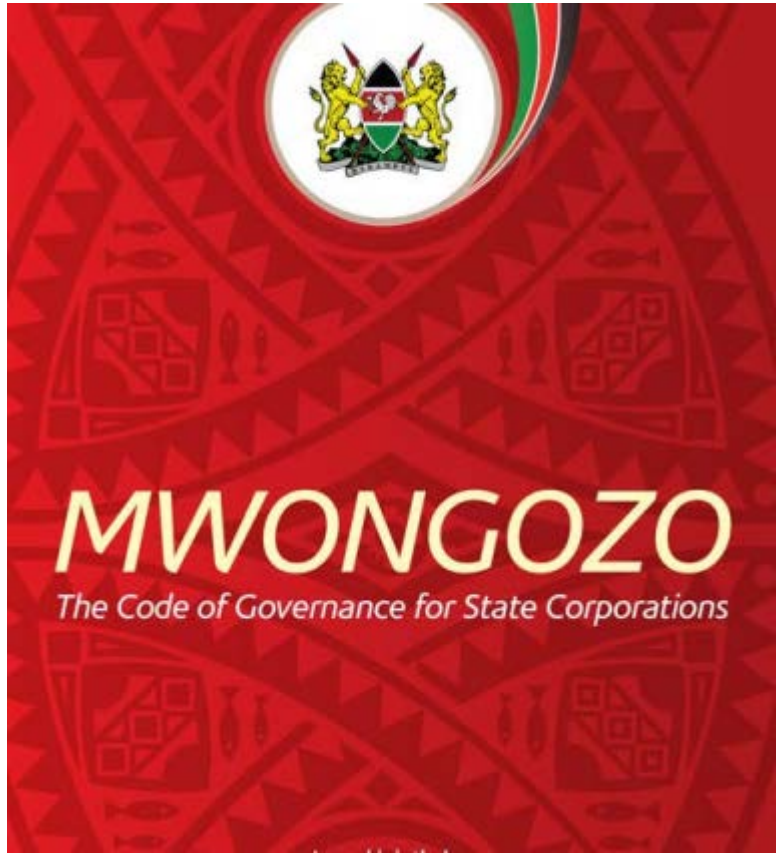
- **Institutional Risk Management Policy Framework (IRMPF)**
- Business Continuity Management
- Business sustainability
- Emerging threat of Cybersecurity

- Laws and regulations
- Standards e.g. ISO 9001
- Policies and procedures

*GRC convergence ensures a coordinated and value adding approach to management of governance, risk and compliance issues*

# Governance and risk. The Mwongozo code of corporate governance. What is it about?

- Transparency and Disclosure
- Accountability, Risk Management and Internal Control
- Ethical Leadership and Corporate Citizenship
- Shareholder Rights and Obligations
- Stakeholder Relationships
- Sustainability and Performance Management
- Compliance with Laws and Regulations.




***Successful integration of GRC will help state corporations comply with the Mwongozo Code of Corporate Governance and ensure board accountability of risk?***

***"Good governance must be well coordinated and orchestrated"***

# GRC Drivers in the Current Business Environment

**Governance**

- Meet stakeholder expectations on effective board oversight and demonstrate commitment to Corporate Governance
- Strategy, Value Creation and Innovation – the board's role in strategy formulation and monitoring implementation
- Keep up with leading practices in corporate governance such as the King Code and locally, the Mwongozo code of governance.
- Controls risk and compliance – How effective are the board audit and risk committees in managing risk
- New regulations which may require significant changes to business models and introduce new risks (e.g. in the banking sector)
- Recent and existing global anti-bribery & corruption regulations and increased enforcement activities are posing new challenges

# GRC Drivers in the Current Business Environment

## Strategy

- Beyond regulation:  provides a competitive advantage versus industry peers
- Link to risk: develop strategy through linkage and understanding of enterprise risks

## Performance

- Increasing expectations of greater transparency,  accountability and management of costs due to shrinking resources.
- Better leverage of supporting systems and tools (i.e., GRC tools) to help align risk and control functions
- Reduce costs through risk consolidation and cross-functional efficiencies
- Pro-active and separate (three) lines of defense balanced with integration and collaboration between converging disciplines

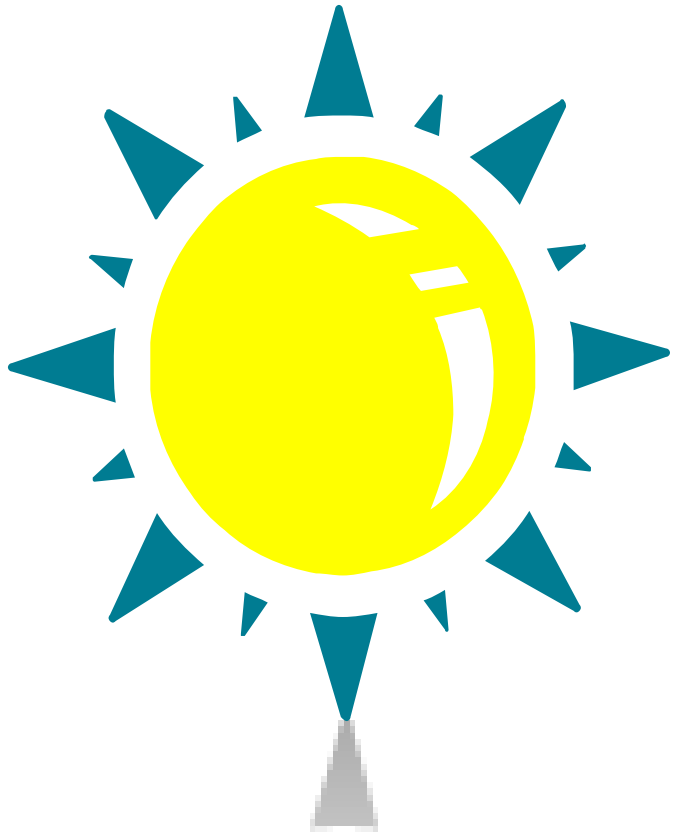
# GRC: Fail and Success Factors - Failure of some banks can be attributed to lack of an effective GRC system!!!!

| Why GRC Fails | Critical Success Factors |
|---|---|
| 1. Lack of a shared vision for risk management and compliance. | 1. Addresses business needs and strategically align to the organization's overall objectives; |
| 2. Ineffective stakeholder engagement | 2. An integrated approach of risk and control with accurate and timely communication of risk information to the decision makers |
| 3. Ineffective change management | 3. Strong collaboration and teamwork |
| 4. Project implementation delays | 4. End user awareness and training |
| | 5. A risk aware culture |
| | 6. Demonstrated return on investment on GRC implementation |

# How can we ensure effective GRC Implementation

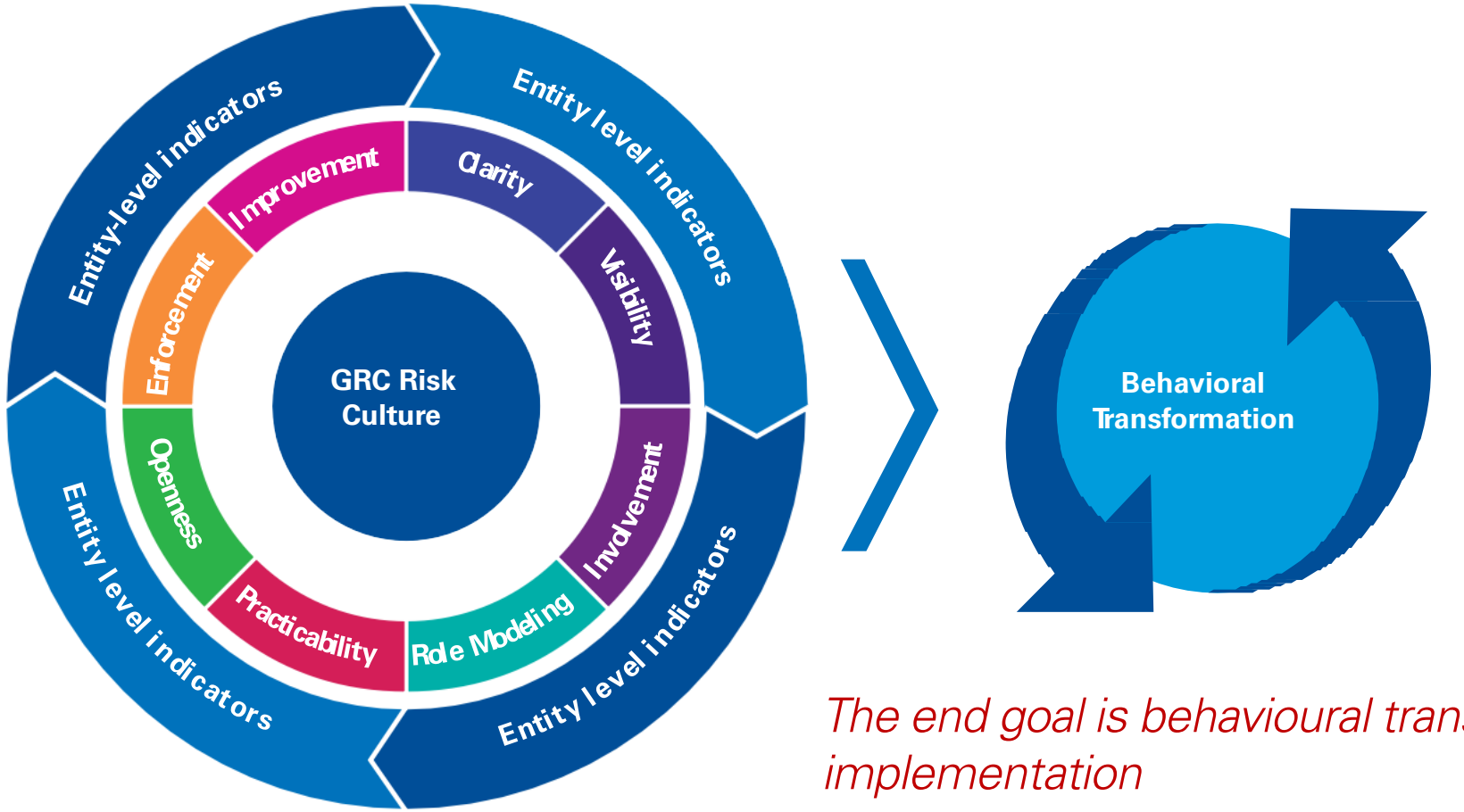
- Organizations can better implement GRC and ensure the intended benefits are realized by focusing on the following "***hot spots***"

1. **Organizational culture and governance**
2. **Effective change management**
3. **End user awareness**
4. **Board accountability for risk**



# Culture and governance

Laying the foundation of trust is an integral part of GRC organizational transformation. An effective GRC Risk Culture understands the goal: **Transform efficiently to meet business and regulatory demands**.







1. Improvement
2. Clarity
3. Visibility
4. Involvement
5. Role modelling
6. Predictability
7. Openness
8. Enforcement
9. Improvement

*The end goal is behavioural transformation for effective GRC implementation*

# How can sustainable change lead to an effective GRC journey?

| Essential change management practices | Benefits |
|---|---|
| Leadership alignment | Consistent messaging and tone from leaders |
| Clear platform and vision for change | Clarity on project rationale, anticipated benefits and objectives; greater project momentum |
| Active leadership involvement | Senior-level role models who support the project |
| Leader and stakeholder commitment | Project seen as high priority; project stays on schedule |
| Effective communication | Clear project awareness and understanding; alignment of individual efforts to organizational expectations |
| Active stakeholder engagement | Broader buy-in and greater realization of GRC benefits |
| Aligned performance measurements | Motivate desired behaviors to sustain change |
| Timely training and preparation | Stakeholders prepared; more seamless implementation |

***Affected stakeholders will need to collaborate on the rationale behind the program and in defining the goals to be achieved.***

# Adoption by Users

**Adoption depends on widespread acceptance of the system**

**Reduce uncertainty and anxiety**

**Appoint a trusted GRC champion to lead transformation**

**Provide open communication**

**Include end user-adoption training and piloting**

**Identify the benefits for users and provide information that helps**

# Governance and risk. What questions should board members be asking?

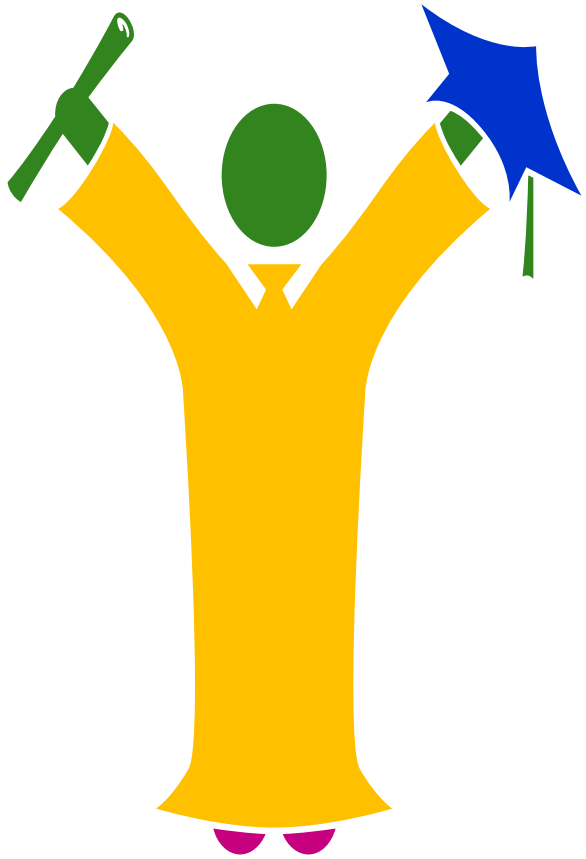
- How do we integrate risk management with the company's strategic direction and plan?
- **What are our principal business risks?**
- Are we taking the right amount of risk?
- **How effective is our process for identifying, assessing and managing business risks?**
- **Do people in this company have a common understanding of the term "risk"?**
- How do we ensure that risk management is an integral part of the planning and day-to-day operations of business units?
- **How do we ensure that the Board's expectations for risk management are communicated to and followed by all employees?**
- How do we best ensure that our executives and employees act in the best interests of this company?

# Governance and risk. What questions should board members be asking?

- **How is risk management coordinated across the company?**
- How do we ensure that the company is performing according to the business plan and within appropriate risk tolerance limits?
- How do we monitor and evaluate changes in the external environment and their impact on the organisation's strategy and risk management practices?
- How does the Board handle its responsibility for the oversight of opportunities and risk?
- How does the board ensure that at least some of its members have the requisite knowledge and experience in risk?
- **How do we, as a Board, help establish the "tone at the top" that reinforces the company's values and promotes a "risk aware culture"?**
- How satisfied are we that the Board is doing what it should in overseeing risk?

# The Effective GRC System - Key messages

- Integrate key ERM practices into the daily activities of business managers
- Aim to be viewed by the business as a facilitator of business value and innovation
- Integrate the ERM framework with the other risk and control oversight functions to create a unified view of risk
- Focus the ERM program on the threats to strategic and business objectives, including missed opportunities
- Use data and analytics to enhance your understanding of risk and to improve business decision making
- Understand the organization's culture and build an ERM program that evolves along with it.



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