

Fundamentals of Enterprise Risk Management

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Why Implement Risk Management?



The only alternative to **Risk Management** is **crisis management** and crisis management is much more expensive, time consuming and embarrassing.

JAMES LAM, Enterprise Risk Management, Wiley Finance

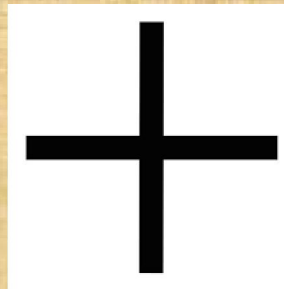
Life=Risk



We all manage
risks
consciously or
unconsciously
– But rarely
systematically.



Risk Management fundamentals



Risk?



- **Uncertainty**
- **Futuristic**
- **Probability**

and then

Impact on objectives



Basic principles, concepts, definitions



- A *risk* is **ANYTHING** that may affect the achievement of an organization's objectives.
 -
- It is the **UNCERTAINTY** that surrounds future events and outcomes.
 -
- It is the expression of the likelihood and impact of an event with the potential to influence the achievement of an organization's objectives.

Enterprise Risk



Enterprise risk is a measure of the degree to which the outcomes from the strategy may differ from (or fail to meet) the objectives



Basis of ERM for listed companies



Regulation 24(4) of Capital Markets (Corporate Governance) Regulations, 2011 provides that...

“The board shall, in consultation with the management of a market intermediary, develop and document the risk management policies and processes designed to mitigate the risks to its business.”



Basis of Risk Management in Public Sector



- Treasury Circular No 3/2009
 - Development and implementation of IRMPF
- ‘Mwongozo’ Code of Conduct for Boards of Public Sector.
- Public Finance Management Act.
- Generally the Constitution

ISO 9001 (2008 Versus 2015)

What are the major differences ?

The most noticeable change to the standard is its new structure. ISO 9001:2015 now follows the same overall structure as other ISO management system standards (known as the High-Level Structure), making it easier for anyone using multiple management systems. More information can be found in Annex SL of ISO/IEC Directives Part 1 (the rules for developing ISO standards).

Another major difference is the focus on risk-based thinking. While this has always been part of the standard, the new version gives it increased prominence. More information on how to adapt to this risk-based thinking can be found on the Website run by ISO/TC 176/SC 2, the group of experts behind the standard (www.iso.org/tc176/sc2/public).



What is risk... technically



- Every risk can be viewed as a chain linking a **causal factor** with an **effect**. *A structured description of a risk that separates cause and effect:*
 - “As a result of <**existing condition**>, <**uncertain event**> may occur, which would lead to <**effect on objectives**>”

Where is ERM implemented?



**ERM should not
take a project
based approach**

ERM Framework



The ERM framework is based on four core concepts:

Principles – essential for good risk management practice and derived from corporate governance

Approach – adopting and adapting the principles to the organisations needs

Processes – ensure that risks are identified, assessed and controlled

Embedding and Continuous Review – ensuring consistency and continuous improvement of risk management.

Lets listen here



Risk Management Process



What do we want to achieve? (Context)

What might affect me? (Identification)

Which of those things that might affect me are most important one? (Analyse & Evaluate)

What should we do about it? (Treat)

Did it work? (Monitoring)

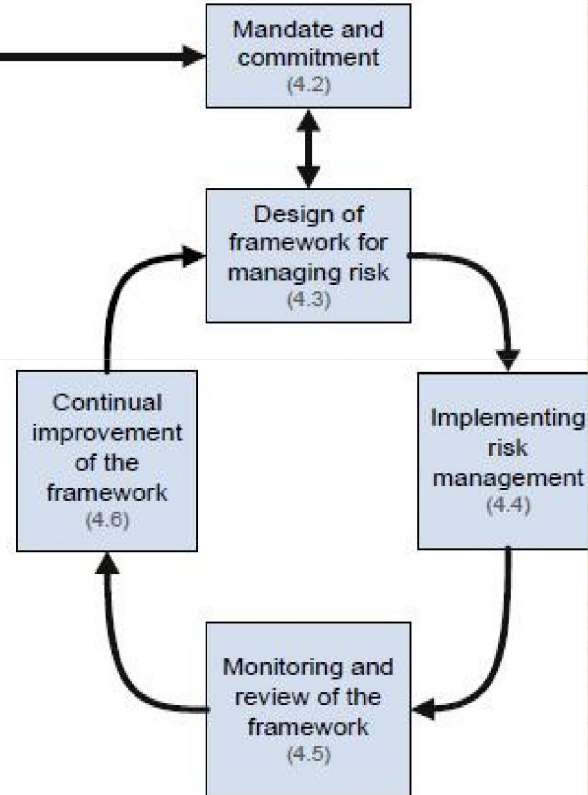
What changed? (Review)

ISO 31000 Risk Management Guidelines.

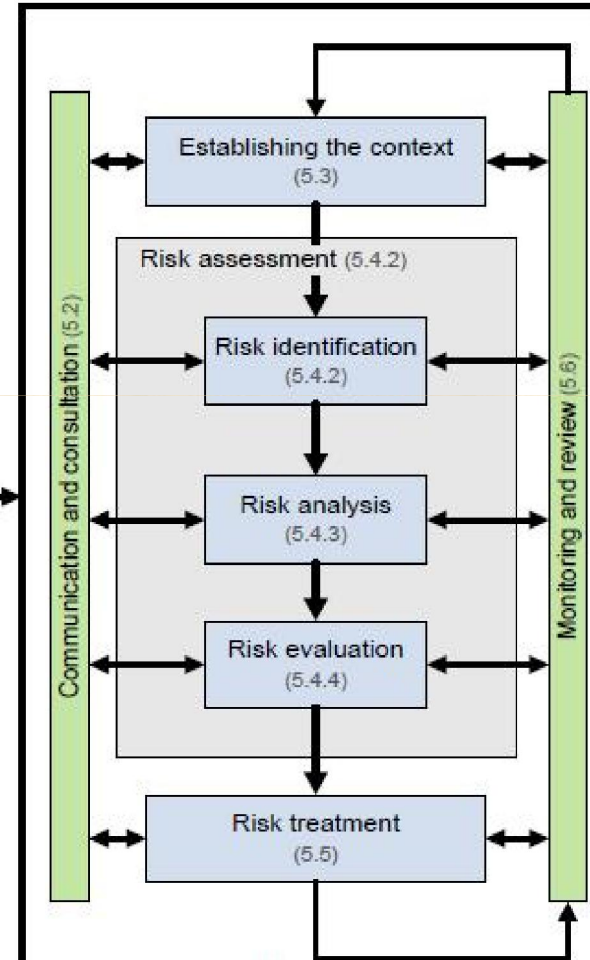


- a) Creates value
- b) Integral part of organisational processes
- c) Part of decision making
- d) Explicitly addresses uncertainty
- e) Systematic, structured and timely
- f) Based on the best available information
- g) Tailored
- h) Takes human and cultural factors into account
- i) Transparent and inclusive
- j) Dynamic, iterative and responsive to change
- k) Facilitates continual improvement and enhancement of the organisation

Principles
(Clause 3)



Framework
(Clause 4)



Process
(Clause 5)

....and lastly.....



“

**TRUST BECAUSE
YOU ARE WILLING
TO ACCEPT THE
RISK, NOT BECAUSE
IT'S SAFE
OR CERTAIN.**



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