

ICPAK ERM MASTERCLASS

DEVELOPING THE ERM FRAMEWORK

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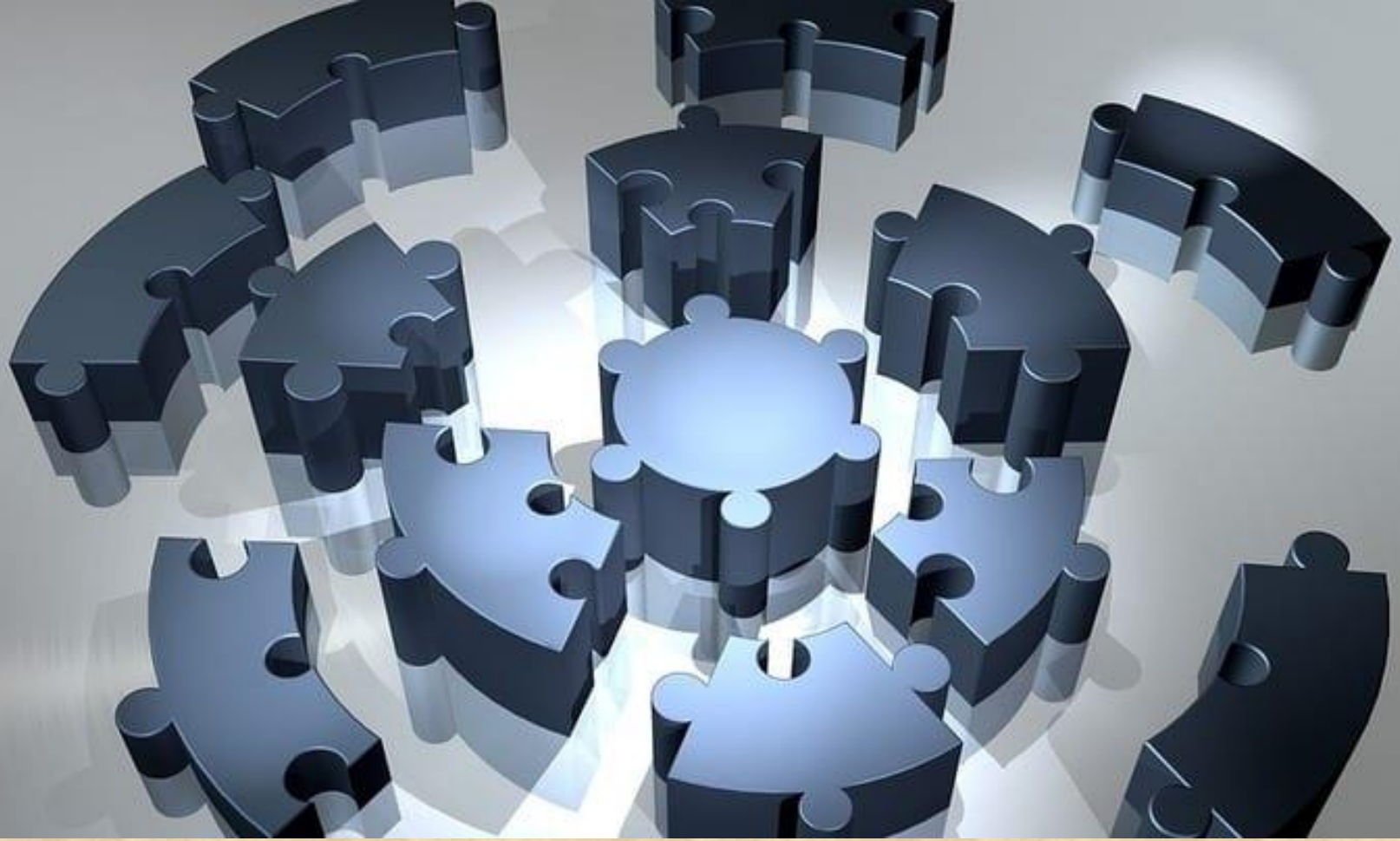
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This session will cover:

- 1.Components of Risk Management
- 2.Value of Risk Management
- 3.The process of implementation on the ERM framework



COMPONENTS OF RISK MANAGEMENT



Definitions

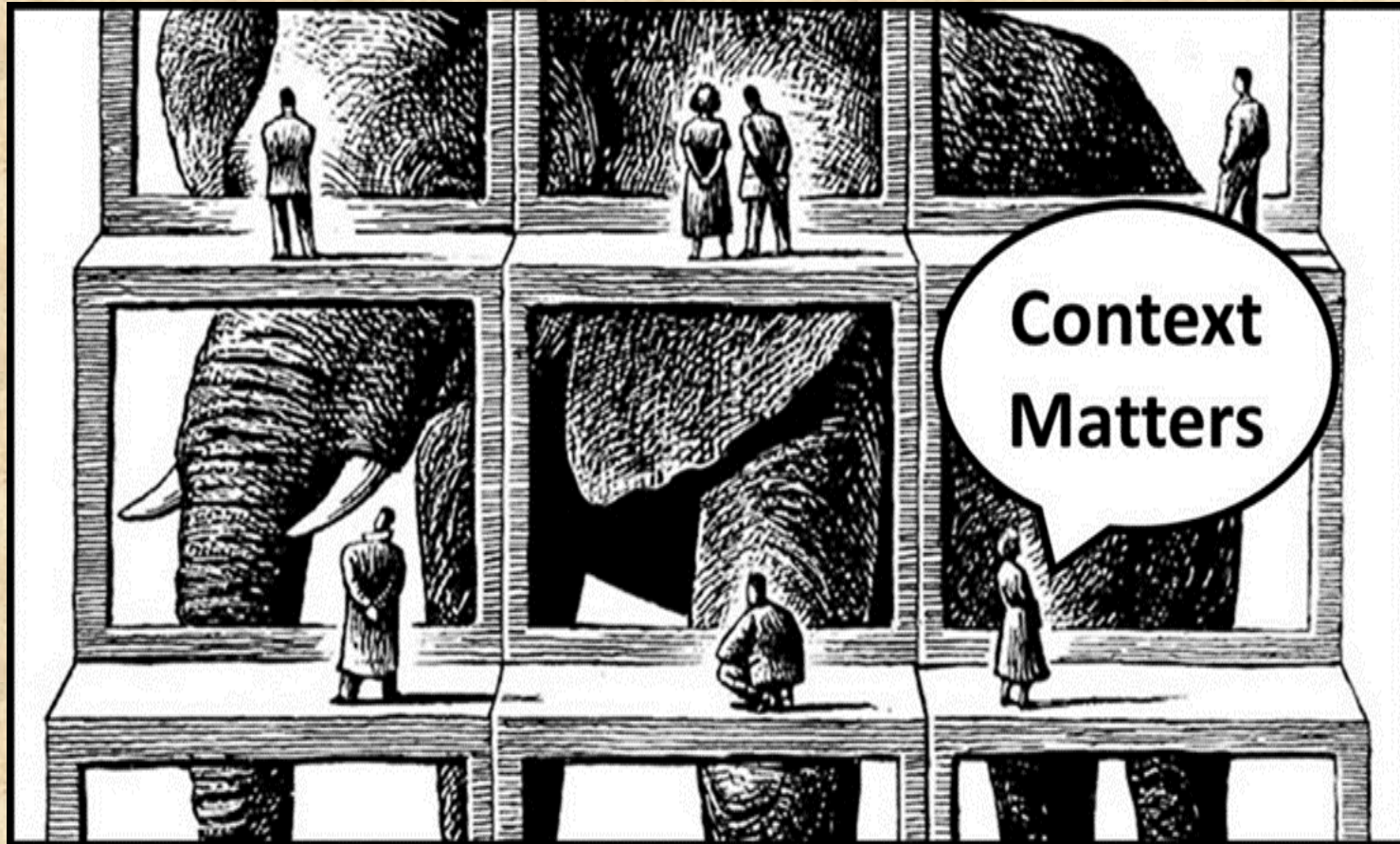
- Risk: The effect of uncertainty on objectives which focuses on the effects of incomplete information for decision making – ISO Guide 73
- Risk Management – The set of activities within an organization undertaken to deliver the most favorable outcome and reduce the volatility of that outcome - Hopkin
- ERM: Integrated and coordinated approach to all the risks faced by the organization - Hopkin

Establishing the context

- The process of RM is the systematic application of policies, procedures and practices to the activities of communicating and consulting, establishing the context and assessing, treating, monitoring, reviewing recording and reporting risk (ISO 31000:2018)



Establishing the context



Establishing the context

1.External context

2.Internal context

3.Risk Management context

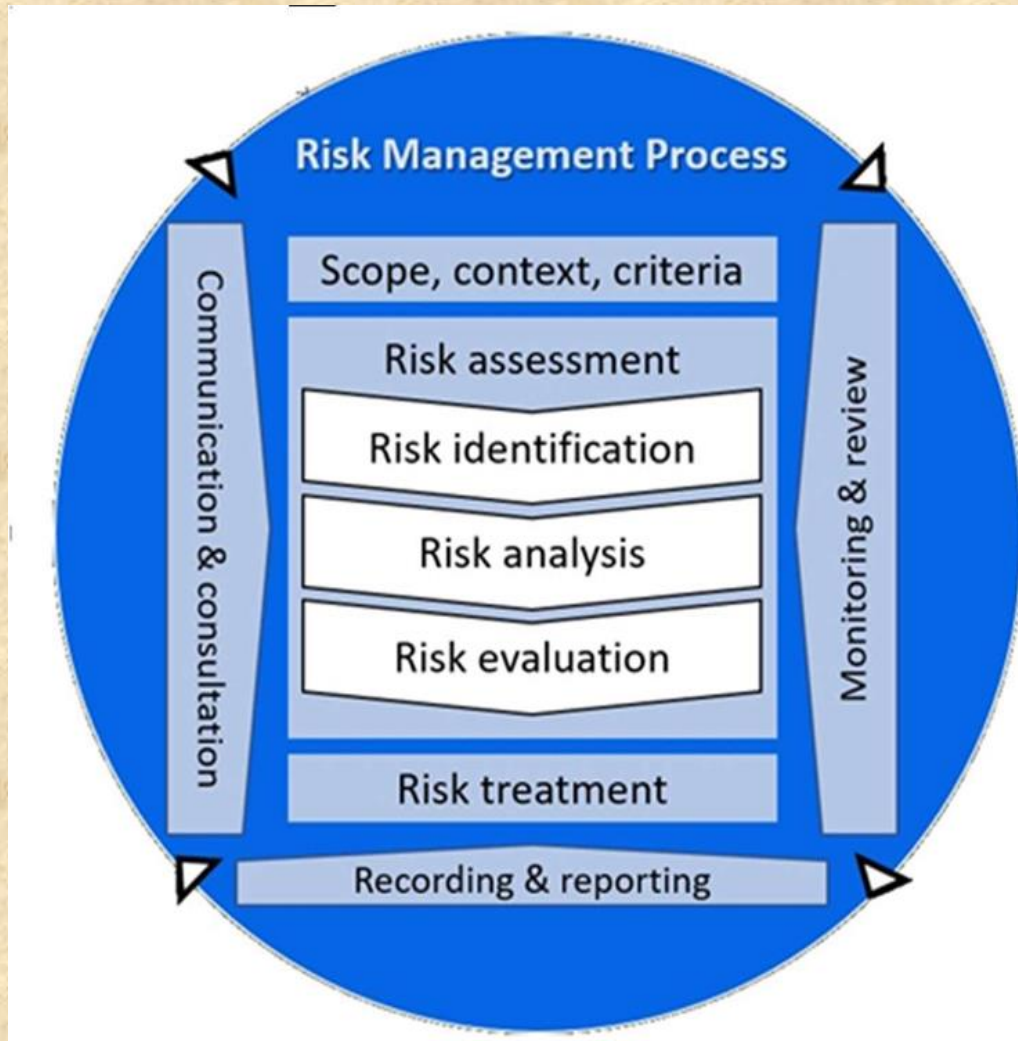
4.Defining the risk criteria (tolerance, appetite)

The Risk Management Context

RM Standard = RM Framework + RM Process

**RM Framework = RM Strategy + RM Architecture
+ RM Protocols**

ISO 31000:2018 Risk Management Process



Risk Management Context

- The risk framework that supports the RM process should include/be:
 1. Objectives, mandate and commitment to RM (Strategy)
 2. Organizational arrangements that include plans, relationships, accountabilities, resources, processes and activities (Architecture)
 3. Embedded within the organization's overall strategic and operational policies and practices (Protocols)

Risk Management Context

- 1.Strategy - What is the process expected to achieve? What do we want to do?
- 2.Architecture – Who will be responsible? How are we actually doing it?
- 3.Protocols – How do we want to do it? What resources will be required? (Tools, policies, procedures, guidelines)



RM Strategy – what do we want to do?

- i. Specific risk statements/policies
- ii. Risk Priorities for current year
- iii. Risk appetite and attitude to risk
- iv. Benchmark test for significance
- v. Arrangements for embedding risk

Risk protocols – how do we want to do it?

- i. Tools and techniques
- ii. Control objectives, rules and procedures
- iii. Risk classification systems
- iv. Risk assessment procedures
- v. Resourcing arrangements
- vi. Documentation and record keeping (static documents)
- vii. Training and communication
- viii. Responding to incidents, issues and events (reaction arrangements)
- ix. Risk assurance systems
- x. Reporting, disclosures, certification

Risk Architecture – how are we actually doing it?

- i. Roles and responsibilities
- ii. Committee structure and terms of reference
- iii. Internal reporting requirements and documents
(dynamic documents)
- iv. External reporting controls
- v. Risk assurance arrangements (structure and responsibilities)

Principles of RM - Clause 3 of ISO 31000

Risk Management:

1. Creates and protects value
2. Is an integral part of all organizational processes
3. Is part of decision making
4. Explicitly addresses uncertainty
5. Is systematic, structured and timely
6. Is based on the best available information
7. Is tailored
8. Takes human and cultural factors into account
9. Is transparent and inclusive
10. Is dynamic, iterative and responsive to change
11. Facilitates continual improvement of the organization.

RM documentation

1. RM governance, administration records
2. Risk response and improvement plans
3. Event reports and recommendations
4. Risk performance and monitoring reports



VALUE OF RISK MANAGEMENT

Value of risk management

- What are the benefits of RM?
- What should RM deliver to the organization?
- In what form do we see/perceive the rewards of RM?

Concept of attachment of risk

- Recap on definition of risk: The impact of uncertainty on objectives.

Risk also impacts:

- a) Key dependencies – Finances, Infrastructure, Reputation, Marketplace
- b) Core processes e.g. IT systems/platforms
- c) Stakeholders' expectations



RM efforts should enable the organization to consider all these aspects that affect the achievement of objectives.

Benefits of RM

Implementation of RM should enable an organization to deliver:

1. Compliance with the mandatory obligations placed on the organization.
2. Assurance regarding the management of significant risks
3. Risk-based decision making
4. Effective processes
5. Efficient processes

Rewards can be in form of:

- a) Increased returns as a result of higher levels of achievement
- b) Fewer disruptions
- c) Faster restoration after a disruption
- d) Organizational Resilience
- e) Delivery of projects on time, within budget and to specifications
- f) Ability to seize opportunities – opportunity management
- g) Achieving positive outcomes in difficult times

Good risk management is about:

1. Being able to take risk
2. Reaching for the stars – confidently aim higher
3. Being resilient and safeguarding the organization and its assets
4. Being ambitious while at the same time protecting the value of the organization
5. Managing downside risks to reduce the negative/undesirable outcome

****Both threat and opportunity management***



IMPLEMENTING THE ERM FRAMEWORK

Implementation steps

Mandate, commitment, support and sponsorship by the board is key

ISO 31000 implementation steps

1. Design the framework
2. Implement Risk Management
3. Monitor and review the framework
4. Improve the framework



Steps to successful implementation

1. Engage senior management and BOD
2. Establish an independent RM function
3. Establish the risk architecture at Board and executive levels
4. Develop a risk aware culture fostered by a common language, training and education
5. Provide written procedures with clear statement of the risk appetite
6. Agree monitoring and reporting against established objectives for RM
7. Undertake risk assessments to identify accumulations and interdependencies of risk – risk networks
8. Integrate RM into strategic planning, business processes and operational success

Risk Culture

Organizational culture:

- The way we do things around here
- What you would do when you are not looking – comes naturally to you
- What would be left if all policies, procedures and controls were removed from an organization

Risk culture: The values, beliefs and knowledge about risk shared by a group of people e.g. employees, department within an organization

Risk culture is the engrained set of risk taking, risk control and risk communication behaviors that have been taught, practiced, authorized, role modelled and internalized by staff when making decisions and acting on behalf of the organization.

Risk Culture

- An organization's culture is a reflection of the overall attitude of every component of management within the organization
- It determines how individuals behave in particular circumstances and also how they feel obliged to behave in all circumstances
- A good risk culture will be the product of individual and group values and of attitudes and patterns of behaviour
- Organizations with risk-aware culture are characterized by communication founded on mutual trust and shared perception of the importance of RM

The challenge for risk professionals is that **legacy cultures undervalue risk management**. They see risk more as a **compliance activity** than something aligned to purpose, values and designed to help drive successful strategy.

Brian Whitfield

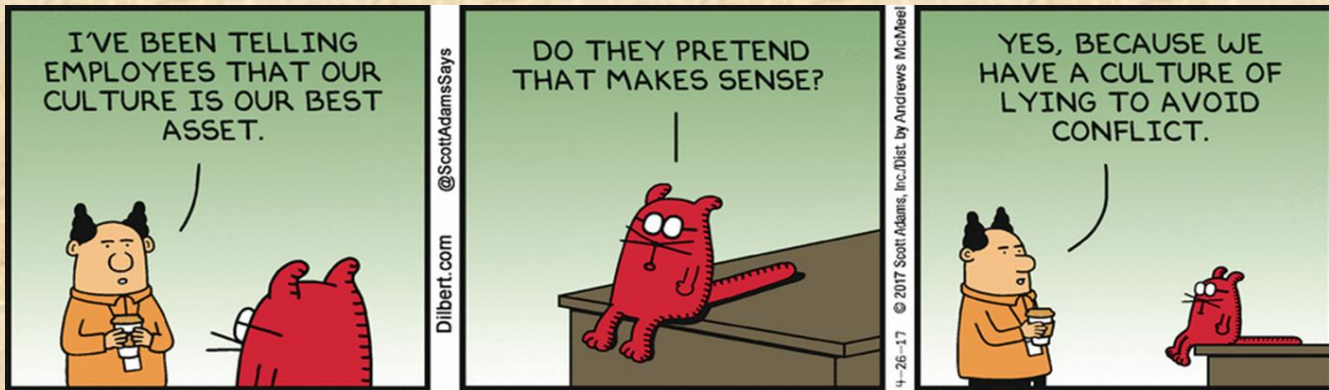


A risk aware culture is achieved by:

1. Strong **leadership** within the organization in relation to strategy, projects and operations.
2. **Involvement** of all stakeholders in all stages of the RM process.
3. **Learning** – emphasis on training in RM processes and learning from events.
4. Appropriate **accountability** for actions and not a blame culture.
5. **Communication** and openness on all RM issues and lessons learnt.

Risk Culture

Every organization has a risk culture: the question is whether that culture is effectively supporting or undermining the longer-term success of the organization.



Activity:

Is the risk culture at your organization effectively supporting or undermining the longer-term success of the organization? Explain.

Barriers to implementation of ERM (and proposed solutions)

1. Lack of understanding of risk management

Establish a shared understanding, common expectations and a consistent language of risk in the organization

2. Lack of support and commitment from senior management

Identify a sponsor on the main board and confirm shared and common priorities

3. Seen as just another initiative

Agree a strategy that sets out the anticipated outcomes

4. Benefits not perceived as being significant

Complete a realistic analysis of what can be achieved and the impact on the organization's objectives

5. Not seen as a core part of business activity

Align effort with core processes and achievement of objectives

Barriers to implementation of ERM (and proposed solutions)

6. Approach too complicated and over-analytical

Establish appropriate level of sophistication

7. Responsibilities unclear

Establish clear roles and accepted risk responsibilities

8. Risks separated from where they arose and should be managed

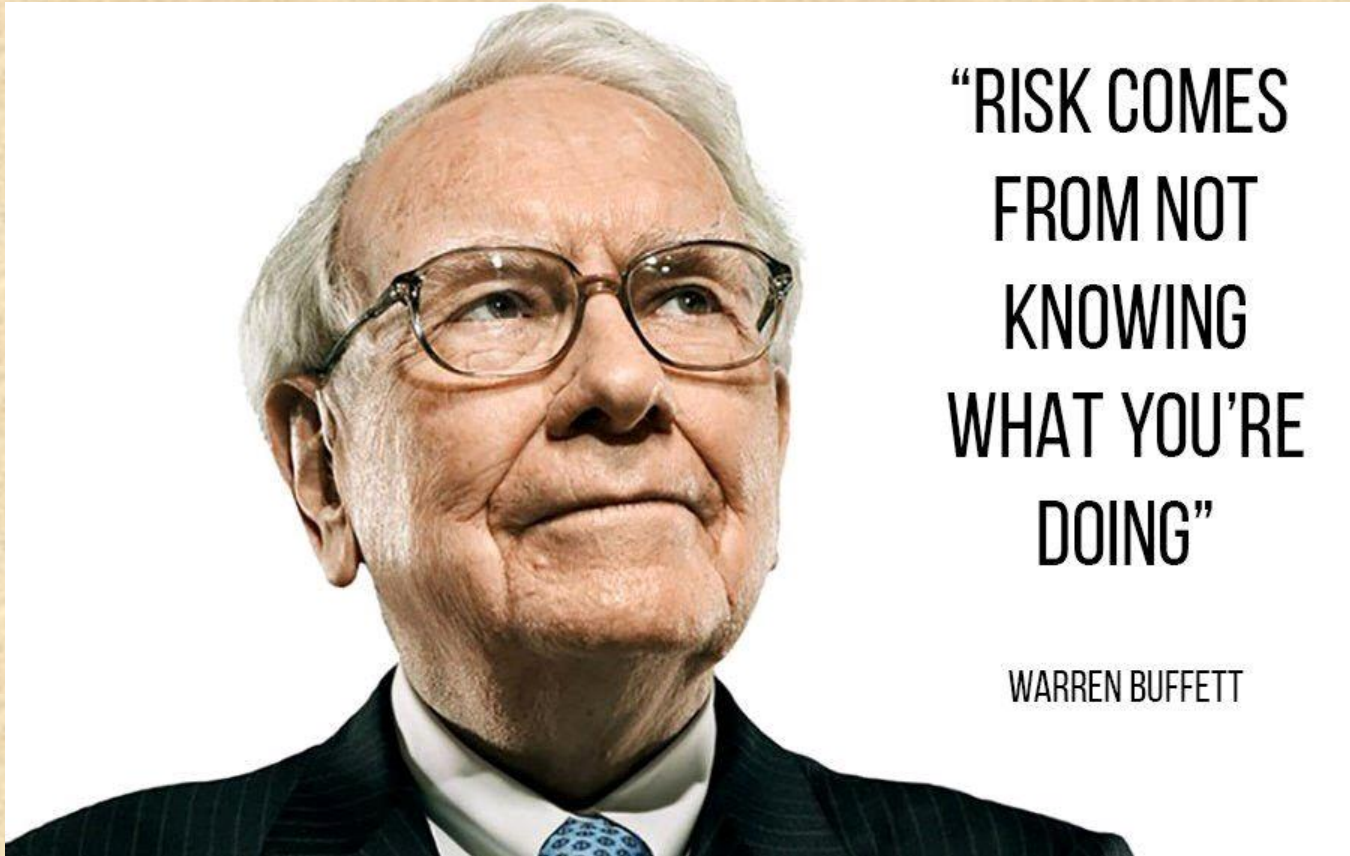
Include RM in job descriptions to ensure that risks are managed within the context that gave rise to them

9. RM seen as a static activity not appropriate for a dynamic organization

Align RM with the organization mission and with business decision-making activities

10. RM too expansive and seeking to take over all aspects of the organization

Be realistic: do not claim that ALL business activities are RM by another name





Thank you

Questions, comments

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