

The evolving risk management landscape **and the need for an effective response**

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The better the question. The better the answer.
The better the world works.

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned behind the 'Y', pointing upwards and to the right.

Building a better
working world

Today's agenda

1. The evolving risk management landscape
2. Creating an effective response
3. Ethics and integrity agenda
4. Closing comments



Our world is becoming increasingly:

Volatile

Uncertain

Complex

Ambiguous

1 out of 2 Fortune 500 companies of 2006 does
not exist today

The background of the slide is a photograph of a calm sea with smooth, light-colored rocks scattered across the water. The sky is a pale blue with soft, white clouds. The overall mood is peaceful and contemplative.

The evolving risk management landscape

The evolving risk management landscape

1

Organizations face an increasingly complex and disruptive risk landscape

2

Effective and holistic risk management is essential to protect and build value

3

But risk management today is typically:

- a. Not viewed through a long-term lens
- b. Not always aligned with strategy
- c. Overly focused on traditional risks and compliance

Organizations face an increasingly complex and disruptive risk landscape

Top three risks

1. Unfavorable economic conditions
2. Technology and digital disruption
3. Changing customer expectations

Top three risks that have grown in importance

1. Changing customer expectations
2. Climate change and sustainability
3. Changes in the regulatory environment

Top three risks that have decreased in importance

1. New market entrants
2. Misaligned culture
3. Cyber attack/data breach

Organizations face an increasingly complex and disruptive risk landscape

83%

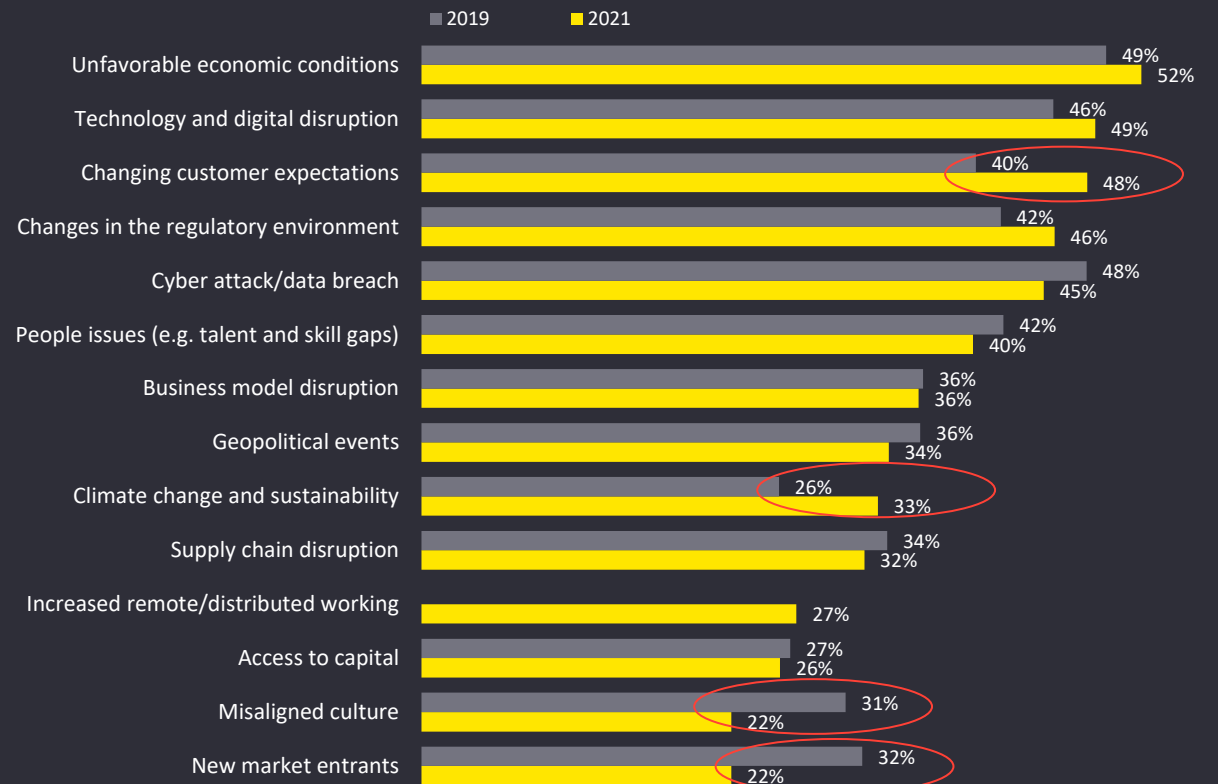
of boards believe market disruptions have become increasingly impactful

87%

of boards believe market disruptions have become increasingly frequent

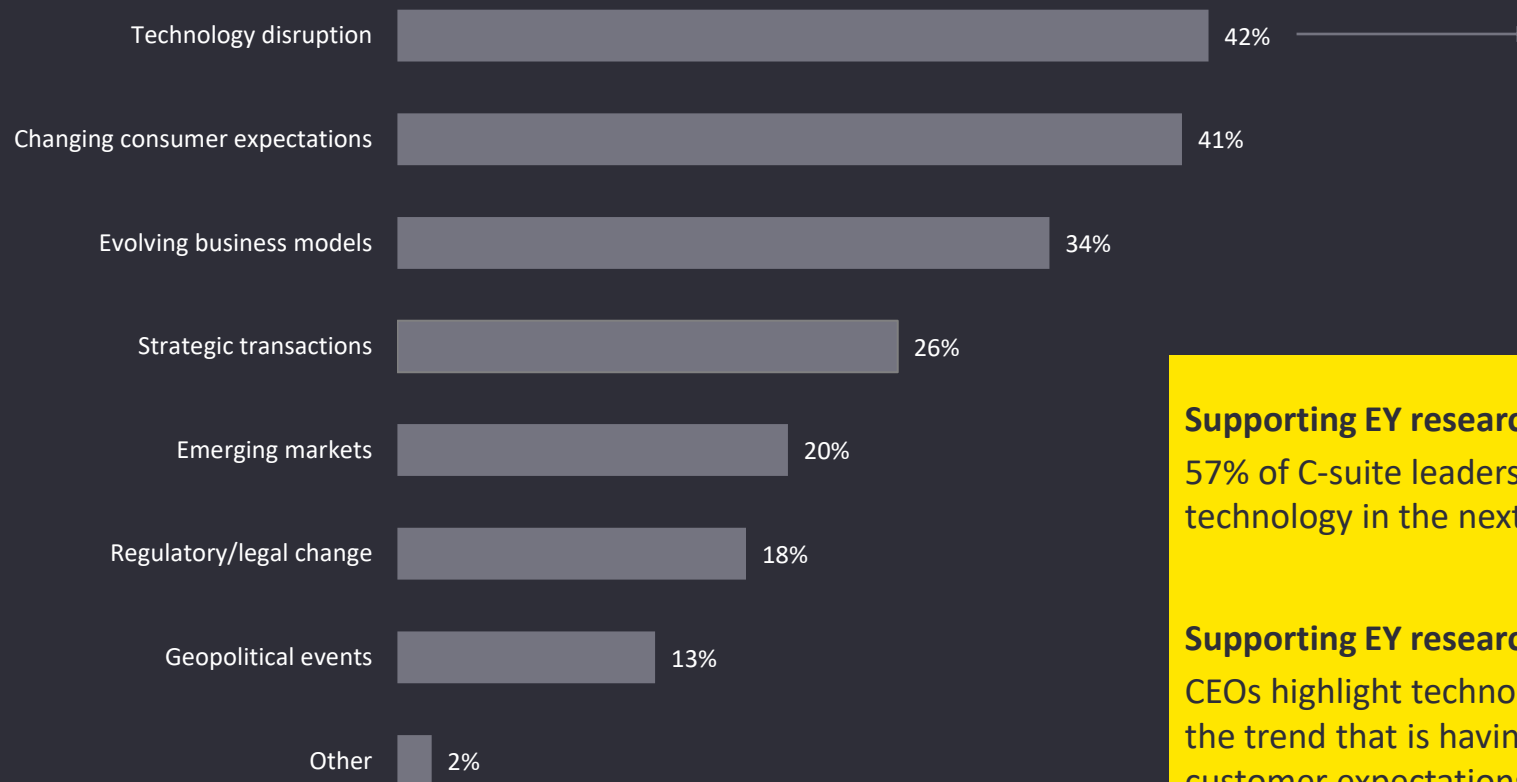
The emergence of new risks requires more scenario planning, stress testing and contingency planning around low-likelihood, high-impact events.

How significantly do you expect the following risks to impact your organization during the 12 months? (Percentages relate to those that say each will more than moderately impact their business)



But inherent in these risks are opportunities

Which of the following represent the greatest strategic opportunities for your organization?
(rank up to two)



1st vs 7th

Boards rank technology disruption as the **greatest strategic opportunity** for their organization, but conversely CROs rank this as the least significant opportunity

Supporting EY research: Capital Confidence Barometer

57% of C-suite leaders anticipate significant investment in data and technology in the next 12 months, making it the most popular initiative.

Supporting EY research: CEO Imperative Study

CEOs highlight technology and digital disruption as the trend that is having the greatest impact on their company. Changing customer expectations and experiences ranks second.

Effective risk management and agile business strategy are crucial to protect and build value

79%

of boards believe improved risk management will be critical for their business to **protect and build value** in the next five years

83%

of boards believe business strategy needs to **be more agile** and evolve more quickly

“

The uncertainty of the future is very high compared with the recent past, which makes planning much harder. But, of course, inherent in that uncertainty is opportunity.

Alan Stewart (EMEIA)

Audit Committee Chair at Diageo and former CFO of Tesco

Supporting EY research: CEO Imperative Study

CEOs rank risk management first when asked which areas of the enterprise they expect to make most changes in the next three years.

But despite its growing importance, risk management is not keeping pace

55%

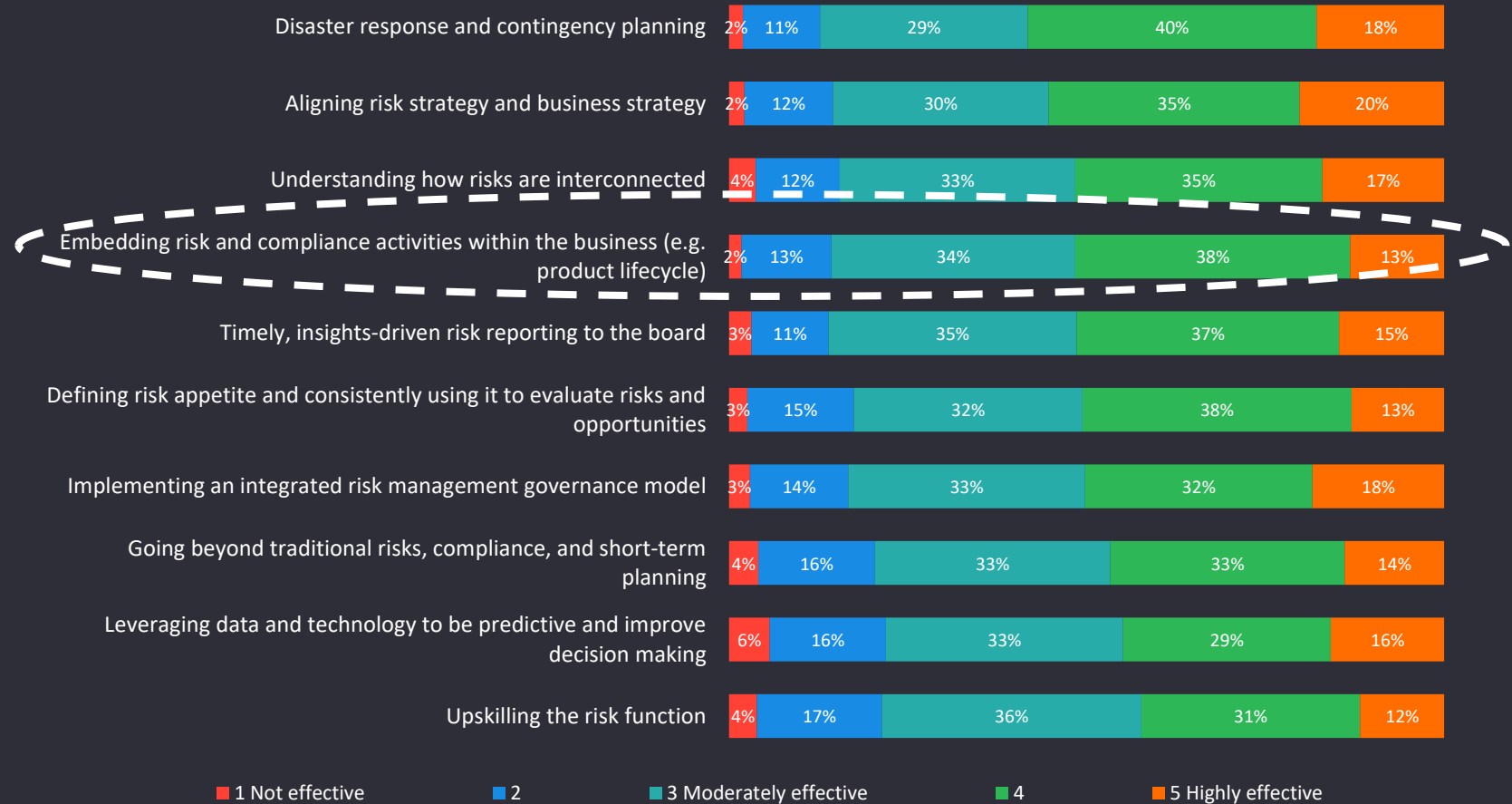
of boards say risk management has difficulty keeping pace with changes in business strategy

Less than

20%

of boards describe their risk management as 'highly effective' across a range of activities (see graph on the right)

How effective is your organization's risk management at the following?





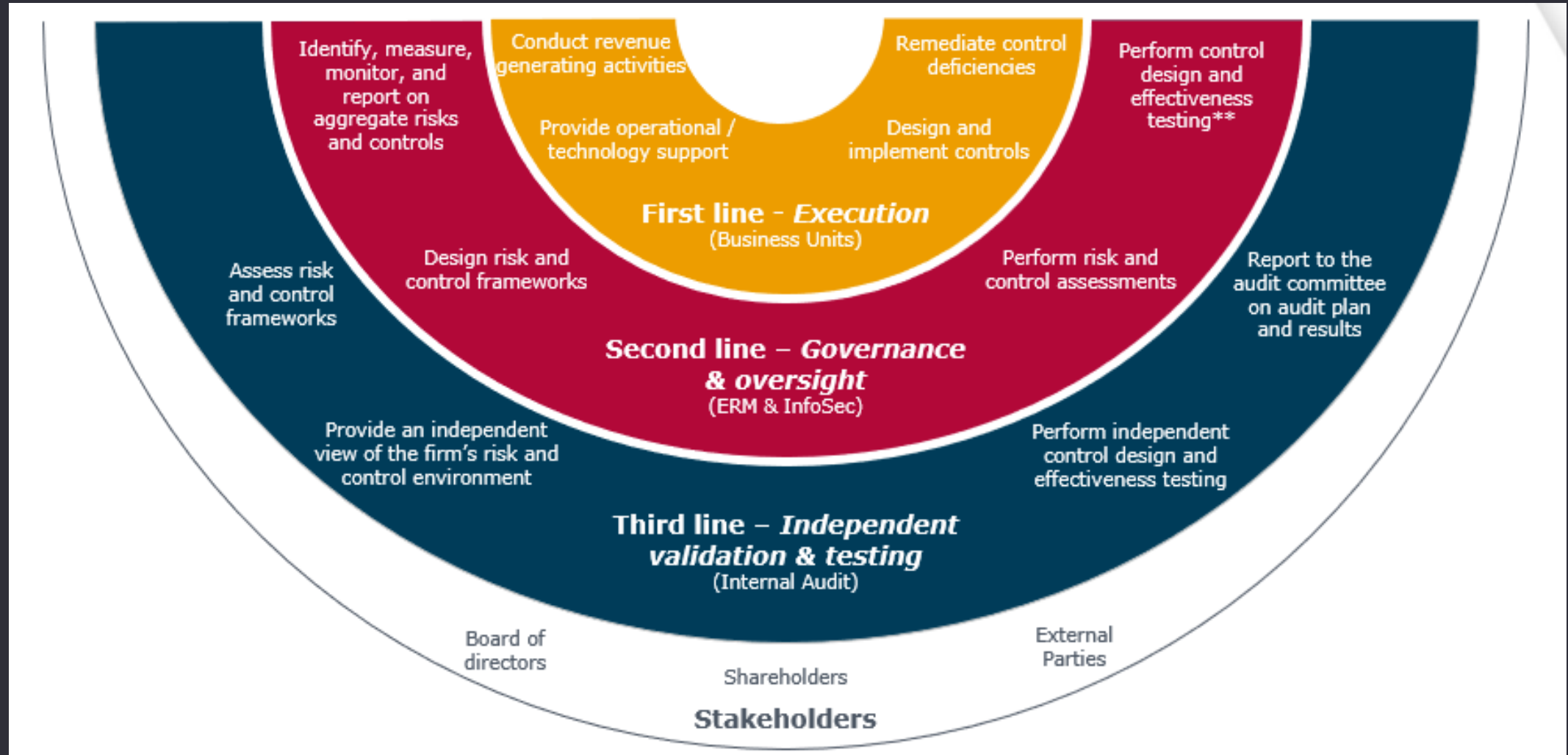
Creating an **effective response** to the evolving risk management landscape?



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Three Lines of Defense:

Looks to manage and mitigate risks through the effective organization of risk, control and oversight responsibilities that will limit the possibility of “gaps”, while avoiding duplication of coverage.



How can boards bolster risk management?

1. Rethink how the board operates

- Pressure is mounting on boards to adapt and recalibrate how they operate
- Technology, including artificial intelligence (AI) could provide better data-driven insights thus “freeing up” boards to focus more time on the oversight of an ever-expanding strategic remit
- Review their organizational purpose to ensure long-term value creation is a key component

2. Define, implement and measure a corporate culture that is inspired by purpose

- The greatest workforce-related risk management challenge is a misalignment between culture and strategy
- Most boards do not expect a misaligned culture to impact their business, but leading boards have talent and culture issues as a standing agenda item
- Boards should be clear on how management defines and instills a corporate culture that is linked to organizational purpose and aligned to strategy

3. Drive a tech and data-driven approach to risk management

- Seven in 10 boards say their business will increase investment in technology for risk management in the next 12 months
- Boards are looking for risk reporting that is predictive, focused on emerging and atypical threats and is based on external as well as internal data
- Boards have a strong role to play in driving the use of technology in risk management and pushing for risk reporting that is fit for purpose

Boards overlook a vital ingredient of business success: culture

Only
22%

of **boards** expect misaligned culture will more than moderately impact their business in the next 12 months, making it the least important risk

Only
11%

of **CROs** expect misaligned culture will more than moderately impact their business in the next 12 months, making it the least important risk

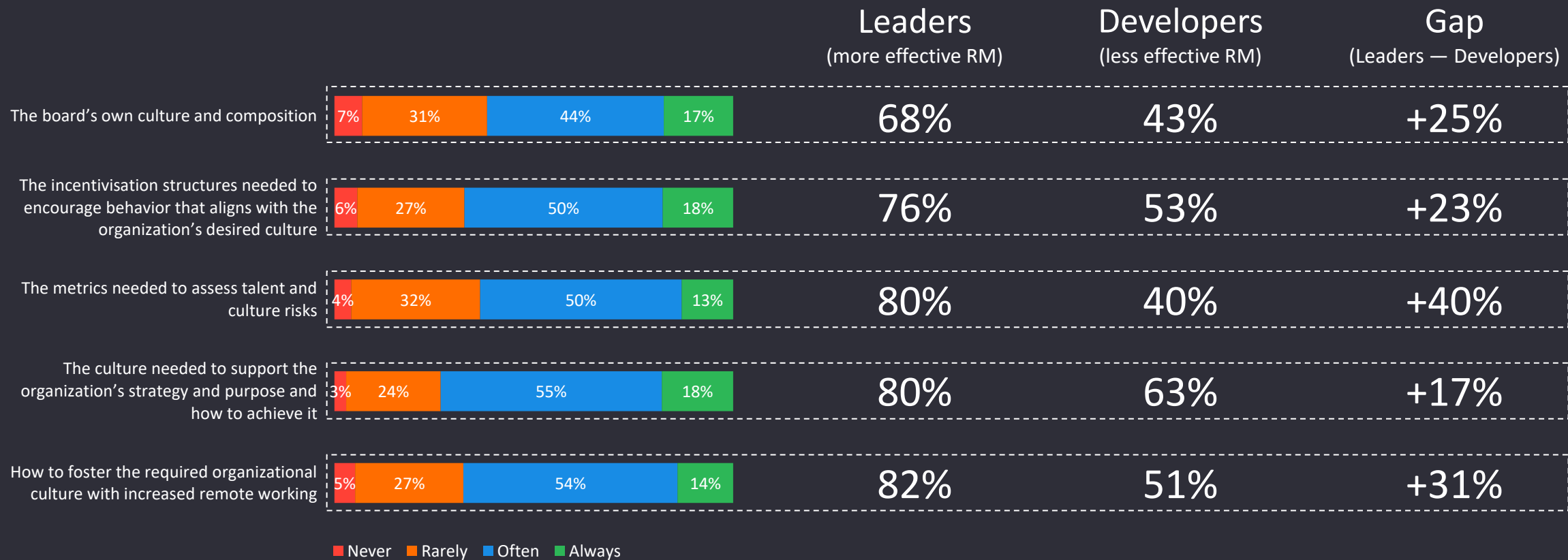
Supporting EY research: [CEO Imperative Study](#)

Just 17% of CEOs say culture and purpose is a top-three area of their business where they expect to make the most change during the next three years, making it the lowest priority.

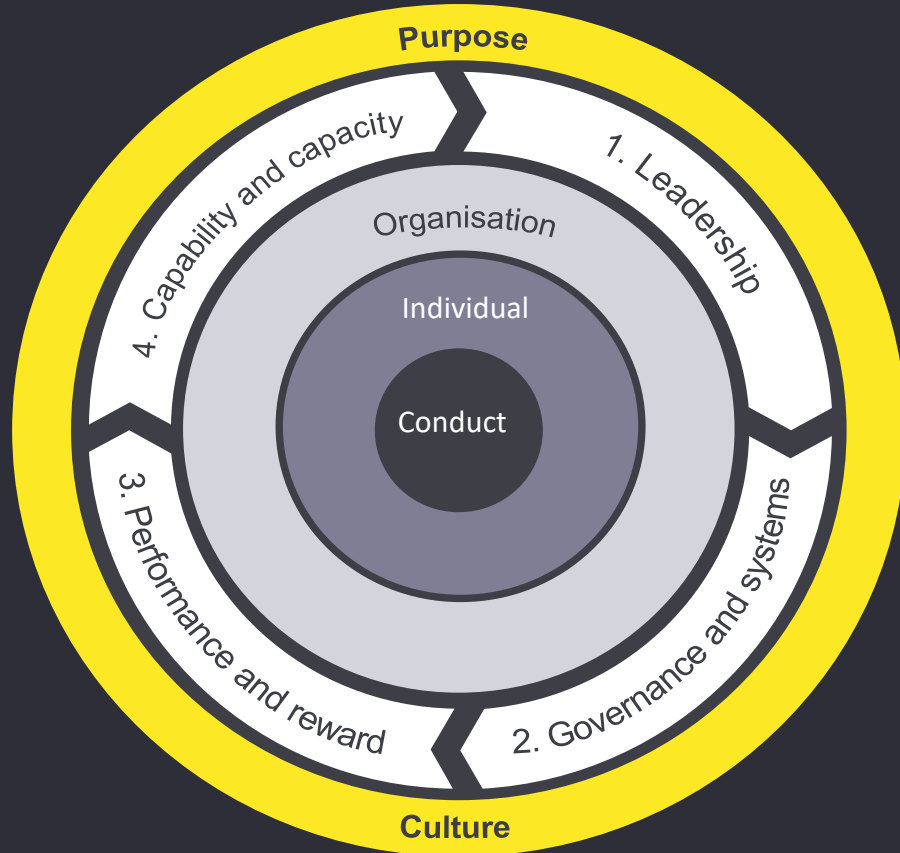
Boards on leading companies frequently discuss culture

How frequently are the following topics related to talent and culture discussed at board meetings?

Boards at leading risk management companies discuss culture much more frequently than developing risk management companies (percentages show those that discuss the following often or always)



Corporate Culture - Is it the problem and the solution?



Managing culture is *not a one-off event*, but a *continuous* and ongoing effort that must be *integrated* into day-to-day business operations

Risk Culture

Connects the broader culture of an organization with its risk-taking and risk control activities

...the behavior in an organization that **influences** the management of risk.



Four ways boards can govern culture to reduce risk

1

Align corporate culture to strategy, and recognize when your culture should evolve

2

Consider how your culture is communicated and reinforced

3

Ask your management team to measure and monitor progress on culture

4

Carve out enough time to discuss culture at board level

Culture – 5 questions

1. How should the organization's **culture adapt** in response to the transformative cultural and societal shifts taking place today?
2. What can the board do to improve its **own culture** — for example, through composition, structure or processes
3. How is the board **monitoring** the organization's culture on an ongoing basis and ensuring continued alignment with its purpose?
4. Is the board receiving sufficient information from the HR in relation to **culture-related metrics**, and does it understand how that information is being collected, measured and controlled?
5. What measures is the board taking to ensure that **management decision-making** and **corporate strategy** are in line with the organizational purpose, culture and values?

Ethics and integrity agenda

How can you provide an enhanced level of oversight to reduce the risk of the organization suffering a **material fraud**?



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Ethics and integrity agenda – 5 questions

1. Do you understand the breadth of **fraud risks** that your organization faces and how these have been exacerbated by the COVID-19 pandemic?
2. How are you providing **effective oversight** of the organization's fraud prevention and detection processes?
3. How are you drawing on the **skills and technological capabilities** of your external auditor to mitigate the risk of material fraud?
4. In what ways would your organization benefit from a fraud risk assessment performed **independently** by an external auditor?
5. What are you doing to help establish an honest and ethical **culture** within the organization?

Thank you...

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