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2013 Government Accounting and Auditing Update

Enterprise Risk Management

Understanding and Implementing an ERM Framework

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May 2013



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Discussion Objectives

- Discuss the current risk environment for the public sector and drivers for enhanced risk management
- Define Enterprise Risk Management (ERM) and the benefits to public sector organizations
- Define and describe an ERM framework and methodology
- Discuss key steps and success factors for establishing an ERM program

Risk Management Has Not Always Been Effective

- No shortage of risk events in today's world – In the news every day
- Stakeholders are demanding much more visibility into how risks are managed
- Existing risk management practices are often deemed insufficient; no shortage of people and organizations who want to improve the processes
- Risks and the resulting impacts have led to major negative issues for organizations of all types – public and private

The Two Sides of the Risk Coin

RISK TYPES

Unrewarded Risk:

Risks that must be taken

Regulatory Compliance is a good example

Fail to manage the Unrewarded Risks and bad things happen

Rewarded Risk:

Risks where you have an option to take

Strategy and business decisions, where value can be created

Fail to take the right amount of Rewarded Risks and you don't fully reap the reward

Questions Many Organizations Are Asking

- What is our organization's appetite for risk and what is our tolerance for deviating from expected results?
- What risks should we be focusing on? Do we know what our true top risks are?
- Once we know what the risks are, how prepared are we to address them?
- How well are we doing with the risks we are focusing on?
- Do we have a sustainable process to make risk management more than a one time event?
- How do we capture future risks and integrate them into the process?

Many organizations' response to these questions is to enhance their corporate governance processes by developing and implementing an Enterprise Risk Management process

What is Enterprise Risk Management?

Enterprise risk management is a process, effected by the 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 risk to be within the risk appetite, to provide reasonable assurance regarding the achievement of objectives.

- COSO Enterprise Risk Management – Integrated Framework 2004

Is ERM relevant for public organizations?

ERM is just as valuable to the public sector as it is to the corporate sector

Leading practices in risk management developed in private industry can be leveraged by the public sector

Every organization, regardless of type, has a need to understand risks that might impact it's ability to fulfill it's mission – no one is immune to risk.

The Public Sector faces unprecedented challenges in terms of key risk areas – Health care, Aging infrastructure, Revenue constraints, Population growth, etc.

Benefits of ERM

- Create a more risk aware culture
- Align risk appetite and strategy
- Enhance risk response decisions
- Minimize operational surprises and losses
- Identify and manage cross-enterprise risks
- Provide integrated responses to multiple risks
- Seize opportunities
- Support cost management efforts
- Improve operational performance
- Provide better basis for allocating resources

And thereby:

- Restore and/or retain constituent trust and confidence
- Protect and increase value for the organization and those you serve

Examples of Risk Categories for the Public Sector

- Operations
- Regulatory Compliance
- Reporting
- Service Delivery
- Employment and Staffing
- Strategy
- Physical Security
- Cyber Security
- Economic Conditions
- Financial
- Privacy and Data Protection
- Recruitment and Talent Management
- Supply Chain
- Labor & Employment Issues
- Insurance
- Natural Disasters

What is a Risk Framework?

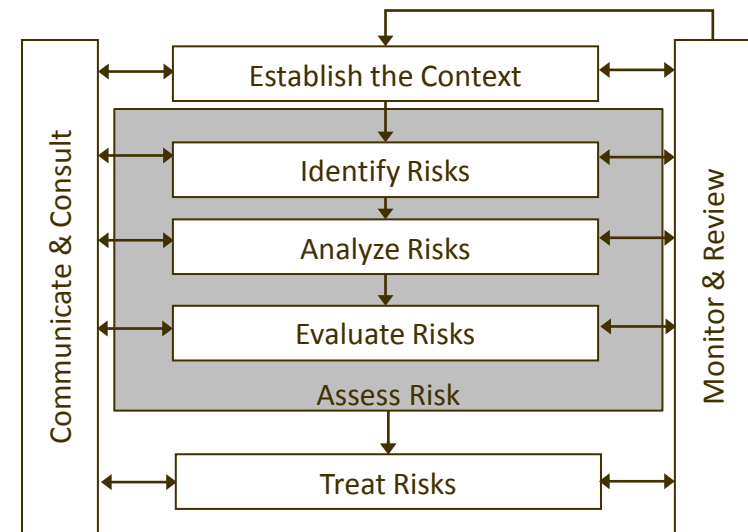
- A conceptual tool used to provide guidance on understanding and addressing the risks faced by an organization
- Provides a methodology to follow – supports and sustains risk management in an organization
- Commonly used ERM frameworks:
 - Enterprise risk management - Integrated Framework of the Committee of Sponsoring Organizations (COSO)
 - AS/NZS 4360:2004 - The Australia and New Zealand Risk Management Standard
 - AS/NZS ISO 31000:2009 - Risk Management Principles and Guidelines

Two Popular Risk Frameworks

COSO integrated framework



AS/NZ - ISO 31000:2009



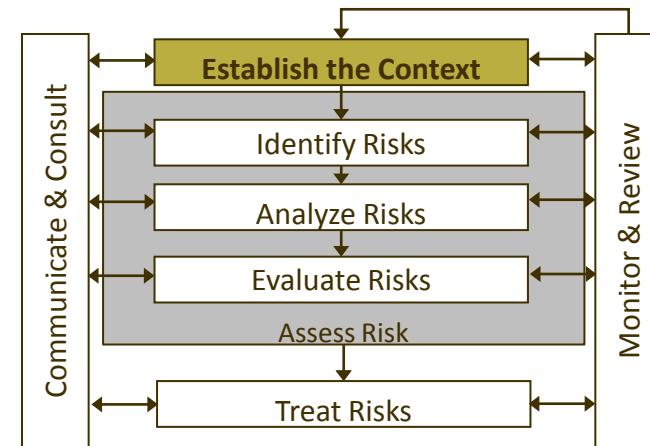
Establish the Context

Objective

Defines the external and internal issues an organization has to consider when managing risk

External – constituent needs, environment, external factors that might impact objectives

Internal – employees, governance structure, culture



Example Data Sources

- Business Plans
- Strategic Plans
- Stakeholder Analyses
- Previous Risk Information

Identify Risks

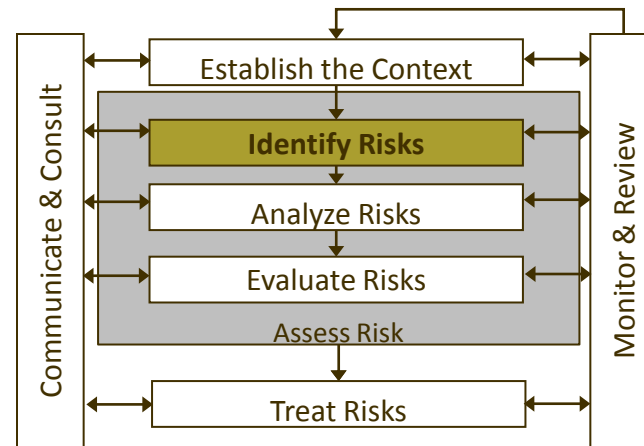
Objective

Generate a comprehensive list of relevant risks as foundation for overall risk assessment process

Approach

Engage key internal/external stakeholders and business units

“Cast Your Net”



Example Data Sources

- Interviews, Workshops, Focus Groups
- Constituent Surveys
- Peer Organization Research
- Previous Risk Assessments
- Call Center/Action Center Data

Analyze Risks

Objective

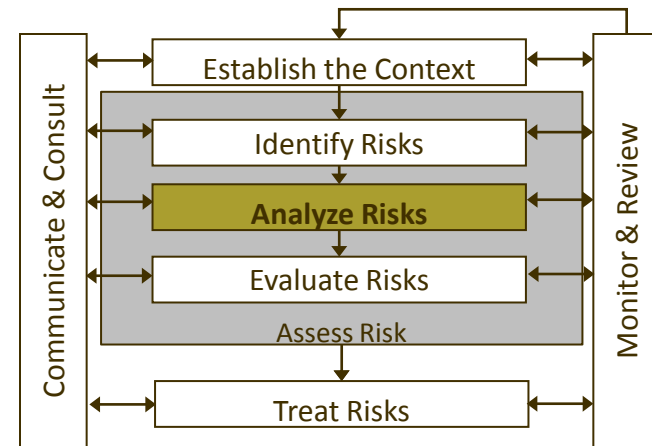
Gather relevant data to assist in the effective evaluation of risks

Approach

Generate rating criteria

- Impact
- Likelihood
- Vulnerability
- Velocity / Speed of onset

“See What You Caught”



Example Data Sources

- Qualitative Rating and Assessment
- Analysis by Subject Matter Specialists
- Group Consensus Discussions

Evaluate Risks

Objective

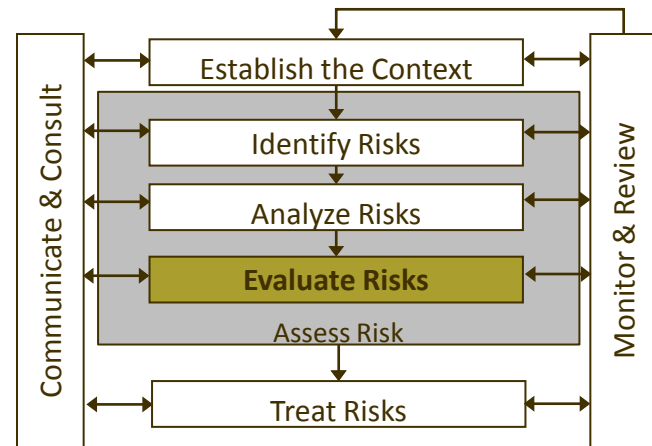
Determine the relative importance of risks facing the organization and set priorities accordingly

Approach

Iterative process to reengage stakeholders and subject matter experts

Could use both quantitative and qualitative techniques

“Sort Them Out By Size”



Example Data Sources

- Interviews
- Focus Groups / Workshops
- Qualitative Analysis

Treat Risks

Objective

Develop risk mitigation strategies

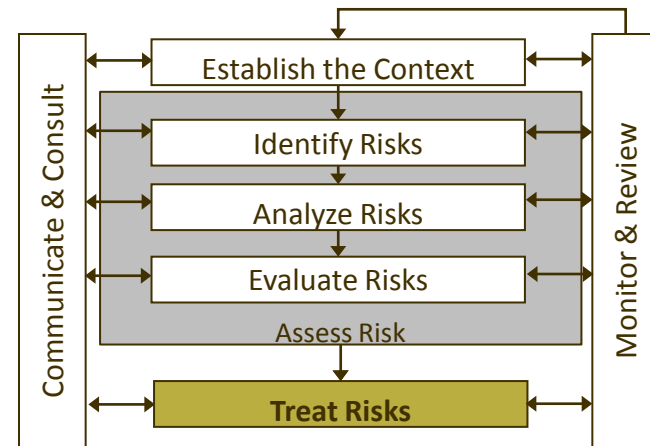
Approach

Identify treatment options

- Avoid
- Accept
- Reduce
- Transfer

Assess treatment options

Prepare and implement risk treatment plans



Example Data Sources

- Risk Mitigation Teams
- Cost/Benefit Analysis
- Contingency Planning
- Insurance Options

Monitor and Review

Objective

Monitor the effectiveness of risk treatment strategies and determine if they are achieving desired results

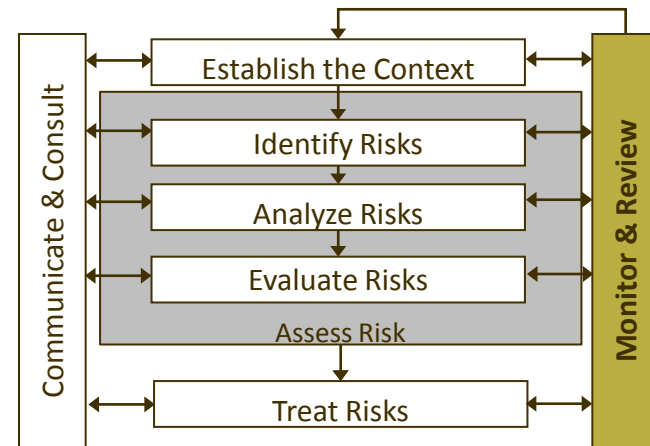
Approach

Develop monitoring methodologies

Establish Key Risk Indicators

Conduct routine monitoring and reporting

Audit the process and the results



Example Data Sources

- Internal Audit Programs
- Risk Progress Reports

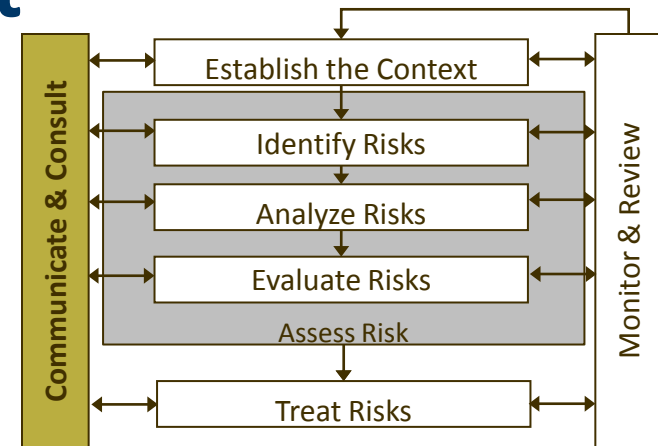
Communicate and Consult

Objective

Maintain a dialogue between the organization and the stakeholders regarding the risk management process

Approach

Regular outreach with stakeholders to ensure a thorough understanding of the goals and progress of the ERM program



Tools & Techniques

- Meetings With Constituents/Stakeholders
- Newsletters/Press Releases
- Outreach Policies

Evaluating Risk Management Capability

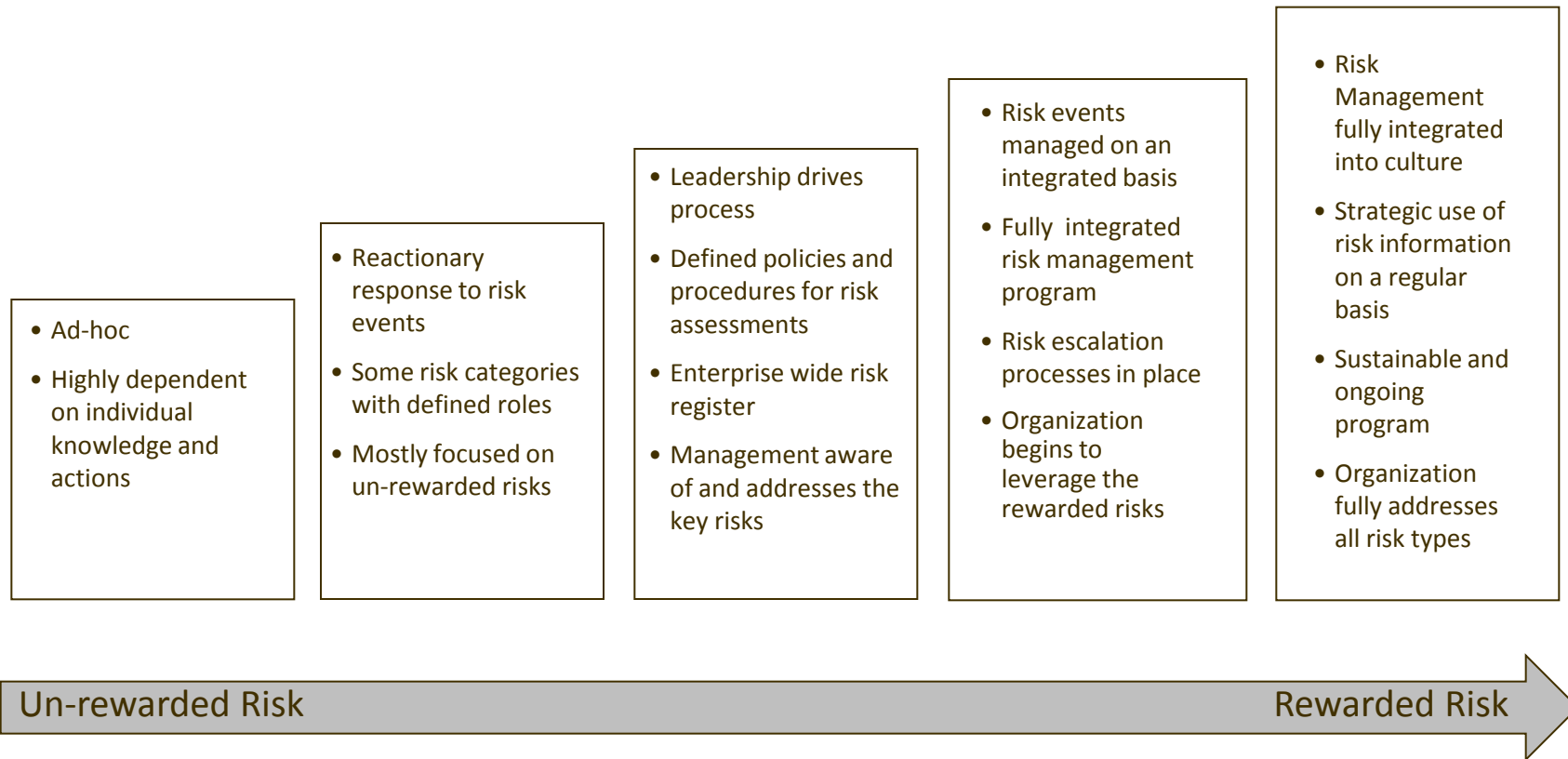
Where is your organization in terms of risk management capabilities?

Where do you need to be?

How can you develop a process to assess risk and proactively develop policy responses to issues such as decreasing tax revenue, the economic downturn, federal and state fiscal issues, increased need for constituent services, etc?

Never before has it been more vital for states and localities to develop an effective assessment of their strategic risks and take proactive measures to manage them.

The ERM Journey



A High Level Process for Establishing ERM



Considerations for Moving Forward

- Gain senior executive commitment and involvement
 - More than passive support is needed
 - Critical to get the program moving and overcome silo mentality
- Establish accountability and responsibilities
 - Develop the process and keep it going
- Leverage what you already have
 - Build on your existing risk processes – you have more than you think!

Considerations for Moving Forward

- Focus on a few key risks
 - Identify many, focus on the most critical
- Focus on the cultural/change management process
 - Risk aware culture is one of the first tangible ERM benefits



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