

RISK ADVISORY SERVICES

ENTERPRISE RISK MANAGEMENT

Achieving Organizational Success through Ongoing Risk Management Strategies

THE CHANGING LANDSCAPE OF THE BUSINESS WORLD HAS LED TO THE IMPLEMENTATION AND ESTABLISHMENT OF STRICT REGULATORY REQUIREMENTS.

Companies now find themselves encountering new corporate governance and financial reporting challenges which are causing them to view company-wide risk in a different perspective.

As a result, these changes require both public and private companies to re-evaluate all of the possible risks that could threaten their viability or success. Thus, Enterprise Risk Management (ERM) strategies and best practices are quickly ascending to the top of many corporate agendas.

What is ERM?

ERM is a general, ongoing operational assessment which identifies potential risks that could prevent a company from meeting its strategic goals and objectives. It is an initiative that delves deeper than a basic risk assessment; because it is continuous in nature, it helps to provide an organization with the flags and markers it needs to keep it on course, steering it away from potential trouble.

As the size, structure and nature of businesses differ, so do organizational ERM needs.

However, a common thread can be found between both businesses big and small: All organizational divisions, are responsible for mitigating risks in its area of business using strategies and processes outlined by the company's main risk management team. Doing this means the company will be able to not only mitigate risk, but proactively manage inherent risks which could drive the organization to new heights of success.

In regards to ERM strategy and focus, organizations will typically fall in to one of two categories; those which implement a complete, all-encompassing program or, those

which choose to implement elements of ERM on an ad-hoc basis. Both offer significant benefits and repercussions which must be carefully assessed and evaluated prior to any form of implementation. Whichever path you choose, make sure it is the right course of action for your organization; it should help your business meet critical goals and objectives; and will steer your company towards success.

Benefits of a Formal ERM Strategy

- Creates a culture of risk awareness within the organization
- Enables better business performance
- Promotes achievement of goals and objectives
- Strengthens the internal controls structure
- Establishes accountability for goals and objectives as well as risk mitigation

Disadvantages of a Formal ERM Program

- Over-engineering of risk assessments and risk response
- Possible risk paralysis
- Competing priorities for risk prioritization
- Over – reliance on ERM results

Benefits of an Ad-hoc ERM Approach

- Clear roles and responsibilities
- Offer a specific focus – insurable or financial risks
- Easy to understand and plan for



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Disadvantages of an Ad-hoc ERM Approach

- Unidentified and unmitigated risks
- Evaluation of risk associated with each goal and objective
- Not everyone in the organization views risk management as a priority
- The process is not continuous or ongoing and responding to changes

Common Forms of Risk Management in the Business Environment

Most organizations have already established methods of risk management in their business environments and in daily business activities. They may seem simple and basic but they are still proven, substantiated approaches which help mitigate risk. Establishing processes and procedures helps an organization achieve corporate objectives and indirectly mitigate some of the risks that may arise by association. Some common examples of this include:

- Job descriptions
- Segregation of duties
- Procedures and manuals
- Policies or standards
- Financial reporting processes
- Monthly reporting processes
- Performance appraisal processes
- Strategic planning processes
- Budget or forecasting
- Sales and marketing processes

Five Important Questions You Should Ask About Risk

A mounting focus on corporate governance and increasingly stringent legislative requirements are forcing boards of directors to view, assess and mitigate risk at levels never seen before. Boards are required to participate in the development of their organization’s strategic vision and must ensure that the appropriate controls and procedures are in place to identify and monitor the business risks that naturally arise as a result of their business strategy.

Some key questions to ask about risks and its place in your organization are:

- How do we incorporate ERM initiatives with strategic organizational goals and objects?
- What are our primary organizational risks?
- What processes are currently in place to identify measure and manage our primary business risks? Are they effective?

- How do we make ERM initiatives a fundamental component of the overall operation and function of independently managed business units?
- How does the Board of Directors assume its responsibility for the management of risk in the organization?

ERM Service Offerings from BDO

Our ERM service offerings range in nature and are specifically designed to meet your organization’s individual needs. Practical and proactive ERM strategies, be it ad-hoc or full-scale, can help an organization meet strategic organizational goals and objectives, and lead to new heights of success. BDO’s Risk Advisory Services team can assist you with the following types of ERM-related projects:

- Identifying or validating your business risk registry or universe
- Establishing an ERM policy, framework and ERM program which seamlessly blends in with the size and culture of your organization
- Evaluating your current ERM program or process and provide a benchmark against similar organizations
- Facilitating ERM workshops and training within your organization to enhance your current ERM program and thereby validate or establish risk rankings
- Integrating your ERM program with other established corporate governance initiatives such as CEO/CFO certification, business continuity management, internal audit and other initiatives.

BDO ERM FRAMEWORK		
	Objective	Deliverable
Governance & Planning 01	Establish ERM roles and responsibilities Establish an ERM Program	Establish an ERM policy Establish an ERM framework
Identify & Rank Risk 02	Establish a risk universe with periodic risk assessment Align risk with business objectives	Risk registry or risk universe Summary of key risks
Assign & Assess Risks 03	Quantify key risks Determine risk treatment strategies Assign risk to process owners	Departmental risk reports Departmental action plans
Monitoring & Reporting 04	Identify key metrics for risk monitoring and reporting Establish management reports for the ERM program	Risk Management reports Action plan status report