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RISK NZ

Governance, leadership and the role of the Audit and Risk Committee

RiskNZ Conference, Wellington, 17-18 August 2017

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Agenda

Introduction, definitions and themes

Roles of an Audit and Risk Committee

ARC reports

- Risks
- Assurance processes

Conclusions

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Introduction, definitions and themes

Governance

The system by which an organisation is controlled and operates, and the mechanisms by which it, and its people, are held to account

Risk and controls

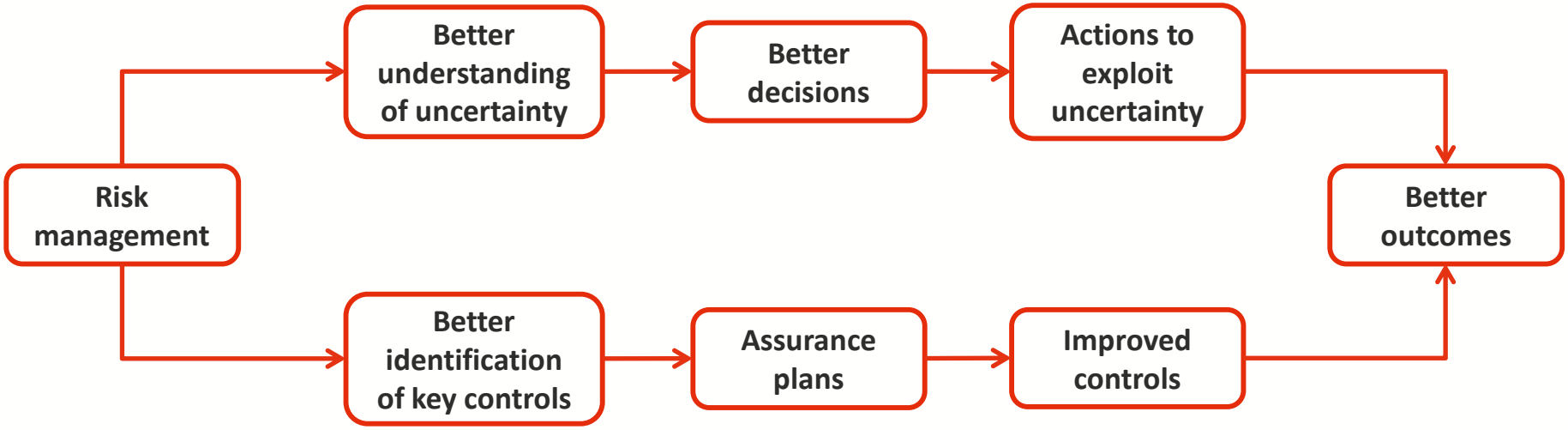
Risk is the effect of uncertainty on what we want to achieve, our **objectives**

Controls are the things we already have in place that are modifying risk

- When they are working as intended, they enable us to achieve our objectives

How should we think about ERM?

ERM and decision making



ERM and governance

Governance is also about gaining confidence in the risk and decision-making process

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Roles of an Audit and Risk Committee

ARC position in a government agency

Roles of the ARC in government

Assurance that the **risk management framework**:

- Supports the achievement of objectives by systematically identifying and managing risks

The **internal audit function** produces timely information about:

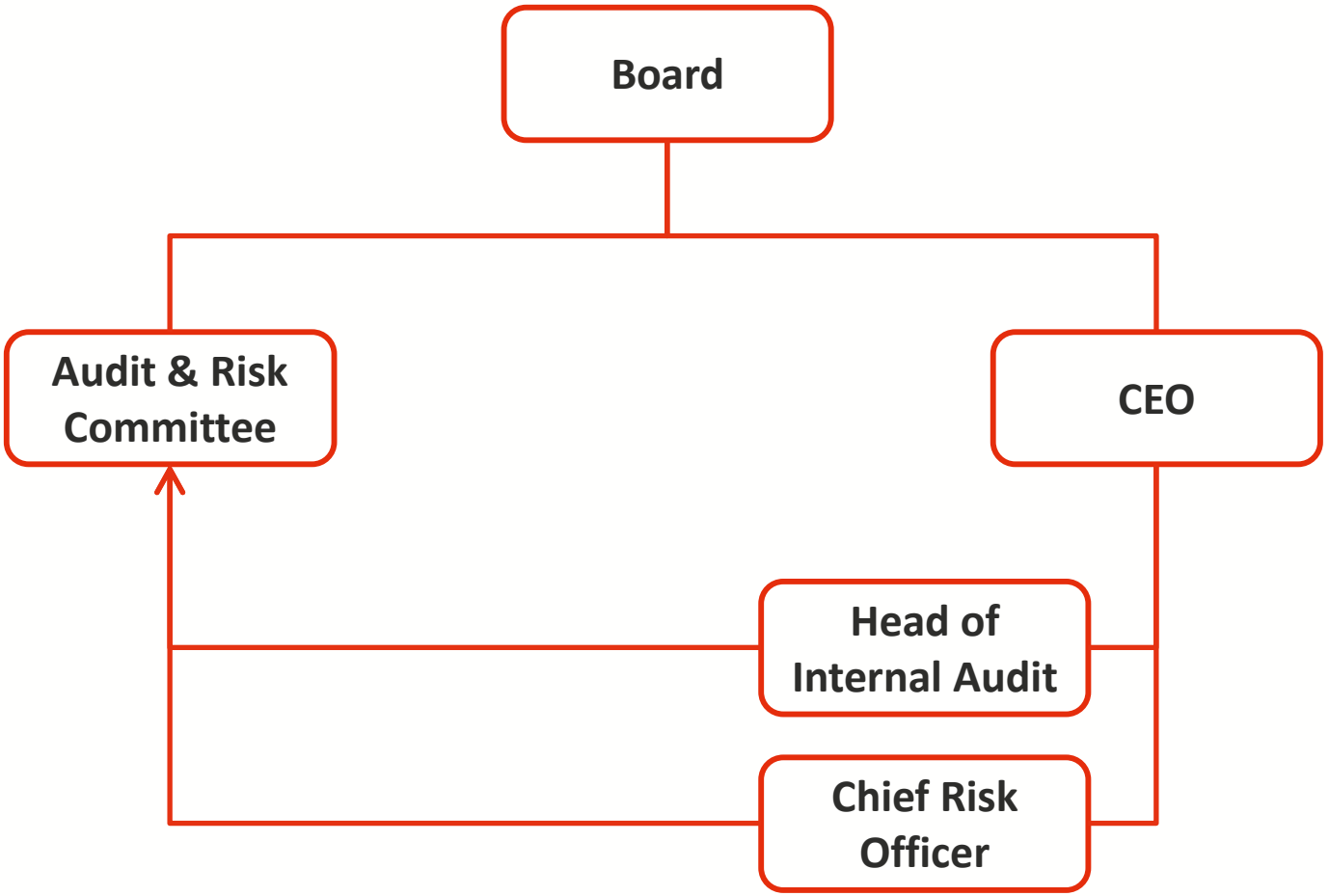
- The adequacy and compliance of the system of internal controls
- Whether results are consistent with established objectives
- Whether operations or programs are carried out as planned

Relevant and timely advice on:

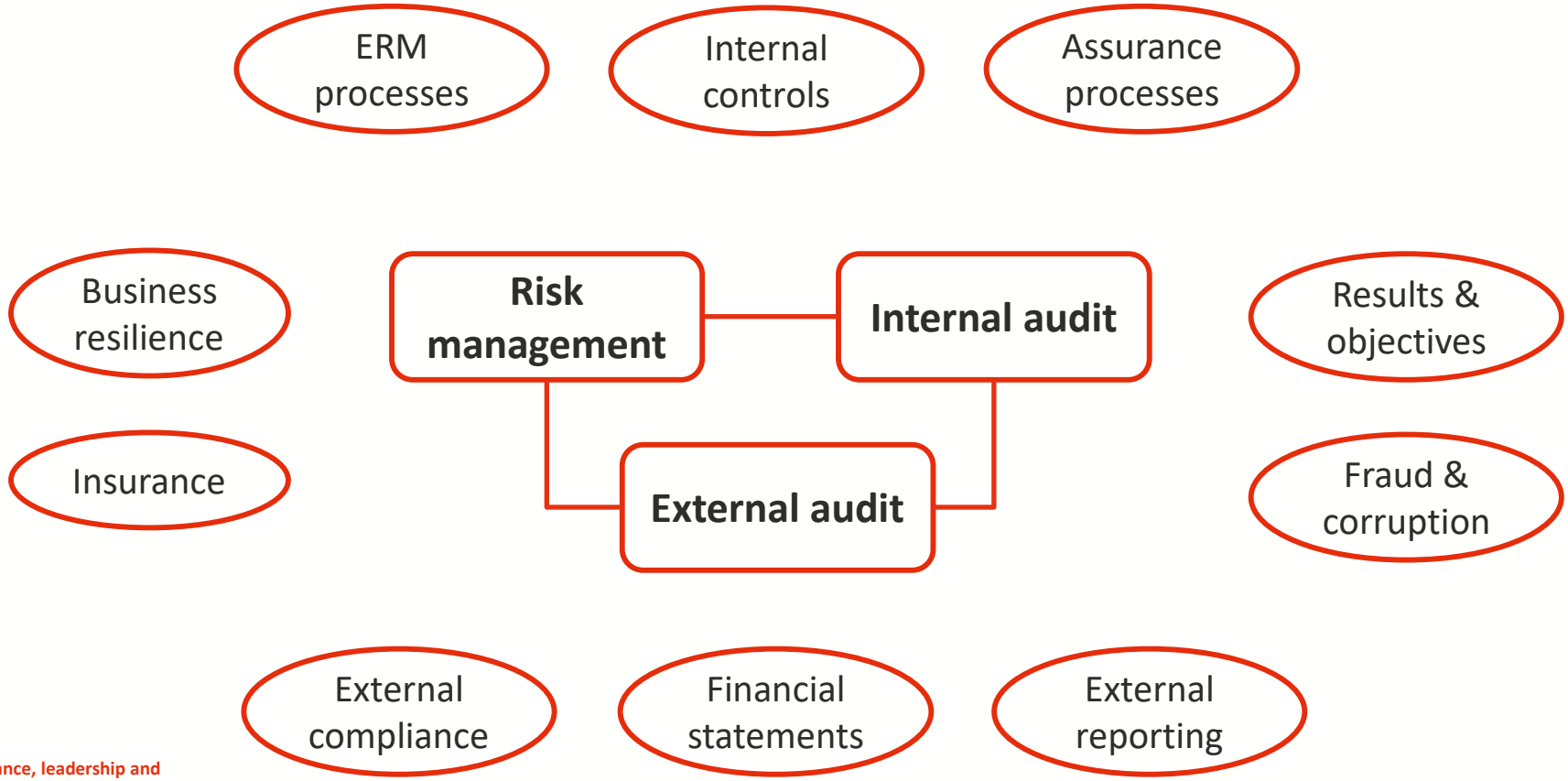
- Governance, risk and control
- **External accountability** obligations

Adapted from NSW Treasury, TPP 15-03, Internal Audit and Risk Management Policy for the NSW Public Sector, July 2015

ARC position in a company



ARC focus areas



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ARC reports: risks

ARC report 1: ERM commentary

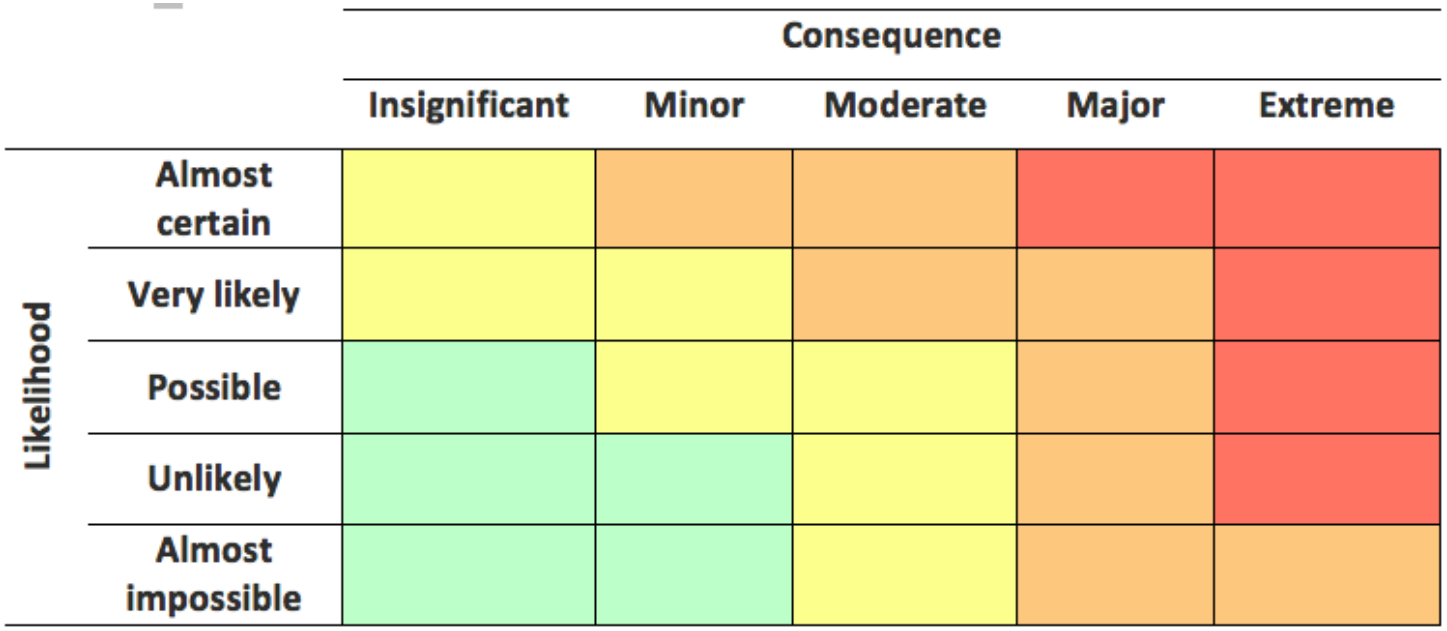
Commentary from the risk management team on the highlights over the period:

- Actions
- Events
- Significant changes to risks
- Significant changes to the risk and control management process
- Progress with implementing the Risk Management Plan

A commentary ensures someone is thinking, not just pushing a button!

ARC report 2: overview of risks and status

Status of corporate risks, with summary statistics for the organisation as a whole, plus appendices for business units and major projects as appropriate



ARC report 5: CEO's 'top 10' risks

What is keeping the boss awake at night?

- High levels of risk
- Low control effectiveness
- High potential maximum consequences

Ten is not a magic number!

- There may be more or less than 10, depending on circumstances

The 'top 10' should be the CEO's list, not that of the ERM function

- There should be evidence of regular reviews by the CEO of the top risks (at least for the ARC Chair)

Do reports on risks help the ARC directly?

The management commentary and the CEO's 'top 10' list may provide the most useful information

The detailed reports prompt questions that provide useful indicators about the health of the ERM process:

- Is there a risk register, and is it up-to-date?
- Do the risks, controls and treatments look credible?
- Are there obvious omissions, or non-obvious ratings?
- Have risk, control and treatment owners been allocated?

The big risks are of great interest to the Board

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ARC reports: assurance processes

ARC report 6: assurance commentary

Commentary from the audit and assurance team on the highlights over the period:

- Actions
- Events
- Significant changes to risks, controls and control effectiveness
- Significant changes to the control assurance management process
- Progress with implementing the Audit and Assurance Plan (of which the Internal Audit Plan is a part)

Summary of assurance priorities and plans

ARC report 7: control assurance priorities (key controls)

Potential maximum consequence	Level of risk: Low	Medium	High	Critical
Extreme				
Major				
Moderate				
Minor				
Insignificant				

ARC report 8: Audit and Assurance Plan

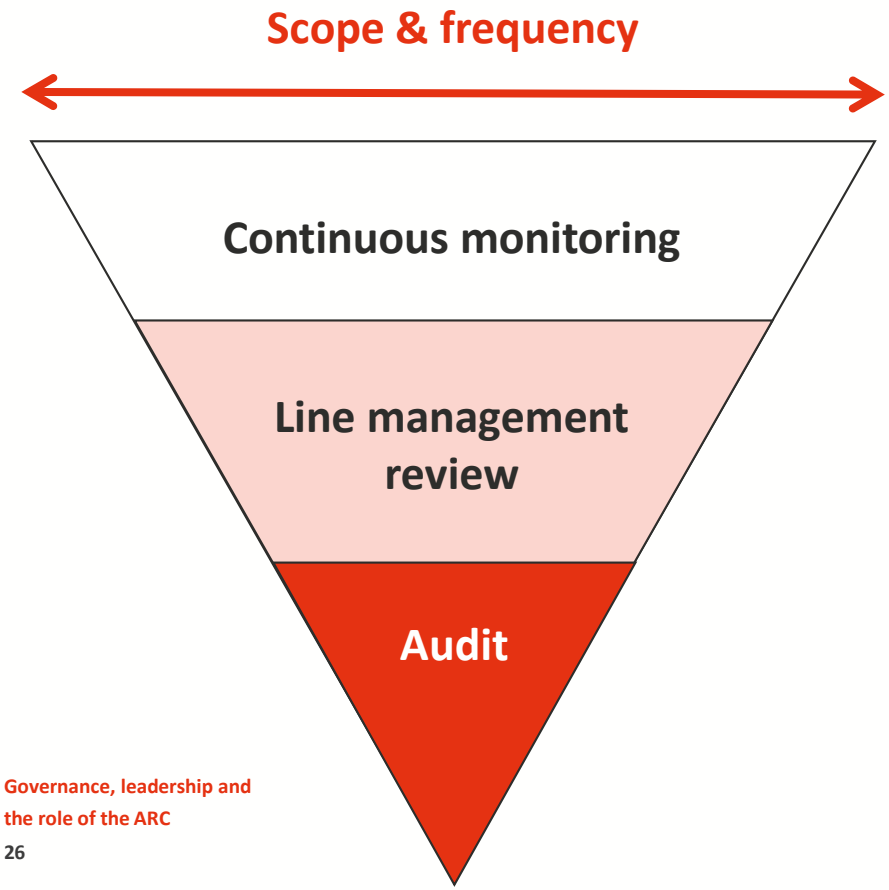
Actions (in the AAP)	Due date	Completion date	Notes on the current status

Internal audit should review key controls relating to *all* risks

The ARC should ensure that

- Strategic risks are clearly in scope
- There is not too strong a focus on financial matters
- The internal audit team is aware of the major risks and the key controls
- The IA team's audit skills are adequate
- The IA team has appropriate resources

The ARC should be confident in all three lines of assurance, but particularly lines 2 and 3



Line 1: Day-to-day controls and process checks, embedded into procedures and methods of work

Line 2: Control self assessment, driven by the risk profile and the manager's span of control

Line 3: Internal audit, external audit, special-purpose audits (e.g. safety, cyber, environmental, technical)

ARC focus

What assurance work is going on?

ARC report 9: assurance activities

Activity	This period			Previous period		
	Number	Actions arising	Urgent actions	Number	Actions	Urgent actions
Risk assessments						
Internal audits						
External audits						
Control self-assessments						
Root cause analyses (lessons learned)						
Compliance reviews						
Reviews of previously-closed actions						
Other reviews						

ARC report 9A: assurance detail

Detailed assurance reports as appropriate and necessary

- Detailed outcomes

At a minimum:

- Key findings from internal audit reports
- External audit commentary
- Summary reports of control self-assessments

Is the assurance activity making a difference?

No organisation has perfect controls!

Assurance activities always find improvements

- Better design for controls
- Better implementation of controls
- Smarter ways of doing things

Appropriate actions must follow assurance activities, to embed the improvements

Are improvement outcomes from the assurance activities being implemented?

ARC report 10: action summary

Actions	This period	Previous period
Open actions at start of period		
New actions added		
Actions closed during the period		
Open actions at the end of the period		
Overdue actions		
Actions that have had their completion dates extended		
Actions where the due date is more than 6 months from now		

ARC report 11: overdue actions

Action	Associated risks	Action owner	Due date	Priority	Notes on the current status

How do assurance reports help the ARC?

They focus assurance activities on the right things:

- The key controls …
- … that relate to the most important objectives of the organisation

They track the assurance work that is going on, and the main findings

They track the action outcomes from assurance activities

- These should lead to improvements for the organisation
- Otherwise, why bother??

Assurance is not just internal audit

Assurance activities include:

- Internal audits
- External audits
- Compliance reviews
- Risk assessments
- Control self assessments
- Root cause analyses (lessons learned)
- Stress tests and exercises

Summary

The ARC needs to assure the Board that …

The risk management process is reliable

The big risks have been identified

Appropriate controls are in place to address the big risks

Appropriate additional actions are being taken

The organisation continues to improve

The ARC has limited executive authority

But the ARC's requirements for specific kinds of reports can encourage good processes and good behaviour

- Measuring and reporting on leading indicators can promote activities and processes with beneficial outcomes

This allows the ARC to **support the creation of value** as well as to **protect** it

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