

The Role of Internal Audit in ERM

Innovare – Risk Summit Africa

March 2017



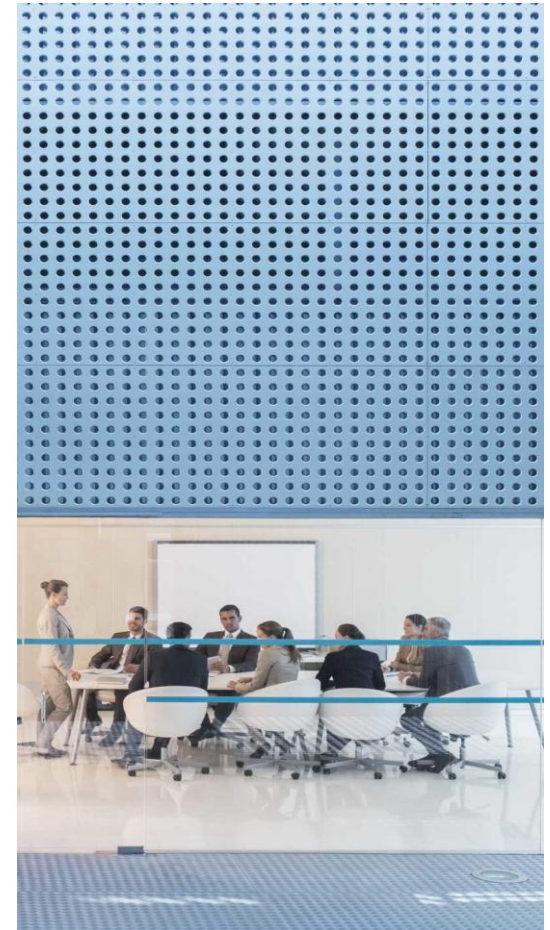
Objective



Identify the role of internal audit in the enterprise risk management process

Outline

1	Risk Basics
2	Enterprise Risk Management
3	Role of IA in ERM
4	Questions



1

Risk Basics

What is Risk?

The IIA's International Standards define *risk* as 'the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.'

Risk is anything that could prevent the organisation from achieving their objectives



Risk is anything that could prevent the organisation from achieving their objectives.

Risk is part of all our lives. As a society, we need to take risks to grow and develop. In our fast paced world, the risks we have to manage evolves quickly

Risks should be managed to minimise their threats and maximise their potential.

What is Risk?



“Effect of **uncertainty** on **objectives**”

ISO31000:2009

- Will it Happen?
- When?
- How?
- Financial
- Growth
- Brand and Reputation
- Corporate Social Responsibility

What is Risk?

“If you don’t invest in risk management, it doesn’t matter what business you’re in, it’s a risky business”

Goldman Sachs president Gary Cohn



“No Risk, No Reward”



Typically, risks are not eliminated, but are simply reduced to an acceptable level for management.

2

Enterprise Risk Management

What is Risk Management

“... a process, effected by an 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 its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”

- COSO ERM Framework

“... the methodical management of all material risks”

- The RMA Journal

“... the process by which organisations in all industries assess, control, exploit, finance and monitor risks from all sources for the purpose of increasing the organisation’s short and long term value to its stakeholders.”

- Casualty Actuarial Society

What is ERM

Enterprise-wide Risk Management process is a structured, consistent and continuous process across the whole organisation for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives.

The ERM frameworks in place in each company will differ but certain **key themes** will always be present in successful implementations:

- A structured approach to understanding and managing risk
- An effective, continuous cycle of risk management activities
- A consistent approach to risk throughout the company
- An appreciation that risks can either be desirable or undesirable
- An awareness of the requirements of different stakeholders
- A positive risk culture embedded into all areas of the company.

Enterprise Risk Management

The benefits of managing risks across enterprise/organisation include the following:

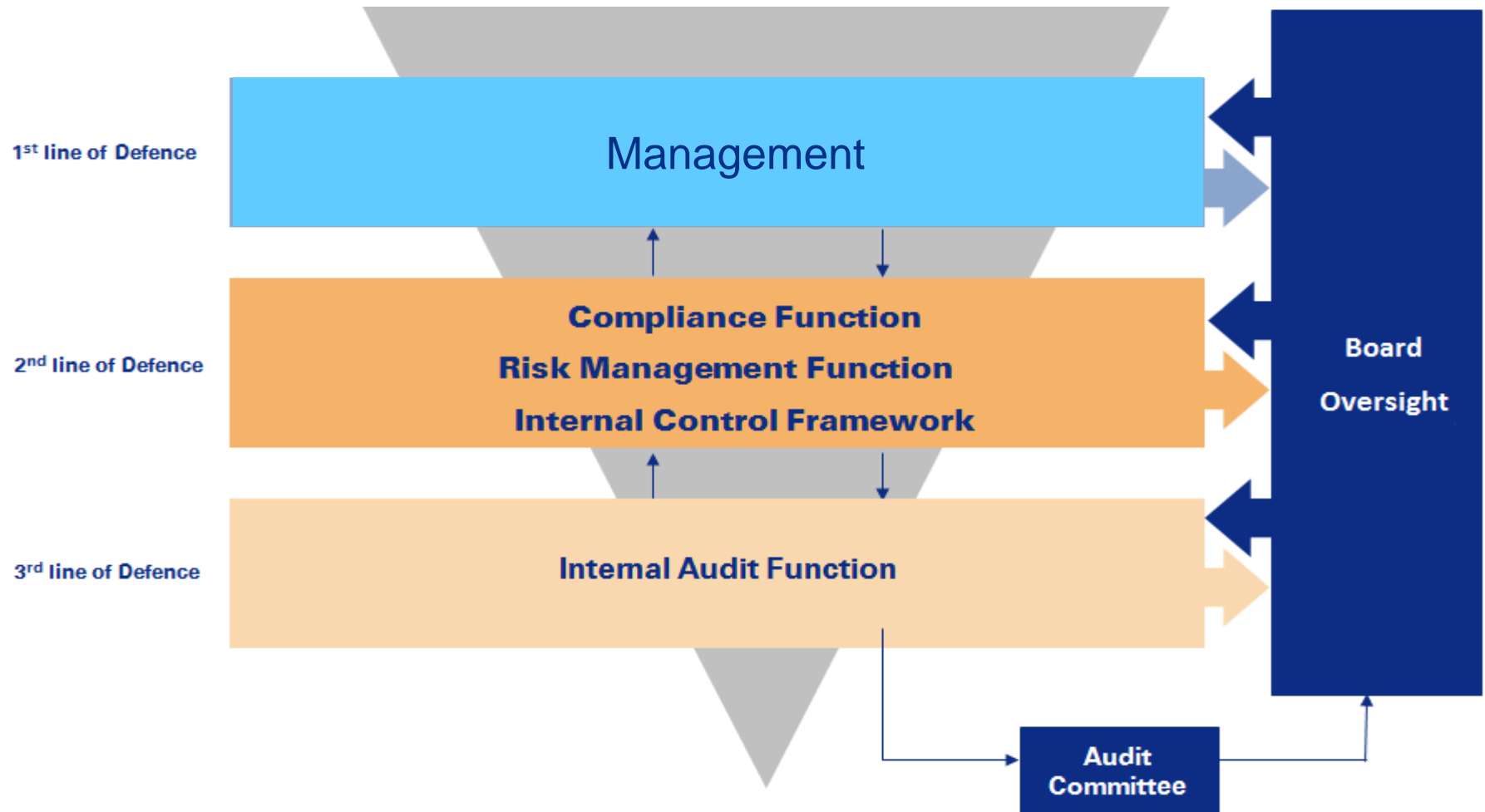


3

Role of Internal Audit in ERM

Enterprise Risk Management

The three lines of defence model can be used to explain the key players in the ERM process



The role of Audit in the key elements of ERM – combined assurance of the Board

Everyone in the organisation plays a role in ensuring successful enterprise-wide risk management but the primary responsibility for identifying risks and managing them lies with management.

Internal auditing's core role with regard to ERM is to provide objective assurances to the board on the effectiveness of an organisation's ERM activities to help ensure key business risks are being managed appropriately and that the system in internal control is operating effectively.

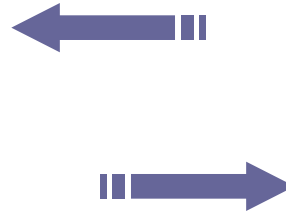


Role of IA

The IA activity must evaluate the effectiveness and contribute to the improvement of risk management processes by:

- Providing reliable and timely information to the board of directors and management regarding the company's effectiveness in identifying and appropriately controlling risks
- Independently audit the design of the risk management program and compliance to the risk policy and related risk procedures
- Assess the quality of the risk assessment programme to confirm that significant risks and control gaps have been identified and that appropriate action plans have been developed

Cooperation between ERM



- ✓ ERM and IA both support enterprise governance
- ✓ ERM is a management process (1st and 2nd line of defence), IA is the assurance process (3rd line of defence)
- ✓ IA and ERM both support achieving objectives
- ✓ IA performs risk assessment to develop an audit plan and ERM conducts risk assessment for strategic decisions of the organisation
- ✓ IA and ERM are structured processes
- ✓ Opportunity to capitalise on synergies, minimise duplication

The role of IA in the key

Core internal audit roles in ERM

- Assurance on the risk management processes
- Assurance that risks are correctly evaluated
- Evaluating risk management processes
- Evaluating the reporting of key risks
- Reviewing management of key risks

Legitimate IA roles with safeguard

- Facilitating identification & evaluation of risks
- Coaching management in responding to risk
- Coordinating ERM activities
- Consolidated reporting on risks
- Maintaining & Developing ERM framework
- Developing ERM strategy for board approval

Roles internal audit should not undertake

- Setting the risk appetite
- Imposing risk management processes
- Managing the insurance on risks
- Taking decisions on risk responses
- Accountability for risk management
- Implementing risk responses

QUESTION

Presenter's Details

Andrew Akoto

Partner, Risk Consulting

KPMG

117 Yiyiwa Drive

Abelenkpe

P.O. Box GP 242

Accra Ghana

Tel: +233 302 770412

Fax: +233 303 771500

Email : aakoto@kpmg.com





Thank you



kpmg.com/socialmedia



kpmg.com/app



©2017 KPMG, a partnership registered in Ghana and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.