Management of Risk (M_o_R) Foundation
Lesson 1

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Source: M_o_R Guidance for Practitioners, Axelos Ltd. Short Course Created by Madireddy Venkat

Lesson 1: Learning Objectives

At the end of this lesson participants will be able:

- Know facts, terms and concepts relating to M_o_R (Module 1).
- Know facts, terms and concepts relating to the M_o_R approach, perspectives and the actions needed for effective risk management implementation (Module 2).
- Understand how the M_o_R framework is used (Module 3).

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Module 1:

At the end of this module learners will be able to know the terms and concepts relating to MoR and recall definitions of:

- Risk
- Issue
- Threat
- Opportunity
- Risk exposure
- Risk Management
- Corporate Governance

Risk

Risk is defined as ‘uncertain event or set of uncertain events that, should it occur, will have an effect on the achievement of objectives. A risk is measured by the combination of the probability of a perceived threat or opportunity occurring and the magnitude of its impact on objectives’

Issue

A relevant event that has happened, was not planned and requires management action. It could be a problem, query, concern, change request or risk that has occurred.

The key point is that they need management action to limit the adverse effect of a problem, to ensure a benefit is maximized or to answer a query or other request.

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Threat

An uncertain event that could have a negative impact on objectives or benefits.

Opportunity

An uncertain event that could have a favourable impact on objectives or benefits.

Risk Exposure

The combined effect of risks to a set of objectives is known as risk exposure, and is the extent of risk borne by that part of the organization at that time.

Risk Management

Systematic application of principles, approach and processes to the tasks of identifying and assessing risks, and then planning and implementing risk responses.

Corporate Governance

The ongoing activity of maintaining a sound system of internal control by which the directors and officers of an organization ensure that effective management systems, including financial monitoring and control systems, have been put in place to protect assets, earnings capacity and the reputation of the organization.

Module 2:

At the end of this module learners will be able to know the terms and concepts relating to MoR approach, perspectives and the action needed for effective risk management implementation and recall:

The main elements of the M_o_R framework:

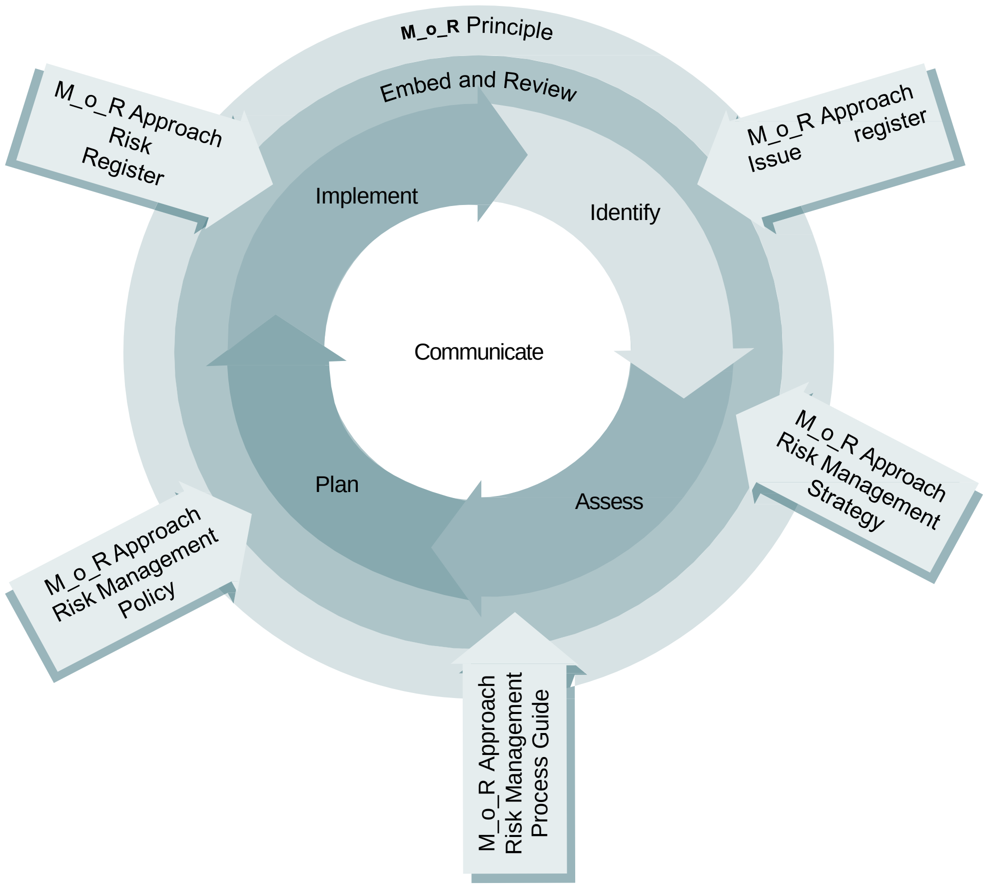
- Principles
- Approach
- Process
- Embedding and reviewing

The actions needed for effective risk management (identify, assess, control (plan and implement)).

The four perspectives and their relationship with long-term,medium- term and short-term goals.

MoR framework

MoR Framwork is based on four core concepts



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MoR Principles

Principles are essential for the development and maintenance of good risk management practice.

They are informed by corporate governance principles and the international standard for risk management, ISO 31000:2018.

They are high level and universally applicable statements that provide guidance to organizations as they design an appropriate approach to risk management as part of their internal controls.

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MoR Approach

Principles need to be adapted and adopted to suit each individual organization.

An organization approach to the principles needs to be agreed and defined within a risk management policy, process guide and strategies.

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MoR Process

Process is divided into four main steps: Identify, assess, plan and implement.

Each step describes the inputs, outputs, tasks and techniques involved to ensure that the overall process is effective.

Embedding and reviewing MoR

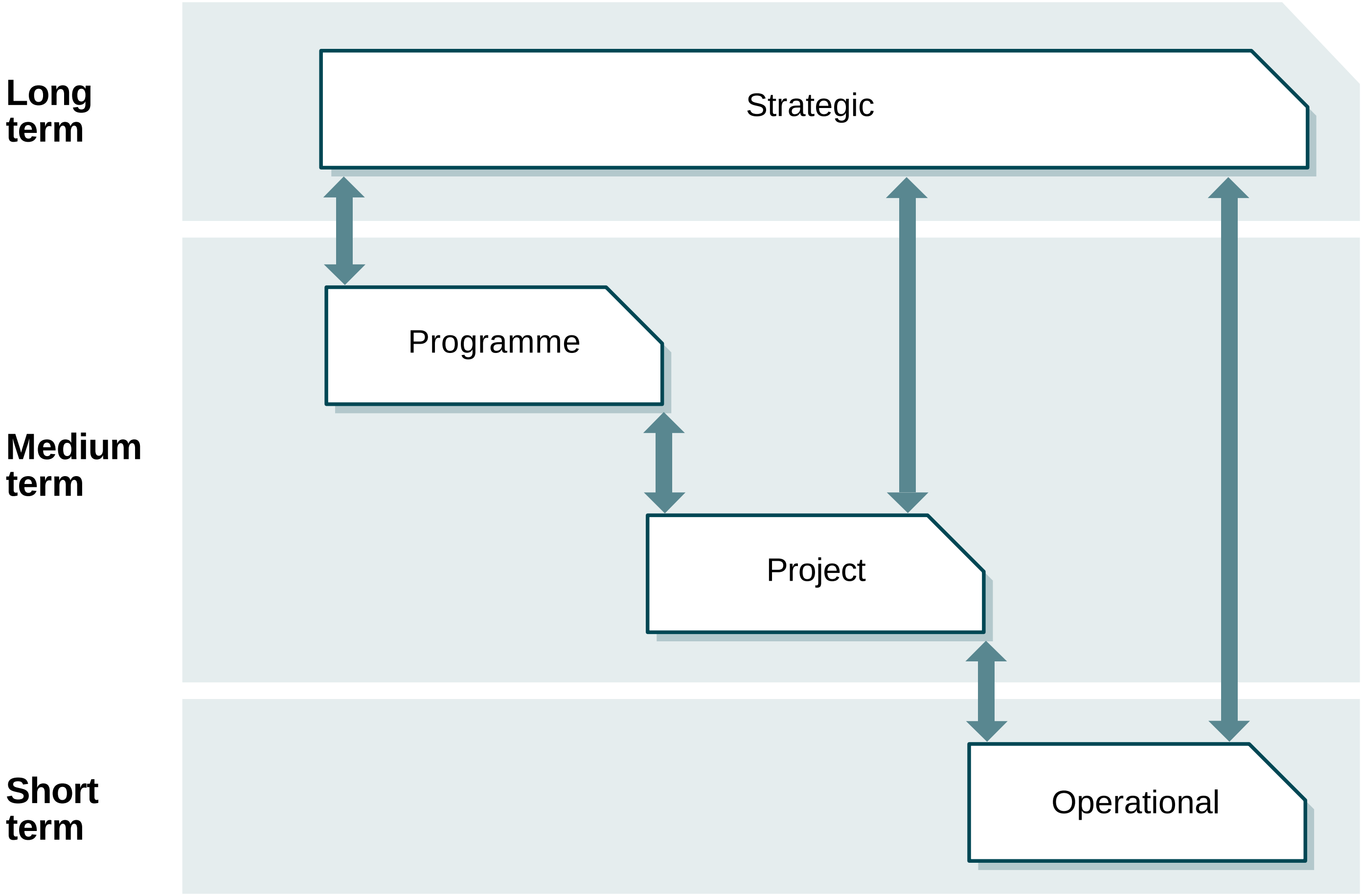
Having put in place an approach and process that satisfy principles, and organization should ensure that they are consistently applied across the organization and that their application undergoes continual improvement in order for them to be effective

Where and when should risk management be applied?

Risk management should be applied continuously with information made available when critical decisions are being made.

Decisions about risk will vary depending on whether the risk relates to long, medium or short term organizational objectives.

Organizational Perspectives



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Strategic

- Strategic decisions are primarily concerned with long term goals, the set the context for decisions at other level of the organization.
- The risks associated with strategic decisions may not become apparent until well into the future.
- It is therefore essential to review these decisions and associated risks regularly.

Programmes and projects

Medium term goals are usually addressed through programmes and projects to bring about business change.

Decisions related to medium term goals are narrower in scope than strategic ones, particularly in terms of timeframe and financial responsibilities.

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Operational

At the operational level, the emphasis is on short term goals to ensure ongoing continuity of business services

Decisions about risk at this level, however, must also support the achievement of long and medium term goals.

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Module 3:

At the end of this module learners will be able to know Understand how the M_o_R framework is used and recall:

How risk management supports better decision-making

How effective risk management is likely to improve performance against objectives

How legislation and increased focus on formal risk management influences the drivers for an increased focus on risk management, corporate governance and internal control.

Why is Risk Management important?

- Some risk taking is inevitable if an organization is to achieve its objectives.

- Those organizations that are more risk aware appreciate that actively managing not only potential problems but also potential opportunities provides them with a competitive advantage.

- Taking and managing risk is the very essence of business survival and growth.

How effective risk management is likely to improve performance against objectives

- Fewer sudden shocks and unwelcome surprises
- More efficient use of resources
- Reduced waste
- Reduced fraud
- Better service delivery
- Reduction in management time spent fire fighting

- Lower cost of capital
- Improved innovation
- Increased likelihood of change initiation being achieved
- More focus internally on doing the right things properly
- More focus externally to shape effective strategies.
- Better management of contingnent and maintenance activities

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How has risk management developed?

- Risk management in its broadest sense applies to both negative threats and positive opportunities.
- In each case a proactive is required, which seeks to understand the size of the possible threats and opportunities so that a decision can be made about whether to accept the threat or opportunity or act upon it in some way.
- It may be tempting to consider threats and opportunities as separate activities, but in practice they are seldom independent.

How has risk management developed?

Legislation that requires corporate governance and internal control has increased in many parts of the world and this has created an increased focus on formal risk management.

In response to organizations devising optimal ways to respond to legislation, and to identify, assess, and control risk, other trends have emerged, such as the recent emphasis on enterprise risk management.

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Corporate governance and internal control

A major factor influencing the drive towards more formalised approaches to risk management has been the increased focus given to corporate governance and internal control across the world following the collapse of the high profile collapses of a number of major organizations.

Corporate governance and internal control regimes exist in all major economies and are designed to protect the assets, earning capacity and reputation of organizations.

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Corporate governance and internal control

- Corporate governance is described in the most recent UK code as the system by which organizations are directed and controlled.
- Boards of directors are responsible for the governance of their organization.
- The role of shareholders in governance is to appoint directors and auditors to ensure effective governance is in place.
- The responsibilities of the board include setting the companys strategic aims, providing the leadership to put them into effect, supervising management and reporting to shareholders on their stewardship.
- The role of audit committee is to support the board and accounting officer by reviewing the comprehensiveness and reliability of assurances.

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Corporate governance and internal control

The board is responsible for determining the nature and extent of significant risks it is willing to take in achieving its strategic objectives.

The board should maintain sound risk management and internal control systems and review the effectiveness of these at least annually.

Corporate governance and internal control

The current UK guidance for directors (2005) states that that boards deliberations should include the considerations of the following factors:

- The nature and extent of risks facing the company
- The extent and categories of risks which it regards as acceptable for the company to bear
- The likelihood of risks concerned materialising
- The company’s ability to reduce the incidence and impact on the business of the risks that do materialise.
- The cost of operating particular controls relative to the benefits thereby obtained in managing the related risks.

Corporate governance and internal control

- In the US a more radical approach has been taken resulting in new legislation in the form of the Public Company Accounting Reform and Investor Protection Act of 2002 (also called as Sarbanes Oxley).
- The main thrust of the Act is to influence the behaviour and conduct of public companies to ensure that they issue informative and accurate financial statements.

Corporate governance and internal control

Of particular note in the context of risk management are the following provisions in Sarbanes Oxley Act:

- The Chief Executive officer and Chief Financial Officer are held personally accountable for establishing and maintaining internal controls and evaluating their effectiveness. They are also responsible for advising their auditors of all significant deficiencies in the design or operation of the internal controls.
- Public companies are required to include in each audit report an internal control report that states the responsibility of management to establish and maintain an adequate internal control structure and procedures for financial reporting and an assessment of the effectiveness of these.

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Corporate governance and internal control

- For those organizations operating in the financial services industry, the Basel Accord (Currently Basel III) is also important. The original Basel Accord (Basel I) was agreed in 1998 and contains capital requirement rules stating that credit institutions, such as banks and building societies, must at all times maintain an minimum amount of financial capital in order to cover the risks to which they are exposed.
- The aim is to ensure the financial soundness of such institutions, to maintain customer confidence in the solvency of the institutions, to ensure the stability of the financial system at large, and to protect depositors against losses.

Corporate governance and internal control

- The corporate governance principles and generic guidance on internal controls are increasingly judged to be relevant to all organizations in the private and public sector.
- This is because they fundamentally outline the way in which the organization can achieve the optimal balance between innovation and control.
- Whilst organizations will always be controlled by national guidelines, which will vary from country to country, the one constant is the need for organizational risk management that protects and enhances shareholder and wider societal value.

Thank you

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