

ERM & INTERNAL AUDIT

WHICH IS THE ROLE OF IA?



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DECEMBER 2021

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Enterprise-wide Risk Management



“ERM is a structured, consistent and co-ordinated framework for assessing, responding to and reporting on all risks that affect the achievement of an organisation’s objectives”

Steps in the Risk Management Implementation Tool



Determine the corporation's **objectives**

Identify the risk exposures

Quantify the exposures

Assess the **impact**

Examine alternative risk management **tools**

Select appropriate risk management approach

Implement and **monitor** program

The Evolution Of Enterprise Risk Management



Traditional

Risks managed in silos

Concentrates on physical hazards and financial risks

Insurance orientation

Ad hoc / one-off projects

Emerging

Centralized mgt., with exec-level coordination

Integrated consideration of all risks, firm-wide

Opportunities for hedging, diversification

Continuous and embedded

Issues in ERM Implementation



- Different corporate ***cultures*** require different ERM approaches
- Who is going to be the ERM ***champion*** within the company
 - ❖ Among senior executives
 - ❖ Among departments / functions
- How to ***embed*** a risk management culture and responsibilities throughout the firm

Keys to Success in ERM



Senior management commitment and sponsorship

Embed a “risk management culture” in the corporation at the operational level

Provide for accountability, both specific and widespread

Clearly defined responsibilities for coordination and maintenance

Adequate communication

The activities included in ERM



- Articulating and communicating the objectives of the organization;
- Determining the risk appetite of the organization;
- Establishing an appropriate internal environment, including a risk management framework;
- Identifying potential threats to the achievement of the objectives;
- Assessing the risk (i.e. the impact and likelihood of the threat occurring);
- Selecting and implementing responses to the risks;
- Undertaking control and other response activities;
- Communicating information on risks in a consistent manner at all levels in the organization;
- Centrally monitoring and coordinating the risk management processes and the outcomes
- Providing assurance on the effectiveness with which risks are managed.

Internal Audit and Risk Management



Two most important ways that internal auditing provides value to the organization are:

A diagram consisting of two rounded rectangular boxes. The left box is light orange and the right box is light blue. A thick yellow curved arrow points from the top of the orange box to the top of the blue box. A thick teal curved arrow points from the bottom of the blue box to the bottom of the orange box, creating a circular flow.

providing objective assurance that the major business risks are being managed appropriately

providing assurance that the risk management and internal control framework is operating effectively

Benefits of ERM

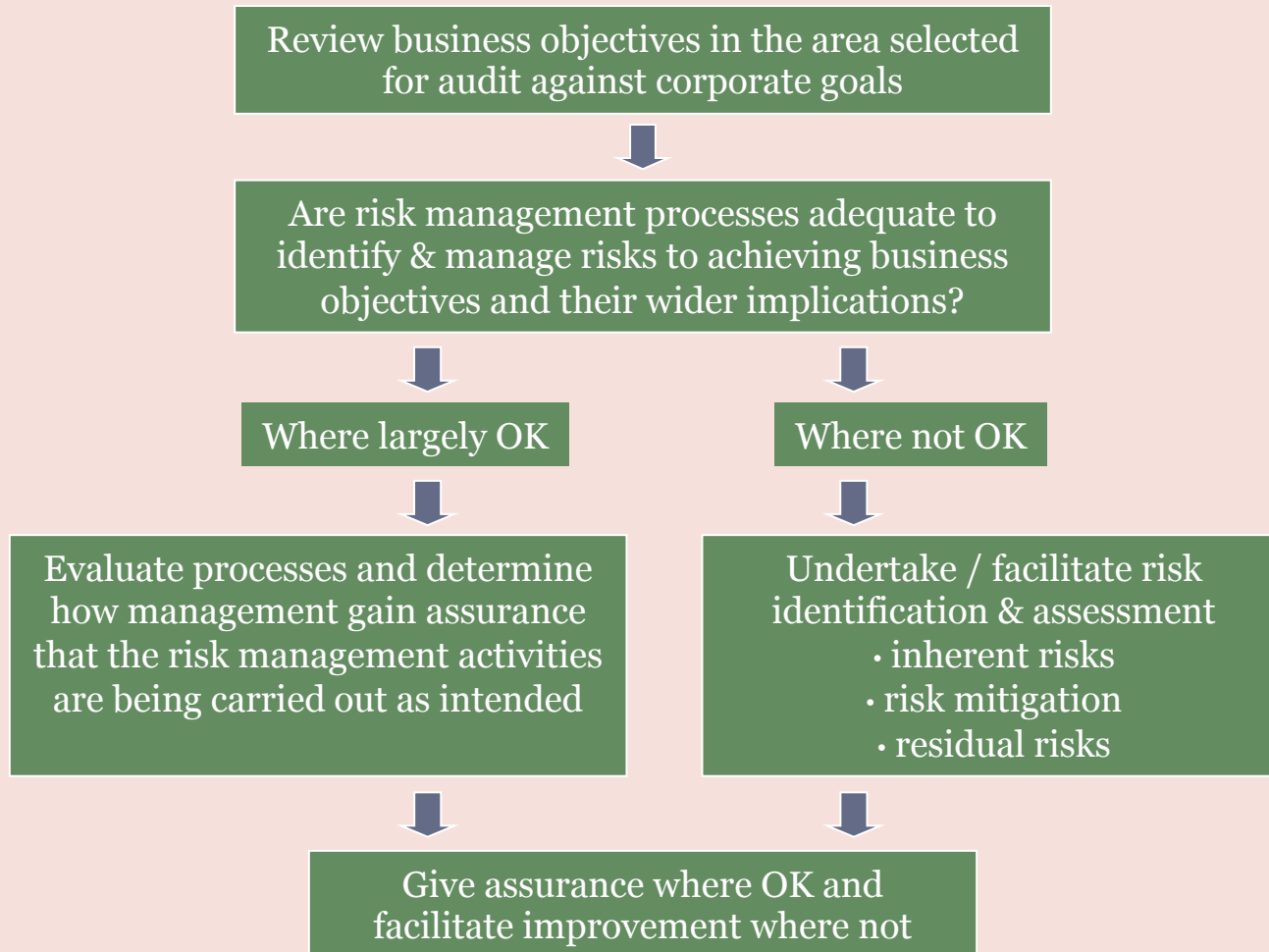


- ✓ Greater likelihood of achieving an organisation's objectives
- ✓ Reduction in management time spent fire fighting
- ✓ Concise/consolidated reporting of disparate risks
- ✓ Greater management focus on the things that matter
- ✓ Fewer surprises or crises
- ✓ Understanding the key risks and their wider implications
- ✓ More informed risk taking / decision making
- ✓ Seizing opportunities / competitive advantage

Risk based auditing – risk framework / planning



Risk based auditing - assignments



Risk based auditing – the environment

Is the organisation ready?

Every organization is different, with a different attitude to risk, different structure, different processes and different language. Experienced internal auditors need to adapt these ideas to the structures, processes and language of their organization in order to implement Risk based internal auditing (RBIA).

Extent of change to
organisation & business model

High level of IA risk
assessment

Focus on improving
risk capabilities

Significant reliance
on management
process

IA assesses major
change risk & wider
picture

IA undertakes risk
assessments &
works with
management to
improve risk
management
processes

High reliance on
management
assurance

Less need for IA
unless changes

Degree of risk awareness and risk
management capability

Advantages



By following RBIA internal audit should be able to conclude that:

- Management has identified, assessed and responded to risks above and below the risk appetite
- The responses to risks are effective but not excessive in managing inherent risks within the risk appetite
- Where residual risks are not in line with the risk appetite, action is being taken to remedy that
- Risk management processes, including the effectiveness of responses and the completion of actions, are being monitored by management to ensure they continue to operate effectively
- Risks, responses and actions are being properly classified and reported.

Implementation of RBIA



The implementation and ongoing operation of RBIA has three stages and we have produced detailed guidance on each of them:

Assessing risk maturity

- Obtaining an overview of the extent to which the board and management determine, assess, manage and monitor risks. This provides an indication of the reliability of the risk register for audit planning purposes.

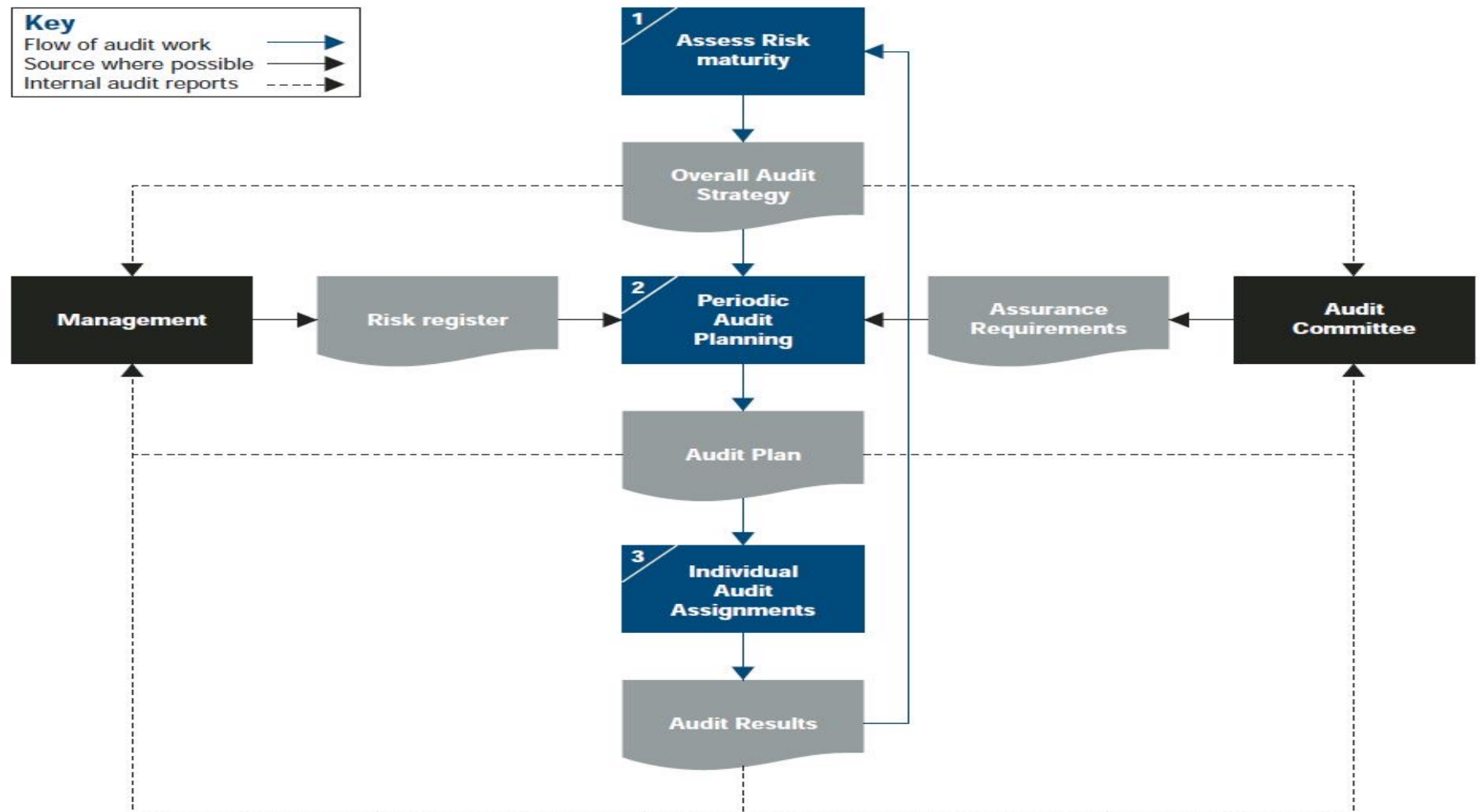
Periodic audit planning

- Identifying the assurance and consulting assignments for a specific period, usually annual, by identifying and prioritising all those areas on which the board requires objective assurance, including the risk management processes, the management of key risks, and the recording and reporting of risks.

Individual audit assignments

- Carrying out individual risk based assignments to provide assurance on part of the risk management framework, including on the mitigation of individual or groups of risks.

Overview of the stages



IA ROLE in ERM (?)



Question?

Which is the role of internal auditing in different contexts concerning the risk management?



IA ROLE in ERM (?)



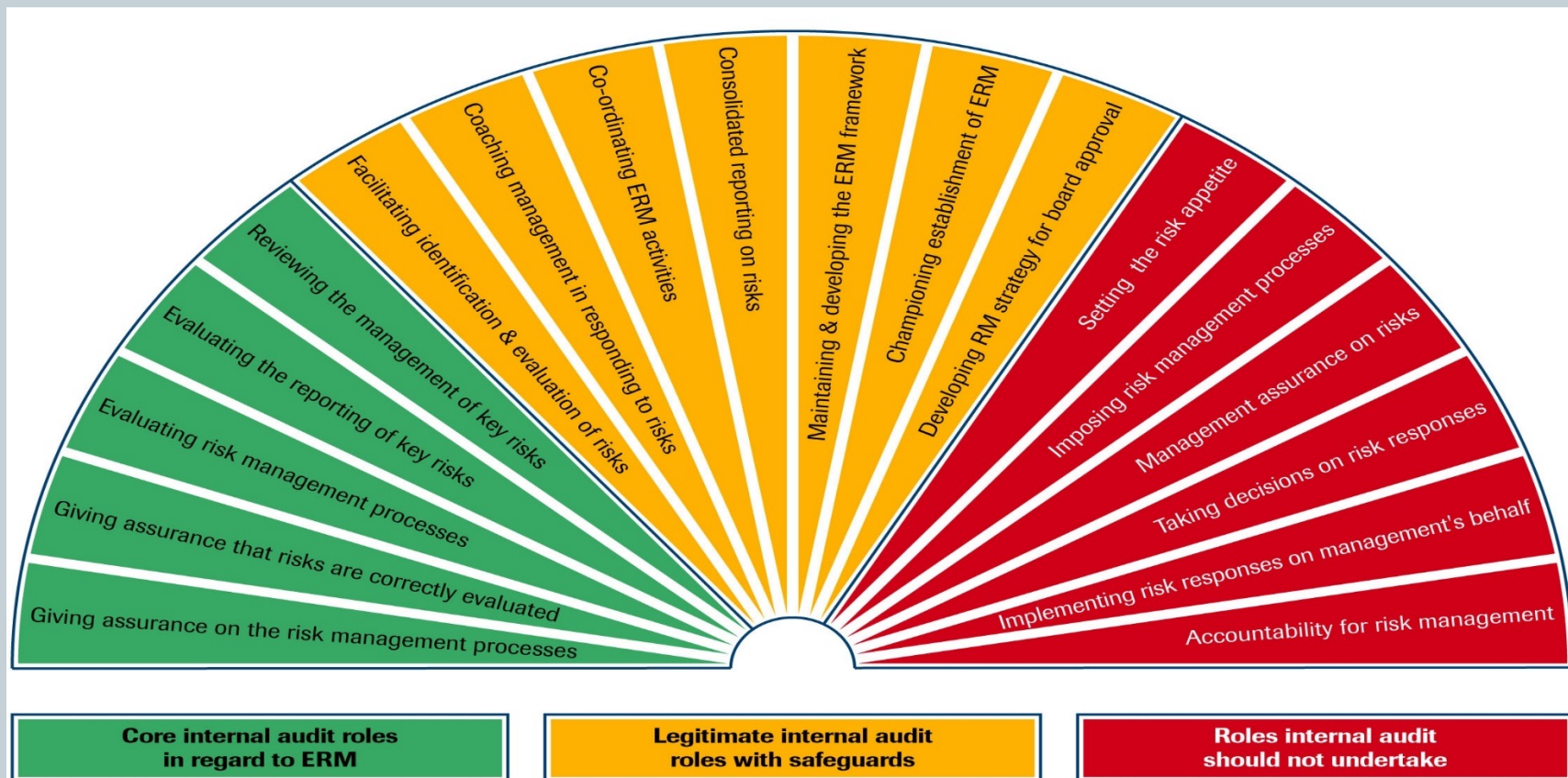
	CORE	POSSIBLE	NOT ROLES
FACILITATING RISK MANAGEMENT			
ESTABLISHMENT OF RISK APPETITE			
ASSURANCE TO THE BOARD			
IMPOSING RISK RESPONSE			
COORDINATING ERM			
DEVELOPING RISK MANAGEMENT CULTURE			
ADVICE ON KEY RISK			

IA ROLE in ERM (?)



	CORE	POSSIBLE	NOT ROLES
FACILITATING RISK MANAGEMENT		X	
ESTABLISHMENT OF RISK APPETITE			X
ASSURANCE TO THE BOARD	X		
IMPOSING RISK RESPONSE			X
COORDINATING ERM		X	
DEVELOPING RISK MANAGEMENT CULTURE		X	
ADVICE ON KEY RISK	X		

Internal Auditing's Role in ERM



This diagram is taken from “Position Statement: The Role of Internal Audit in Enterprise-wide Risk Management”, reproduced with the permission of the Institute of Internal Auditors – UK and Ireland. For the full Statement visit www.iaa.org.uk.

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