

**20<sup>th</sup> Biennial  
Forum of Government  
Auditors**

**The Future of Government  
Accountability— Federal,  
State, and Local**

**Denver, CO**

**ENTERPRISE RISK  
MANAGEMENT**

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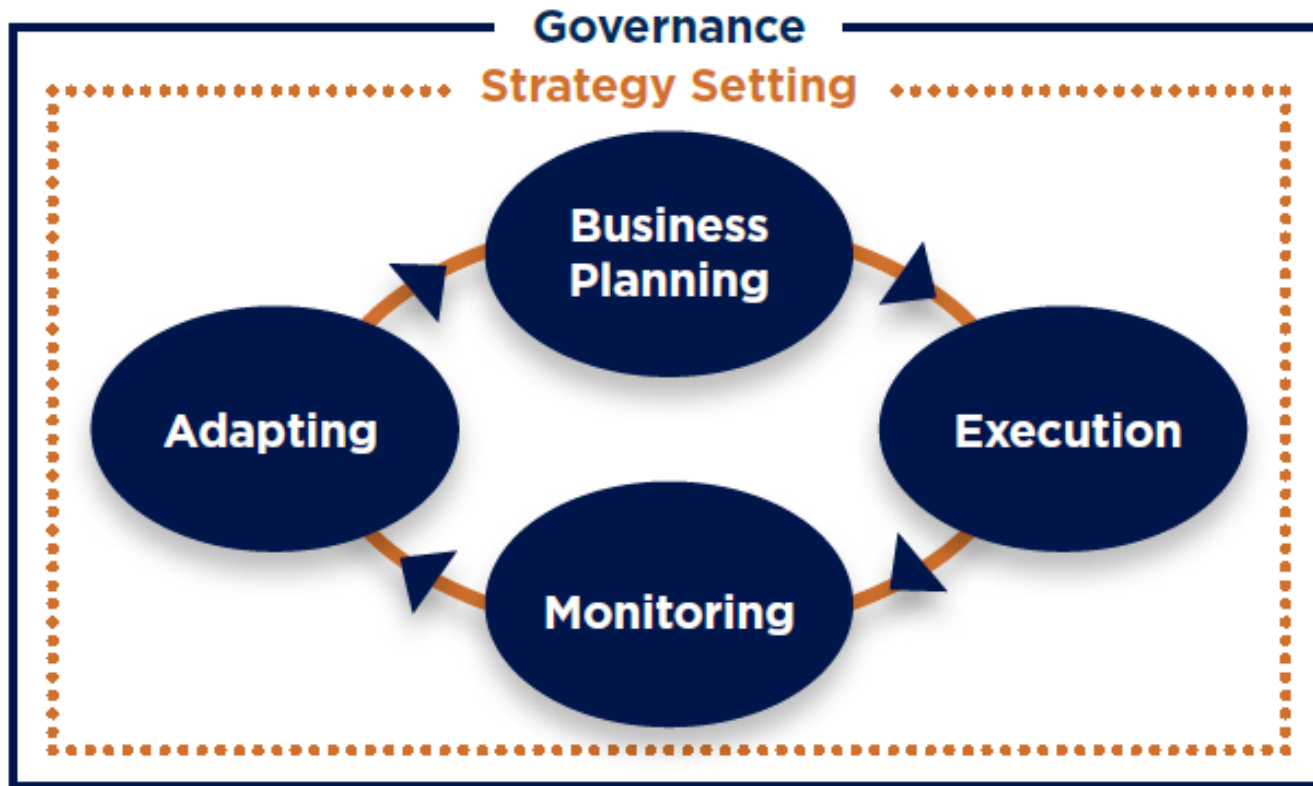
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**August 21, 2014**

\*The views expressed by Ms. Franzel are her own and do not necessarily reflect the views of the PCAOB as a whole or of other Board members or staff.

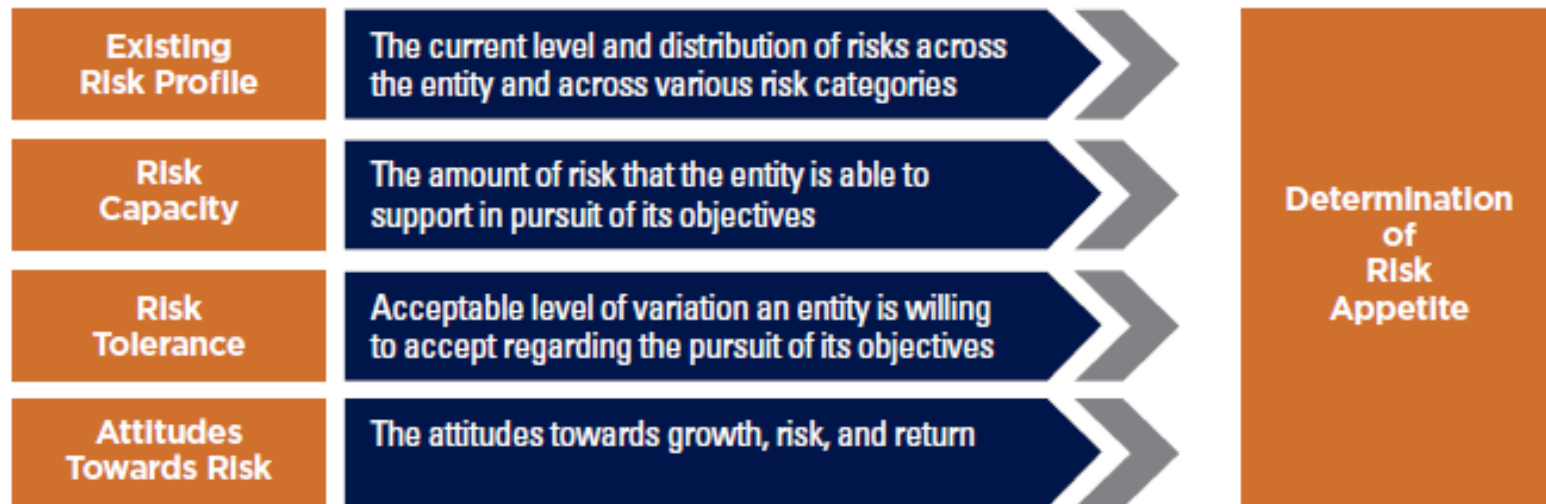
## Contextual Business Model



*Improving Organizational Performance and Governance. Feb. 2014, [www.coso.org](http://www.coso.org)*

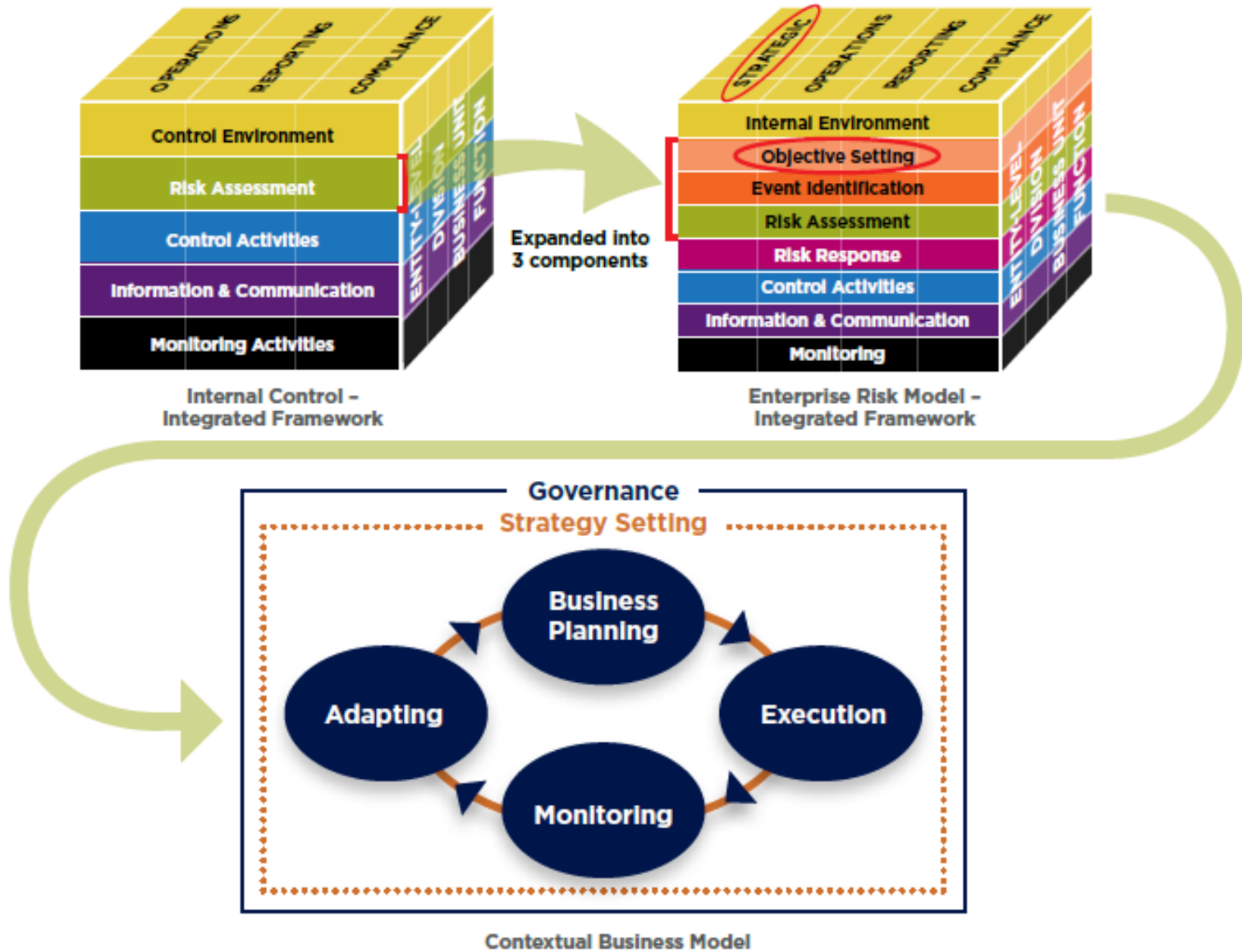
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## Overview of Considerations Affecting Risk Appetite

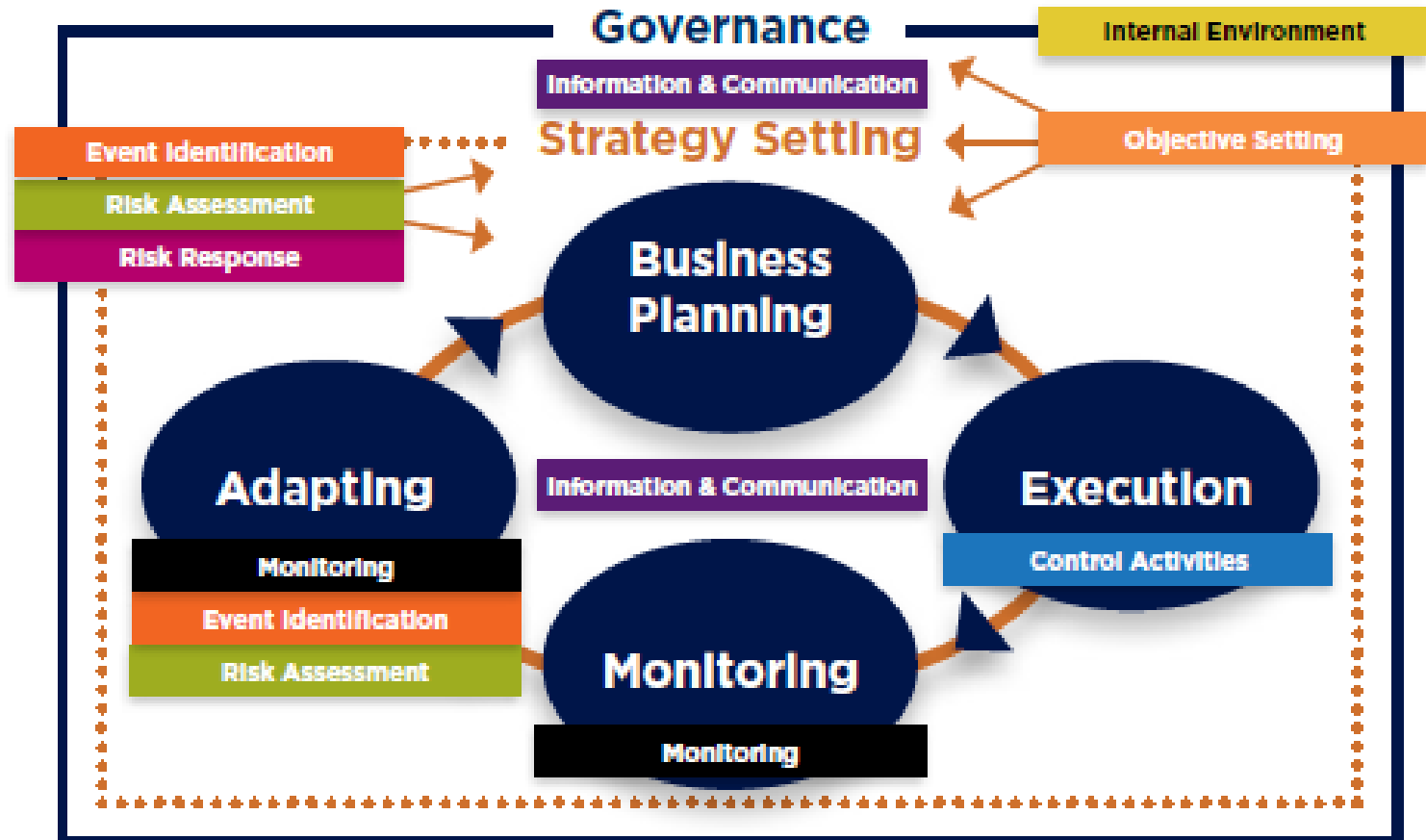


**The determination of risk appetite and risk tolerances should be an integrated part of strategic planning, objective setting, execution, and monitoring.**

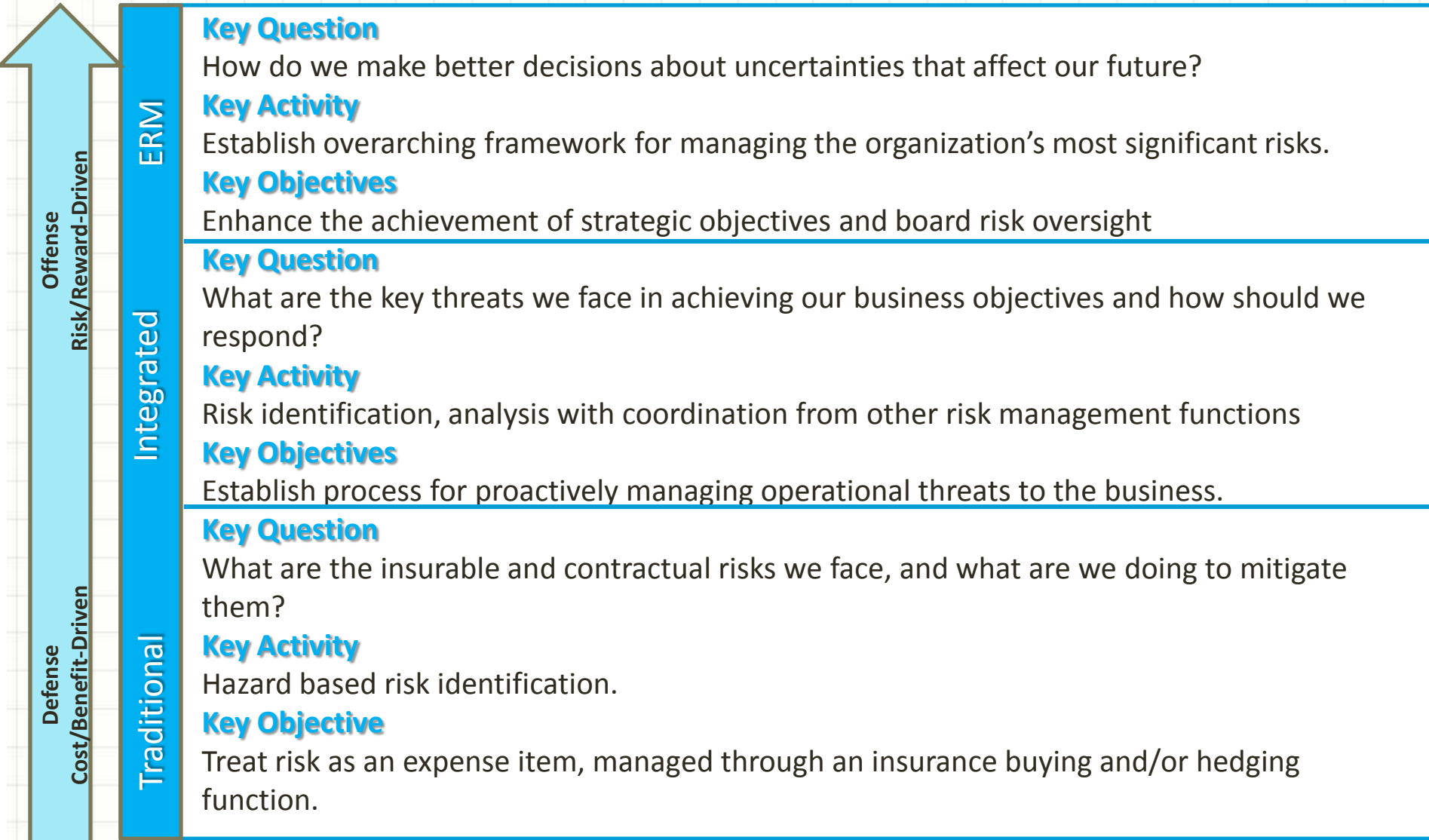
# Relationship of ERM and Internal Control to Contextual Business Model



## Relationship of ERM Components to Contextual Business Model



# Evolution of Risk Management



Source: *Risk Management and Internal Audit: Forging a Collaborative Alliance*. The Institute of Internal Auditors and The Risk and Insurance Management Society, 2012.

# The Auditor's Role in ERM

## The IIA has defined core internal audit roles regarding ERM<sup>1</sup>

- Providing assurance on the ERM process overall and whether risks are correctly evaluated
- Evaluating the risk management processes, including the management of key risks
- Evaluating the reporting of key risks

## The IIA and the Risk Management Society recommend collaboration between internal audit and management<sup>2</sup>

- Link the risk-based audit plan and enterprise risk assessment
- Leverage each function's resources and respective competencies, roles and responsibilities
- Assess and monitor strategic risks

<sup>1</sup>IIA Position Paper: *The Role of Internal Auditing in Enterprise-Wide Risk Management*, 2009.

<sup>2</sup>*Risk Management and Internal Audit: Forging a Collaborative Alliance*, 2012.

# ***Report on the Current State of Enterprise Risk Oversight: Opportunities to Strengthen Integration with Strategy<sup>1</sup>***

Organizations continue to face an increasing volume and complexity of risks, and they experience operational surprises on a regular basis:

- About 57% of respondents believe that the volume and complexity of risks have changed “extensively” or “mostly” in the last five years. This holds true for organizations of all sizes and types.
- Almost two-thirds (62.8%) admit they were caught off guard by an operational surprise “somewhat” to “extensively” in the last five years.

<sup>1</sup>ERM Initiative, NC State University and AICPA. Mark Beasley, and Bruce Branson, Bonnie Hancock. June 2014



## ***Report on the Current State of Enterprise Risk Oversight: Opportunities to Strengthen Integration with Strategy***

- In 2013, 24.6% of organizations surveyed claimed to have complete ERM processes in place. (In 2009, the percentage was 8.8%.)
- The largest organizations and public companies are much further along, with 55.8% and 52.0% of those organizations, respectively, claiming to have complete ERM processes in place. (For not-for profit organizations the percentage was 13.0%.)
- Almost half of all organizations in the survey have no ERM processes in place, which is surprising given that nearly 60% of organizations describe their risk culture as “strongly risk averse” or “risk averse” and over two-thirds of organizations surveyed have faced significant operational surprises.

## *Questions to Ponder:*

- What is the state of ERM in the government entities and programs that you audit?
- Has your audit organization evaluated the ERM process and related activities for the entities/programs that you audit?
- Is your risk-based audit plan informed by the results of the audited entity's ERM process?
- Do we need the following:
  - An inquiry into the state of ERM in government?
  - Guidance and/or standards for ERM for government?
  - A Yellow Book update to include requirements for auditors to consider management's ERM process and results when conducting performance audits?

# RESOURCES

- Committee of Sponsoring Organizations (COSO) <http://coso.org/>
- The Institute of Internal Auditors <http://theiia.org/>
- North Carolina State University, Enterprise Risk Management Initiative <http://erm.ncsu.edu/>