



National Association of  
University Board Chairs  
and Secretaries  
Enterprise Risk  
Management

April 30, 2010



# Discussion items

- Setting the stage
- Enterprise Risk Management
- Enterprise Risk Assessment
- Risk appetite
- Implementing ERM – Key success factors
- Enterprise risk assessment in action!

# Setting the stage

# This is not “Risk Intelligence”



**Nor is this...**

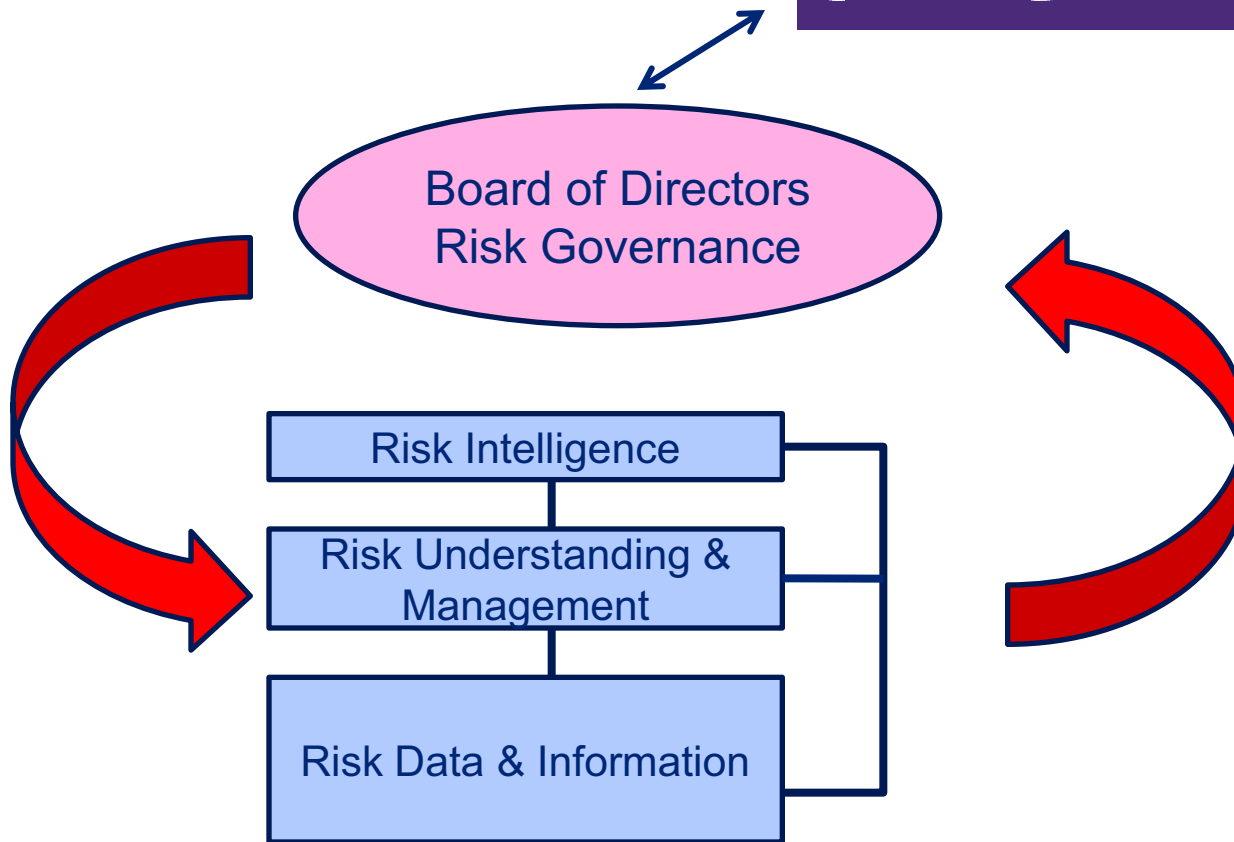


**And certainly not this...**



# Risk governance

“...many board members are unsure how to approach their risk-related responsibilities. They are uncertain about roles and delineation of responsibility. They wonder where to start and how to bring all the disparate pieces together.”



# The Risk Intelligent Board

- Understands the organization's strategy for future growth and protection of existing assets
- Understands key risks impacting the organization
- Obtains reasonable assurance from management that there are capable people, processes and systems to effectively manage the organization and associated risks
- Obtains independent reassurance that management's reports are reliable
- Actively encourages appropriate tone at the top
- Fosters risk awareness
- Demands clear risk ownership / accountability
- Maintains the long-term view



# The Risk Intelligent Audit Committee

- Provides oversight of major financial risks to have reasonable assurance from management that the financial statements are accurate and can be relied upon
- Discusses with management the policies and guidelines for the assessment and management of major financial exposures
- Obtains independent reassurance that management's reports can be relied upon

## Current risk environment – higher education

- Many Universities have undertaken risk assessments – often driven by Internal Audit
- Sustainability of “formal” risk management and reporting is a challenge
- Opportunities exist for improved risk management
- Financial risks have become even more acute
- New risks are emerging – need to refresh risk assessment?

# Enterprise Risk Management

# What is risk?

*Simply put, “risk is anything that impacts the ability to achieve objectives”*

- What does this definition mean?
  - Considers risk in the broadest sense, not limited to financial risk
  - Risk is not about a single point estimate
  - Time frame is an important factor when evaluating risk
  - Not just threats; there is upside as well as downside → (risk/opportunity)
  - Important to consider inter-relationship of risks

# Different levels of risk

ERM considers all levels of risks – those associated with the external environment as well as those from the internal environment relating to people, processes, technology and objectives.



# Higher education institutions are faced with a broad range of risks

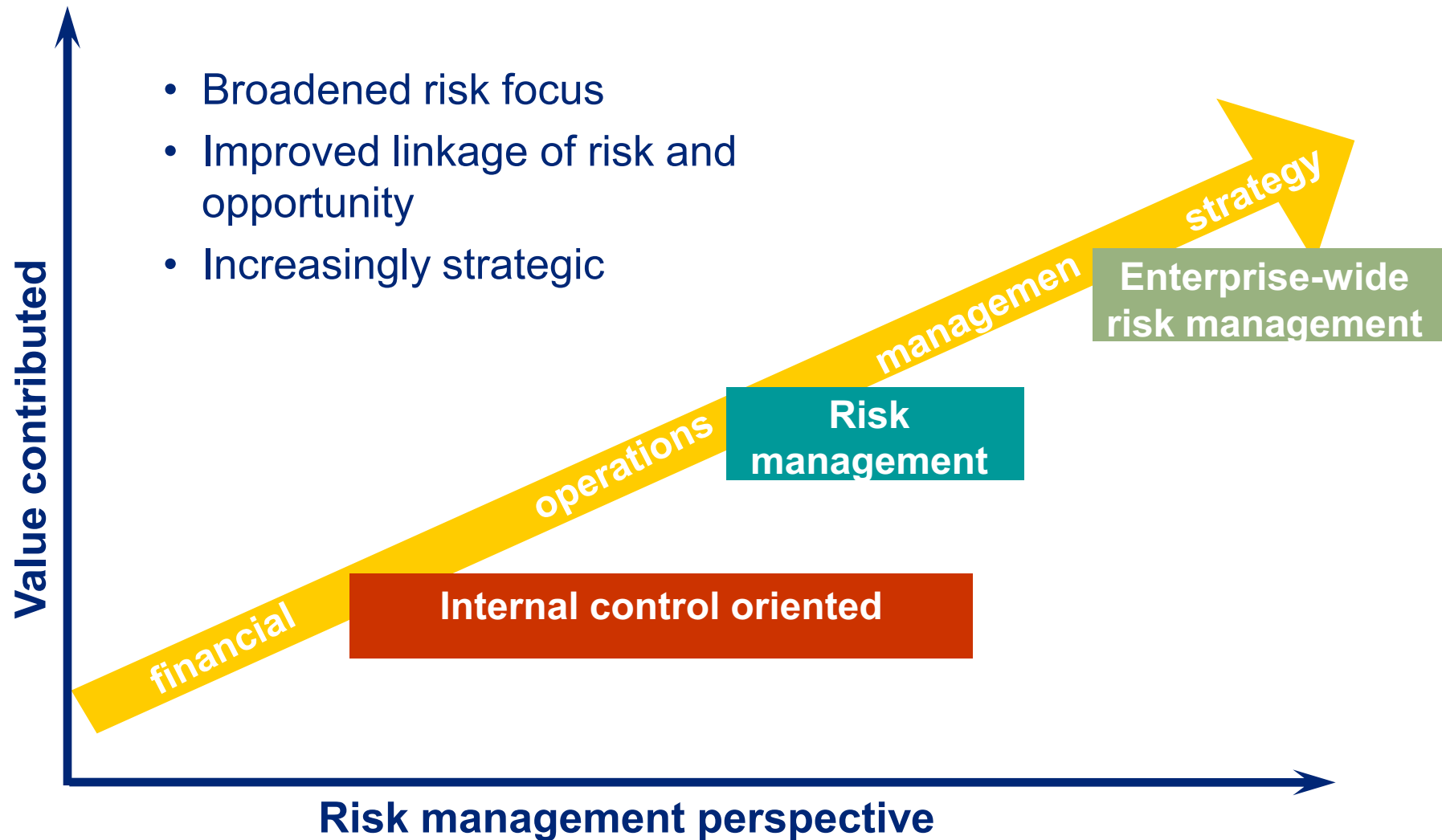


# Enterprise risk management defined

**Enterprise Risk Management** is a structured and disciplined risk management approach considering strategy, process, people, technology and knowledge with the purpose of continually evaluating and managing risks to organizational strategies and objectives on an enterprise-wide basis.

One size does not fit all.  
There is no one “right” approach to ERM.

# ERM is a natural evolution





# The approach to managing risk has evolved

## From

- Fragmented
- Negative
- Reactive
- Ad hoc
- Cost-based
- Narrowly-focused
- Functionally-driven
- Implicit

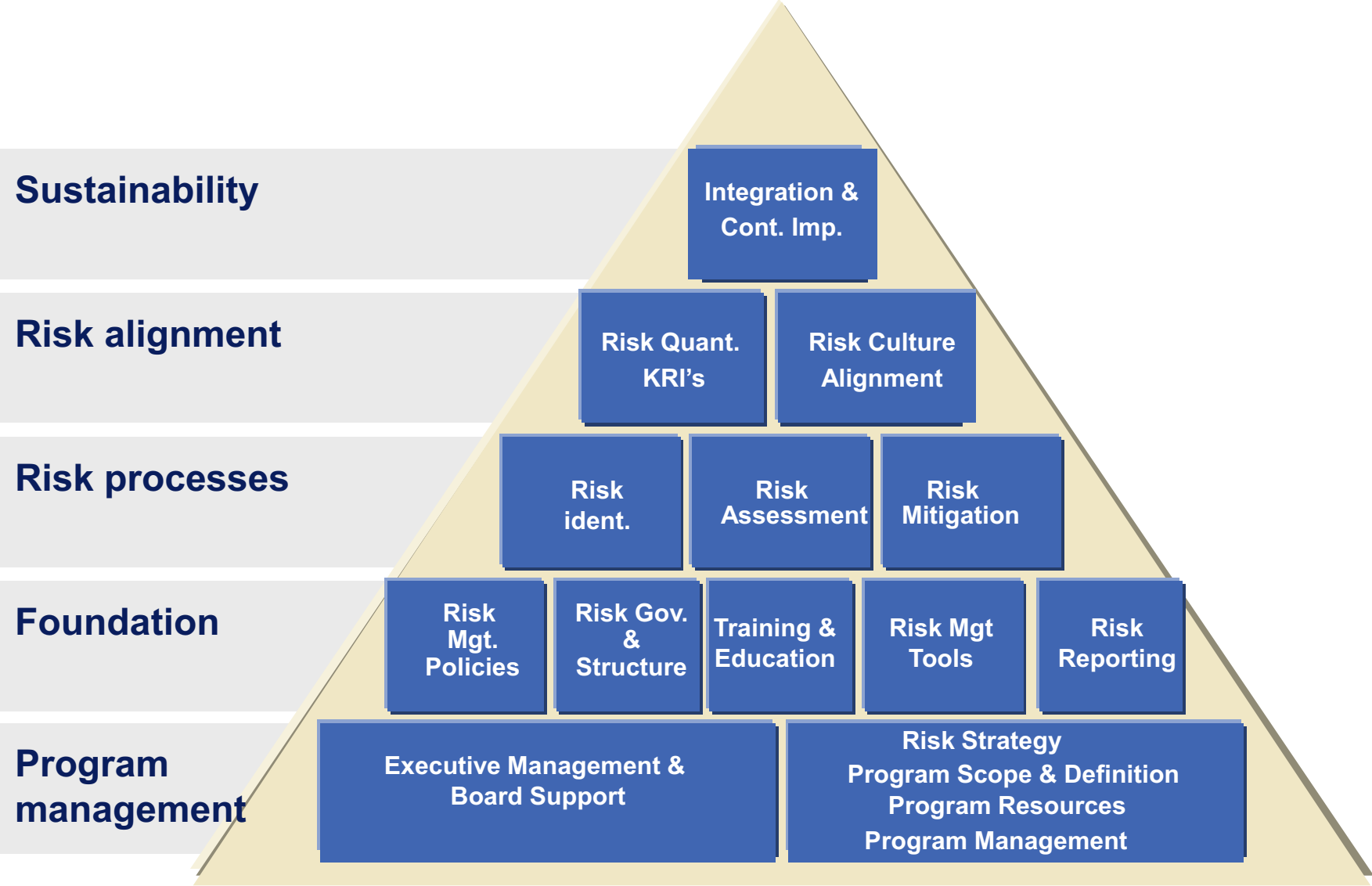
## To

- Integrated
- Positive
- Proactive
- Continuous
- Value-based
- Broadly-focused
- Process-driven
- Explicit

# ERM brings additional value over traditional risk management

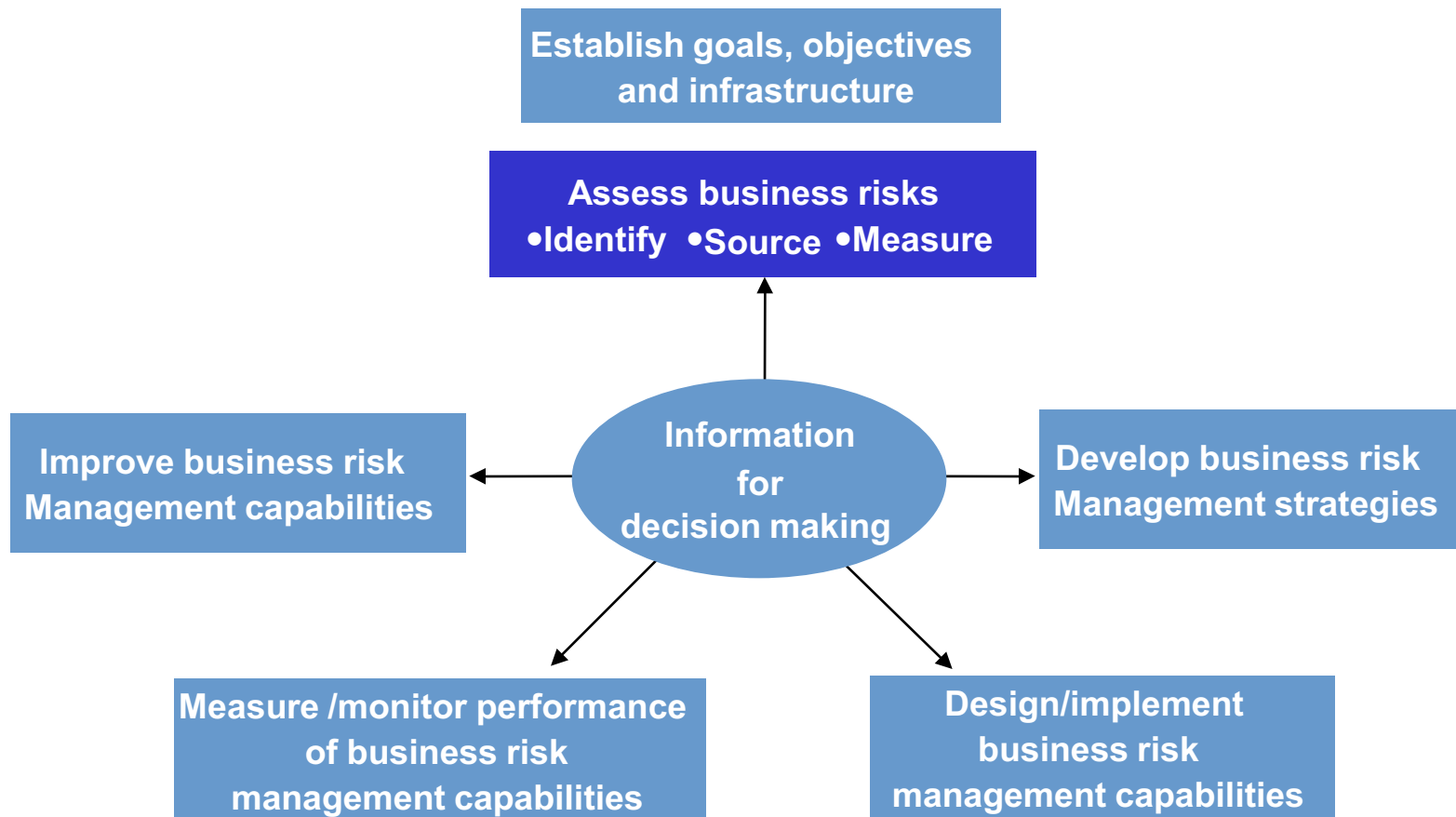
- Aligns risk management to the overall institutional objectives
- Involves determining and communicating institutional risk appetite
- Aligns and coordinates all the disparate risk management processes – examines gaps and duplications
- Enhances risk communication across the institution (vertically and horizontally)
- Adds rigor to accountability and ownership of risk
- Demonstrates stronger governance at the Board and senior management levels
- Helps identify and explore opportunities
- Provides a consistent framework for making risk-based decisions

# An Enterprise Risk Management architecture



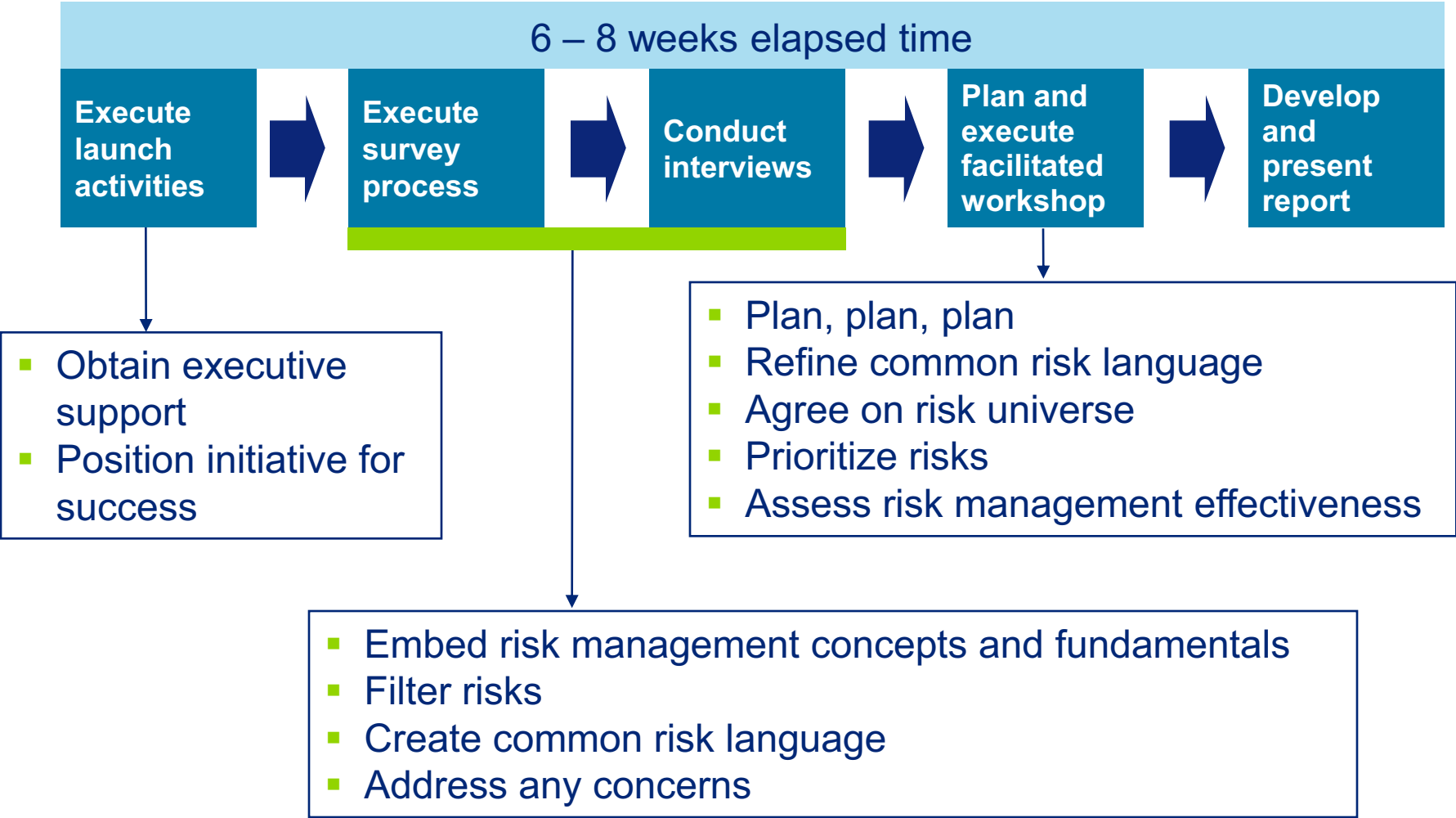
# Enterprise-wide Risk Management

## The business risk management process



# Enterprise Risk Assessment

# The risk assessment approach



# Applications of Enterprise Risk Assessment



# Identifying risk – Enterprise Risk Model

The use of a risk framework is key to successfully implementing enterprise risk management

## A. Environment risk

Competitor Legal	Stakeholder wants Regulatory	Technological innovation Financial markets	Sensitivity Catastrophic loss	Stakeholder relations Government policy
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## B. Process risk

### 1. Operations

- Student/alumni satisfaction
- HR – Academic
- HR – Non-Academic
- Strategic labour relations
- Knowledge capital
- Efficiency/productivity
- Physical infrastructure
- Partnering
- Compliance
- Interruption
- Environmental/sustainability
- Property security
- Campus health and safety
- Research program development
- Program/service pricing failure

### 2. Empowerment

- Leadership
- Authority/limit
- Outsourcing
- Performance incentives
- Change readiness
- Internal communications
- Performance accountability

### 3. Integrity

- Organizational fraud
- Employee/third party fraud
- Illegal acts
- Unauthorized use
- Reputation
- Conflict of interest

### 4. Financial

- Financial resources
- Enrolment targets

### 5. Information processing/technology

- Relevance
- Integrity
- Access/security
- Availability
- IT infrastructure

## C. Information for decision-making risk

### 1. Process/operational

- Program/service
- Contract commitment
- University performance
- Organizational alignment

### 2. Reporting

- Budget and planning
- Accounting information
- Reporting evaluation
- Taxation
- Compensation and benefits
- Investment evaluation

### 3. Environment/strategic

- Environmental scan
- Organization structure



# Typical risk assessment criteria

## Significance

The impact that the risk would have on the organization's ability to execute its strategies and achieve its objectives, assuming that the risk has occurred

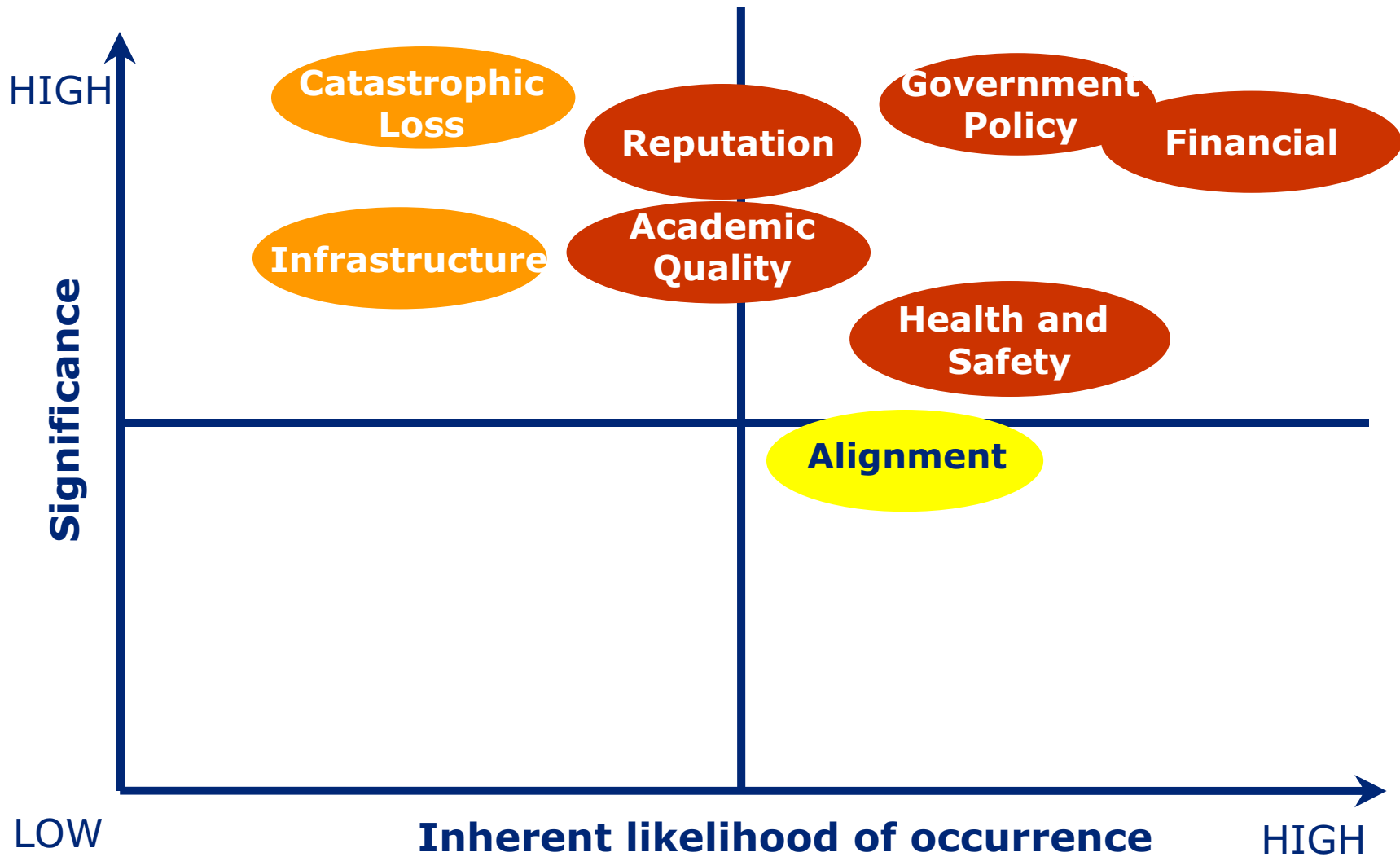
## Inherent likelihood

The probability that the risk event will occur, assuming that no specific risk management activities are in place to manage the risk (time period: strategic planning cycle)

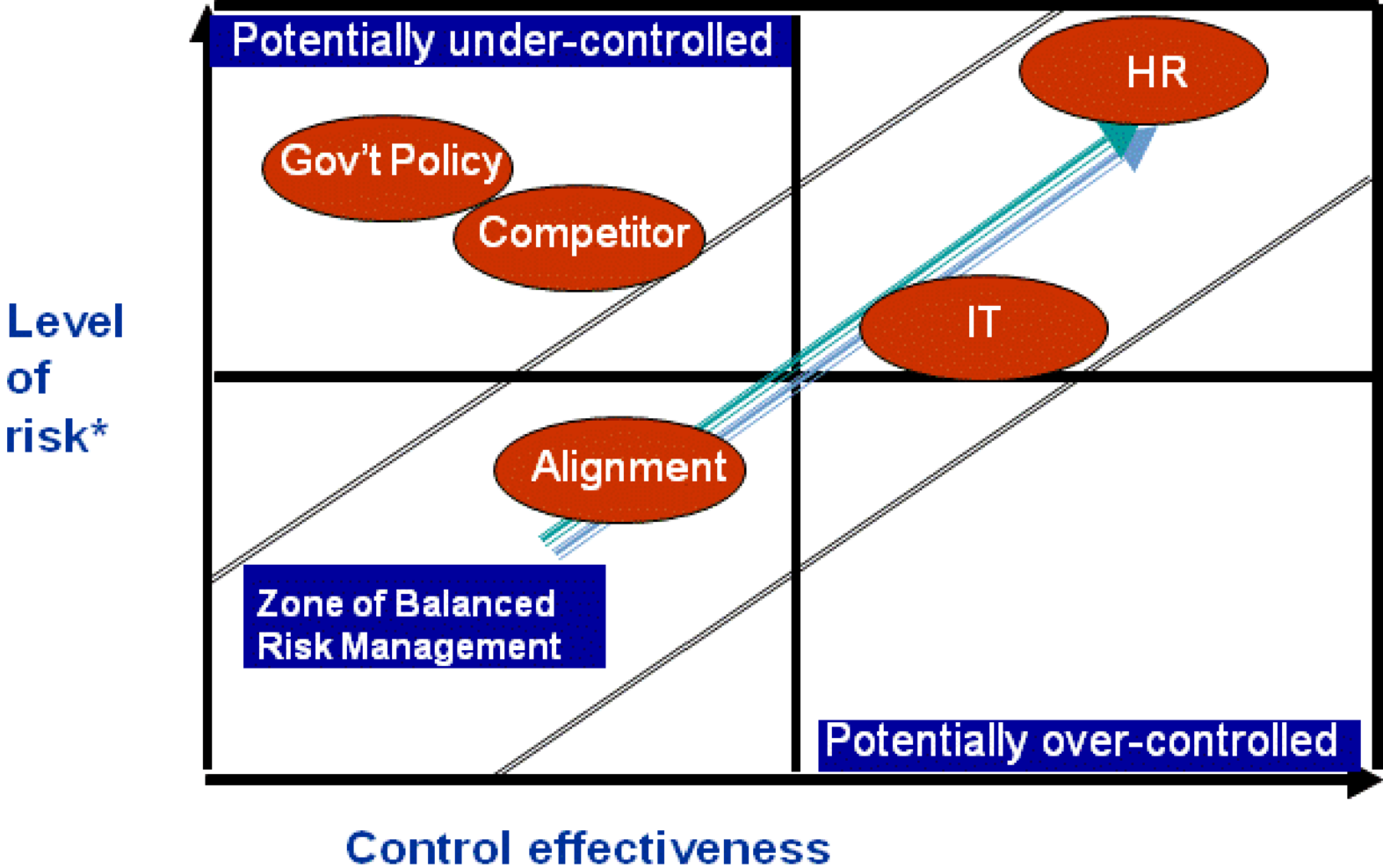
## Risk management effectiveness

The effectiveness of the processes, procedures and activities that are in place to prevent, monitor and/or mitigate the risk

# Risk prioritization – Sample risk map



# Assessing risk management effectiveness – Sample risk management map



\* Average of significance and inherent likelihood assessments

# Emerging risk assessment criteria

- Tolerance
- Velocity
  - Speed of onset, speed of impact and speed of reaction
- Vulnerability
- Capacity
- Controllability

## Beyond the risk assessment – next steps

- Articulation of risk appetite
- Introduction of risk criteria beyond impact and likelihood
- Assignment of risk owners
- Development of risk policies
- Determination of appropriate risk management strategies
- Review and enhance reporting on risks
- Development of key risk indicators and metrics
- Use of enabling risk technology
- Integration with other processes/activities within the organization

Risk appetite

# What is risk appetite

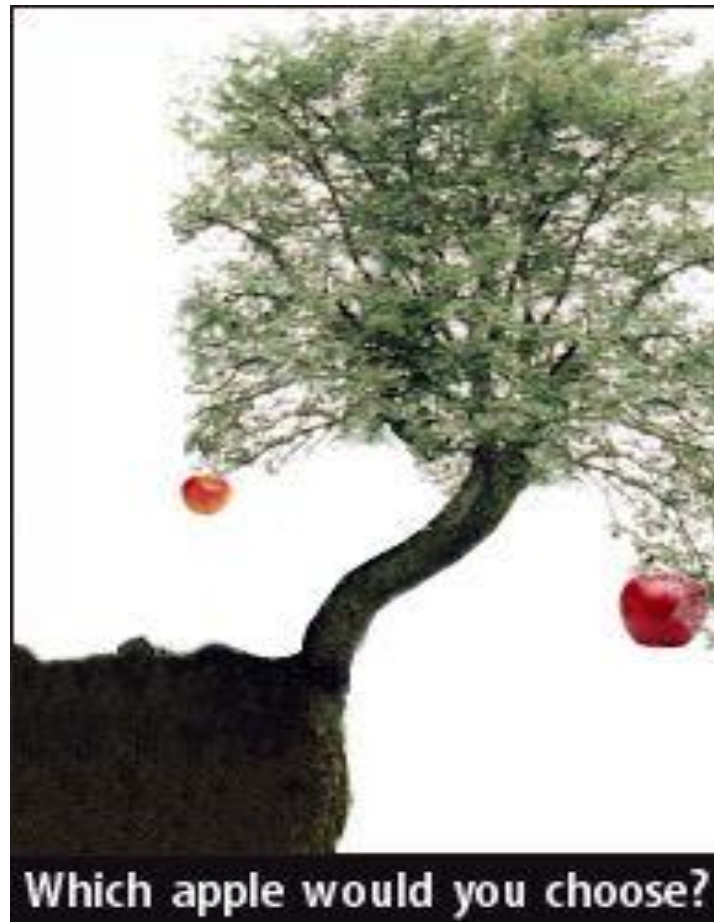
- The amount of risk – on a broad level – an entity (management and the board) is willing to accept in pursuit of value (or returns) – *Committee of Sponsoring Organizations*
- Risk appetite should be recommended by management and approved by the Board of Directors

# Why is defining risk appetite important

- Helps management understand the scope of their decisioning within the risk-taking process and clarifies management's responsibilities and boundaries for risk
- Serves as a guidepost in strategy setting and in allocating resources, where it represents the acceptable balance of growth, risk and return
- Helps prioritizing mitigation actions for risks outside of risk appetite
- Supports Board oversight and management actions to bring/keep an organization's risk profile within its risk appetite or determine whether its risk appetite requires recalibration



# The relationship between risk and result? What is your risk appetite?

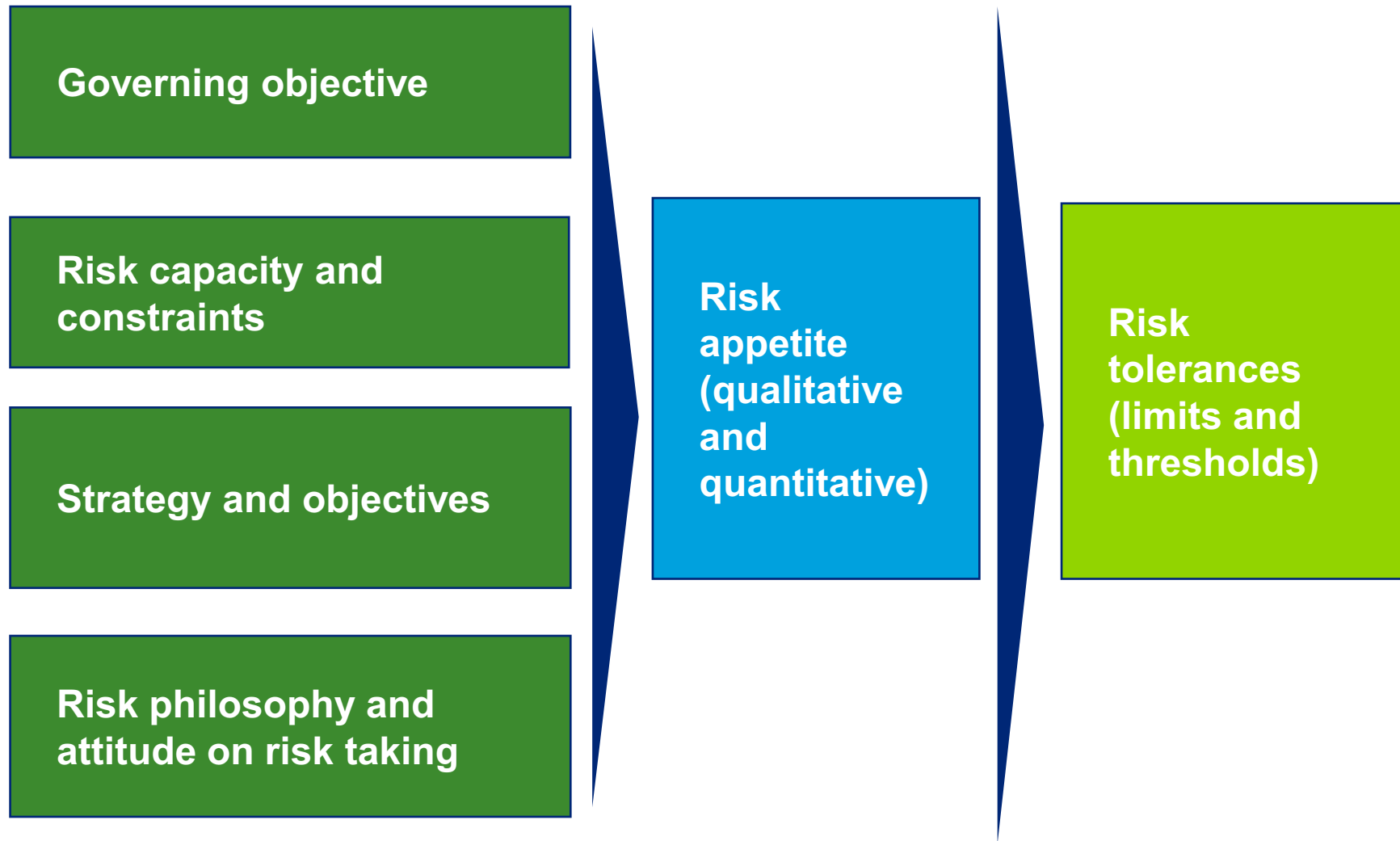


There is no right or wrong risk appetite but it is critical to have one which aligns with performance expectations and risk management capability and balances stakeholder interests

## Questions that Boards often ask about risk appetite

- What size risks or opportunities do we expect management to bring to our attention?
- How does management determine the organization's risk appetite? Which risk categories are considered and how do they relate to the institution's strategy and performance goals and compensation metrics?
- In developing the risk appetite, how did management incorporate the perspectives of stakeholders - and experiences of peer companies?
- How are risk tolerances set? How does that process account for risk appetite?
- What scenario-analysis or other methods are used in setting the risk appetite and tolerances?

# Deloitte's risk appetite framework development



# Implementing ERM – Key success factors

# Key success factors for implementing Enterprise Risk Management

- Senior management leadership/sponsorship
- Ownership and commitment
- Development of a vision and roadmap for ERM
- Transparent, well-communicated and agreed-upon goals
- Communication, communication, communication
- Engage champions
- Try to tie into existing activities/processes – not just another layer of activity
- Be practical and make it easy for participation; develop enabling frameworks that are customized for your institution; accept imperfection
- Get the necessary knowledge, experience, skills (facilitation, risk management)

Enterprise risk  
assessment in action!

## For more information

If you would like more information about ERM or how Deloitte can help your institution, please contact:

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