

ADVISORY SERVICES

# YOUR SUPPORT PILLAR

Enterprise Risk Management (ERM)



# THE BDO DIFFERENCE

AS THE SOUTH AFRICAN MEMBER FIRM OF BDO INTERNATIONAL, WITH OFFICES IN OVER 157 COUNTRIES, WE HAVE BEEN DELIVERING EXCEPTIONAL SERVICE TO OUR CLIENTS SINCE 1963.

BECAUSE OF THEIR SKILLS AND EXPERIENCE, OUR PEOPLE ARE TRUSTED TO DELIVER THE QUALITY OF SERVICE THAT OUR CLIENTS EXPECT. WE OFFER A TAILORED APPROACH TO EVERY CLIENT AND OUR PEOPLE HAVE THE SKILLS AND EXPERIENCE TO TAKE RESPONSIBILITY FOR THE WORK THEY DO. WE ARE AGILE AND QUICK IN RESPONDING TO CLIENT DEMANDS.

OUR APPROACH INVOLVES LISTENING TO OUR CLIENTS, UNDERSTANDING THEIR EXPECTATIONS AND DELIVERING THE CALIBRE OF SERVICE ASSOCIATED WITH A LEADING GLOBAL FINANCIAL SERVICES FIRM.

## OUR RISK ADVISORY TEAM

The changing landscape of the business world has led to the implementation and establishment of strict regulatory requirements. Companies now find themselves encountering new corporate governance and financial reporting challenges which are causing them to view company-wide risk in a different perspective.

As a result, these changes require both public and private companies to re-evaluate all of the possible risks that could threaten their viability or success. Thus, ERM strategies and best practices are quickly ascending to the top of many corporate agendas.

Our ERM service offerings are specifically designed to meet your organisation's individual needs. Practical and proactive ERM strategies, be it ad-hoc or full-scale, can help an organisation meet strategic organisational goals and objectives, and lead to new heights of success.

BDO's Risk Advisory Services team can assist you with the following types of ERM-related projects:

- Identifying or validating your business risk registry or universe
- Establishing an ERM policy, framework and ERM program which seamlessly blends in with the size and culture of your organisation
- Evaluating your current ERM program or process and provide a benchmark against similar organisations
- Facilitating ERM workshops and training within your organisation to enhance your current ERM program and thereby validate or establish risk rankings
- Integrating your ERM program with other established corporate governance initiatives such as CEO/CFO certification, business continuity management, internal audit and other initiatives.

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## WHAT IS ERM?

ERM is a general, ongoing operational assessment which identifies potential risks that could prevent a company from meeting its strategic goals and objectives. It is an initiative that delves deeper than a basic risk assessment; because it is continuous in nature, it helps to provide an organisation with the flags and markers it needs to keep it on course, steering it away from potential trouble.

As the size, structure and nature of businesses differ, so do organisational ERM needs. However, a common thread can be found between both businesses big and small: All organisational divisions, are responsible for mitigating risks in its area of business using strategies and processes outlined by the company's main risk management team. Doing this means the company will be able to not only mitigate risk, but proactively manage inherent risks which could drive the organisation to new heights of success.

In regards to ERM strategy and focus, organisations will typically fall in to one of two categories; those which implement a complete, all-encompassing program or, those which choose to implement elements of ERM on an ad-hoc basis. Both offer significant benefits and repercussions which must be carefully assessed and evaluated prior to any form of implementation. Whichever path you choose, make sure it is the right course of action for your organisation; it should help your business meet critical goals and objectives and will steer your company towards success.

# BDO ERM FRAMEWORK

	Objective	Deliverable
GOVERNANCE & PLANNING	<ul style="list-style-type: none"> <li>Establish ERM roles and responsibilities</li> <li>Establish an ERM Program</li> </ul>	<ul style="list-style-type: none"> <li>Establish an ERM policy</li> <li>Establish an ERM framework</li> </ul>
IDENTIFY & RANK RISK	<ul style="list-style-type: none"> <li>Establish a risk universe with periodic risk assessment</li> <li>Align risk with business objectives</li> </ul>	<ul style="list-style-type: none"> <li>Risk registry or risk universe</li> <li>Summary of key risks</li> </ul>
ASSIGN & ASSESS RISKS	<ul style="list-style-type: none"> <li>Quantify key risks</li> <li>Determine risk treatment strategies</li> <li>Assign risk to process owners</li> </ul>	<ul style="list-style-type: none"> <li>Departmental risk reports</li> <li>Departmental action plans</li> </ul>
MONITORING & REPORTING	<ul style="list-style-type: none"> <li>Identify key metrics for risk monitoring and reporting</li> <li>Establish management reports for the ERM program</li> </ul>	<ul style="list-style-type: none"> <li>Risk Management reports</li> <li>Action plan status report</li> </ul>

## BENEFITS OF A FORMAL ERM PROGRAM

- Creates a culture of risk awareness within the organisation
- Enables better business performance
- Promotes achievement of goals and objectives
- Strengthens the internal controls structure
- Establishes accountability for goals and objectives as well as risk mitigation

## DISADVANTAGES OF A FORMAL ERM PROGRAM

- Over-engineering of risk assessments and risk response
- Possible risk paralysis
- Competing priorities for risk prioritisation
- Over – reliance on ERM results

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*“Practical and proactive ERM strategies, be it ad-hoc or full-scale, can help an organisation meet strategic organisational goals and objectives, and lead to new heights of success.”*

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## **BENEFITS OF AN AD-HOC ERM APPROACH**

- Clear roles and responsibilities
- Offer a specific focus – insurable or financial risks
- Easy to understand and plan for

## **DISADVANTAGES OF AN AD-HOC ERM APPROACH**

- Unidentified and unmitigated risks
- Evaluation of risk associated with each goal and objective
- Not everyone in the organisation views risk management as a priority
- The process is not continuous, ongoing or responding to changes

## **COMMON FORMS OF RISK MANAGEMENT IN THE BUSINESS ENVIRONMENT**

Most organisations have already established methods of risk management in their business environments and in daily business activities. They may seem simple and basic but they are still proven, substantiated approaches which help mitigate risk.

Establishing processes and procedures helps an organisation achieve corporate objectives and indirectly mitigate some of the risks that may arise by association.

Some common examples of this include:

- Job descriptions
- Segregation of duties
- Procedures and manuals
- Policies or standards
- Financial reporting processes
- Monthly reporting processes
- Performance appraisal processes
- Strategic planning processes
- Budget or forecasting
- Sales and marketing processes



## **FIVE IMPORTANT QUESTIONS YOU SHOULD ASK ABOUT RISK**

- How do we incorporate ERM initiatives with strategic organisational goals and objectives?
- What are our primary organisational risks?
- What processes are currently in place to identify measure and manage our primary business risks? Are they effective?
- How do we make ERM initiatives a fundamental component of the overall operation and function of independently managed business units?
- How does the Board of Directors assume its responsibility for the management of risk in the organisation?

A mounting focus on corporate governance and increasingly stringent legislative requirements are forcing boards of directors to view, assess and mitigate risk at levels never seen before.

Boards are required to participate in the development of their organisation's strategic vision and must ensure that the appropriate controls and procedures are in place to identify and monitor the business risks that naturally arise as a result of their business strategy.

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## WE TAKE IT PERSONALLY. FOR FURTHER INFORMATION, PLEASE CONTACT US:

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