

Enterprise Risk Management Framework

Storyline...

The client is a Joint Sector Company manufacturing clinker and cement in Bhutan. The company has a 50-year-history and well-established brand name for its quality.

In order to keep pace with growing corporate governance and compliance demands, the Management recognised a need to set up a formal Enterprise Risk Management (ERM) framework. MaGC was tasked with the assignment of designing an appropriate and dynamic ERM.

Once upon a time...

The client did not have formal risk management policies or processes in place. Management was not able to provide objective assurance to its Board that an adequate and effective risk management function was in place. The organisation's preparedness and resilience to adverse events and ability to sustain achieving its business objectives could not be assured. There was a need to put in place a structured ERM.

Moving on...

The MaGC team spent time with the Management and key decision makers of each function to sensitise them on ERM and determine the risk environment. Key processes, controls, challenges, and review mechanism were examined and understood. A Risk Policy was framed considering these inputs, which outlined the roles and responsibilities of various stakeholders with respect to ERM in general, defining and classifying risk, stating the risk management guiding principles, and setting the Risk Appetite. Annual performance targets and past performance data were analysed to infer the baseline Risk Appetite.

MaGC team employed methods including structured interviews, sample walkthroughs, review of documents and reports, financial analysis, and brainstorming with key stakeholders to arrive at a detailed list of risks that the organisation was exposed to and mitigating strategies in place (if any). The list was grouped, refined, and used as input for ERM Toolkit that comprised of 17 function-wise Risk Assessment Checklists, a Risk Register, and Risk Heat maps at all levels.

MaGC proposed a Risk Management organisation that identified representatives from each function as Risk Officers; and risk assessment at two levels – function level and enterprise level. Risk Officers were made responsible for the Risk Assessment Checklist pertaining to their function containing Key Risk Indicators (KRIs). This input flows into the Enterprise-wide risk register, where it gets adjusted for organisation level considerations by the Top Management and Risk Committee. The Chief Risk Officer was made responsible for overall administration of the Risk Management function.

Procedures for identifying, assessing, treating, reviewing, & monitoring were developed with supporting document and report templates. The scoring mechanism for risk assessment and rationale for rating risks at various levels were included with suitable examples and broad thresholds. A round of training was organized for the Management and the Risk Officers on the ERM.

Finally...

The ERM, commensurate with the nature, size, and complexity of business helped the Client embed risk aware culture in day-to-day decision making; standardise risk assessment across the enterprise; facilitate identification and focus on top risks; and act as an objective mechanism to provide assurance to the Board on the existence and adequacy of adequate risk management policy and processes.

