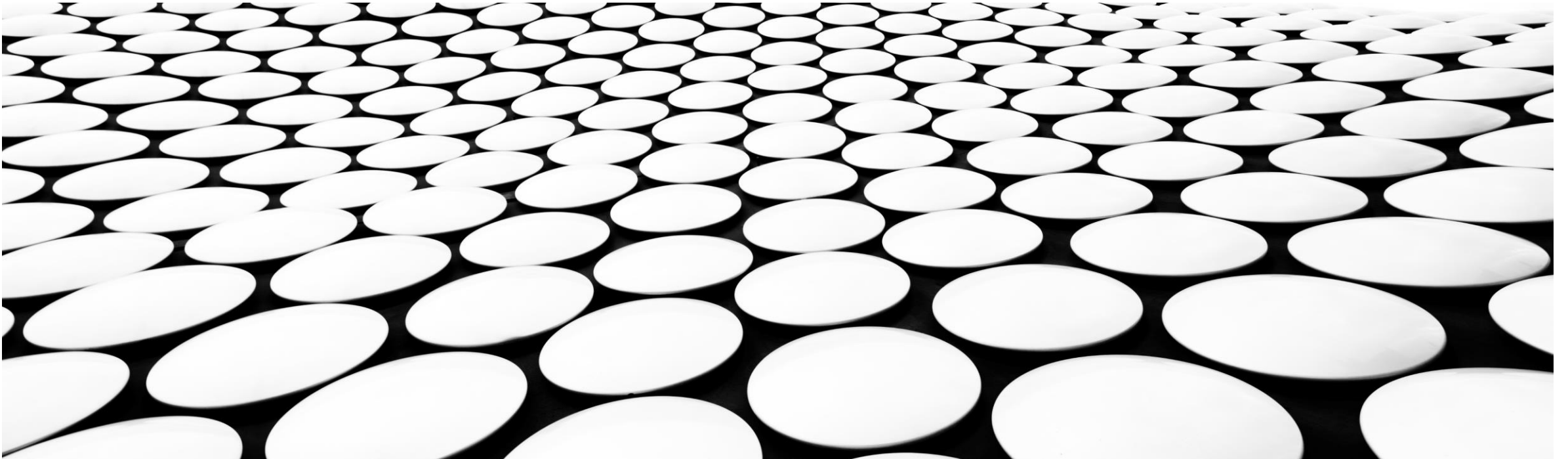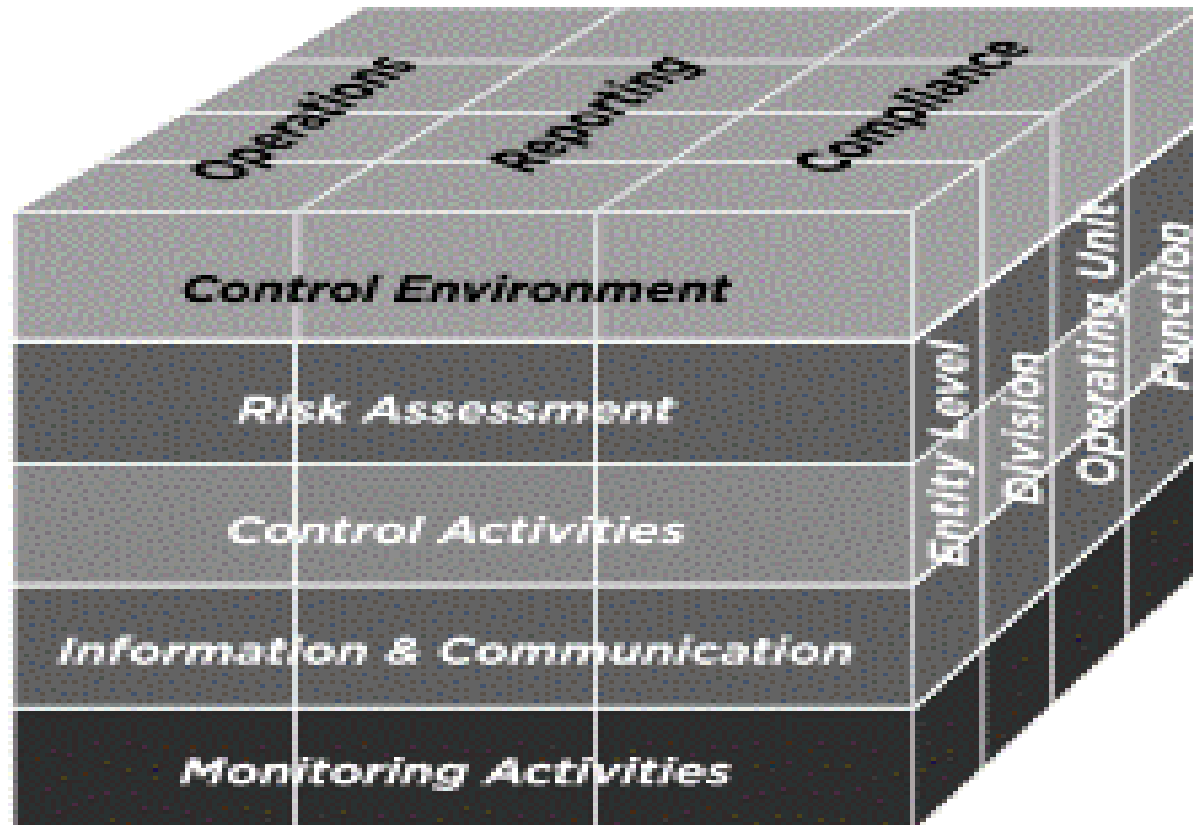# ENTERPRISE RISK MANAGEMENT – AN OVERVIEW

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ENTERPRISE RISK MANAGEMENT – AN OVERVIEW

ERM is a process-based approach where the various components interact as part of an on-going, iterative process. COSO represents these relationships in a three-dimensional cube as shown below:

CONTROL ENVIRONMENT

It creates a set of standards, processes, and structures that provide the basis for carrying out internal control.

The Control Environment should ensure controls are in place, covering areas such as:

- Clear lines of responsibility and authority
- Procurement policy
- Three-way match in vendor payments
- Code of Ethics
- Whistle-blower policies
- Hiring practices
- Training programs

RISK ASSESSMENT

Risk Assessment factors	Risks
1. **Materiality of the amounts**	● Large value/transaction ● High volume of transactions ● Significant impact on key ratios or disclosures
2. **Complexity of the process**	● Limited internal skills ● Multiple data handoffs ● Highly technical in nature
3. **History of accounting adjustments**	● Accounting errors ● Valuation adjustments, etc.
4. **Propensity for change in**	● Business processes or controls ● Related accounting

CONTROL ACTIVITIES

INFORMATION AND COMMUNICATION

- Accurate, timely information is necessary to properly carry out internal control responsibilities in support of the achievement of an organization's objectives.

- Communication is the continual, iterative process of providing, sharing, and obtaining that necessary information.

MONITORING ACTIVITIES

Monitoring activities are evaluations used to ascertain whether components of internal control are *present* and *functioning*. These evaluations can be split into two categories:

- **Ongoing** evaluations are built into business processes and provide timely information on the underlying controls.

- **Separate** evaluations are conducted periodically and vary in scope and frequency based on prior assessments of risk, the effectiveness of *ongoing* evaluations, and other management considerations such as resource prioritization. Separate evaluations include Internal Audit activities.

INTERNAL CONTROL PRINCIPLES

Internal control principles	Process Narrative
(a) Establish Delegation of Authority	Across organization hierarchy and value chain
(b) Assign Accountability	Assign each task to only one person and make him accountable
(c) Segregate Duties	Don't make one employee responsible for all parts of a process, preferably in the lines of segregation of custody, recording and approval functions
(d) Restrict Access	Don't provide access to systems, information, assets, etc. unless needed to complete assigned responsibilities; except for the power user/system administrator, no single user can have access to the entire system
(e) Document Procedures and Transactions	Prepare documents to show that activities have occurred; Develop audit trail of each activity
(f) Independently verify	Check others' work, introduce maker, checker and approver concept

THANK YOU!