Welcome to NC State’s Enterprise Risk Management Roundtable

“Board of Director Expectations for Enterprise Risk Management”
March 19, 2004
Increasing Calls for Management of Risks

• Among the **core responsibilities of the board** are understanding the issues, forces, and **risks** that define and drive the company’s business.
  – *The Conference Board 2003*

• The **audit committee** should understand the corporation’s **risk profile** and oversee the corporation’s **risk assessment** and management practices.
  – *The Business Roundtable 2002*

• Management required to certify they have programs and controls to **disclose** developments and **risks** pertaining to business.
Increasing Calls for Management of Risks

- 73% of directors support increasing audit committee’s responsibility for risks
- 43% of directors believe they cannot effectively identify, safeguard against, and plan for key risks
  – McKinsey Survey May 2002
- Audit committees should define and use timely, focused information that is responsive to important performance measures and to the key risks they oversee
- Audit committees should develop an agenda that includes a periodic review of risk by each significant business unit.
  – National Association of Corporate Directors 1999
Fortune 100 Audit Committee Disclosures About Risk Management

- 69 of 100 ACs involved some form
  - 16 review policies and guidelines only
  - 17 look at policies and lists of business risk exposures
  - 20 look at policies and lists of financial risks only
  - 9 look just at lists of business risks
  - 7 look just at lists of financial risks
Recent CEO Survey Re: Risk Management

- 76% of CEOs somewhat agree or strongly agree that ERM is a priority of the board
- 81% claim they report their company’s ERM portfolio to the board
What is your definition of the term – Risk?

Is “risk” all bad?
One of the Challenges

When I say “risk management,” what is the first thing that comes to mind?
ERM is a process, effected by an entity’s board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

- Proposed by COSO (2003)
ERM Brings Together All Risks

Valuation Creation and Preservation

Enterprise Focus on Risks

Strategic/Market Risks
Operations Risks
Finance Risks
Technology Risks
Legal Risks
Reputation Risks

Valuation Creation and Preservation
COSO’s Definition of Risk

Risk is the possibility that an event will occur and adversely affect the achievement of objectives.

Characteristics:
- Present due to uncertainties
- All entities face risks
- Some risks can be opportunities
- Risks can erode or enhance value
- Risks arise from “internal” and “external” environment
- Risks evolve
How ERM Fits in Corporate Governance

- Board of Directors
- Audit Committees
- Legal System
- Governance Over Two Aspects of Entity: Leadership in Firm Performance, Objective Oversight of Management
- External Auditors
- Internal Auditors
- Regulators
- Management
- Analysts
- Institutional Investors
- Enterprise Risk Management

Governance Over Two Aspects of Entity:
- Objective
- Oversight of Management
Upcoming Enterprise Risk Management Roundtables

“Launching ERM: Experiences from Progress Energy”
April 16, 2004

“Leveraging Sarbanes-Oxley to Create an ERM Process: Blue Cross Blue Shield’s Experience”
May 21, 2004