By tightly aligning and linking these functions, activities, people, and skill sets, companies can work to cultivate a nimble and sustainable approach to managing risk.

RECOMMENDATIONS
1. Empower the board with ultimate risk oversight responsibility.
2. Consider a separate strategic risk committee to handle business risk while charging the audit committee with financial risk.
3. Assign functional risk management responsibility to a senior management officer.
4. Seek objective, 3rd party feedback on risk concerns from stakeholders and outside advisors.
BUSINESS RISK OWNERSHIP AND CATEGORIES MODEL

BUSINESS RISK OWNERSHIP

Board
Ultimate Risk Oversight Responsibility

Management  CEO  Board  Audit Committee  CRO  Internal Audit

Responsible for Setting Tone at the Top

RISK CATEGORIES

External  Financial  Operational  Strategic  Regulatory  Information

Shareholders
- Financial returns
- Accurate and timely disclosure
- Quality of leadership/ intellectual capital

Customers
- Product Safety
- Customer service
- Responsible marketing practices

Suppliers/Partners
- General terms and conditions
- R&D partnerships
- Contingencies

Competitors
- Market share
- R&D investment

Credit
- Liquidity
- Cash management
- Collections

Market
- Interest rate
- Foreign exchange
- Commodity prices

Structure
- Debt
- Equity

Reporting
- SEC filings
- Accurate and timely disclosure
- Earnings guidance
- Control systems

Process
- New product development
- Sales and marketing
- Control and documentation
- Support structure

HR
- Employees
- Appropriate training
- Risk culture

Physical plant
- Security
- Property
- Leaseholds
- Equipment

Governance
- Integrity
- Accountability
- Reputation
- Independence
- Adequacy of oversight
- Adequacy of risk structure

Business model
- Market dynamics
- Mergers/acquisitions
- Risk concentrations
- Competitors

Planning
- Benchmarking
- Testing
- Exit strategy

External relations
- Investors
- Partners
- Customers
- Community

Financial
- Sarbanes-Oxley
- Officer certifications
- Internal controls over financial reporting

Labor
- OSHA
- ADA
- Foreign labor certification

Environmental
- Emissions
- Pollutants

Policy
- Legislation
- Lobbying

Intellectual property
- Intangible assets
- Inventorying and reporting
- Protecting

Decision support
- Systems
- Data mining
- Standardization
- Global consistency

Information technology
- Networks
- Hardware
- Software
- Internet
STRATEGIC RISK MANAGEMENT MODEL
## Internal Audit Agenda:
*Are Board and Management Satisfied that the IA Functions...*

- Have been given a clear mandate to help manage the critical business risks and exposures that determine the organization's success or failure?

- Exhibit a detailed understanding of these key business risks and know how they enable or impede the organization in building shareholder value?

- Continually and appropriately assess the effectiveness of risk responses?

- Proactively communicate with management and the board?

- Competently analyze business risk and work effectively with all units or divisions to develop appropriate risk responses?

- Potentially contribute to operational and financial performance improvement?

- Have the necessary complement of skills to carry out their duties and meet these elevated requirements, or, if not, have considered whether outsourcing or cosourcing could improve the cost/benefit ratio/expertise required?
<table>
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<th>The External Audit Agenda: What Your External Auditor May Do Regarding Risks</th>
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| **STRATEGIC ANALYSIS**  
- Identify critical elements of the business environment that may impact financial reporting and the audit strategy—elements that include competition, technology, economic conditions, legislation, and industry issues. How are business strategy, products and services, customers, industry issues and critical drivers of success defined? |
| **BUSINESS PROCESS ANALYSIS**  
- Acquire an in-depth understanding of the business processes supporting the strategy in order to obtain a more detailed understanding of how the business operates and to determine what criteria or measurements are used to gauge company performance against objectives. Consider the key business activities and the controls associated with them. |
| **RISK IDENTIFICATION AND ASSESSMENT**  
- Once critical strategies and supporting processes are understood and mapped, the auditor should interact with members of management to elucidate the primary risks that could threaten attainment of the business goals. The auditor will consider how management is addressing and controlling risks in developing their audit strategy and plan. |
| **BUSINESS MEASUREMENT**  
- Focus on the processes and variables that have the greatest impact on the financial results. These processes could consist of product, customer service, credit delivery, or others. These measurements may be compared to financial risks, benchmark data, or other appropriate measures to see what gaps are revealed. |
| **SUBSTANTIVE AUDIT PROCEDURES**  
- Perform substantive audit procedures to obtain audit evidence as to whether the assertions in the financial statements that relate to certain identified risks are free of material misstatement. As part of performing these procedures, the auditor may obtain direct or indirect evidence about management’s responses to identified risks. |
| **CONTINUOUS IMPROVEMENT**  
- The best audits are continuous processes with the above steps taken in an integrated, as opposed to a sequential, order. |
| **BUSINESS RISK PROFILE**  
- The auditor may consider preparing a detailed business risk profile to clarify conditions or activities that relate to the company’s business plans and to document the external and internal forces that might affect both those plans as well as the financial statements. |
Optimization Agenda: 
Techniques for Boards and Management

**Risk Spreading**
Concentration risk, be it in an area of innovation, or in a specific geography or product, can expose a company to great risk if the innovation doesn’t work, the geography becomes unstable or the product becomes passé. By monitoring its concentration risk, a company ensures greater operating flexibility and gives itself the option to increase or pull back from the investment as circumstances warrant. For some R&D innovations, this can help a company defer its final decision on a project until the outcome is more certain. Risk spreading alters the cost/benefit ratio of withdrawing from a given project and permits a company to share its risk across multiple activities.

**Scenario Building**
Other optimization approaches take a capital-markets perspective, using scenario building to test the relationship between a given set of risk variables and their projected impact on the stock price and public markets. For example, in the post-Sarbanes-Oxley market environment, where complicated financial deals may be viewed with suspicion, it is prudent for company management to factor economic, financial, and perception considerations in their merger or acquisition calculations. In this way, risk itself becomes much more tightly interwoven in the strategic, business, and capital planning process.

**Financial Restructuring**
The least high-tech and often ignored avenue for optimizing reward is by lowering a company’s cost of capital. Our current “back-to-basics” business management mentality is encouraging a sensible cash consciousness. By improving cash flow, reducing debt and costs, company executives will lower their beta or volatility risk, and contribute directly and positively to the bottom line through improved consistency.