

Enterprise Risk Management— Use of Software Tool

Enterprise Risk Assessor (ERA) is a software solution developed by a team of Accounting professionals who formed Methodware (a New Zealand based company) for organisations requiring a company-wide, systematic and consistent approach to business risk management. ERA facilitates the identification, recording, assessment, treatment, and monitoring of risks across an organisation, combining the integrity of internationally recognised standards and methodologies with the experience of organisations worldwide, ERA gives risk managers and auditors considerable flexibility to collect information, analyse that information and present structured, tailored reporting to unit and/or senior management and others. All data collected is maintained in a centralised database. This database is centrally managed and updated locally across a company’s various business areas. The system provides flexible risk recording, tracking, communication, analysis, reporting, data storage and retrieval functionality.

ERA is a powerful, user-friendly risk management system that :

- Automates manual approaches to risk management
- Eliminates existing duplication
- Provides consistency in approach and output
- Significantly reduces report turn-around time
- Enhances analysis at both the

business unit and company level

- Provides increased security to the access of confidential risk information
- Allows a company to take advantage of opportunities arising out of well managed and controlled risks

and reports on individual business units issued. Reports generated contain sorted and filtered information for any reporting objectives, as required.

The Consolidation Tool: Consolidates all individual risk assessments into one enterprise wide assessment for reporting to

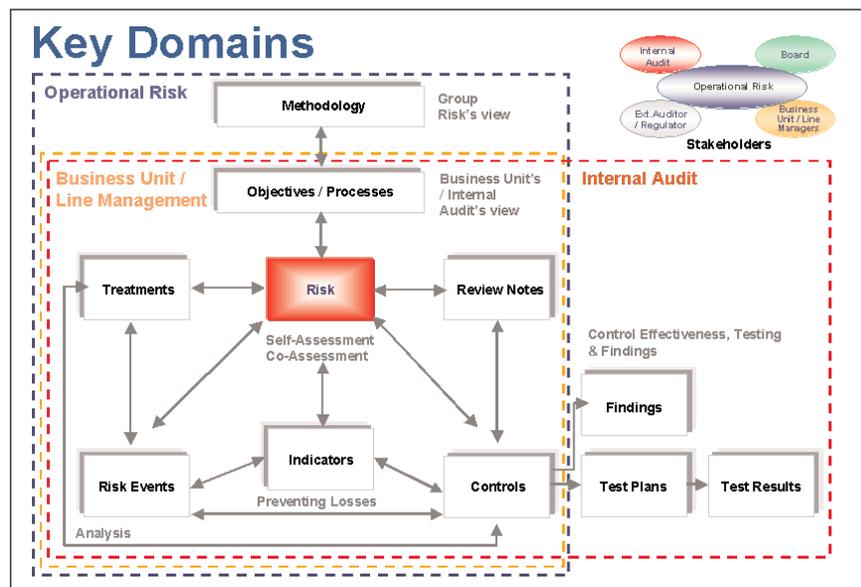


Diagram 1: ERA - Integrated Internal Audit and Risk Management Solution

The Three Step Assessment Process

ERA comprises three components; the **Builder Tool**, **Assessor Tool** and **Consolidation Tool**.

The Builder Tool: The Risk Manager develops the assessment framework (influenced by stakeholders) and generates the Assessor Tool.

The Assessor Tool: Assessments conducted, information gathered

the board, investors/lenders and regulators.

The Builder Tool

Managed centrally within the Risk Management / Internal Audit Team, the Builder Tool is used to capture the organisation’s unique risk framework. Information from existing Risk Registers can be imported into the Builder Tool and modified over time to meet ever-changing risk management needs



that was defined in the Builder Tool. This ensures consistent application of the risk framework across the company and therefore enables assessments to be consolidated and analysed both at a business unit and company level. In addition to the risk area hierarchy, and the objective hierarchy, a third risk reporting line can be documented in the Assessor Tool to capture business unit processes. Users in the Assessor tool have complete flexibility to define their processes and to undertake a full risk and control assessment against these.

If all three reporting lines are enabled, an organisation can report risks by the corporate risk framework (defined in the Builder Tool and applied across all parts of the business), by a separate objectives framework (defined in the Builder Tool and added to in the Assessor Tool) and also by a process framework (defined in the Assessor Tool only).

The Assessor Tool facilitates

Risk Identification: The Assessor Tool provides for the systematic identification and recording of risks and factors giving rise to those risks. Each risk is assigned one risk

as the only certainty in risk management is change.

The corporate risk framework is built upon a hierarchy of risk areas, risks and controls. Building the risk framework centrally ensures there is consistency in risk terminology, classification and scoring across the business.

A separate objective hierarchy can be defined in the Builder Tool to provide organisations with an additional reporting line for risk information across the business.

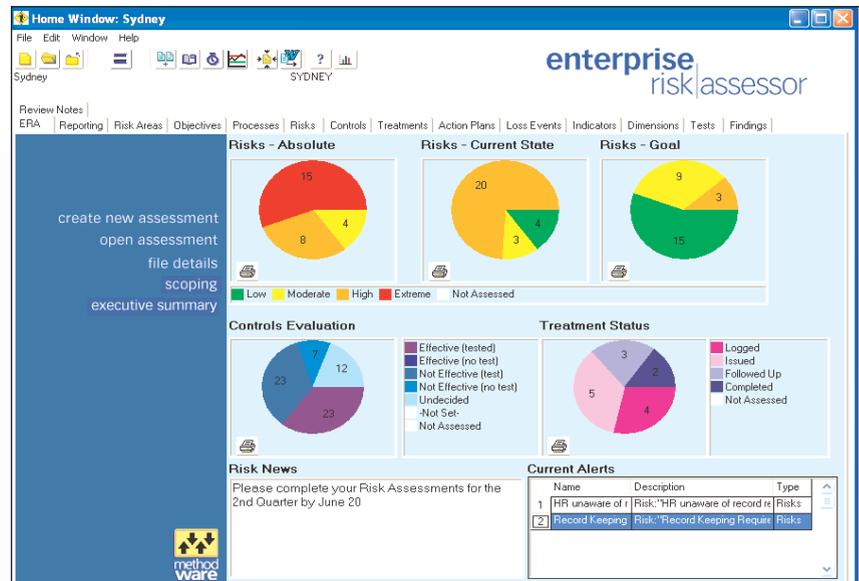
This enables an organisation, for example, to document and undertake a risk assessment on the strategic objectives of the company. Individual business units can document their unique business objectives within this objectives hierarchy in the Assessor Tool.

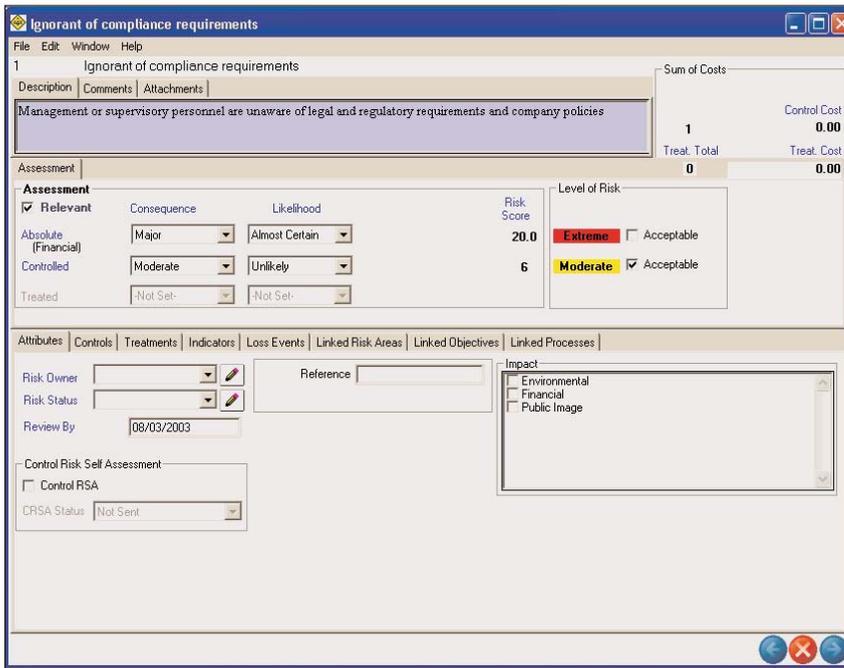
Model details, such as terminology, field descriptions, classification categories etc. can be controlled from the Builder Tool. Additional information fields can also be defined. No assessment is undertaken in the Builder Tool.

The Assessor Tool

Generated from the Builder Tool and structured according to the risk

framework defined in the Builder Tool, the Assessor Tool is used to conduct detailed assessments across the organisation. The Assessor Tool provides users across the organisation with a management tool which enables them to identify, assess, treat and monitor the risk profile within their business area. Users have the ability to add new risk and control information in the Assessor Tool (which may be specific to their area of business), but they cannot alter the underlying risk area framework





owner. Designed specifically with end users in mind, the Assessor Tool provides a user-friendly risk management tool. Users familiar with a Windows environment will find the Assessor Tool both easy to navigate and easy to learn.

Risk Evaluation: End Users Models provide qualitative risk evaluation based upon the likelihood of a risk being realised and the potential consequence. The parameters used to assess both likelihood and consequence are defined in the Builder Tool.

Each risk is assigned an absolute risk score, a controlled risk score (residual risk) and if required, a treated risk score. Risks can be sorted and filtered on these scores (and other fields such as risk owner) and reports generated accordingly.

Online graphing illustrates the movement of risk across the three levels of assessment.

Risk Mitigation: The Assessor Tool enables mitigating action, or treatments, to be raised at a risk level. The system captures information specific to each

treatment, (e.g. description, status, priority, who is responsible for the action, treatment cost and key dates) to record where in its lifecycle the treatment currently is. Alerts can be raised in the system to help track and monitor treatments and progress reports can be generated.

Risk Monitoring: The Assessor Tool provides for the continuous monitoring of risks, controls and treatments. The system supports an automatic alert message functionality based on specified time periods. These can be set at any level in the hierarchy, i.e. for risks, controls and/or treatments.

A full audit trail is available from the Assessor Tool for all additions, deletions and changes to the database.

Incident/Loss Data: ERA provides an incident/loss database, enabling an organisation to capture incident / loss data across the business.

Users can select either financial or non-financial loss event functionality. Supporting a holistic

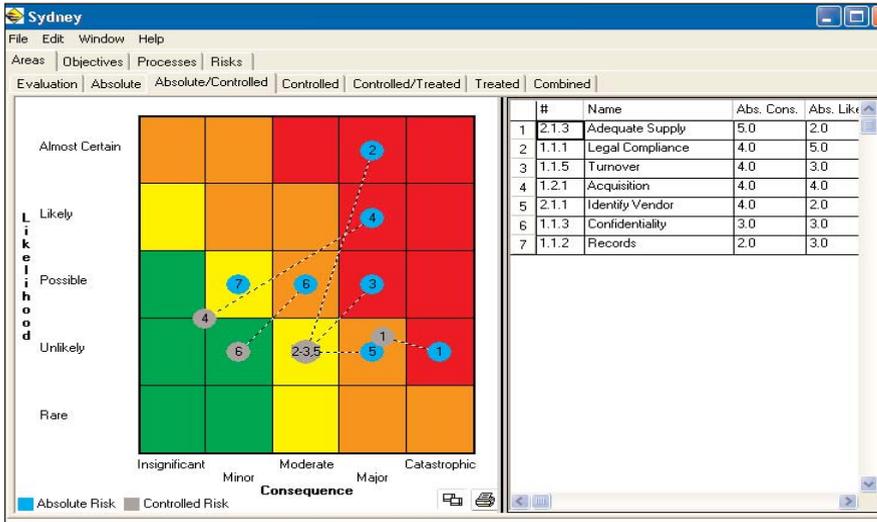
approach to loss event management, users can link both internal and external losses to key risks and controls in the risk framework and put in place treatments to prevent reoccurring losses.

Early Warning System: ERA provides an early warning system through use of Key Risk Indicators (KRIs). Indicator bounds (upper, lower and benchmark) can be set up for each indicator and tracked over time. Email alerts can be set up to warn when one or more of these bounds have been breached. Information for each KRI can be imported from flat files generated from other business systems (e.g. the HR system).

Reporting: Supporting both generic and ad hoc reports, the Assessor Tool provides full interface to Microsoft® Word and Excel for reporting and analysis. Report templates can be fully customised to reflect the organisation's current reporting formats. Sophisticated sorting, filtering, graphing and reporting ensure that business managers have ready access to key information in a format that makes sense to them.

Additional functionality, such as Word Form reporting, provides rapid and accurate distribution and consolidation of information from multiple business areas where users are not given direct access to the database. Word Form reporting involves generating a series of risk assessments from the Assessor Tool in a Word document format for completion by individuals. The completed data is then automatically extracted from the documents and loaded into the database for reporting and analysis.

HTML reports are also available, enabling the organisation to share and collect risk information across the company Intranet.



- ✎ Data collected by users at the business unit level can be rolled up and viewed at a company-wide level.
- ✎ Increased security applied to the access of confidential information
- ✎ Security ensures that only authorised users have access to data stored in the database.
- ✎ A consistent approach allowing skills transfer across the organisation
- ✎ Defining the risk framework and variable settings in the Builder Tool ensures consistency in the risk management approach and terminology across the organisation.
- ✎ Improvements to the quality of data capture and use
- ✎ The system provides a structured

The Consolidation Tool

Individual risk profiles captured in the Assessor Tool can be loaded into the Consolidation Tool to provide a consolidated view of risk across the business and/or over time. The Consolidation Tool provides users with the ability to analyse risk and control information across the organisation, in particular to:

- Identify and report on the top ‘n’ risks across the organisation at a point in time.
- Identify ineffective controls.
- View, summarise and report on all losses across the organisation.
- View and report on all treatments raised across the organisation.
- Compare and report on risk profiles across business units, division, geographic location etc.

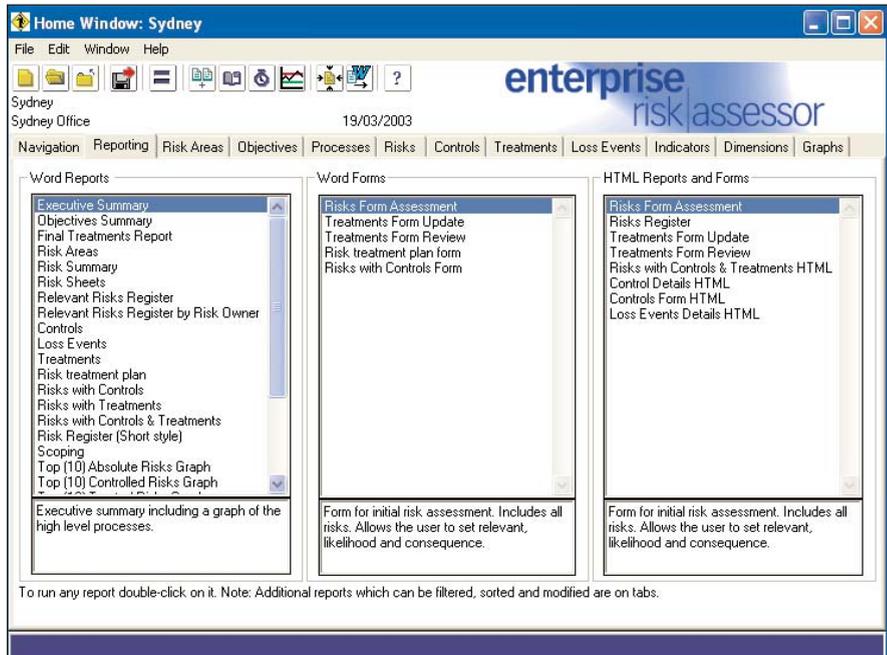
Consolidated enterprise wide risk assessments for the Board, investors/lenders and regulatory bodies can be generated in the Consolidation Tool.

ERA is available in a number of different solutions, depending on the needs and size of an organization.

Benefits of Implementing ERA

Implementing ERA will provide:

- ✎ A formalised means of logging risk information across multiple



- business units
- ✎ All users are provided with a management tool to record, assess, treat, and monitor risks specific to their business area.
- ✎ A risk management approach which enable risks to be managed locally and collated centrally

- environment for the collection and treatment of risk information. Data recorded in the database can be readily accessed for analysis, monitoring and reporting purposes.
- ✎ A reduction in manual processes and elimination of duplication

- ↘ One of the primary benefits of automation is an elimination of duplication. The system has sophisticated linking facility, enabling many-to-many relationships to be created and effectively managed.
- ↘ Improved management reporting by producing a snapshot of compliance to Risk Management procedure at all levels within the organisation at any time and an overview of the risk profile of and major risks facing the company
- ↘ ERA has sophisticated reporting (both ad hoc and generic) available. Reports can be generated at an individual business unit level to identify key risks for that unit or at

- a company level to identify major risks facing the organisation.
- ↘ The delivery of more informative results than conventional spreadsheets
- ↘ Updated reports can be generated from the system at the touch of a button, improving report turn around time. This ensures resources are spent collecting and analyzing key risks rather than reporting on those risks.

ERA incorporates or is consistent with the following standards, methodologies and regulations:

- ↘ Clause 49 of the Listing Agreement of Stock Exchanges

in India.

- ↘ Basel II Sound Practices for the Management and Supervision of Operational Risk
- ↘ Sarbanes-Oxley Act Sections 302 & 404 (The establishment and reporting of internal controls)
- ↘ COSO Enterprise Risk Management Framework (The generic COSO business model framework is provided with ERA)
- ↘ ISO 17799 Code of practice framework for Information Systems Security
- ↘ AS/NZS 4360:1999 Risk Management Standard

(Contributed by Deepjee Singhal and Manish Pipalia)

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