

Assignment 11

Board Risk Oversight

Educational Objective (EO)

Describe the responsibilities and functions of an organization’s board of directors in providing effective risk management oversight.

Instructions

Activity 1 — Describing Board Risk Oversight

Game or Group Activity: Jeopardy-style Game

This activity is written to be presented as a “Jeopardy-style” quiz game. To present this activity as a game, divide the participants into small groups to form teams and ask each team to assign a team leader. Read the questions aloud and then wait for the team leader to provide the correct answer. Assign one point to teams for correct answers. At the end of the questions, the team with the most points wins. Note: The answers to the activity are in the form of a question as required by the Jeopardy quiz show.

Alternate Group Activity Followed by Large Group Discussion

Divide the participants into small groups. Ask the participants to answer the questions in **Activity 1— Describing Board Risk Oversight**.

Debrief:

Review the answers with the group.

Activity 1 — Describing Board Risk Oversight

Questions	Answers
1. The primary executive in charge of risk management throughout an organization.	
2. This is the primary difference between having an audit committee oversee risk management and having a separate risk committee.	
3. This United States financial reform legislation passed in 2010, establishes requirements for risk committees at bank holding companies and certain nonbank financial holding companies and sets specific rules for risk oversight and reporting.	
4. This type of audit may also complement the work of the risk committee by producing informal reports on the scope and nature of risks within the organization.	
5. Recent trends in government regulations have instituted more formal requirements for organizations' boards, especially for the boards of these types of companies.	
6. This is the purpose of a board's audit committee.	
7. Open and constructive communications between these parties is essential to ensuring that an effective risk management culture exists within an organization.	
8. Sarbanes-Oxley requires both these C-level officers to certify that the financial statements are correct and valid under penalty of fines and imprisonment.	
9. These parties are escalating boards' requirements, mandating that they demonstrate that appropriate risk management processes and adequate oversight are in place.	

Questions	Answers
10. The New York Stock Exchange governing principles suggest that there should be _____ between the board and the management team, but also indicate that both teams should still work together toward a common goal.	
11. An audit committee works with these types of auditors to ensure that the organization is in compliance with governmental regulations.	
12. Although the form and function of the risk committee differs from organization to organization, these are certain common principles that are followed.	
13. This stock exchange has strengthened its requirement for boards to report on their risk management oversight activities.	
14. This agency’s review focuses on how well an organization identifies its key risks and how well it makes decisions that are consistent with the organization’s stated appetite and tolerance for risk.	
15. If an organization does not have a formal CRO, who serves as the primary executive in charge of risk management throughout an organization, these C-level roles might assume the CRO duties and functions.	
16. The broad categories of risks that a board must oversee include these.	
17. This stock exchange’s principles for board governance now include several direct references to a board’s risk management responsibilities, including establishing effective systems and establishing suitable compensation incentives for “appropriate—but not excessive—risk-taking.”	

Questions	Answers
18. This act requires public companies in the U.S. to report on their operational risks and on the adequacy of their organizations' internal controls to monitor those risks.	
19. Larger organizations, especially in financial services, are establishing this senior management position.	

Answers to Activity 1 — Describing Board Risk Oversight

Questions	Answers
1. The primary executive in charge of risk management throughout an organization.	Who is the Chief Risk Officer (CRO)?
2. This is the primary difference between having an audit committee oversee risk management and having a separate risk committee.	What is: <ul style="list-style-type: none"> • audit committee—focus is on compliance with existing standards, and • risk committee—focus should be on setting new and appropriate standards and evaluating the existing standards?
3. This United States financial reform legislation passed in 2010, establishes requirements for risk committees at bank holding companies and certain nonbank financial holding companies and sets specific rules for risk oversight and reporting.	What is the Dodd-Frank Act?
4. This type of audit may also complement the work of the risk committee by producing informal reports on the scope and nature of risks within the organization.	What is an internal audit?
5. Recent trends in government regulations have instituted more formal requirements for organizations' boards, especially for the boards of these types of companies.	What are financial services companies (like banks)?
6. This is the purpose of a board's audit committee.	What is assessing the organization's compliance with its stated internal procedures and financial reporting systems as well as with regulatory and legal requirements?
7. Open and constructive communications between these parties is essential to ensuring that an effective risk management culture exists within an organization.	Who are the board and management?
8. Sarbanes-Oxley requires both these C-level officers to certify that the financial statements are correct and valid under penalty of fines and imprisonment.	Who are the CEO and the CFO?

Questions	Answers
9. These parties are escalating boards' requirements, mandating that they demonstrate that appropriate risk management processes and adequate oversight are in place.	Who are legal and regulatory authorities?
10. The New York Stock Exchange governing principles suggest that there should be _____ between the board and the management team, but also indicate that both teams should still work together toward a common goal.	What is constructive tension?
11. An audit committee works with these types of auditors to ensure that the organization is in compliance with governmental regulations.	What are internal and external auditors?
12. Although the form and function of the risk committee differs from organization to organization, these are certain common principles that are followed.	<p>What are:</p> <ul style="list-style-type: none"> • Ensuring that a risk management process is in place at all levels of the organization and that the risk management process is being adhered to • Identifying and quantifying risks within the organization • Defining the organization's risk appetite and tolerance • Prioritizing the selection of risks to determine those that should be retained within the organization and those that should be reduced, eliminated, or transferred?
13. This stock exchange has strengthened its requirement for boards to report on their risk management oversight activities.	What is the Tokyo Stock Exchange?
14. This agency's review focuses on how well an organization identifies its key risks and how well it makes decisions that are consistent with the organization's stated appetite and tolerance for risk.	What is Standard & Poor's?

Questions	Answers
15. If an organization does not have a formal CRO, who serves as the primary executive in charge of risk management throughout an organization, these C-level roles might assume the CRO duties and functions.	Who are the CEO or the CFO?
16. The broad categories of risks that a board must oversee include these.	What are: <ul style="list-style-type: none"> • Strategic risks—that arise from trends in the economy and society • Operational risks—that arise from people, processes, systems, or controls • Financial risks—that arise from the effect of market forces on financial assets or liabilities
17. This stock exchange’s principles for board governance now include several direct references to a board’s risk management responsibilities, including establishing effective systems and establishing suitable compensation incentives for “appropriate—but not excessive—risk-taking.”	What is the New York Stock Exchange?
18. This act requires public companies in the U.S. to report on their operational risks and on the adequacy of their organizations’ internal controls to monitor those risks.	What is Section 404 of the Sarbanes-Oxley Act?
19. Larger organizations, especially in financial services, are establishing this senior management position.	What is the chief risk officer (CRO) role?

Internal Controls Support to Risk Monitoring

Educational Objective (EO)

Explain how organizational environment and internal control techniques support risk monitoring efforts.

Instructions

The first part of this activity involves creating a business scenario. You may consider having some examples ready to use in class, if participants are not able to create one. Alternatively, you could assign part one of the activity as pre-work.

Activity 1 — Describing How Internal Control Techniques

Support Risk Monitoring Efforts Case Study

Group Activity Followed by Large Group Discussion

Divide participants into two small groups and provide each group with a flipchart. This activity has two parts. Groups can use the exhibits in the content for this activity.

1. Create a business and brief business scenario.
The first part of the activity is to ask each group to come up with their own business scenarios with enough information to identify internal controls that would best achieve the goals of the business.
2. Identify internal controls for the business.
For the second part of the activity, have each group swap their scenarios with the other group and provide a brief overview to ensure the groups understand the business and business details. The groups then need to identify and explain the internal controls that would best achieve the goals of the business.

Debrief:

Call on each group to present their group's business, business information, and the recommended internal controls for the business. Discuss the process and what factors they used to develop their recommendations.

Internal Audit Support to Risk Monitoring

Educational Objective (EO)

Explain how the responsibilities and functions of an internal audit differ from those of internal controls and how an internal audit provides support to an organization's risk monitoring efforts.

Instructions

Activity 1 — Explaining Internal Audit Support to Risk Monitoring

Group Activity Followed by Large Group Discussion

Divide the participants into four groups and provide flipcharts for each group. Assign each group a component of an internal audit to “teach-back” to the larger group—topics should include how the responsibilities and functions of an internal audit differ from those of internal controls.

Reconvene the large group and have each group present their content.

- Defining Internal Audit
- Benefits to the Organization
- Risk Management and Internal Audit
- Risk-Based Auditing

Debrief:

Reconvene the large group and ask each group to present their topic. Engage the participants in a discussion using these questions:

- Why would an organization use internal controls?
- Describe internal audit.
- Describe the function of an internal audit department.
- What does risk-based auditing focus on during the internal audit process?

Risk Assurance to Evaluate Risk Management Performance

Educational Objective (EO)

Describe risk assurance methods that advise an organization of its risk management performance level.

Instructions

Activity 1 — Describing Risk Assurance to Evaluate Risk Management Performance

Individual Activity Followed by Large Group Discussion

Ask participants to complete the questions in **Activity 1— Describing Risk Assurance to Evaluate Risk Management Performance**.

Alternative: You could assign this activity as pre-work. If used as an assignment, participants should come prepared to discuss their answers in class.

Debrief:

Reconvene the large group and ask for volunteers to share their answers. Engage the participants in a discussion using these questions:

- What are the characteristics that a high level of risk assurance gives an organization?
- Does CRSA replace an internal audit? Explain.
- What are some of the risk assurance benefits to internal and external stakeholders?

Activity 1 — Describing Risk Assurance to Evaluate Risk Management Performance

Questions	Answers
1. Describe risk assurance.	
2. Risk assurance can be provided through many different courses within the organization. List three examples of these sources.	
3. Describe the Control Risk Self-Assessment model and the purpose of the model.	
4. What are the benefits of risk assurance to an organization?	

Answers to Activity 1 — Describing Risk Assurance to Evaluate Risk Management Performance

Questions	Answers
1. Describe risk assurance.	Risk assurance refers to the level of confidence in the effectiveness of the organization’s risk management culture, practices, and procedures.
2. Risk assurance can be provided through many different courses within the organization. List three examples of these sources.	<p>Answers may include:</p> <ul style="list-style-type: none"> • Policy and procedures documentation, which include safety manuals, training plans, disaster recovery plans, product recall procedures, and data privacy protection plans • Normal business unit and department operating reports • Internal audit reports of operations and processes, internal controls, and risk monitoring • Risk management reports and documentation
3. Describe the Control Risk Self-Assessment model and the purpose of the model.	<ul style="list-style-type: none"> • A process in which managers perform an annual self-audit of the risk assurance within their own particular area of responsibility. • Purpose—evaluate the effectiveness of business processes.
4. What are the benefits of risk assurance to an organization?	<ul style="list-style-type: none"> • Reduces the potential for financial surprises • Enhances the organization’s reputation • Breeds greater confidence in the long-term health and vitality of the organization

Risk Management Monitoring and Reporting

Educational Objective (EO)

Identify the elements of effective risk management reports.

Instructions

Activity 1 — Summarizing the Components of Risk Management Monitoring and Reporting

Individual Activity Followed by Large Group Discussion

Divide the class into three sections. If necessary, provide participants with a sheet of paper. Assign each section a component of risk management reports. Ask participants in each section, as individuals, to write a summary on their assigned topic:

- Class section 1: Risk Reporting
- Class section 2: Managing Data
- Class section 3: Report Formats

Debrief:

Reconvene the large group. Ask participants from each section to swap papers with a participant in a section that was assigned a different topic. Call on two or three participants from each section to read their summary until all the components of risk management monitoring and reporting have been covered with the class.