The Uncertain Times

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Welcome to the fourth edition of **The Uncertain Times** – a regular newsletter bringing you snippets from the Business and Risk Management Industry.

In this edition we highlight the new draft of King IV and discuss the importance of corporate strategy alignment and how risk management can assist, as well as the use of Bow Tie analysis and determining critical controls.

Mondial
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KING IV: What is new?

Written by Vanessa Thurlwell

The draft of King IV was released for public comment in early 2016 and some significant changes are evident.
One of the main changes is that "Apply or explain" is now "Apply AND explain" where companies need to explain the practices that give effect to the principles. Another general change is that the 75 principles in King III have been consolidated to 16 principles and are each linked to very distinct outcomes, with recommended practices and specific disclosures.

Other changes and new additions include:

- The definitive requirement for a Social and Ethics committee.
- The inclusion of stakeholders in governance processes and allowing them to hold the Board accountable.
- Recognising Information, separate from Information Technology, as a corporate asset and confirming the need for protection and enhancement.
- In risk management, a focus on the opportunity side of the impact of risks, and even naming the Risk Committee a "Risk and Opportunity Committee".
- In a group of companies, implementation of a group governance structure is allocated to the holding company Board.
- Management should develop the organisational strategy, with the Board providing oversight to the process.
- Creating more overlap between the Risk and Audit Committees and other areas to improve their functioning.
- Increase to five levels of Combined Assurance.
- Instead of a tick box to determine independence, the "perception" of independence by an informed third party will be considered.
- Increased emphasis and enforcement of disclosures, to the point that examples are given.
- Greater focus and instruction for integrated reporting.

Please contact us if you require further information or explanation.

Contact us for any advice or assistance in the following areas:

- Enterprise Risk Management
- Emergency and Business Continuity Management
- Governance and Compliance
- Risk Management Software Solutions
- Internal Audit
- Corporate Secretarial
- Environmental Risk Management
- Sustainability Risk Management
- Human Failure Analysis

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Corporate Strategy Alignment and Risk Management

Written by: Craig Smith

Corporate strategy is the conscious blend of strategic goals that support the mission and vision of an organization. When a corporate strategy is aligned, the key outcomes or goals of the organisation are cohesive and integrated with the key operations and the tactics required to execute the corporate strategy. In other words, all parts of the organization's attributes and systems (the sum of internal and external functions of an organization's environment) are moving in the same well-defined direction.

When strategy is misaligned, operational initiatives are often out of sync with the strategic goals of the organisation. It is critical to identify strategic misalignment early since misalignment can lead to disordered and untidy reactions with problems that can compound quickly and lead to serious issues.

In our experience, the reason for the disconnect is that different layers of management do not always have the same capabilities or levels of understanding related to defining strategic priorities, identifying and managing the relevant strategic risks, establishing appropriate causes and drivers, and determining appropriate strategic and tactical responses. The goal is to recognise the barriers to achieving success and create alignment throughout the organisation. Organisations most likely to succeed are those that successfully align their operating model (how they operate) with their strategy (where they want to be).

As the business executes its strategy, it creates and increases its exposures to uncertainty. Therefore, objectives and strategies provide the context for understanding the risks the business desires to take. The ISO 31000 model affirmed this point by establishing objective and context setting as a key component of the ERM framework.

Risk management plays a pivotal role in ensuring that the organisation remains on the course charted by its strategic intent since the basis for risk assessments is contained in the context and objective setting process of risk assessments.

Objective setting should constitute the beginning of the organisation's risk management approach and the organisation should set strategic, financial, operational, and other objectives during its annual planning processes and throughout the year. These objectives should then cascade through the organisation to individual operations, programmes, projects and teams and become the basis for the contextualisation and identification of related risks.

Risk management programmes that are focused on and consistently aligned with strategic priorities and initiatives will provide the most efficient approach to organisational risk management. Strategic priorities often change over time, and if risk management activities do not address these changes and priorities, thereby ensuring that strategic alignment is maintained, associated efforts can become reactive, misaligned and compliance-focused rather than supportive of strategic decision-making.

When defining risk management goals and objectives, management should ask pertinent questions, such as those listed below:

- What are our business objectives and strategies and values? What are our targets?
- What specific possible future events do we face? Are they related?
- How sensitive are our strategies and operations to the occurrence of future events?
- How risky are our tangible and intangible assets for creating value?
- Which future events could affect our organisation's ability to achieve its objectives?
- How capable are we of responding to future events beyond our control?
- Do we have sufficient capacity to absorb significant unforeseen losses should they occur?

The above questions provide a powerful context for defining and aligning risk management goals along with strategic and operational objectives.

To read the full article, click HERE.

***Craig Smith** (PrEng, MBA) has 17 years' experience in the field of risk management and during that time has consulted to a range of clients in various industry sectors and regions.*
Craig is a dedicated organisational and strategic risk management consultant, a risk culture strategist who is passionate about organisational capacity building and performance management. There is no ideal organisational culture for governance or risk management but Craig can assist in developing your organisation's level of maturity by providing a proven programme with supporting processes.

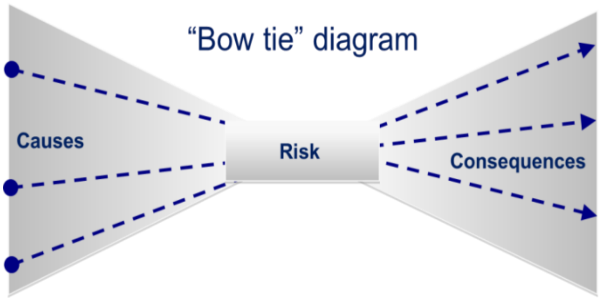
TOP 10 South African Country Level Risks

(IRMSA Risk Report, Second Edition)

- Insufficient electricity supply
- Increasing corruption
- Skills shortage
- Education and skills development
- Water crisis
- Structurally high unemployment / underemployment
- Lack of leadership
- Increasing strike action
- Failure / shortfall of critical infrastructure
- Severe income disparity

The value of Bow-Ties and Critical Control Analysis in focusing risk management

Written by:
Vanessa Thurlwell



In many organisations, when managers and employees are looking at their risks, the numbers of controls that are in place for managing such risks can be overwhelming. And it can be argued that it is impossible to remain focussed on such large numbers of controls and sub-controls.

A recommendation that can be made to address this is to re-evaluate the risks through conducting a Bow-Tie Analysis and determining the most critical controls. The benefits that can be realised include having a clearer understanding of the risks, their causes and impacts and understanding the links between causes and controls on one hand and the impacts and controls and the targeted manner in the way good controls should be designed and operated. The importance of determining the most critical controls is to ensure that the balance of focus on the controls is on 20 % of the controls that manage 80 % of the risk.

The analysis of the risk in more detail involves the following process:

- Establishing which are the biggest or most common causal factors of the risks
- Determining common causes or failure trends if any were evident.
- Determining whether there is at least one control for each cause and at least one control for each impact.
- Determining if there are any redundant or duplicate controls that are managing the same cause or control,
- Determining which of the many controls in place to manage the risks are the most critical

The Risk Bow-Tie methodology / tool has been specifically developed to analyse risks further, and move us to a point of being able to determine and address critical controls. The methodology is based on well recognised Failure Mode Effect Cause Analysis principles (FMECA) and enables a more detailed understanding of risk causal factors, resulting in a better understanding of the controls that we employ to treat known risks.

By utilising the Bow-Tie, we are able to gather evidence as to whether each key cause is being treated and whether the controls are appropriate given the causal factors of the risk. We are able to determine if each impact will be responded to in the event of the risk occurring and are the controls appropriate given the potential impacts. The Bow-Tie also allows us to categorise controls in terms of reliability: engineering based controls are the most reliable, then system based controls, followed by people based controls.

This level of information giving a greater insight into the control environment, leads risk managers, managers and employees to a point of being able to determine critical controls. Given the many preventative and mitigating controls that are often in place to manage a risk, it becomes important for management to focus on the key ones that have the greatest potential to prevent or mitigate consequences.

Critical controls are typically those controls that are either the only barrier or layer of protection available, or are used to prevent multiple causes of the event. Critical controls need to be independent of other controls and the highest possible reliability. In addition to the above attributes, critical controls need to receive management attention through the allocation of control owners, development of performance standards and consistent management verification of the adherence to these controls.

Managing significant risks is a fundamental responsibility at all levels and functions across an organisation as the risks are well known and will cause significant impacts to the business and its people. Controls that are in place for both preventing and responding to significant risks are important, and of those controls, particularly the critical ones need to be maintained, tested and continually improved.

The management of significant risks will never be complete, but can be continually improved and made more focussed to strengthen management, employee and other stakeholder confidence.

To read the full article, click [HERE]

***Vanessa Thurlwell** is a Senior Risk Consultant responsible for Risk Management, Business Continuity Management and training.*
Vanessa's specialist skills include advisory and implementation at all phases of the risk management cycle, from analysing risk management maturity and conducting gap analyses against risk frameworks and regulations including King III, ISO 31000, developing risk appetite and risk management frameworks and facilitating risk management activities, such as risk assessments, control self assessments and training.

THE FUNNY SIDE