A Practical Approach to Establishing the Risk Appetite

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Panelists

- Jim Dalkin, MBA, MLA, CGFM, CPA, Director, Financial Management and Assurance, GAO
- Dr. Doug Webster, DBA, CGFM, PMP, CGEIT, Director, Risk Management Team, U.S. AID (founding member and Past President of the Association of Federal Enterprise Risk Management)
- Mike Wetklow, MPA, CGFM, CPA, Deputy CFO and Division Director, National Science Foundation
- Jeff Steinhoff, CGFM, CPA, CFE, CGMA, Managing Director, KPMG Government Institute (Moderator)
Setting the Context for the Risk Appetite

Why ERM
- End game = Achieving strategic mission objectives
- From OMB Circulars A-11 and A-123:
  - Creates and protects value
  - Integral part of all organizational processes
  - Part of decision-making
  - Explicitly addresses uncertainty
  - Systematic structured and timely
  - Based on the best available information
  - Tailored and responsive to an organization's evolving risks
  - Takes human and cultural factors into account
  - Transparent and inclusive
  - Dynamic, iterative, and responsive to change
  - Facilitates continual improvement of the organization

Addressing risk
- Acceptance
- Avoidance
- Reduction
- Sharing

OMB Circular A-123, July 15, 2016
Finding the right balance

“Federal managers must carefully consider the appropriate balance between risk, controls, costs, and benefits in their mission support operations. Too many controls can result in inefficiencies, while too few controls may increase risk to an unacceptable level.”

OMB Circular A-123, July 15, 2016

Risk appetite

“The broad-based amount of risk an organization is willing to accept in pursuit of its mission/vision. It is established by the organization’s most senior level leadership and serves as the guidepost to set strategy and select objectives.”

OMB Circular A-123, July 15, 2016

Risk tolerance

- “The acceptable level of variance in performance relative to the achievement of objectives. It is generally established at the program, objective or component level. In setting risk tolerance levels, management considers the relative importance of the related objectives and align risk tolerance with risk appetite.” (OMB Circular A-123)
- “The acceptable level of variation in performance relative to the achievement of objectives. Management defines the risk tolerance for defined objectives by ensuring the set levels of variation for performance measures are appropriate for the design of an internal control system.” (GAO Green Book)
Portfolio view of risk

“Provides insight into all areas of organizational exposure to risk (such as reputational, programmatic, performance, financial, information technology, acquisitions, human capital, etc.), thus increasing an Agency’s chances of experiencing fewer unanticipated outcomes and executing a better assessment of risk associated with changes in the environment.”

OMB Circular A-123, July 15, 2016

Panelist Questions

Your questions and comments

Now let’s hear from you!
A big round of applause!
Thank you so much for attending this session.
Please give special thanks to our outstanding panel!