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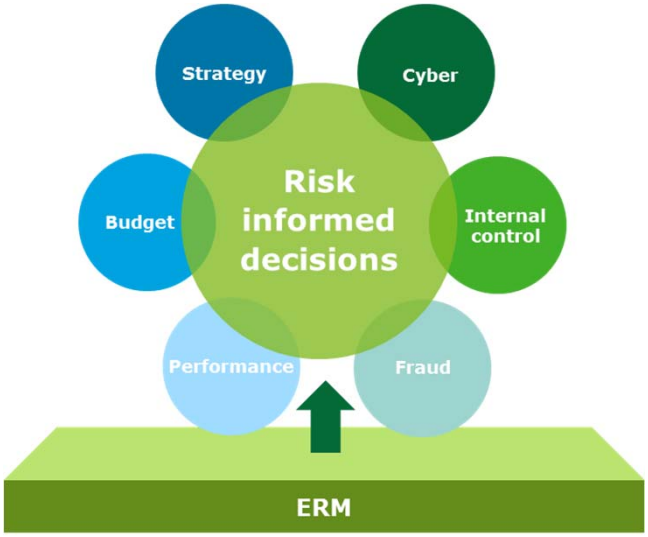
Driving greater value from Enterprise Risk Management (ERM) integration with agency-wide management activities

How ERM can strengthen your core management processes and other risk management activities

What should be integrated?

As agencies mature their ERM programs, greater value can be driven by leveraging ERM to support and strengthen other agency-wide management activities. These management activities, which are critical to mission success, include the six shown in the figure to the right.



Important information from an ERM program that can and should be integrated and shared across these activities includes:

- Risk profile
- Risk analytics & sensing
- Risk responses
- Risk appetite
- Risk tolerances
- Key risk indicators (KRIs)

How and when ERM is integrated with these activities depends on a variety of factors and should be tailored to each agency's unique circumstances.

Some benefits of integration

Core management processes

Strategy
Risks to mission both external and internal should inform and shape strategies as well as provide awareness to challenges to and from implementing those strategies.

Budget
Leadership should be aware of risk information when making budget decisions so tradeoffs are understood clearly and the impact of resource allocation on risks is a conscious choice.

Performance
Through the use of KRIs as "leading" performance metrics, agencies can use ERM to look forward, rather than solely relying on traditional "lagging" indicators for performance.

Other risk management activities

Cybersecurity
ERM helps agencies see how cybersecurity risks impact many of the other risks an agency faces given the increasing reliance on information systems to carry out mission functions. Integration also helps agencies align implementation of National Institute of Standards and Technology (NIST) cyber risk requirements with the broader ERM framework, so that cyber risks and other enterprise risks are treated consistently.

Internal control
Integrating ERM and internal controls provides greater assurance that mitigants and controls for enterprise-level risks are operating effectively.

Fraud
ERM programs can go beyond existing fraud risk management activities by creating a culture of risk awareness that proactively identifies risk and provides a risk reporting processes for employees across an agency.

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ERM: Connecting the dots

Where ERM can integrate with your core management processes and specialized risk management activities

Strategy

Risks that inform development of the strategic plan: Identifying and assessing the risks from the internal and external environment that help determine which goals and objectives to choose in the first place

Risks to the implementation of the strategic plan: Identifying and addressing risks that may prevent you from achieving the goals and objectives in your plan

Risks generated from implementation of the strategic plan: Managing the new risks created by implementing the strategy itself, or its unintended consequences

Budget

Risk profile: Programs consider the agency's risk profile (or their own program-level risks) and request funding in the agency's budget request to manage those risks

Risk appetite: The risk appetite statement should be used to guide tradeoff decisions during budget formulation, execution, allocation/re-allocation, and cuts

Risk responses: Throughout the year, the agency and specific programs should look at their spending and identify surpluses that can be used to respond to risks

Performance

Key Performance Indicators (KPI) and KRIs: KPIs are lagging indicators that measure progress toward strategic goals and operational objectives. ERM programs that establish KRIs as leading indicators can provide early warnings of risks to agency performance

Risks to performance: Agencies can use ERM to identify new risks to their goals and assist in establishing KPIs and KRIs to monitor those risks. Tools such as risk sensing can help provide early warning signals of external factors that could influence the direction of a KRI or KPI – and allow agencies to take proactive measures to keep metrics moving in a favorable direction

Cybersecurity

Risk identification: ERM can help agencies identify risks arising from their cyber activities or recognize dependencies with other identified enterprise risks that affect the agency's cybersecurity efforts

Risk tolerance: ERM can provide a blueprint for cyber programs to develop risk tolerance levels that are consistently applied to information systems and processes across the agency. These thresholds can help agencies respond to cyber-related risks in ways that are commensurate with established tolerance levels

Internal control

Identify, assess, and prioritize risks: Use internal control data to measure risk likelihood and vulnerability

Respond to risks: Develop risk response plans, including assessments on the effectiveness of controls and identification of gaps

Monitor and report risks: Show how the risk profile aligns existing controls with risks and how analysis on the presence and effectiveness of internal controls informs how agencies allocate resources to manage risks with significant control gaps

Fraud

Risk profile: ERM incorporates the fraud risk management activities required for agencies by the Fraud Reduction and Data Analytics Act of 2015 and the Government Accountability Office (GAO) Green Book. Agencies that effectively employ GAO's fraud risk management framework can analyze their activities for fraud using techniques uniquely adapted for these risks and incorporate critical risks into the agency's risk profile

Risk response: ERM programs should work closely with fraud subject matter experts to ensure fraud risks are responded to consummate to the agency's overall risk appetite. Existing fraud risk management activities can effectively respond to individual fraud risks; however ERM can highlight opportunities for agencies to affect multiple risks—including beyond only fraud risks—in developing risk responses

To find out more about developing ERM capabilities and integrating with management processes, contact:

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