The Institute of
Internal Auditors
Indonesia

PROFESSIONAL AUDITOR FORUM

ENTERPRISE RISK MANAGEMENT

INTEGRATING WITH STRATEGY AND PERFORMANCE

ANGELA SIMATUPANG

DEFINING ERM

Recognising culture	Developing capabilities	Applying practices
Integrating with strategy-setting & performance	Managing Risks to Strategy & Business Objectives	Linking to Value

WHAT ERM FRAMEWORK DOES

COSO's Enterprise Risk Management—Integrating with Strategy and Performance does the following:

- It provides a framework for boards and management in entities of all sizes
- It builds on the current level of risk management that exists in the normal course of business
- It demonstrates how integrating enterprise risk management practices throughout an entity helps to accelerate growth and enhance performance
- And it contains principles that can be applied—from strategic decision-making through to performance

Enterprise risk management applies to all entities regardless of legal structure, size, industry, or geography, based on the following premises:

- Every entity—whether for-profit, not-for-profit, or governmental—exists to provide value for its stakeholders, and
- All entities face risk in the pursuit of value.

WHY IS ERM IMPORTANT?

- Our understanding of the nature of risk, the art and science of choice, lies at the core of our economy.
- Every choice we make in the pursuit of objectives has its risks. From day-to-day operational decisions to the fundamental trade-offs in the boardroom, dealing with risk in these choices is a part of decision-making.
- Organizations need to be more adaptive to change, and think strategically about how to manage the increasing volatility, complexity, and ambiguity of the world, particularly at the senior levels in the organization and in the boardroom where the stakes are highest.

BENEFIT OF ERM

Increasing the range of opportunities	Increasing the positive outcomes and advantages while reducing negative surprises	Identifying and managing entity-wide risks
Reducing performance variability	Improving resource deployment	Enhancing enterprise resilience

WHAT IS MY ROLE

As an entity management

As a Board member

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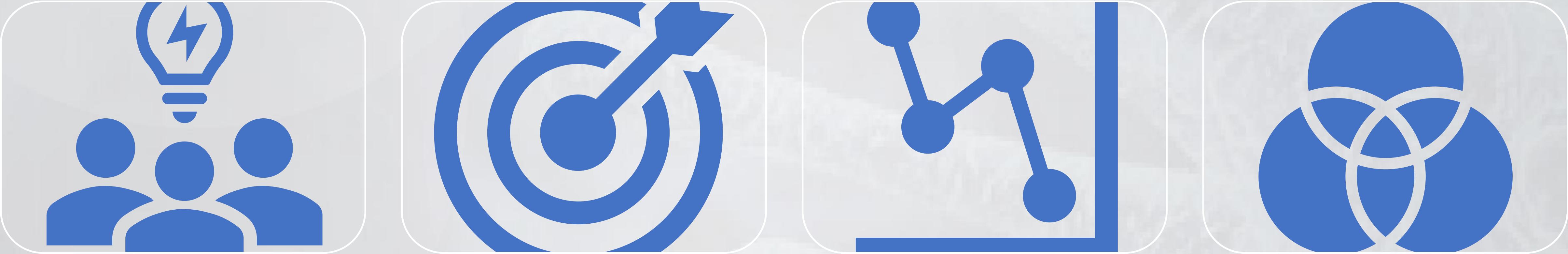
ERM AFFECTS VALUE



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ERM AFFECTS STRATEGY

- "Strategy" refers to an organization's plan to achieve its mission and vision, and to apply its core values. A well-defined strategy drives the efficient allocation of resources and effective decision-making. It also provides a road map for establishing business objectives throughout the entity.
- ERM does not create the entity's strategy, but it influences its development. An organization that integrates ERM practices into setting strategy provides management with the risk information it needs to consider alternative strategies and, ultimately, to adopt a chosen strategy.

ERM IS LINKED TO BUSINESS

Enterprise risk management practices integrate with all other aspects of the business, including:

- governance, in the form of allocation of roles and responsibilities,
- performance management, and
- internal control practices.

ERM & THE CAPACITY TO ADAPT, SURVIVE & PROSPER

- Every entity sets out to achieve its strategy and business objectives, doing so in an environment of change. Market globalization, technological breakthroughs, mergers and acquisitions, fluctuating capital markets, competition, political instability, workforce capabilities, and regulation, among other things, make it difficult to know all possible risks to the achievement of strategy and business objectives.
- Because risk is always present and always changing, pursuing and achieving goals can be difficult. While it may not be possible for organizations to manage all potential outcomes of a risk, they can improve how they adapt to changing circumstances. This is sometimes referred to as organizational sustainability, resilience, and agility. The ERM Framework incorporates this concept in the broad context of creating, preserving, and realizing value.

ERM & STRATEGY

HOW RISK MANAGEMENT CAN PREVENT MISALIGNMENT

Enterprise risk management can

- help an entity avoid misaligning a strategy, and
- provide an organization with insight to ensure that the strategy it chooses supports the entity's broader mission and vision for management and board consideration.

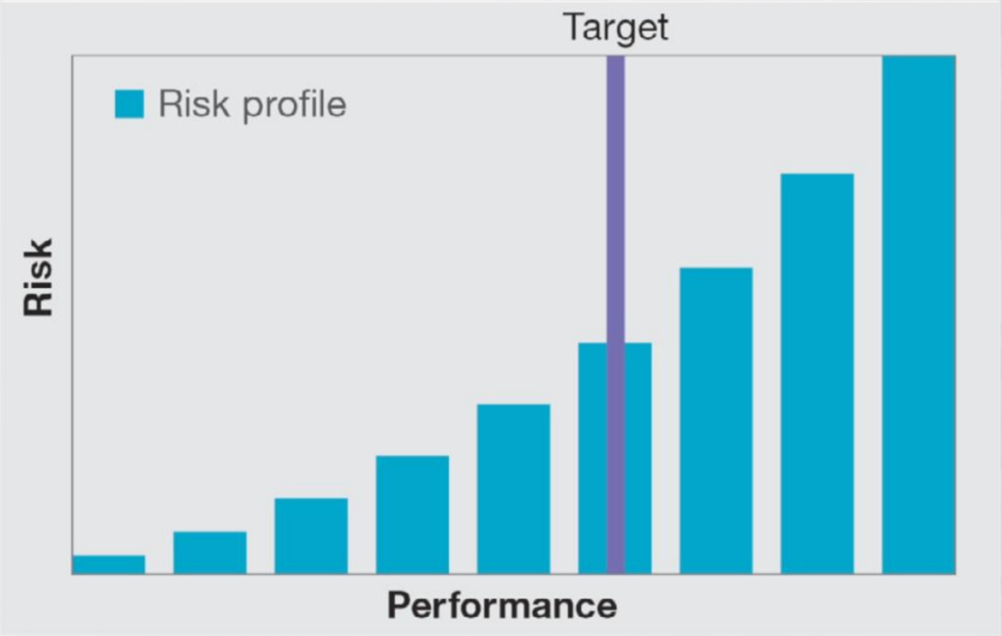
There is always risk to carrying out a strategy, which every organization must consider. Here, the focus is on understanding the strategy set out and what risks there are to its relevance and viability. Sometimes the risks become important enough that an organization may wish to revisit its strategy and consider revising it or selecting one with a more suitable risk profile.

The risk to carrying out strategy may also be viewed through the lens of business objectives. An organization can use a variety of techniques to assess risks using some kind of common measure. Wherever possible, the organization should use similar units for measuring risk for each objective. Doing so will help to align the severity of the risk with established performance measures.

ERM & PERFORMANCE

Assessing risk to the strategy and business objectives requires an organization to understand the relationship between risk and performance—referred to as the "risk profile."

There are several methods for depicting profile. The ERM Framework uses one to illustrate the relationship between various aspects of enterprise risk management.



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THE IMPORTANCE OF INTEGRATION

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- An entity's success is the result of countless decisions made every day by the organization that affect the performance and, ultimately, the achievement of the strategy or business objectives. Most of those decisions require selecting one approach from multiple alternatives. Many of the decisions will not be simply either "right" or "wrong," but will include trade-offs: time versus quality; efficiency versus cost; risk versus reward.
- When making such decisions, management and the board must continually navigate a dynamic business context, which requires integrating ERM thinking into all aspects of the entity, at all times.
- ERM is not simply a function or department within an entity. Rather, culture, practices, and capabilities are, together, integrated and applied throughout the entity.

TOWARD FULL INTEGRATION

For most entities, integrating enterprise risk management is an ongoing endeavour.

Factors that influence integration are
- entity culture and how long a risk-aware culture has been embraced, and
- entity size, type, and complexity.

ADDRESSING INTEGRATION IN THE ERM FRAMEWORK

Each component of enterprise risk management includes principles, which apply to creating, preserving, and realizing value in an organization regardless of size, type, or location. The principles and their components do not represent isolated, stand-alone concepts. Each highlights the importance of integrating enterprise risk management and the role of decision-making.

PRINCIPLES OF ERM

Within the five components are a series of principles, as illustrated in the figure. The principles represent the fundamental concepts associated with each component. These principles are worded as things organizations would do as part of the entity's enterprise risk management practices. While these principles are universal and form part of any effective enterprise risk management initiative, management must bring judgment to bear in applying them. Each principle is covered in detail in the respective course modules on components.

Governance & Culture

1. Exercises Board Risk Oversight
2. Establishes Operating Structures
3. Defines Desired Culture
4. Demonstrates Commitment to Core Values
5. Attracts, Develops, and Retains Capable Individuals

Strategy & Objective-Setting

6. Analyzes Business Context
7. Defines Risk Appetite
8. Evaluates Alternative Strategies
9. Formulates Business Objectives

Performance

10. Identifies Risk
11. Assesses Severity of Risk
12. Prioritizes Risks
13. Implements Risk Responses
14. Develops Portfolio View

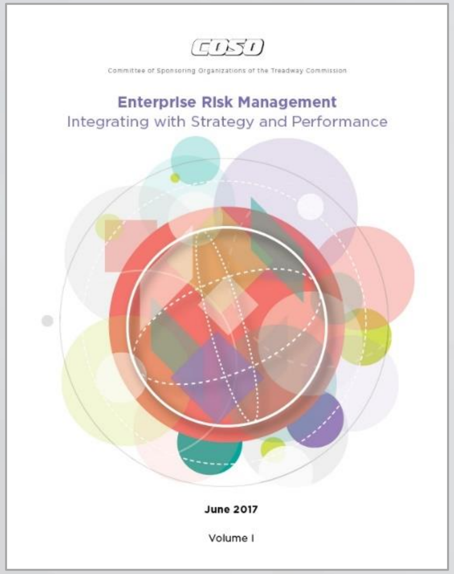
Review & Revision

15. Assesses Substantial Change
16. Reviews Risk and Performance
17. Pursues improvement in Enterprise Risk Management

Information, Communication, & Reporting

18. Leverages Information and Technology
19. Communicates Risk Information
20. Reports on Risk, Culture, and Performance

CHANGES FROM THE 2004 FRAMEWORK



- Provides greater insight into the value of enterprise risk management when setting and carrying out strategy.
- Enhances alignment between performance and enterprise risk management to improve the setting of performance targets and understanding the impact of risk on performance.
- Accommodates expectations for governance and oversight.
- recognizes the globalization of markets and operations and the need to apply a common, albeit tailored, approach across geographies.
- Presents new ways to view risk to setting and achieving objectives in the context of greater business complexity.
- Expands reporting to address expectations for greater stakeholder transparency.
- Accommodates evolving technologies and the proliferation of data and analytics in supporting decision-making.
- Sets out core definitions, components, and principles for all levels of management involved in designing, implementing, and conducting enterprise risk management practices.

YOUR SPEAKER TODAY

ANGELA SIMATUPANG

IIA Indonesia Vice President

Member of International Internal Audit Standards Board (IIASB) at IIA Global

Member of Global Board of Directors at RSM International

Senior Partner at RSM in Indonesia

Holder of CIA, CRMA, CRISC qualifications

Angela is a Director at the Global Board of RSM International Limited as well as a Senior Partner and Head of Consulting at RSM Indonesia, which service includes Management Consulting, Governance Risk Control, IT Consulting, and Corporate Finance & Transaction Advisory with experience in providing services for the public, not-for-profit, as well as the corporate sector.

Angela is also member of the International Internal Audit Standards Board (IIASB) at the Global Institute of Internal Auditors.

Joined RSM in 2000, seconded to Australia to assist with the risk advisory practice in Melbourne in 2005 and developed the risk consulting practice in Indonesia upon returning. Previous assignment includes Partner in Charge for Personnel and Head of Risk Advisory Service at RSM Indonesia. Member of the RSM Asia Pacific Risk Consulting Committee since 2010 and sit as International Contact Partner for RSM Indonesia.

Elected as Vice President of the Institute Internal Auditors Indonesia in 2018 after serving as Governor. Appointed as Corporate Governance Expert to represent Indonesia in ASEAN by Indonesia Financial Services Authority (OJK) since 2016.

Independent member of Audit Committee, Risk Monitoring Committee at one of the Top 10 Bank in Indonesia and member of the Integrated Corporate Governance Committee for its conglomeration group during 2015-2020.

One of team member that delivered the Indonesia Code of Corporate Governance, Indonesia Code for Good Public Governance, Whistleblowing System Guidebook issued by Indonesia National Committee on Governance. Was a lecturer for internal audit & risk management at the Master of Accounting and Professional Accountant Program at the University of Indonesia during 2008-10 and have written various articles to promote the awareness of governance in Indonesia since 2007.

Holds a number of professional certification in governance, risk and control, including Certified Internal Auditor (CIA) and Certificate in Risk Management Assurance (CRMA) issued by the Institute of Internal Auditors, Certified Internal Control Institute (CICS) issued by the Institute of Internal Control, Enterprise Risk Management Certified Professional (ERMCP) issued by the ERMA, Certified in Risk & Information Systems Control (CRISC) issued by the ISACA, as well as Certified GRC Professional (GRCP) and Certified GRC Auditor (GRCA) issued by OCEG.

Earned Master of Commerce in International Business and Management of Technology from the University of Sydney and Bachelor of Economy in Accounting from Trisakti University.

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TERIMAKASIH

Q & A