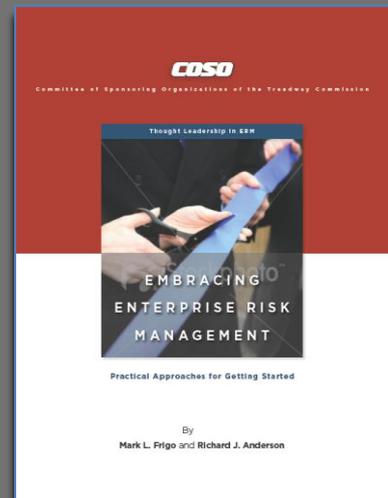


2011

Executive Summary: DePaul Forum on COSO

COSO Thought Leadership in ERM

The DePaul Strategic Risk Management Lab presented a Forum on COSO on May 10, 2011 with the theme "COSO Thought Leadership in ERM". This Forum included presentations by the authors of the four recent COSO thought leadership papers and reports, a presentation by David Landsittel, chairman of COSO and Executive in Residence at DePaul University and an audience of leading board members, executives and risk management professionals.



The **Strategic Risk Management Lab in the Center for Strategy, Execution and Valuation at DePaul University** sponsored a forum on recent thought papers and reports on Enterprise Risk Management released by COSO. The **Committee of Sponsoring Organizations of the Treadway Commission (COSO)** – is an organization that provides thought leadership and guidance on ERM, internal control, and fraud deterrence. It recently released four thought papers relating to ERM to assist organizations in progressing in their risk management activities. The forum, which was held on May 10th, included presentations by the authors of the thought papers commissioned by COSO, followed by a panel discussion by presenters who took questions and discussed topics of interest from the audience. The audience included board members, CFOs, Chief Risk Officers, Chief Audit Executives and other members of management teams who had an opportunity to hear the authors and also interact with them during a panel discussion.

"The Strategic Risk Management Lab at DePaul University is an engagement platform for thought leaders and business leaders to co-create and apply leading practices in ERM and Strategic Risk Management."

– *Dr. Mark L. Frigo, Director
Strategic Risk Management Lab*

Dr. Mark L. Frigo, Director of the Center for Strategy, Execution, and Valuation and Ledger & Quill Distinguished Professor of Accountancy at DePaul University opened the forum welcoming the participants and introducing the speakers. The list of presenters included David L. Landsittel who serves as the Chairman of COSO and who is also an Executive-In-Residence at DePaul University; Dr. Mark S. Beasley, Deloitte Professor of ERM, Director of the Enterprise Risk Management Initiative in the College of Management at North Carolina State University

and board member of COSO; David Brand, Managing Director and Central Region Internal Audit Lead at Protiviti and Richard J. Anderson, retired Partner of PricewaterhouseCoopers LLP and Clinical Professor at DePaul University. Dr. Mark L. Frigo discussed current activities of the Strategic Risk Management Lab, including recent work on strategic risk management as new core competency for executives.

The chairman of COSO, **David L. Landsittel**, gave an overview of COSO's current activities and future direction. He reviewed the main areas of focus for COSO including ERM, internal control, and fraud deterrence and related challenges. He noted that the COSO Internal Control – Integrated Framework, which was published in 1992, is undergoing the "refreshing" project/revision in collaboration with PwC.



Some Current ERM Challenges that Impact COSO

- Uneven support to adopt any formal risk management process
- Difficulty "getting started" with ERM implementation
- Failure to consider low likelihood but high impact risks – overconfidence
- Inadequate board oversight of risk management
- Less than robust ERM implementation – e.g. "Risk Appetite"

Landsittel also commented on the methodology and results of COSO's recently issued Fraud research study from the period of 1998 to 2007. In regards to the COSO ERM framework, Landsittel discussed several challenges during his presentation and COSO's response in the form of thought papers devoted to ERM aimed to help dealing with those issues. Six thought papers on ERM have been published in 2009-2011 with the goal to continue publishing on this topic and improve thinking on ERM.



"We intend to issue additional thought papers in the future, primary dealing with the risk management area and internal controls as well."

– David Landsittel, COSO Chair

Dr. Mark S. Beasley, an author of the **COSO's 2010 Report on ERM**, then discussed the objectives and key findings of that study, which surveyed executive level management in a variety of industries. He emphasized that the study focused on management's perspective on the current state of ERM and usefulness of the **COSO ERM - Integrated Framework**. Beasley commented that the major findings of the survey including data indicating that risk management processes were viewed as relatively immature and there was a general dissatisfaction with existing risk oversight. He concluded by discussing several recommendations that were contained in the survey report.



David Brand presented the thought paper **Board Risk Oversight – A Progress Report**, written by Protiviti and based on the survey of directors from multiple industries with the majority of

them being in the US. One of the major findings of this survey was the prevailing agreement among the boards of directors on the lack of robust risk oversight processes in their organizations. Brand also discussed six areas for improvement noted in the survey report and also provided the audience with examples based on his work experience. He concluded his presentation with an overview of the recommendations developed by Protiviti to improve board risk oversight effectiveness.

Recommendations for Improving Board Risk Oversight

- Implement a more structured process for monitoring and reporting critical enterprise risks and emerging risks
- Look for opportunities to enhance the risk reporting process to make it more effective and efficient and increase the regularity of reporting
- Come to an agreement with management on risk-related matters that need to be escalated to the board, addressing the what, when and why
- Encourage out-of-box, big-picture thinking focused on the critical assumptions underlying the corporate strategy to assess strategic risks
- Focus on whether developments in the business environment result in changes in critical assumptions underlying the organization's strategy

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Dr. Mark L. Frigo and Richard Anderson then presented the thought paper **Embracing Enterprise Risk Management: Practical Approaches for Getting Started**, which they co-authored. They elaborated the "keys for success" which are detailed in the paper to provide a foundation for an ERM initiative and to help organizations to recognize and deal with perceived barriers. They also emphasized the benefits of incremental, step-by-step approach. Frigo then discussed a detailed initial action plan contained in the paper examples of possible approaches to support the development of a tailored ERM initiative.



Seven Keys to Success

1. Support from the top is a necessity
2. Build ERM using incremental steps
3. Focus, initially, on a small number of top risks
4. Leverage existing resources
5. Build on existing risk management activities
6. Embed ERM into the business fabric
7. Provide ongoing ERM updates and continuing education for directors and senior management



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“ERM cannot be viewed or implemented as a stand-alone activity outside the organization’s core business processes.”

– *Richard J. Anderson, Strategic Risk Management Lab, DePaul University*

“Key risk indicators (KRI) are a performance metrics that are designed to be more forward looking, external focused and complement key performance indicators (KPI).”

– *Dr. Mark Beasley, ERM Initiative, North Carolina State University*

The formal presentations were followed by the Panel Discussion with Richard Anderson as a moderator. Questions related to the status of COSO ERM framework in comparisons with other frameworks, the “refreshing” project of Internal Control – Integrated Framework, challenges of implementing ERM, difficulties with management buy-in in ERM and many others were discussed by the presenters.

The presentations and the related COSO Thought Papers on Enterprise Risk Management are available on the Center for SEV website <http://commerce.depaul.edu/sev/>. For more information about future Risk Management Executive Roundtables, CFO Roundtables and customized executive education and presentations for boards of directors and management teams, please contact Dr. Mark L. Frigo at mfrigo@depaul.edu at the Strategic Risk Management Lab.

Beasley concluded the presentations by discussing the recent thought paper ***Developing Key Risk Indicators to Strengthen Enterprise Risk Management***. He emphasized the historical and internal nature of key performance indicators (KPI) versus forward looking, external nature of key risk indicators (KRI). The central theme of his remarks was the importance of developing effective key risk indicators that link to potential risks and then to strategies and objectives of any organization.