SOE Board Talk

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This week we continue the important topic of SOE risk management

Please contact SOEMU if there are any concerns or clarifications needed.

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In the last few weeks we have discussed risk management and how it is relevant to SOEs. We have presented a methodology for considering risk and developing a risk management system.This week we conclude on the important topic of risk management.

Transfer the risk

Sometimes risks can be shared among multiple organizations or agencies. The offering of financial guarantees by the government is an example, where the SOE is directed to apply all reasonable effort to repay a loan, but the 'last-resort' guarantee helps to mitigate the risk and secure the funds to enable activity to ensue.

In addition, an effective insurance program, can often share risks across multiple agencies, including the insurance underwriters themselves. Unfortunately for government only certain things are readily insurable and acts of god or natural disasters, terrorism, the impact of international financial markets, pandemics, uprisings and criminal activity remain among the multitude of activities that can cause havoc, huge cost and rehabilitation with little recourse or benefit other than international help, strong doses of goodwill and determination to move forward. A national emergency plan should be developed by government to assist in dealing with the aforementioned situations and as discussed, the SOE should also have an emergency or disaster recovery plan

Risk monitoring

The CEO needs to be the champion of risk management and needs to drive effective monitoring and review through personal leadership. The appointment of a senior officer to assist in implementation of the risk management process will assist in the daily and routine application of the various tasks and strategies being undertaken. This officer can perform general monitoring on both a formal and ad hoc basis and a formal review can be included in the work program of the internal audit division, with management receiving feedback and advice.

The CEO with support from the senior risk management officer can arrange for periodic, at least annual, formal review by way of meeting of key contributors and stakeholders. This meeting will revisit existing risks, evaluations and management activities and determine any modifications and additional assessments that are required.

It is recommended that the annual business planning process that requires review of external and internal factors and elements influencing the business plan, is a suitable time (if not undertaken on a more regular basis) for revisiting the risk register.

It also important to determine which of the identified risks and their management strategy should be regularly reported to the board. It would be expected that management will identify and manage a larger number of risks than those requiring regular reporting to the board. Management will deal with a number of operational risks that are neither sufficiently strategic or material to require active board involvement in the approval and monitoring of the risk management activities. A rule of thumb – if the board is presented with a risk management plan that contains anything more than 10 to 20 risks, it has probably ventured into operational matters that are better managed by the CEO and his team. Where this line is drawn – management or board overview – should be a function of the initial assessment of the potential impact of the risk on the business and process for determining how this assessment will be undertaken and the approval of its output should require board approval. For example, most of the 16 risks identified in the risk evaluation table would be risks that a board would consider including in its risk management overview.

Risk Management conclusion

The above matrices illustrate how the risk management process may develop. While these provide effective guidelines for RMI SOEs, they are not prescriptive as each SOE is different and may evaluate and treat similar risk in different ways. Only a selection (of quite generic risks) are detailed. It is anticipated that each SOE will complete a more thorough risk identification process.

Existing internal controls, insurance policies, functional and personnel policies and procedures that all contribute to the existing ‘modus operandi’ and mitigate risk should be encouraged and are part of the risk acceptance criteria ‘with adequate controls’.

Where the strategic and operational plans dictate, or a business decision arises that impacts on these controls, policies and procedures, the risk impact should be immediately assessed, and alternative risk management activities should be applied as necessary.

. Two additional examples follow:

Risk	Mitigation strategies	By When	Who
Major contract with a customer is due for renewal by Oct 2018	1. Establish Contract pricing and negotiating team 2. Complete competitor survey 3. Review cost base for contract 4. Commence direct discussion with customer re extension	Immediate Nov 2018 Dec 2018 Dec 2018	Board Marketing Manager Finance Manager CEO
Funding line with bank due to expire in Sep 2018	1. Undertake pricing review of other banks interest and line charges 2. Finance Manager to commence discussion with bank re roll over 3. Identify fall back funder if current bank is a) too expensive, b) indicates it needs more security, c) indicates a possible negative response	Immediate Immediate End Dec 2018	Finance Manager Finance Manager CEO

Good luck this week in the boardroom

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