Risk An overview and MIS An audit Perspective

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A global perspective

In recent years the audit committee has become one of the main pillars of the corporate governance system. The aim is enhancing confidence in the integrity of an organisation's processes and procedures relating to internal control and corporate reporting. Boards rely on audit committees to, among other things, review financial reporting and to appoint and provide oversight of the work of the external auditor. Audit committees can also play a key role in providing oversight of risk management.

The presentation……

Aspects of Risk and it's Importance.

Risk management.

Structure for running the business.

The Board committees.

Audit committee.

Risk is about potential negative Outcomes.

Risk and Uncertainty

- Risk is priced by financial markets assuming it depends on known distribution of events to which investors assign probabilities and price things accordingly.
- Uncertainty on the other hand relates to events, conditions, and possibilities that can't be predicted, measured or modeled.

- Is pricing right?

Risk Dimensions of Balance sheet components

Balance Sheet Components

Different Currencies

Different instruments

Different Markets

Different Maturities

Different Credit

Different Countries

Process , Systems, Settlements.

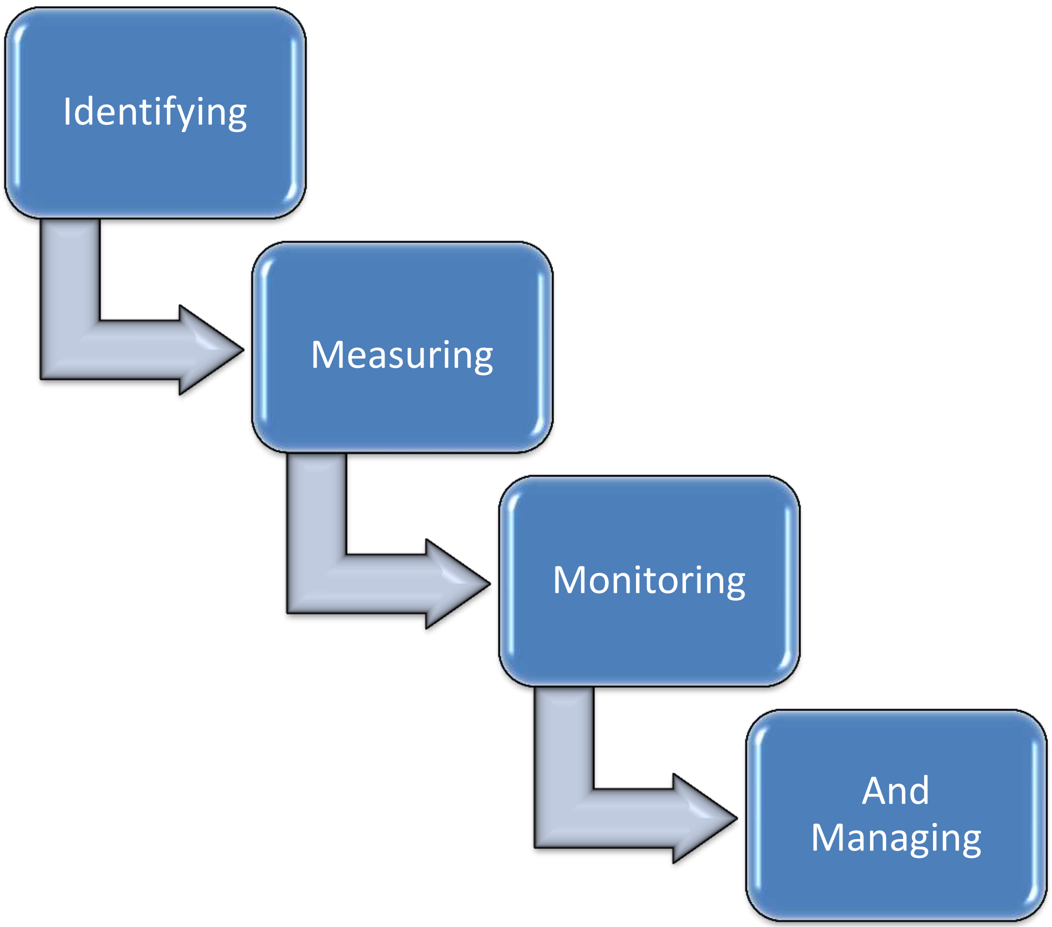
Risk dimensions of Balance Sheet

Components	Risks R
• Foreign cy	Exchange R
• Different maturity	Liquidity R
• Different market segment	
• Different credit	Credit R
• Different country	
• Different pricing	Interest R
. Processes, Acctng, Tech, settlement etc.	Operational R
• Different regulations	Other R
• Different legal systems	

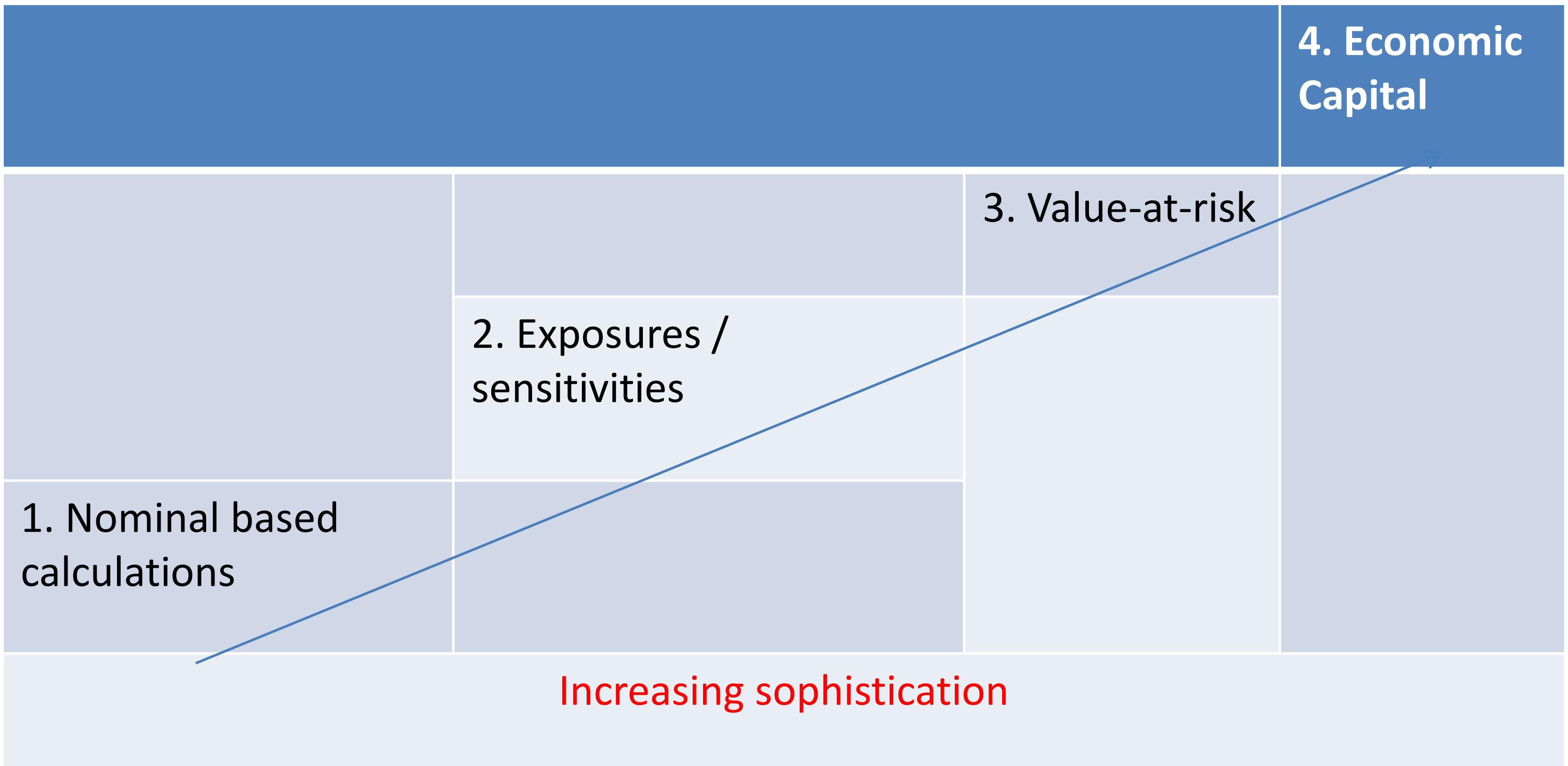
Risk Management

It is a discipline at the core of every financial institution and encompasses all the activities that affect its risk profile.

Risk Management Involves



Development of Risk Methodologies



Risk Management becomes too important to be left for a department or its Head.

RISK CULTURE

GOVERNANCE / TRANSPARENCY / CONTROLS

Require attention at different levels and a seamless integration in the organization.

Role of the Board.

Responsibilities are wide

- To identify the significant risks.
  To formulate the Risk Appetite
  To optimise risk/return decisions to the business,
  Establishing strong and independent review and challenge structures.
  To ensure that business are supported by effective risk infrastructure.
  To manage risk profile under a range of adverse business conditions.

The structure for running the business?

.Business Unit First Line.

Risk Management Unit Second Line

Internal and External audit Third line

Role of the Audit Committee

RBI approach

Global approach

BIS

Recent committee

RBI's Guidance on reporting

- Review of the bank's financial and risk management(Annual)
- Review of significant Audit Findings of the following audits along with the compliance thereof - (i) LFAR (ii) Concurrent Audit (iii) Internal Inspection (iv) I.S.Audit of Data Centre (v) Treasury and Derivatives (vi) Management Audit at Controlling Offices / Head Offices (vii) Audit of Service Branches (viii) Currency Chest (ix) FEMA Audit of branches authorized to deal in foreign exchange, etc. (Quarterly)

Sarbanes Oxley ……….

The Sarbanes-Oxley Act of 2002 increased audit committees' responsibilities and authority. It raised membership requirements and committee composition to include more independent directors. Companies were required to disclose whether or not a financial expert is on the Committee. Further, the Securities and Exchange Commission and the stock exchanges proposed new regulations and rules to strengthen audit committees.

Sarbanes Oxley…

Under the Act and SEC rules, the audit committee is essentially responsible for
the financial function of the company,
and auditors report directly to the committee
These requirements effectively give the committee supervision over all key financial reporting functions of the company.
The purpose of these requirements is to enhance the audit function and separate
it from the control of management, a key SOX goal.

Audit vs. and Finance and Risk Policy Committee Charters at X Company

Audit committee

“The purpose of the Audit Committee is to assist the Xs Board of Directors in its oversight of the integrity of X’s financial statements , X’s compliance with legal and regulatory requirements, the qualifications and independence of the external auditors and the performance of X’s internal audit staff and external auditors.”

An extract of a global corporate

The Finance and Risk Policy Committee's mandate complements the Audit Committee, but is different

"The purpose of the Finance and Risk Policy Committee (the "Committee") of the Board of Directors (the "Board") of X Company ("GM" or the "Company") in its oversight of the Company's: (1) financial policies, strategies and capital structure and make such reports and recommendations to the Board as it deems advisable; and (2) risk management strategies and policies, including overseeing management of market, credit liquidity and funding risks ("risks")."

Audit Committee's responsibilities in the area of risk management

- “Review management’s assessment of legal and regulatory risks identified in X’s compliance programs.”
- “Discuss policies regarding risk assessment and risk management. Such discussions should include X’s major financial and accounting risk exposure and action taken to mitigate these risks.”

The Finance and Risk Policy Committee's responsibilities in the area of risk management:

- "Review with management the Company's risk appetite and risk tolerance, the ways in which risk is measured on an aggregate, company-wide basis, and the setting of aggregate and individual risk limits (quantitative and qualitative, as appropriate) and the actions taken if those limits are exceeded;
- Review with management the categories of risk the Company faces, including any risk concentrations and risk interrelationships, as well as the likelihood of occurrence and the potential impact of those risks and mitigating measures."

EU Perspective

In respect of internal control, the board and the audit committee **need to receive** assurance that adequate and effective controls exist to monitor **and manage the** critical risks, and that a process exists to report adequately on this monitoring. Senior management, together with the independent functions of internal and external audit, provides this assurance to the audit committee regarding the effectiveness and efficiency of internal control.

Guidance on the 8th EU Company Law Directive

BIS Approach

The audit committee typically is responsible for the financial reporting process; providing oversight of the bank's internal and external auditors; approving, or recommending to the board or shareholders for their approval, the appointment, compensation and dismissal of external auditors; reviewing and approving the audit scope and frequency; receiving audit reports; and ensuring that senior management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations and other problems identified by auditors. In addition, the audit committee should oversee the establishment of accounting policies by the bank.

BIS Principles for enhancing corporate governance OCT 2010

Risk Based Supervision.

Improved understanding of the risk profiles

Early identification of emerging risks

Enable to indicate the direction of risks

forward-looking capability to initiate measures

Indicative Risk Assessment Templates

Risks by their very nature are uncertain and affect all areas of a business. The audit committee’s role is to review and challenge, where appropriate, the company’s risk profile and ensure that risk management processes are in place, especially those affecting financial reporting and reputational risks.

Risk Committee ofFunction

Risk Management ,Defining risk appetite measure, aggregate, control and report key risks, advising the Board on all high level risk matters, review the Asset Liability Management (ALM) of the Bank, decide the policy and strategy for integrated risk management containing various risk exposures of the bank including the credit, market, liquidity, operational and reputation risk, to review risk return profile of the Bank, capital adequacy based on the risk profile of the Bank's balance Basel-II implementation, assessment of Pillar II risk under Internal Capital Adequacy Assessment etc.

Source Bank Annual Reports

Audit Committee Function

The functions broadly include oversee the operational quality and effectiveness of the internal audit system, review internal and concurrent audit reports, frauds, oversee the Bank's financial reporting process ,appointment of the Statutory Auditor, review the annual financial statements before submission to the Board , major accounting entries .In short the scope broadly covers review of various inspection reports, appointment of auditors, CFO, utilisation of funds raised, financial statement integrity, accounting accuracy, frauds related aspects , internal control system, quality and efficiency of internal audit function

Source Bank Annual Reports

In Brief

The audit committee is required to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems

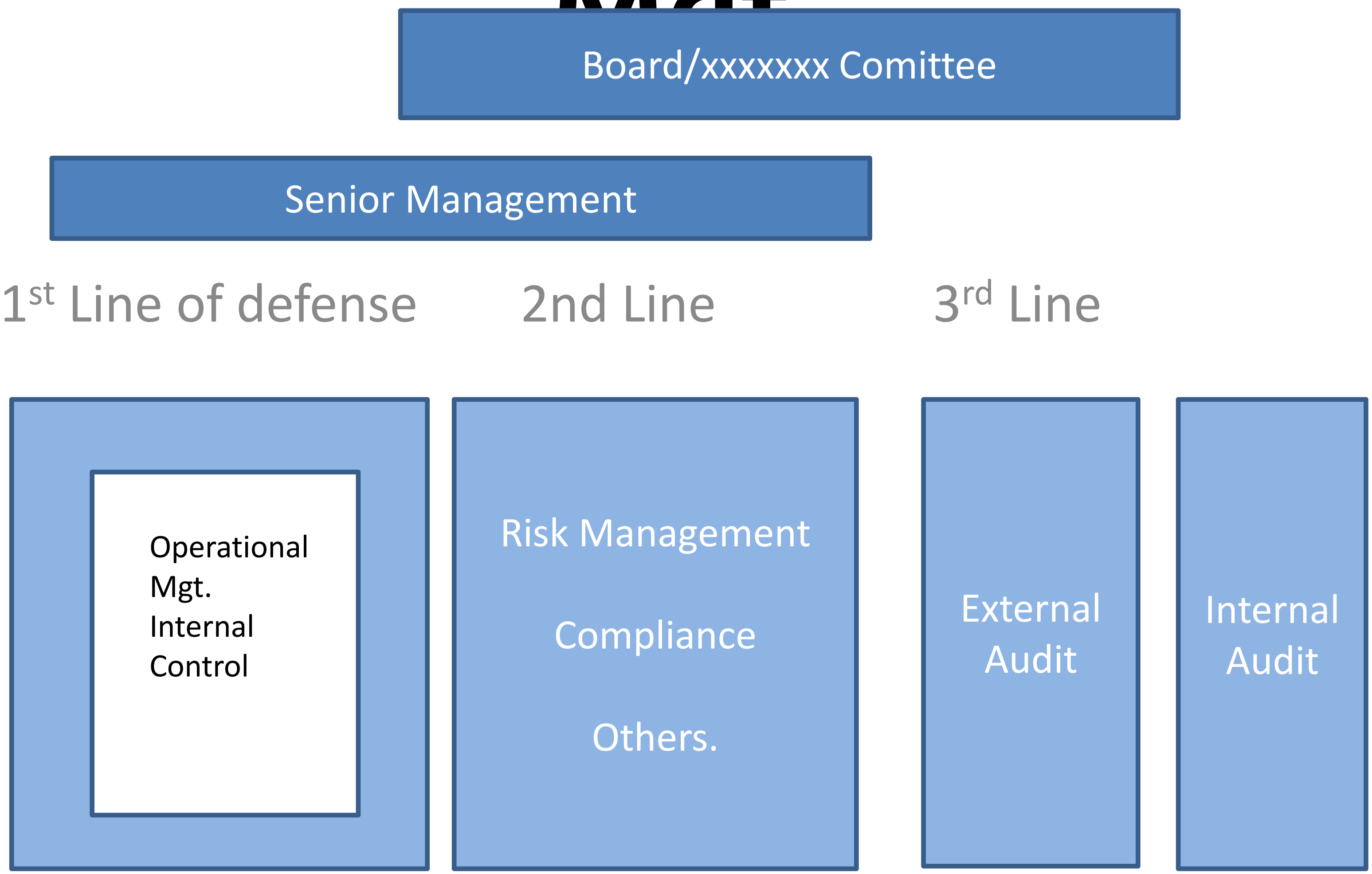
The Reality

Globally as more companies form Risk Committees, the responsibility for risk oversight will undoubtedly shift from the audit committee or other committees. Each board committee has distinct responsibilities. While there is clearly some overlap in committee roles, the control and verification function of an Audit Committee differs greatly from the role of a Risk Committee which brings a strategic perspective to the discussion of risk.

The reality is also that……..

Facing more scrutiny from regulators and investors, audit committees are To perform their oversight responsibilities, audit committee members need to understand what information they need, how to analyze it and what questions to ask to gain insights and make informed decisions.

Basic Structure for Risk Mgt



Emerging Structure

Board

Audit Committee ⇄ Risk Committee

Effectiveness of systems in place For internal control. Integrity of Financial Statements

Risk Management in all it's facets.

Info to Audit Committee

LAF

Internal Inspection

Statutory auditor

Concurrent Audit

RBI Inspection

Special Audits

Vigilance

Risk Template

Business Risks

Credit,Market,Liquidity,Operational,Group,Mangement,Compliance,Capital and Earnings at risk.

Level , Direction and Trends.

RISK PROFILE TEMPLATES) – Risk Level and Direction as on----------.2012

Business risk area	30.06.2011		31.03.2012		30.06.2012	
	LEVEL	DIRECTION	LEVEL	DIRECTION	LEVEL	DIRECTION
CREDIT RS	Moderat	Stable	Moderate	Increasing	Moderate	**Increasing**
Market Risk	Moderat	Stable	Moderate	Increasing	Moderate	**Stable**
Liquidit risk	Moderat	Stable	Moderate	Increasing	Moderate	**Stable**
Group Risk	Low	Stable	Low	Stable	Low	**Stable**
OP RISK	Moderate	Stable	Moderate	Increasing	Moderate	**Stable**
Management Risk	Low	Stable	Low	Stable	Low	**Stable**
Compliance Risk	Low	Stable	Low	Stable	Low	**Stable**
Capital at Risk	Low	Stable	Low	Stable	Low	**Stable**
Earnings at Risk	Moderate	Increasing	High	Increasing	High	**Increasing**
Overall Risk	**Moderat**	**Stable**	**Moderate**	**Increasing**	**Moderate**	**In**

OVERALL RISK – 30.06.2012--- Level: MODERATE Direction: INCREASING

Responsibilities in respect of Risk would be

A.

Ensuring Data Integrity and
Functioning alignment with policy

Identifying Deviations from policy
Inferring gaps/ deficiencies and monitoring violations.

B

Management judgments and accounting estimates drive the business.

The audit committee discussion
should include a review of the judgments and estimates made by management and their impact, the reasonableness of those judgments,
the adequacy of the reserves and any material changes in those reserves, trends which can impact any of these judgments or
the carrying value of assets and liabilities and management's criteria for materiality and cost/benefit analysis.

C

Understand the company’s framework for risk assessment and management’s related policies and procedures

- Understand how the company documents and responds to identified risks
- Review whether appropriate focus is being paid to the company’s risk intelligence gathering and assessment processes and understand the company’s ability to both identify emerging risks and anticipate risk events
- Review whether the risk disclosures in the financial statements and in the Form 10-K are appropriate, robust and understandable
- Review the company’s major financial risk areas and understand the adequacy of controls and monitoring procedures in place

Periodically reassess the list of top risks, determining who in management and which committee of the board is responsible for each

- Meet directly with key executives responsible for risk management and focus on whether they understand they are empowered to inform the committee of extraordinary risk issues and developments that require the committee’s immediate attention outside of the regular reporting process
- Focus on the company’s plans for achieving any information technology milestones, especially for IT transformation projects, given the importance of IT to most organizations

The best way to keep something bad from happening is to see it ahead of time.

WILLIAM S BURROUGHS, American writer

And Banking ..

"….Business is all about taking and managing risk.

But

What is bad is: risk that is mismanaged, misunderstood, mispriced and unintended."

While The Former Is given

CAN THE AUDIT COMMITTEE AVOID THE LATER?