KPMG

Unlock your risk potential

Internal Audit, Risk and Compliance Services

Have you ever wondered how to extricate more benefits from risk management? How actively do you manage your risks and how much of it lurks underneath the surface, unnoticed?

Performance drives risk

Capital markets, investors and clients constantly pressure you to perform ever more efficiently and effectively. Among other things, this can lead to:

- eliminating redundancies,
- reducing the working capital,
- centralizing production and logistics processes as well as
- minimizing overhead costs.

However, even if all these measures render an organization leaner, they at the same time increase the interdependencies between suppliers and resources that aren't always obvious. Individual functions, including risk management, must function flawlessly.

Keeping it simple and pragmatic

The requirements of risk management are clear: it must be both simple and pragmatic. Unfortunately, however, when these simplifications hit the ground, they very often lead to concepts that are at best faulty, if not unusable. Typical errors include:

- no consensus on key terminology
- insufficient quantification of risk capacity and risk appetite
- flawed rules regarding the identification and valuation of risks
- risks not embedded in the income statement or the balance sheet
- insufficiently formulated risk strategy
- absence of key risk indicators (KRI) and early warning indicators
- misunderstanding of materiality
- neglect of improbable incidents (black swan phenomena)
- erroneous or missing aggregation of risks

Many of these mistakes are home-made, by for instance filling the position of risk manager with a wrong profile or failing to do so altogether; another mistake is to downplay the topic's importance instead of emphasizing it.

Such methodological flaws lead to risk management often being interpreted as a chore and some kind of risk accounting instead of as a true management function. This ends in wrong results or no findings.

Do you know the interdependencies between your risks?

A major aspect of risk management are the causal relations between seemingly unrelated risks. More often than not, too little attention is paid to them, as risks are looked at in isolation instead of asking the following key questions:

- Which risks or risk clusters might be more serious than others due to their potential interaction?
- How do you get the biggest bang for your buck in risk management?
- Which of the risks must be managed at all costs?

Risk management 2.0: from burden to voluntary exercise

The goal of Risk Management 2.0 is to significantly improve the function and results both from a qualitative and quantitative point of view to meet current requirements, improve their acceptance within the organization and increase their benefit.

Risk management must be embedded as an important component in the governance and management system and methodological weaknesses identified must be gradually eliminated. This, in turn, will automatically change the way

risks are identified, evaluated and treated. To this end, KPMG has developed a number of special modules. Some of these are:

ERM Audit/Risk Health Check

This is a cost-efficient entry point into the topic providing a host of potential benefits. By taking recognized national and international standards and the accumulated experience into account, it examines – depending on the selected scope – whether:

- the framework chosen has vulnerabilities,
- an integration of the most important ERM functions is ensured,
- good practice is applied,
- the function is appropriately set up for the organization's in question,
- the risk portfolio has been determined in a methodically robust way,
- risk management has been integrated with other governance functions and into the company's management system.

Dynamic Risk Assessment

A dynamic framework requires an equally dynamic assessment. Based on a specially developed procedure, on scientific findings and an especially developed online analysis tool, this method shows the following in a unique way:

- which strategic risks are really relevant for the company,
- what discontinuities could seriously endanger the company,
- what momentum the risks could be capable of,
- which risks could become particularly significant as clusters,
- which risks could have the greatest leverage, and
- which risks could have the greatest impact.

Risk Reporting

Does your risk reporting deliver what you really need? An important aspect of any report is that it delivers the right information in the right form to the right people. Existing reports are assessed for their content and presentation to identify any overlaps, deviations or gaps. Based on this analysis, recommendations are given on how to improve the reports in question.

Your benefit

Upgrading your risk management can have the following positive effects:

- Increased staff acceptance and cooperation
- Lower potential for error
- Higher transparency of your risk situation
- Improved quality of important executive decisions
- Better identification of important risks on top of material risks
- Pro-active management of risks
- Improved integration with other governance functions, including optimized structures

KPMG as a competent advisor

With its global network of experts, KPMG understands risk issues and can offer tailor-made support for your needs.

Unlock your risk potential – Ask us.

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