

Integrated Risk Management

An Interpretation of OMB's Vision
to Mature Risk Management in the
Federal Government



Background

In July 2016, the Office of Management and Budget (OMB) revised OMB Circular A-123 and renamed it *Management's Responsibility for Enterprise Risk Management and Internal Control*. The revised circular requires “agencies to implement an Enterprise Risk Management (ERM) capability coordinated with the strategic planning and strategic review process established by the Government Performance and Results Act Modernization Act, the internal control processes required by the Federal Managers' Financial Integrity Act and Government Accountability Office's Green Book.”

On June 6, 2018, OMB revised Appendix A to OMB Circular No. A-123 and renamed it *Management of Reporting and Data Integrity Risk*. The revised Appendix A balances the requirements to provide reasonable assurances over Internal Controls over Financial Reporting (ICOFR) “with giving agencies the flexibility to determine which control activities are necessary to achieve reasonable assurances over internal controls and processes that support overall data quality contained in agency reports.” Thus, expanding the focus of the reasonable assurance from solely ICOFR to Internal Controls over Reporting (ICOR) to cover both financial and nonfinancial reporting objectives.

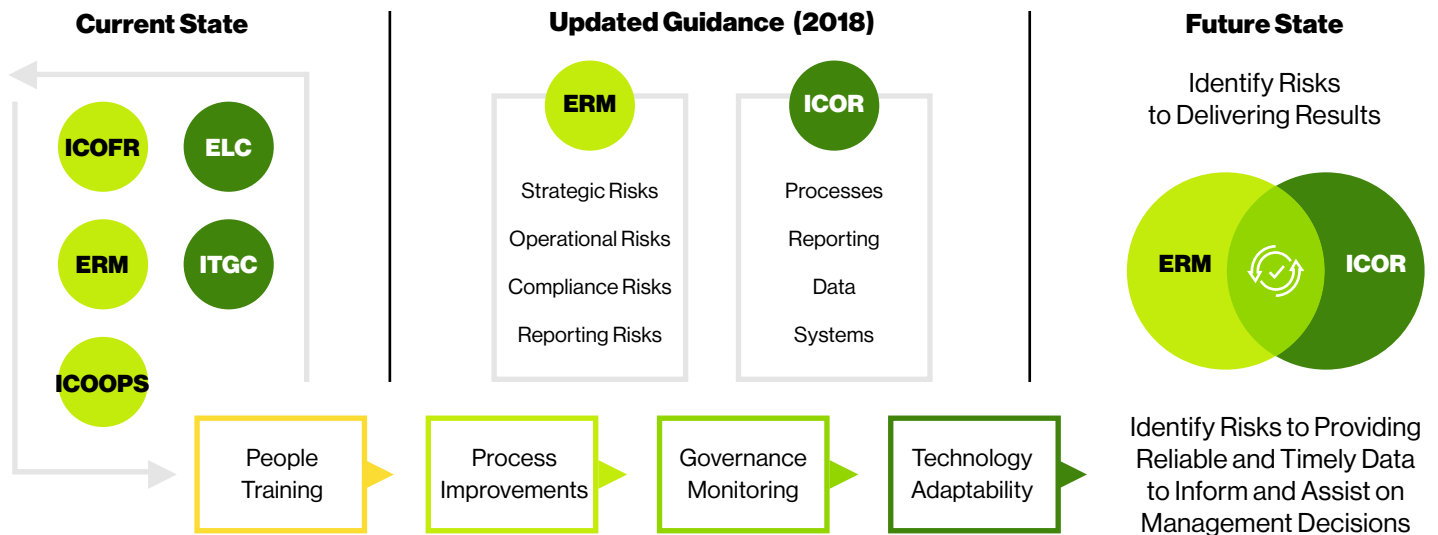
The revised Appendix A also reinforces the 2016 requirement of OMB Circular A-123 for all executive agencies “to integrate ERM processes and internal controls,” and aligns “ICOR with existing OMB Circular No. A-123 ERM efforts.” It also requires the development of a plan that integrates ERM processes and Internal Controls. Agencies should focus ERM and Internal Control efforts on reports beyond just the financial statements to those that impact management and external stakeholder's decision-making across an agency's enterprise. This poses a challenge since many organizations currently have their Internal Control and ERM programs operating independently in a siloed environment, and struggle visualizing how to fully integrate the two to create effective long-term mitigation strategies.

In addition, the guidance from OMB stresses the need to assess the quality of data included in financial and nonfinancial reports used by management and external stakeholders for decision-making and risk management.

Integrated Risk Management

Integrated Risk Management (IRM) is a direct result of the 2018 changes in the OMB Circular A-123, Appendix A guidance. IRM aligns an organization's enterprise wide risk management over decision-making processes with its major strategic focus areas and essential operational processes through a designed concept that integrates ICOR and ERM. IRM outlines the foundational structure necessary to provide a streamlined and systematic approach to organizational risk-based decision-making. It also provides steps and timelines for achieving an organization's objectives and annual requirements, while also transitioning to a more standardized, data-driven, and technology-enabled future state.

To shift from the current state to the envisioned future state, as shown in the figure below, organizations must recognize the need for continued governance, training, communications, potential new and modified policies, tools, and data management to support the maturation of an IRM program.



IRM leverages an organization's existing Governance, ERM, and ICOR activities to minimize the impact of implementing new requirements in an organization. At the same time, IRM focuses on guiding, communicating, and training to drive the change needed across an organization's governing bodies, stakeholders, processes, and technology. As the implementation of the IRM framework evolves, expertise in ERM and ICOR are needed within an organization to translate the new requirements from high level concepts to actionable activities. This will allow an organization to enhance the efficiency, effectiveness, accountability, and transparency of risk assessments, their associated risk response strategies, and ICOFR assessments.

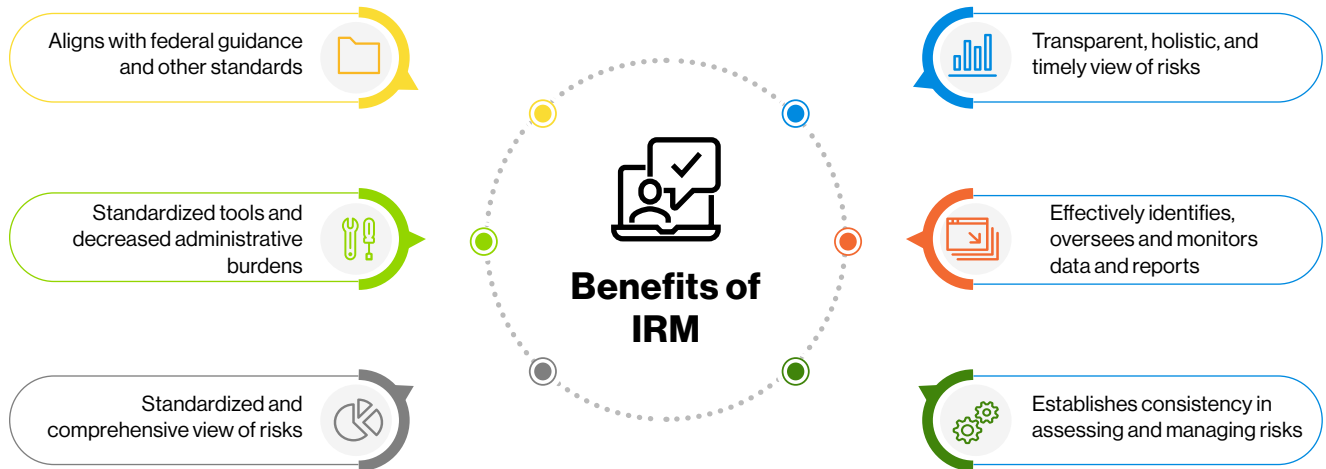
Benefits of IRM through Observing Changes in an Organization

Effective ERM and ICOR programs permeate all layers of an organization and its business processes, providing the mechanisms to capture risk insights and share with all relevant stakeholders at the enterprise level of the organization. It also entails active engagement by leaders to create an environment where risk will be embraced when shared and used to make strategic enterprise-level decisions.

Compliance requirements along with the need for efficiencies in risk management, risk-based approaches, and Internal Control assessments are driving demand to understand how to integrate ICOR and ERM. IRM leverages data analytics to gather insights related to risks and controls and ensures the interconnections between ERM and ICOR are well-identified for respective stakeholders. The use of data analytics will result in accurate metrics, provide a true assessment of readiness, and keep all stakeholders accountable.

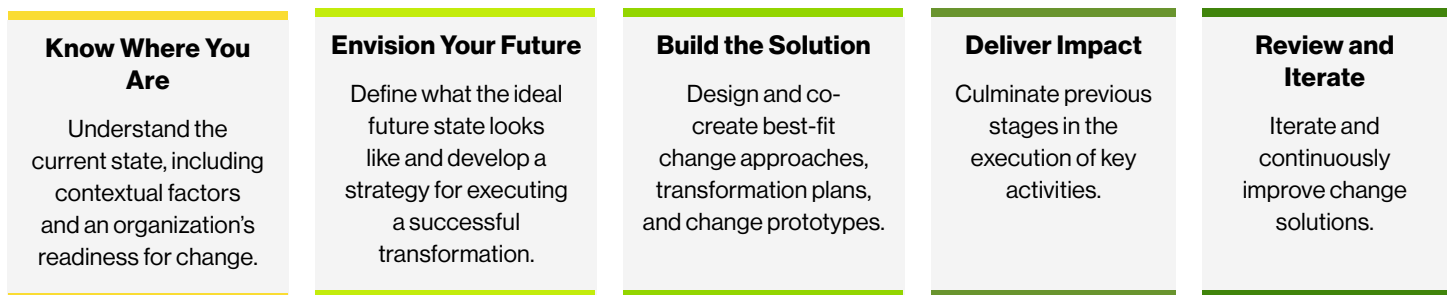
Organizations will be able to design and implement a concept that recognizes the value of data as an asset which is developed through rigorous validation and quality activities consistent with regulatory requirements. In addition, agencies can leverage existing functions within the organization that currently monitor and assess risk. IRM is specifically designed to enhance risk management maturity within an organization in a manner focused on value generation. In a fully mature integrated environment, IRM enhances the analysis of risk and aligns resources with the core mission and mission support functions.

As seen in the diagram below, IRM will help an organization realize limits around its current risk management investment and will assist leaders to embrace a path toward comprehensive risk awareness, informed decision-making, and better outcomes for the organization.



Next Steps for Applying Integrated Risk Management

Achieving an integrated ICOR and ERM program that is incorporated into an organization's broader strategy and performance takes vision, planning, and resources. By understanding OMB guidance and how to achieve maturity of the programs across various risk management capabilities, the development of IRM will be the natural next step for organizations. IRM cannot be fulfilled without active engagement from all parts of the organization. The relationship and flow of influence among each organization's strategy and operational performance both top-down and bottom-up should be reflected throughout an organization. The figure below outlines the necessary high-level steps to successfully integrate IRM within an organization.



During initial implementation, organizations can leverage existing mechanisms for capturing, escalating, monitoring, and managing risks. An organization can focus on assessing the current state of its ERM and ICOR programs to develop a starting point. Then an organization's specific maturity model can be developed to clearly identify where the organization would like to be in the future. Over time, an organization's programs will progress along a continuum of maturity to provide their leadership with a holistic and timely view of the risks, performance, and capabilities required to meet its mission and strategic objectives, while working toward achieving full compliance with the new IRM requirements. Each phase can be characterized by marked advancements in ERM and ICOR program functions. The final approach completes the integration from a holistic enterprise perspective, where both ERM and ICOR are evaluated periodically and are developed to a level where the entire enterprise can respond to any future risk.

How can Guidehouse Help?

Our IRM concept is founded on our experience designing and implementing Internal Control and ERM programs for federal agencies for more than 16 years. Guidehouse is supporting the implementation of IRM at the US Department of the Navy; piloting IRM at the US Department of Agriculture; supporting the National Science Foundation with their integrated and data-driven risk management process; and developing an IRM roadmap at the Federal Emergency Management Agency. IRM allows an agency to quickly change in a dynamic environment, and can help:

- Provide a transparent, holistic, and timely view of the risks impacting an organization's ability to meet its strategic objectives.
- Effectively identify, oversee, and monitor the data and reports used by management to monitor and manage enterprise risks.

We bring experts in Internal Control, ERM, and Data together from our Finance Optimization Practice, ERM Practice, and Technology Advisory Practices to implement IRM plans. To execute for any agency across the federal government, we first assess the current state of an organization, tailor a strategic plan to meet its needs, and then implement IRM designs to effectively monitor and control risk.




About Guidehouse


Guidehouse is a leading global provider of consulting services to the public and commercial markets with broad capabilities in management, technology, and risk consulting. We help clients address their toughest challenges with a focus on markets and clients facing transformational change, technology-driven innovation and significant regulatory pressure. Across a range of advisory, consulting, outsourcing, and technology/analytics services, we help clients create scalable, innovative solutions that prepare them for future growth and success. Guidehouse is a Veritas Capital portfolio company, led by seasoned professionals with proven and diverse expertise in traditional and emerging technologies, markets and agenda-setting issues driving national and global economies.

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