

Risk Management and the Board's Role¹

Question:

How much does a board member need to know about the risk management policies and procedures of the company they serve?

Answers:

Rick Funston (National Practice Leader, Integrated Risk Management Solutions): They must get involved more in understanding the major risks to the company from a strategic planning perspective. They should understand the key risks to future growth and to current assets. They should understand the portfolio view of risk, aggregated across the company, and they should expect to receive regular reports on major risks to the company's reputation, business objectives, processes, and systems. The expectation for improved risk intelligence and risk management begins with the board.

Ami Kaplan (Deputy Managing Partner, Enterprise Risk Services): Board members need to know about the company's risk management infrastructure, processes that would let them know the risks the company faces, and the strategies for managing these risks, which is much broader than policies and procedures. And it may be strategies that say, "these risks we are going to exploit; these risks we are going to transfer; and these risks we are going to retain." Policies and procedures are a very low level [of understanding] – they need to know the processes that tell them the key risks are being managed appropriately.

Jon Korol (National Practice Leader, Control Assurance): Board members need to know a lot more about risk management at the policy level than at the procedure level because procedure means specifically what is being done by each person or department. But they ought to be able to understand the policies and rely on others in the organization, such as the internal and external audit and chief risk officers, to provide input on their view of compliance with those policies.

Steve Wagner (National Practice Leader, Network Economy Assurance Services): In today's very challenging environment, boards need a general sense that there is a risk management process in place and that it has been closely reviewed by the group within the board designated with that responsibility.

¹ Source: Audit Committee Brief published by Deloitte & Touche, October 2002, page 1