

The Emerging role of Auditors and CFOs in addressing Risk Management: A New Perspective



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

The Emerging Role of Auditors and CFOs in addressing Risk Management: A New Perspective



Research Committee
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

© THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording, or otherwise without prior permission, in writing, from the publisher.

Basic draft of this publication was prepared by Dr. Madhu Vij

Disclaimer:

The views and opinions expressed in this document are those of the author and based on his experience and not necessarily those of the Institute or any other regulatory body. Examples of analysis performed, methodologies and approaches described within document are only examples which have been truncated with a lot of specifics omitted for brevity of these articles. They should and must not be utilized 'as-is' in the real-world without having sufficient guidance or experience or otherwise consulting a professional.

Edition : June, 2022

Committee/Department : Research Committee

E-mail : research@icai.in

Website : www.icai.org

Price : ₹

ISBN : 978-93-90668-12-0

Published by : The Publication Department on behalf of the Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi - 110 002.

Typeset by : Elite-Art, New Delhi

Printed by :

Foreword

The Research Committee of the Institute of Chartered Accountants of India is one of the oldest technical committees set up in 1955 with a view to undertake research activities to improve the quality of services rendered by the profession.

I am very pleased that this Committee under the 'ICAI Research Project Scheme 2021' undertook the Research Project on one of the topic which holds paramount importance i.e. ***The Emerging role of Auditors and CFOs in addressing Risk Management: A New Perspective***. Given the evolving risk landscape and ongoing technology improvements, prioritising risk management is the need of the hour. The findings of the research study aims to bring out the emerging and changing role of auditors and CFOs in understanding the risk management systems of their organization and provide assurance that how the risks are being managed effectively in an organisation.

I would like to take this opportunity to express my thanks to CA. Anuj Goyal, Chairman, Research Committee, CA. Umesh Sharma, Vice-Chairman, Research Committee, and all other members of the Committee who took the initiative to undertake the research projects under 'ICAI Research Project Scheme 2021' on various emerging topics to encourage research-based activities.

I am confident that this Research Report will be useful considering the growing relevance of risk management.

New Delhi
June 28, 2022

CA. (Dr.) Debashis Mitra
President, ICAI

Preface

Even with the emergence of risk concerns such as global pandemic, multiple economic and financial crisis along with a series of scandals across sectors, it is surprising that the auditors and CFOs seems to spend very less time on the organization's risks in critical business processes and on controls within each process to mitigate those risks. The importance of managing risk for auditors and CFOs have to be seen as a priority in view of the changing risk landscape and the continued technological advancements.

Risk management, along with Enterprise Risk Management (ERM), plays a significant role in analysing, controlling, and monitoring an organization's important business risks in order to prevent or reduce losses in today's challenging global economy. These risks might include, to mention a few, regulatory risks, operational risks, strategic risks, compliance risks, and ethical risks. Because risk is present in all actions and is also complicated, management's solid commitment to creating a strong risk landscape in today's climate can ensure there is appropriate professional competence to build best practises.

Against this backdrop, the current research study aims to highlight the evolving roles and duties of auditors and CFOs in managing emerging risks, as well as to highlight what the changing risk landscape implies for auditors and CFOs in businesses. The research report is expected to provide auditors, boards and senior management with recommendations and insights into a framework for effective risk management and ERM implementation.

I am thankful to CA. (Dr.) Debashis Mitra, President, ICAI and, CA. Aniket Sunil Talati, Vice-President, ICAI who inspired me and Research Committee to undertake the research projects on the emerging and relevant topics.

I would also like to extend my thanks to CA. Umesh Sharma, Vice-Chairman, Research Committee and all the members of the Research Committee for their invaluable contribution and guidance.

Further, I would like to take this opportunity to congratulate **Dr. Madhu Vij** for writing Research Report on the topic of **The Emerging role of Auditors and CFOs in addressing Risk Management: A New Perspective** and express my thanks to CA. Deepak Brij Gupta, Subject Matter Expert for providing his valuable comments and suggestions for improvement of technical and

presentation aspect of the Research Report. I also acknowledge the assistance and co-operation rendered by Dr. Amit Kumar Agrawal, Secretary to the Research Committee and CA. Rahul Paul, Project Associate, Research Committee who gave their valuable inputs during finalisation of this Research Report.

I believe and trust that this Research Report will be immensely useful to the members and others interested.

New Delhi
June 28, 2022

CA. Anuj Goyal
Chairman
Research Committee

Contents

Chapter 1 : Introduction	1
Chapter 2 : Review of Literature	12
Chapter 3 : Conceptual Framework	20
Chapter 4 : Research Methodology	34
Chapter 5 : Results and Analysis–1	40
Chapter 6 : Results and Analysis–2.....	65
Chapter 7 : Conclusions, Recommendations and Policy Implications.....	81
References	92
Annexure 1 : Questionnaire on The Emerging Role of Auditors and CFOs in Addressing Risk Management	97

Chapter 1

Introduction

Introduction

The regular business disruptions and the changing risk landscape has had a disruptive and devastating effect on organizations. A new perspective of risk management in the context of evolving technology and data driven experience in the last few years have prompted an important shift in the role of auditors and Chief Financial Officers (CFOs) in organizations. With the emergence of new technology at an unprecedented pace, the role of auditors and CFOs is poised for a rapid change. Auditors along with senior management need to take a holistic and forward trending view on the emerging risk and risk management practices. They need to be transparent about arriving at the audit opinion and expand their coverage in implementing and improving compliance, governance and risk management-related processes and controls within an organization. It is surprising that auditors and CFOs seems to spend very less time on the organization's risks in critical business processes and on controls within each process to mitigate those risks. In this regard, the occurrence of a Black Swan event like COVID 19 pandemic has raised some profound questions for risk practitioners given the fact that COVID 19 is affecting the health of the Company and the event has posed a threat to all organizations. The importance of managing risk for auditors and CFOs is a priority in view of the changing risk landscape and the continued technological advancements. The organizations are under pressure of identifying all risks that they are confronted with and also to the way it manages them. The question for auditors and CFOs now is to recalibrate the existing risk practices, think from the frontline as to how risks can be identified and addressed in order to help the company address the risk more proactively.

In the same time, board, senior leaders, regulators have all started using integrated risk management practices to expand their focus to include the concept of enterprise risk management (ERM). Frequent business disruptions and the present dynamic environment have also made the concept of ERM important in companies. The concept of Enterprise-wide risk management (ERM) is not a siloed activity. It helps to elevate the focus of risk management from the tactical to strategic level. ERM helps top management to manage

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

different types of risk effectively (Annamalah et al. 2018). Effective ERM practices help to reply to unexpected threats, to ensure flexibility and to take the benefits of opportunities which in turn facilitate firms to gain competitive advantage (Armeanu et al. 2017). It is a structured, consistent and continuous process across the whole organization for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives (IIA Position Paper: The role of Internal Auditing in Enterprise -wide risk management, January 2020).

In today's challenging global economy, risk management along with ERM has a critical role to play in assessing, managing and monitoring an organization's key business risks in order to prevent or minimize losses. Boards need assurance that risks are being managed effectively and that the system of internal controls is operating effectively. These risks could include regulatory risks, operational risks, strategic risk, compliance risk, ethical risks to name a few. As risk is present in all actions and is also complex, a firm commitment by the management ie a form tone at the top to create a strong risk landscape in today's environment can ensure there is adequate professional expertise to develop best practices. This can be implemented by First, embedding risk considerations and actions as part of the KRA (Key Responsibility Area) definition of senior leaders and the operating plan and Second, driving a culture of foresight to minimize surprises and joint accountability between business, senior management and risk function. This has become particularly important following the global pandemic, multiple economic and financial crisis along with a series of scandals across sectors. Against this backdrop, the objective of the present research proposal is to bring out the changing roles and responsibilities of the auditors and CFOs in addressing emerging risks and underline what the changing risk landscape means for auditors and CFOs in organizations. The research will offer suggestions and insights to auditors, board and top management a framework for effective implementation of risk management and ERM. The following sections present the aims and objective, review of literature, research methodology, conceptual framework and then discussion on the ERM framework. The final section provides the relevance, implications and conclusions of the study.

Aims and Objective

The primary objective of the research study is to bring out the emerging and changing role of auditors and CFOs in addressing risks. As a result of the changed risk and opportunity landscape, auditors need to exercise

professional judgement so as to remain focussed and take a leading role in providing value to the organization. The study is meant to address the auditors as well as the CFOs in understanding the risk management systems of their organization and provide assurance that risks are being managed effectively. It is also important for boards to understand that auditors need to assess the risks of the organisation's activities so as to enable them to focus their audit plan that evolve into intelligent decision making taking into consideration the risk appetite and risk culture of the organisation's strategy. This would help the auditors understand their changing role as also the changing dynamics in the management of risk in the current scenario and also help them to mitigate risks more proactively.

Firm commitment by management –

- a. A firm 'tone at the top'
- b. Embedding risk considerations and actions as part of the KRA definition of senior leaders and the Operating plan
- c. Driving a culture of foresight to minimize surprises and joint accountability between business, senior management and risk function.

Research Questions

In this backdrop, the present study attempts to answer the following research questions:

1. What are the primary drivers of risk management for the auditors and CFOs in terms of the changing risk landscape?
2. How do Auditors and CFOs ensure that they take a pragmatic and balanced perspective of risk management?
3. What are the changing roles and responsibilities of auditors due to the evolving risk environment?
4. To study the relationship between effective governance and risk management and organizational performance. To this end, our study will attempt to answer the following question 'Can an organization influence its financial performance and returns by having a strong and robust risk management system'?

The findings of the present research study will help to focus on the complexities in the risk landscape in the context of evolving technology and

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

data-driven experiences. This will help in re-defining the changing role and expectations from auditors and CFOs in the context of rising importance of risk management.

Review of Literature

The last decade has witnessed a paradigm shift regarding the way organizations view risk management. Instead of looking at risk management from a silo-based perspective, the trend is to take a holistic view of risk management. This holistic view of risk towards managing an organization's risk is known as Enterprise risk management (ERM). The initial ERM Integrated Framework was first released by Committee of Sponsoring Organization (COSO) in 2004. The Committee of Sponsoring Organization (COSO, 2004) defines ERM as a "process, effected by an entity's board of director's, management and other personnel, applied in strategy-setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its appetite, to predict reasonable assurance regarding the achievement of entity objectives." With the 2017 update of the Enterprise Risk Management (ERM) framework, the Committee of Sponsoring Organizations (COSO) of the Treadway Commission recognized the importance of aligning ERM to an organization's strategy and performance. The update released in 2017 by COSO came at a time when organizations were challenged by technology innovation, ongoing changes in consumer preferences, regulatory uncertainty and other business disruptions that had threatened their ability to compete effectively. Executives need to anticipate and address these challenges while making choices about risk that enable strategy, build resilience and drive value. The updated COSO framework emphasizes the connections between risk, strategy, and value and provides a new lens for evaluating how risk informs strategic decisions, which ultimately affects performance. Equally important, it elevates the role of risk in leadership's conversation about the future of their organization. (COSO framework, 2017).

Risk management systems need to be robust and effective in view of the changing landscape and the continued technological advancements. Risk management is deemed to be a core factor for business competitiveness. It facilitates a firm to develop a unique strategy to minimize the potential losses and open a door for the exploitation of new opportunities. Failures in risk management have become all too common, and consumers, in addition to regulators, are taking action (Vij, Madhu, 2018). Radner and Shepp (1996)

argue that ERM is crucial for everyday business activities and organizational practices in the current era as it facilitates business firms to control their internal system. ERM is supposed to minimize direct and indirect costs of financial distress, earnings volatility, and negative shocks in financial markets, as well as improve the decision-making process to select the best investment opportunities (Hoyt and Liebenberg 2011; Paape and Speklè, 2012). It is for this reason that interest in both risk management and enterprise risk management continue to capture the top slot and have never been more important for organizational and strategic management than what they are today.

The relationship between ERM and organization performance have been studied by a number of researchers in the last few years. Most of them have found that the overall firm performance could increase significantly if the organization had a strong risk management and enterprise risk management system. ERM is a holistic approach for managers to identify risks and select appropriate responses in line with enterprise's risk appetite (Sara Soltanizadeha, Siti Zaleha Abdul Rasida, Nargess Golshanb, Farzana Quoquaba, Rohaida Basiruddina). The results of the study by Christina Floria and Giulia Leoni (2017), show that firms with advanced levels of ERM implementation present higher performance, both as financial performance and market evaluation. Harner (2010) emphasizes that ERM is seen as a top down approach which constitutes identifying, assessing, and responding to strategic, operational, and financial risks in order to achieve four objectives: (1) strategy - high level goals that align with company mission, (2) operations - effective and efficient use of resources, (3) reporting - reliability of reporting, and (4) compliance - compliance with applicable laws and regulations Another study by Silva De Souza et al. (2012) specified that the effect of ERM on firm performance is influenced by the degree of involvement of the stakeholders in risk management and the maturity level on managing risk. A study on Australian-based companies was recently conducted by Jolene Morse (2020). The study concluded that an ERM framework should not be a compliance tool—it should be insight and value driven. By achieving this, organizations have greater visibility into the health of their business and consequently make better strategic decisions.

Scope and Research Methodology

The research study covers an extensive portion of the domain and the fields that concerns the auditors and CFOs. It will cover the different aspects of risk

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

that are faced by the organizations and the concepts that the auditors follow in their audit procedures. The research does not cover all the fields that are looked upon by the CFOs as the range of activities and responsibilities exercised by the CFO of an organization is vast.

The methodology to be used for the research included a survey that is based on the interviews done on the basis of a questionnaire. Data was collected from Industry leaders and senior management personnel to receive a first-hand report to fulfil the purpose of the research. It was ensured that the respondents have necessary experience level and belong to industries of large and mid-sized operations. In addition, the research also kept in mind that the professionals have an exposure to the different facets of risk management. To get a better insight for the research, different white papers and survey reports were referred to, in order to have a fair idea about the changing role of the auditors and also the changing dynamics of the risk landscape. Some books/articles/research papers were also consulted to have a better understanding about risk management as well as the different concepts that are relevant over time.

Data Collection

Most academic research depends on primary and secondary data. Both primary and secondary data will be collected and analysed in the present research work. Primary data will be collected through a questionnaire study completed by risk management practitioners and academics to determine, explain and analyse the real situation in practice from the viewpoints of auditors, CFOs and risk managers. The secondary data will be captured from the relevant articles and research related to risk management.

Conceptual Framework

The pandemic has posed a threat to all organizations and has created a need for organizations to move to a more consolidated risk management process so as to manage risks more pro-actively. The auditors and CFOs were already experiencing changes and re-structuring strategies before Covid. The ever-changing and emerging technologies challenged the many existing functions of auditors and CFOs to assess and measure risk for organizations. A sound conceptual framework would help to provide guidance and help the auditors and CFOs to understand and manage the risk in the current situation. Strategically, the auditors will need to develop new insights to provide

management regarding the risk tolerance and the velocity of risk that the organizations can face in the present uncertain scenario. Because of the pandemic, auditors and CFOs need to exercise significant professional judgement and expertise in order to embrace technology and data, focus on their ethical responsibilities, reinvent core processes of identifying and assessing risk and adopting new collaborative tools. The current situation has helped auditors and CFOs to appreciate and understand that the mere existence of risk is not a primary concern for them. Rather, it is important for them to determine if the risks are understandable, controllable and can be managed in different uncertain scenarios. Due to the implications of COVID 19, it is imperative that the auditors and CFOs understand how any new or increased risk would impact their working and how they can provide assurance and consultancy to the management. Auditors and CFOs need to help and assist the decision makers in arriving at the most appropriate treatment and monitoring of risks in organization. The report by KPMG, (Risk management and Internal Audit in times of COVID-19, Business impact and continuity, 2021) has focussed on four priority areas auditors will need to emphasize in the coming months. They include:

- Contributing to business continuity
- Providing insights in the changed risk and opportunity landscape
- Embracing agility
- Promoting a risk culture

According to a report by PwC, (Four Ways Internal Audit is responding to Covid, 2020), the following four guidelines, which are part of a broader collaboration with risk management and compliance, can help internal audit maximize its contribution to the COVID-19 response.

1. Redirect your risk expertise to COVID-19 priorities.
2. Identify new delivery models and ways to add value and mobilize accordingly.
3. Proactively communicate with both management and audit committee stakeholders.
4. Redirect any short-term excess capacity to activities that will help the business and your department at a strategic level.

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

Perspectives around how internal audit may respond to Covid-19 could be:

1. Embrace and align to new ways of working and continue to provide reasonable assurance
2. Review changes in risk landscape due to Covid-19 and channelize efforts accordingly
3. Support business functions to understand, appreciate impact of changing dynamic and support business continuity as businesses tide through the dynamic external environment

Enterprise Risk Management

Risk management and Enterprise risk management continue to capture the top slot in future trends relating to risk and compliance. As a way to strengthen the risk oversight of the organization, auditors have begun to embrace the concept of enterprise risk management in a big way. They have realized that they need to proactively adopt ERM so as to provide assurance to the board regarding the efficient management of risk. The objective of enterprise risk management is to develop and provide an objective and holistic, portfolio view of the most significant risks that an entity is facing. The benefits of implementing an ERM includes a creation of a basket of all types of risks that might have an impact – both positively and negatively – on the viability of the business. The positive and negative impacts of risk are the opportunities arising in uncertain situations. For example, during Covid-19, whereas companies faced drastic drops in product demand, but some companies leveraged this as an opportunity to come up with more suitable products. Also, during Covid-19 as companies were forced to shut workplaces and work virtually, some companies were able to create hybrid permanent flexi models to drive lower cost of operations and efficiency. Proactive thinking about risks should help to reduce the likelihood that risks may emerge at a later stage that might derail important strategic initiatives for the business. It also helps an organization to be better prepared to mitigate the impact of a risk, should the same occur at a later stage.

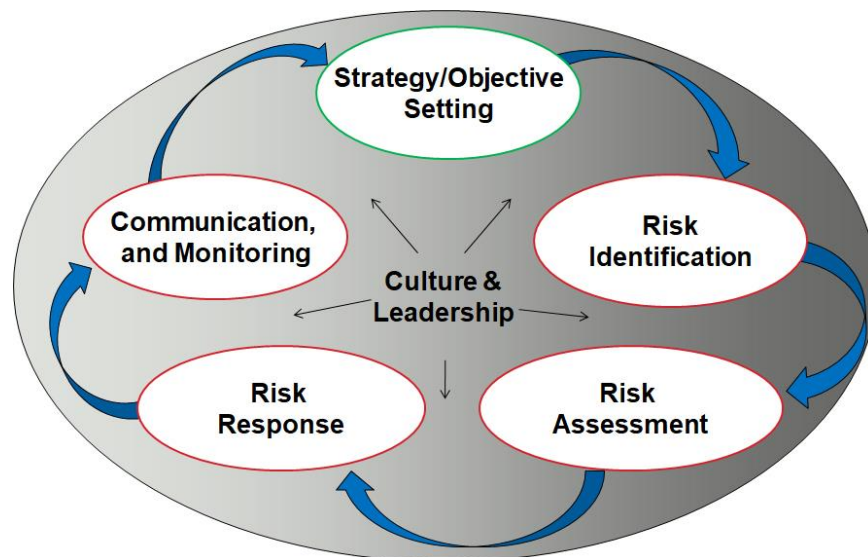
Elements of an ERM Process

ERM is an ongoing process and the benefits of ERM are only realized when management thinks of ERM as a process that must be active and alive, with ongoing updates and improvements. Examples of ongoing updates in ERM process may include -

1. Updating the Risk scale to keep the measures commensurate to size and scale of operations
2. Updating risk library and key risks amidst uncertain business environment

Diagram 1 illustrates the core elements of an ERM process. The focus of the diagram is on the oval shape and the arrows that connect the individual components that comprise ERM. The circular, clockwise flow of the diagram reinforces the ongoing nature of ERM. Once management begins ERM, they are on a constant journey to regularly identify, assess, respond to, and monitor risks related to the organization's core business model (Beaseley, Mark, 2020).

Diagram 1 – Elements of an ERM Process



Source: What is ERM, July, 2020, Mark Beasley

Relevance and Implications of the Study

The current research is aimed at providing insights to the auditors and CFOs. It plans to open up new arenas for exploration and research in the upcoming areas in the field of auditing and risk management. The research would help the auditors and CFOs understand the changing environment and provide assurance to the organization with respect to adoption of new technologies and determining the risk associated with each decision. With an ERM focus,

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

auditors can concentrate on the value addition and improve the risk management processes that have been impacted by the changing environment due to introduction of new technologies and the pandemic. There is growing consensus now that expectations from auditors now is to go beyond the checklist testing and deliver value – be it by helping drive lower procurement costs, better quality of procurement, lowering DSOs, optimize logistics cost, maximize discount availing etc.

As new opportunities arise in the area of risk management and ERM practices, auditors and CFOs need to look to the future to both expand and leverage their skills in the areas of artificial intelligence, machine learning, data analytics, financial analytics, technology upgradation etc. As Chris Stansbury, CFO of Arrow Electronics says 'Clients are no longer looking for just a rear view mirror view, but a view through a windshield on where we are going and how to navigate the landscape of risks, opportunities, changing regulations, competition and regulation.' The Institute of Internal Auditors says that the internal auditors' core role with regard to ERM is "to provide objective assurance to the board on the effectiveness of an organization's activities to help ensure key business risks are being managed appropriately and that the system of internal control is operating effectively.'

Conclusion

With the changing times and dynamic scenario that has arisen due to the pandemic, leading organizations are increasingly expecting auditors and CFOs to ensure that they integrate risk into strategic decision making so as to make smarter decisions. Auditors need to move away from a siloed approach to a more consolidated risk assessment and monitoring perspective. They need to add focus to the top risk areas, think about the return for the organization, avoid unnecessary governance and compliance and provide objective assurance to the board regarding risk management efficiency.

The present research will focus on how the auditors can take a proactive approach towards the measurement of risk tolerance and risk appetite for an organization. It is important for the auditors to develop a balanced approach of assessing risk, compliance and returns. They need to provide a value additive approach to the organization at all levels and leverage its skills in new ways so as to improve the overall business performance. Organizations need to build strong risk management systems and processes that can provide confidence to the management in the present challenging scenario.

Chapter Scheme

The research project has been structured to incorporate seven chapters.

Chapter 1: : Introduction – This chapter will develop a background for the proposed research study and give an overview of the concept.

Chapter 2: Literature Review - This chapter will give a detailed description of existing literature in the proposed area of work.

Chapter 3: Conceptual Framework – In this chapter the theoretical and conceptual perspective of the research problem will be clearly analysed to bring out the relevance for the study.

Chapter 4: Research Methodology – The research questions, objective, hypothesis and data collected that needs to be explored for investigating the problem will be analysed in the present chapter.

Chapter 5: Results and Analysis 1-The results for our survey are presented and discussed in Chapters 5 and 6. Chapter 5 presents a detailed analysis of the results for **Section A and B** of the study.

Chapter 6: Results and Analysis 2 -The present chapter discusses the results for **Sections C and D**.

Chapter 7: Conclusions, Recommendations and Policy Implications – The final chapter will bring out the significance, relevance and policy implications of the research problem.

Chapter 2

Review of Literature

Transforming business dynamics have driven organizations to mitigate risks and the capability of firms to recognize those risks ahead of time has formed part of their critical success factor (Soltanizadeh et al., 2014). This discretion in identifying and managing risk has resulted in the application of different approaches in mitigating such risks. Different interpretations and approaches to mitigating risks have undermined the effective management of risks that are based on preceding knowledge, organizational roles, and industry (IFAC, 2018; Ojeka et al., 2017a). For example, the assessment and measurement of risk has mainly been a quantitative exercise devised to evade loss or scam in financial institutions. From the time of financial crisis, the accepted approach is tailor-made to effectively notify decisions and manage uncertainty. Management of risk is perceived as endeavours to avoid rather than procedures to countering crisis. Nevertheless, the rising challenge with employing this pattern of risk management, which depends on merely on allaying risks raises cost while the ensuing benefits to the firm's success and strength continues to be insignificant (IFAC, 2018).

Until the risk management revolution of the 70s, headed by Kloman (2010) risk was managed separately and handled by different departments. He suggested that risk should be managed holistically, which has also been reiterated by researchers and practitioners alike. Crockford (1980) opined that the process and strategy used for risk management should cut across industries and not just be restricted to departments or specific companies.

Instead of looking at risk management from a silo-based perspective, the trend is to take a holistic view of risk management. This holistic view of risk towards managing an organization's risk is known as Enterprise risk management (ERM). The initial ERM Integrated Framework was first released by Committee of Sponsoring Organization (COSO) in 2004. The Committee of Sponsoring Organization (COSO, 2004) defines ERM as a "process, effected by an entity's board of director's, management and other personnel, applied in strategy-setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its appetite, to predict reasonable assurance regarding the achievement of entity objectives." With the 2017 update of the Enterprise Risk Management (ERM) framework, the

Committee of Sponsoring Organizations (COSO) of the Treadway Commission recognized the importance of aligning ERM to an organization's strategy and performance. The update released in 2017 by COSO came at a time when organizations were challenged by technology innovation, ongoing changes in consumer preferences, regulatory uncertainty and other business disruptions that had threatened their ability to compete effectively. Executives need to anticipate and address these challenges while making choices about risk that enable strategy, build resilience and drive value. The updated COSO framework emphasizes the connections between risk, strategy, and value and provides a new lens for evaluating how risk informs strategic decisions, which ultimately affects performance. Equally important, it elevates the role of risk in leadership's conversation about the future of their organization. (COSO framework, 2017).

ERM necessitates the amalgamation of various facets of an organization and numerous processes to jointly understand the degree of an organization's exposure to ambiguities, which might misrepresent the business goals and the possibilities for progress. ERM analyses information available, that identifies the success or disappointments of uncertainties while decisions are grounded on the possible courses of action. The vital purpose of risk management is to enhance shareholders' value (COSO, 2004; Pagach and Warr, 2011; Liebenberg and Hoyt, 2003). Outside effective management decisions, ERM could promote more efficient allocation of capital (Myers and Read, 2001), resilient capital structure (Graham and Rogers, 2002), well-informed decisions for managing risks (Cummins, et al., 2001) and generate risk responsiveness, which improves operational and planned decision (Grace et al., 2014).

The dependable measure for ERM has been quite challenging, which implies the encompassing sophistication taken into consideration. Studies conducted previously (Beasley et al., 2005; Hoyt and Liebenberg, 2011; Lieveenberg and Hoyt, 2003; Pagach and Warr, 2011) have embraced the selection of CRO to connote the effectual implementation of ERM or Risk Committee or trusting on analysis of content in companies annual report (Bertinetti et al., 2013; Gordon et al., 2009).

Systems that manage risk should be strong and impactful in view of the transforming landscape and the non-stop advancements in technology. Management of risk is believed to be a fundamental component for business attractiveness. It enables a firm to create a distinctive plan to lessen the possible damages and lead to exploitation of new prospects. Breakdowns in

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

risk management have turned out to be too common, and consumers, in addition to regulators, are acting (Vij, Madhu, 2018). Radner and Shepp (1996) opine that ERM is essential for daily business actions and organizational procedures in the present period as it aids businesses to manage their core system. ERM is intended to decrease costs of financial stress both directly and indirectly, volatility in earnings, and adverse shifts in financial markets, also enhance the decision-making procedure to choose the safest investment prospects (Hoyt and Liebenberg 2011; Paape and Speklè, 2012). It is for this rationale that attention in both enterprise risk management & risk management go on to obtain the top slot and have not once stayed more critical for managerial and planned management than what they are now.

Saeidi et al. (2019) identified eight elements of risk management, which comprise the inner environment as it takes into consideration the internal strategies, beliefs and principles of the firm, creating of aims, figuring of possible opportunities and losses that might deter the firm from accomplishing set objectives, evaluating of bearing of risks on the performance of firms, ascertaining of the suitable means of facing danger and losses, direct actions, announcement of information across the firm to allow attainment of objectives, supervising and assessment of enterprise risk management. They determined that enterprise risk management as given by COSO (2004) facilitates a firm to attain both short- and long-term targets, the precision of reporting as well as a high-level of obedience with laws. Tekathen and Dechow (2013) discoursed that COSO (2004) risks are dispersed in different parts of the organization. They disagreed with the definition of enterprise risk management (ERM) as a set of activities that lead to organizational orientation and responsibility. The authors stressed on three understandings from their research: Foremost, ERM systems draw out how unpredictability establishes organizational space for assortment, capability and uniqueness that is otherwise judged transparent in regular business processes. Secondly, ERM practices generate an almost uninterrupted reconfiguration of themes and items which successfully turn out to be disconnected from, rather than combined with each other, creating it challenging to cope with risks on an enterprise-wide basis. Thirdly, ERM permits individuals to presume stewardship of the whole thing and not anything at the same time, as ERM systems generate awkward, inadequate, yet complicated information objects that entail users to connect crucially with the means in which risk and possibility simultaneously yield clearness and opaqueness. Tekathen and Dechow determined that these three conclusions imply that ERM builds inverse ladders of information pressing dense, unsolved and abstract information to the pinnacle of the organization.

Bromiley et al. (2015) clarified enterprise risk management as all endeavors embarked by a firm to make sure the appropriate management of prospects and the effective management of the adverse effects that arise from the said opportunities. The two structures are diverse in terms of interpretation and explanation of enterprise risk management as identified by studies conducted previously (Brown et al., 2009; Hill, 2008). Enterprise risk management as defined by (Hill, 2008), bringing both COSO (2004) and Standards Australia/Standards New Zealand AS/NZS 4360 (2004) together as “the principles of define, identify, analyze, treat, report and monitor risks are fundamentally the same even though the amount of ladders and terminology may alter.”

Studies conducted previous centred around implementation of ERP, the notion that not new anymore is anticipated to have developed beyond the implementation phase. Additionally, post the implementation phase, various studies have indicated that the services of Chief Risk officer(CRO) are utilised by firms. The primary responsibility of the CRO is authorising the effective governance of risk in enterprise risk management without factoring in the implication and benefits the existence of a chief financial officer whose responsibility encompasses keeping a track of cash flow, preparing of financing forecast and identifying the financial strengths and faults of the firm and suggesting remedial action brings to enterprise risk management. Though, the question of to what level does the contribution of a Chief Financial Officer impacts enterprise risk management continues to be unreciprocated.

Frequency of corporate failures have dictated the necessity for effective risk management approaches. Though, corporate governance and risk management are intertwined, ineffective corporate governance and futile risk management plans are the major reasons for corporate let-downs (Quon et al., 2012; Sprčić et al., 2015).

Parallely, the constancy in the performance of the company is extremely reliable on the responsibility of the board (Bromiley et al., 2015). Recently, the practice of managing risk has stretched beyond risk transfer through insurance and evading of financial volatility. In certain organizations, the Chief Risk Officer is encumbered with duty of managing risk, who reports to the Chief Financial Officer, Chief Executive Officer or to the board (Sprčić et al., 2015). The growth of ERM and its influence on the performance of the business suggest that growth of the business cannot depend on exclusively on conventional business strategies (Nor et al., 2016). The board also understands how unpredictability can impact business strategy.

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

A strand of literature assesses the efficiency of ERM acceptance. Few studies explore the value of ERM substitutes to the selection of CROs (Beasley, Pagach & Warr, 2008; Pagach and Warr, 2011). Some studies consider the factors of risk management initiatives and disclose an increase in acceptance of ERM and the selection of CROs in diverse industries. Colquitt et al. (1999) posited that in financial institutions, ERM is common. A study by Liebenberg and Hoyt (2003) avers that firms with very high leverage appoint Chief Risk Officers (CROs) as a indication for effective risk management efforts. In addition, Pagach and Warr (2011) discussed that organizations with high leverage, volatility in earnings, low stock performance and direct association with CEOs' compensation and volatility in stocks are more inclined towards having a CRO. However, Beasley et al. (2005) scrutinizes the connection between performance and ERM, which establishes that response of market to hiring CRO is unimportant for few companies while is noteworthy for some set of firms. Contrastingly, a study conducted by Hoyt and Liebenberg (2011) explicates that there is a positive association between the value of the firm and selection of CRO. For effective risk management, apparently studies tend to over emphasize on the CRO.

A crucial issue in corporate governance that is still unanswered is that; does Chief Financial Officer (CFO) contribution matter in initiatives of enterprise risk management? Outside the disclosure of the periodic financial report, many companies consider CFOs next to the Chief Executive Officer in any public dealings (Caglio et al., 2018). Presently, the clamour for the aggressive contribution of CFOs in chief decisions of business outside financial performance disclosure and other functional roles is progressively augmented. CFOs contribute dynamically in the creating and implementing the organizational strategy (Datta and Datta, 2014). CFOs are financial guardians of companies who are essentially charged to formulate financial reports, assist in strategic planning & formulations of company policies (Duong and Evans, 2015). As a participant of the senior executive team, they occasionally sit on the board and participate to decisions making.

The requirement for CFO in planning, performance and handling of risk is gradually getting attention from the experts. Built on the report by International Federation of Accountants (2018), CFO roles includes risk management strategies considering from project appraisals proposal regarding both financial and non-financial inferences; make estimates based on vital

indicators of performance related to price and cost; recognizing risks and analysis of risk through scenario modelling and sensitivity analysis. In principle, the CFO is not expected to merely alleviate risks but via value formation and protection fosters management of risk effectively. In supplement to reducing and managing risk, the CFO can accelerate “smart risk-taking” efforts (IFAC, 2018). The CFO offers required information founded on the data produced and actions of the organization and behave as “spider in the web”. Worldwide, the business dynamics necessitate the role of CFO particularly in management of risk to nurture, which is not built only on specialized risk such as financial risk but comprises other risks. Moreover, Cohen, Krishnamoorthy and Wright (2014a) suggest that CFO plays a large role with ERM.

A study by Bédard et al. (2014) debates that CFO on the board possibly puts greater pressure on management rulings. In total, they observed seven variables proxy for CFO attributes; where four variables exemplify the CFO expertise and familiarity that is professional certification, education, audit, and consultancy experience. Also, one variable linked to the CFO gender, another variable on CFO directorship and CFO retention.

Though, few empirical studies substantiate the role of CFOs on risk management (KPMG, 2013; Clyburn, 2012), which is explore by this study. The study highlights the moderating effect of CFO roles on enterprise risk management methods and performance of firm. To recognize the role of CFO, a CFO index was created by Caglio et al., 2018. Caglio et al. (2018) only investigate the correlation between CFOs compensation and CFOs roles while we look at the outcome of CFOs role on enterprise risk management. The crux of the index eliminates any effect of multicollinearity (Tarchouna et al., 2017). Additionally, we scrutinize the scope of ERM implementations on the performance of the firm while moderating the impact of CFO roles.

This study contributes to the emerging studies on ERM implementation by exploring the influence of CFOs on risk management. This study is an expansion of the studies conducted previously as it assesses impact of varied CFO characteristics on ERM thus providing to the restricted literature on the subject-matter in Indian context. Additionally, this study aids the practitioners & policymakers to reprioritize the prerequisite for engaging the CFO on risk management initiatives. In continuance of attaining global significance in emerging countries, this study will benefit the policymakers in accentuating on the role of CFOs in risk strategy decisions.

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

The correlation between ERM and organization performance have been studied by a number of researchers previously. Most of them have found that the overall firm performance could increase significantly if the organization had a strong risk management and enterprise risk management system. ERM is a comprehensive approach for managers to detect risks and choose suitable responses aligning with risk appetite of an enterprise (Sara Soltanizadeha, Siti Zaleha Abdul Rasida, Nargess Golshanb, Farzana Quoquaba, Rohaida Basiruddina). The outcomes of the study by Christina Floria and Giulia Leoni (2017), depicts that firms with higher levels of ERM application show enhanced performance, both financially and in terms and market evaluation. Harner (2010) emphasizes that ERM is seen as a top down approach which creates recognising, evaluating, and retorting to tactical, functional, and financial risks so as to realize four objectives: (1) strategy - high level goals that align with company mission, (2) operations - effective and efficient use of resources, (3) reporting - reliability of reporting, and (4) compliance - compliance with applicable laws and regulations Another study by Silva De Souza et al. (2012) indicated that the influence of ERM on the performance of the firm is dependant on the level of stakeholder involvement in management of risk and the maturity level on managing risk. A study on Australian-based companies was recently conducted by Jolene Morse (2020). The study concluded that the framework of ERM should not be a conformity tool—it should be insight and value driven. By accomplishing this, organizations can better view the health of their business and subsequently make superior strategic decisions.

Studies have measured the effect of enterprise risk management on various factors. Renault et al. (2016) suggest that execution of ERM leads to cost reduction and limits volatility in earnings, which ultimately boost competitive advantage. Tekathen and Dechow (2013) determine that enterprise risk management is not the definitive answer to curtailing risks but it only offers an path by means of which organizations can suitably manage risk. Ahmad et al. (2014) employs the survey method to figure out how the 'risk management strategies of companies' have made them benefit by the cost reduction. They also stated that several organizations hire Chief Risk Officers and could support the enterprise resource management decisions prior to allocation of assets. Quon, Zeghal and Maingot (2012) applied the survey technique to point out that acceptance and execution of enterprise risk management makes companies better plan and protect from risk. Florio and Leoni (2017) proposed that the implementation of enterprise risk management affects performance of the firm and evaluation of market positively. Kashif, Lai and Lai (2019) identify

that the application of enterprise risk management fosters the value of firms as well as its attractiveness. Fraser and Simkins (2016) discourse that enterprise risk management facilitates the functionality of a firm constructively. Kleffner, LEE, & McGannon (2003) identify that post implementation of enterprise risk management, the Chief risk officer has a huge part to play in its success.

Chapter 3

Conceptual Framework

In the current complex and turbulent business environment, organizations are undergoing rapid digital and process transformations and embracing newer business models to remain competitive. The business landscape of organizations has shifted focus from the recession survival tactics to aggressive growth strategies. Managing risks is the priority for senior management and it is a key strategic parameter now for organizations to create sustainable value and succeed. More than ever before, organizations need to have robust risk management practices, apply a risk lens in business, tactical and strategic decision making to be able to deal with the challenging and uncertain environment. The present chapter presents the conceptual framework for the research study.

The risk profile of organizations is also changing drastically along with the impact and velocity at which such risks can potentially hit the organizations. Ability of risk management function to foresee risks, assess the impact of such risks and put reasonable mitigation actions before the risk hits you give the organization a significant competitive edge over its peers in the long run. Organizations more than ever before need risk professionals to be catalysts for change and enablers of value creation.

Risk Management is meant to determine the potential risks or uncertainties that could derail the organization in achievement of its business or strategic objectives. Risk management can be understood as an approach that comprises of identification of risks, evaluation and measurement of risks, prioritization of risks in order to mitigate or treat them to reduce risks from inherent levels to residual levels. Risk management entails continuous monitoring of the risk factors to ensure the probability and impact of risks is kept at minimal levels and realization of opportunities is maximized.

In recent years, a lot has been talked about the importance of integrating risk management into setting up of organizational strategy. In the absence of an integration of risk into the business and strategic decision-making process, risk becomes just an afterthought and a tick in the box, rather than being a contributory to performance management and strategy. It basically impacts the manner or way how choices and decisions are made. Integration of risk

management into business decision making helps in anticipating potential events, improves organization agility thus helping companies in establishing procedures to avoid potential threats. This application of risk lens significantly enhances the confidence in business decisions as the uncertainties have been addressed through the integrated approach. Further, strong corporate governance can give the due impetus to risk management in the organization and enable it in achieving its objectives.

In the last decade or so, unforeseen risks have had more impact on corporate performance than superior strategy or outstanding execution. A proper risk management function acts as an enabler in setting up of corporate strategy, sound business decisions leading to sustained and optimized organizational performance.

Regulation around Risk Management in India

India has witnessed unprecedented levels of Corporate Failure due to internal or external risk factors and whilst there maybe multiple reasons, failure to understand and manage Risk is clearly one of the key reasons be it in the case of IL&FS, Jet Airways or Fortis group. Section 134(3)(n) of The Companies Act 2013, has mandated the Board of Directors to include a statement in the Board's Report indicating development and implementation of a Risk Management Policy for the company including therein, identification of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company. Also, in recent years, the Securities & Exchange Board of India through the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2018 mandated the constitution of Risk Management Committee (RMC) for top 1000 listed entities to oversee the risk management policies and implementation.

Overview of Enterprise Risk Management

Enterprise-wide risk management (ERM) is a structured, consistent and continuous process across the whole organization for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives. Risk management in generally includes all activities to identify, assess, manage, and control all kinds of events or situations. These events can range from singular events or projects or narrowly defined types of risk for example market risk, current fluctuations etc to the threats and uncertainties that can have a significant adverse impact on organizations as a whole. The principles of enterprise wide risk management

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

are meant to address holistic risk factors that impact organizations which are likely to have an impact on organization's objectives and performance.

As per the COSO Enterprise Risk Management – Integrated Framework, Enterprise Risk Management is defined as “a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives”

The revised COSO framework – “Enterprise Risk Management— Integrating with Strategy and Performance” also clarifies the importance of enterprise risk management in strategic planning and embedding it throughout an organization; because risk influences and aligns strategy and performance across all departments and functions.

As organizations are going through a digital transformation journey and business model shifts, the risk profiles have also changed drastically. Organizations are getting hit by risks which didn't exist earlier and are facing threat from industries which it didn't compete against. The growth of gig economy and movement towards data centric business models has also raised the need for application of a fresh risk lens and need for dynamic monitoring. The discussions around risk considerations have moved from backend to Board level discussions. Risk professionals are expected to connect the dots of changes happening in the business environment and its impact on an organization. This has led to increasing expectations from risk professionals to move beyond the operational/ transactional aspects and invest efforts towards making strategic contribution to preserve organizational objectives.

This dynamic risk landscape clearly points out the need for organizations to adopt a robust ERM framework and culture. The pandemic has brought to the forefront a whole basket of risks that needs to be addressed by the auditors vigilantly. The key role of auditors with regard to ERM is to provide assurance to the senior management and Board on the effectiveness of risk management. The audit should also involve the standards to measure the impact and likelihood of some of the risks that might arise even after the wave of the pandemic has subsided. It is also important to address the high impact and high likelihood risks on a priority basis to keep the organization in its shape and form even during this pandemic especially when all the business continuity planning and disaster recovery mechanism of the organization has drastically failed.

By contrast, traditional risk takes a narrow view of risk, is conducted in silos and is a bottom up approach. It considers risk as an individual hazard and focuses only on loss prevention. More often than not, enterprise risk management takes more of a top down approach. Ideally, enterprise risk management will start with the strategic plan and key objectives of the institution. Traditional risk management is reactive and sporadic while ERM is proactive and continuous. It is mostly embedded in the culture and mindset of an organization.

Benefits of Enterprise Risk Management

ERM can make a major contribution towards helping an organization manage the risks to achieving its objectives. The benefits include:

- Greater likelihood of achieving those objectives
- Consolidated reporting of disparate risks at board level
- Improved understanding of the key risks and their wider implications
- Identification and sharing of cross business risks
- Greater management focus on the issues that really matter
- Fewer surprises or crises
- More focus internally on doing the right things in the right way
- Increased likelihood of change initiatives being achieved
- Capability to take on greater risk for greater reward and More informed risk-taking and decision-making.

Enterprise risk management is not a function or department. It is the culture, capabilities, and practices that organizations integrate with strategy-setting and apply when they carry out that strategy, with a purpose of managing risk in creating, preserving, and realizing value. Enterprise risk management is not limited to listing down of risks but requires more than taking an inventory of all the risks within the organization. It is broader and includes practices that management puts in place to actively manage risk. Enterprise risk management also addresses strategy-setting, governance, communicating with stakeholders, and measuring performance. Its principles apply at all levels of the organization and across all functions. Enterprise risk management is not a checklist. It is a set of principles on which processes can be built or integrated for a particular organization, and it is a system of monitoring,

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

learning, and improving performance. Enterprise risk management can be used by organizations of any size, but the framework has to be customized depending upon the size and scale of operations of a company. If an organization has a mission, a strategy, and objectives—and the need to make decisions that fully consider risk—then enterprise risk management can be applied. It can and should be used by all kinds of organizations, from small businesses to community-based social enterprises to government agencies to Fortune 500 companies.

Co-relation between Enterprise Risk Management and Organizational Performance

Researchers in the past few years have explored the relationship between ERM and organization performance. They have argued that a strong risk management and enterprise risk management system could increase the overall firm performance and shareholder value. Basis a study conducted on ERM and firm performance, firms with advanced levels of ERM implementation present higher performance, both as financial performance and market evaluation. The degree of involvement of the stakeholders in risk management and the maturity level on managing risk determine the effect of ERM on firm performance.

Basis a research study on the link between ERM and organizational financial performance on Australian-based companies in the ASX30, which includes Australia's top 300 organizations ranked by market capitalization, and members of the Risk Management Association of Australasia (RMIA), it was concluded that an ERM framework should not be a compliance tool—it should be insight and value driven. This enables organizations to have greater visibility into the health of their business and enables better strategic decision making.

Whose responsibility is to manage organization risks ?

The board has the primary oversight responsibility for ensuring that organization have well defined risk management framework and practices to. In practice, the board will delegate the operation of the risk management framework to the management team, who will be responsible for completing the activities. There may be a separate function that co-ordinates and project-manages these activities and brings to bear specialist skills and knowledge. Each stakeholder in the organization plays a role in ensuring successful

enterprise-wide risk management but the primary responsibility for identifying risks and managing them lies with the management.

Role of auditors & CFOs in risk management

Focus towards risk management processes have become an indispensable part of good corporate governance practices. High performing organizations manage their risks strategically in all areas of operation. Risk based internal auditing provides assurance to management that risk management processes are not only classified accurately but are also working efficiently. They provide an environment where both upside and downside risks are highlighted so as to create a significant impact on the bottom line of performance. The changing risk landscape has made the process challenging for auditors and CFOs as the focus of risk management has elevated from the tactical to strategic level. Onus is now on the auditors and CFOs to accept the challenge, rise to the occasion and be a torch bearer for organizations during turbulent times.

Questions that CFOs and auditors should ask about their organization

- Is there a sound governance structure in place for risk management, with well-defined roles and open dialogue regarding risk?
- Is there a clear understanding of the organization's appetite to take on risk?
- Is the risk assessment process linked to objectives and strategy established at the organizational and business unit levels?
- Does the organization have a comprehensive process in place for identifying potential risks?
- Has the organization adopted a risk management framework that has been properly customized to its needs?
- How does the organization evaluate the extent to which existing controls and processes mitigate the identified risks?
- Are risk metrics properly aligned with identified risks and organizational strategy?
- How have risk awareness and risk management been embedded into the daily activities of the organization?

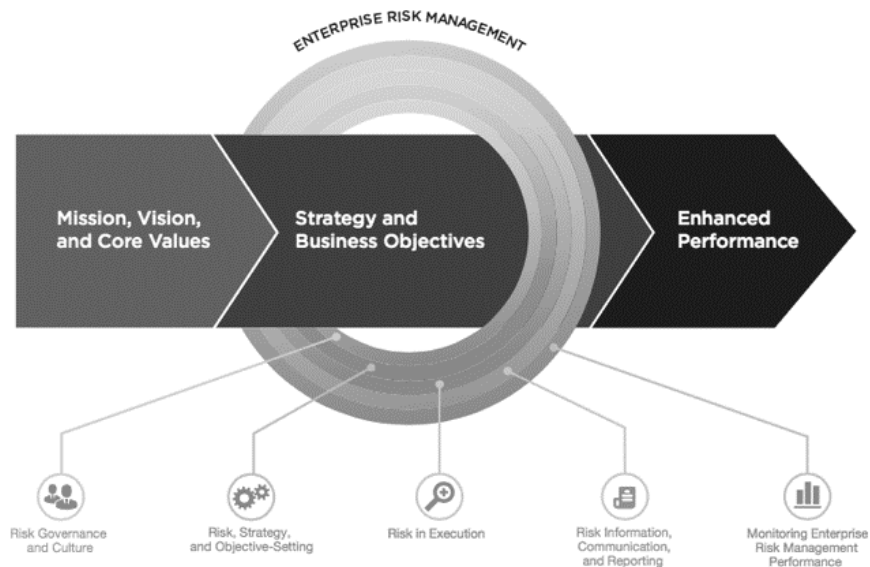
The Emerging Role of Auditors and CFOs in addressing Risk Management:...

- Is there an ongoing dialogue about risk within and between each level of the organization?

COSO ERM framework

The COSO ERM framework 2004 is based on the fundamental premise of every entity existing to provide value for its stakeholders. All entities face uncertainty, and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity and enhancing the capacity to build value.

Enterprise risk management consists of eight interrelated components. These are derived from the way management runs an enterprise and are integrated with the management process. These components include the Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information and Communication, Monitoring. Enterprise risk management is not strictly a serial process, where one component affects only the next. It is a multidirectional, iterative process in which almost any component can and does influence another.



In 2017, the COSO ERM framework was also incorporated with critical elements of Strategy and Performance. The revised framework laid emphasis on increasing importance of the connection between strategy and entity performance. The updated framework provides greater insight into the role of enterprise risk management when setting and executing strategy and enhances alignment between performance and enterprise risk management. The framework recognizes the globalization of markets and operations and the need to apply a common, tailored, approach across geographies. It presents new ways to view risk to setting and achieving objectives in the context of greater business complexity. It also accommodates evolving technologies and the growth of data analytics in supporting decision-making

The enhanced focus on strategy is due to rising belief and experience that underperforming companies lost their way due to strategic missteps – not operational or compliance errors. The updated COSO framework still supports execution but emphasizes on considering risk in the strategic planning process, so they're more likely to have better strategies and are better prepared for the risks that come from executing the strategy. The framework makes clear how ERM can reframe the risk discussion in terms of setting performance goals and determining acceptable variations in performance. The Framework translates risk-centric language into business-centric language, encouraging more conversations about risk throughout the organization and leading to a more risk-aware culture. Culture influences the practices of an organization, the way it makes decisions, therefore it has a big impact on whether and how well it executes its strategy. The Framework details the importance of culture and behavior. Boards and management define desired behaviors for the organization – and the individuals within it – that reflect the organization's core values and attitudes toward risk. The framework also emphasizes that Internal Control and ERM work together through the common lens of performance and are equally important and Optimizing performance is not possible without both.

Approach to developing a robust ERM framework - Identification of risks

Risk identification entails taking inventory of all risks in an organization and defining the potential risk event. The focus not only on hazard or operational risks, but also strategic, financial, reputational, compliance, environmental, human capital and technology, market, and supply chain risks. Commonly

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

used categorization of risks are:

1. **Strategic risks** - Risks that can have a material impact on strategic objectives arising from adverse business decisions, improper implementation of strategic decisions or lack of responsiveness to industry or competitive changes. They can be internal or external to the organization. Examples include Geographic & product portfolio challenges, consumer demand, sovereign or geo-political risk, M&A / JVs / Partnering, R&D, loss of Investor confidence, loss of brand value, client concentration, changing customers preferences, reputation risk, competition risk, political risk
2. **Operational risks** - Issues which may affect or compromise execution of business functions, including commercial, talent, Go-to-market, business continuity, product quality, health & safety, sustainability, IT etc. Examples include product integrity (quality/ safety/security), trade environment (channels/customers), commodities (pricing/ volatility/availability), supplier reputation, workforce/unions, attrition, business continuity/ disruption (including Crisis Management), Health & Safety, Inventory Management, Procurement, Credit risk, Environmental Risk, Operational Risk includes major failures e.g. Information technology/systems or Fire or disasters
3. **Regulatory risks** - Govt. or NGO actions or inactions that can have a material impact on achieving our current or future business objectives, or an adverse impact on our reputation or sustainability. It includes failure to adhere to Corp. or governmental laws, rules and regulation. Example are changes to standards/ regulation effecting our products, packaging or ingredients, product bans/limits/ restrictions, discriminatory taxes, anti-trust, Trade, Competition laws, Foreign Corrupt Practices Act / Anti-bribery, Customs & Tax, Corporate Governance regulations.
4. **Financial risks** - Risks which can cause unexpected variability or volatility in the topline, margins, EPS or returns. Examples include Tax, Capital structure, Credit default risk, Foreign Exchange Risks, incorrect Financial Reporting Risk, Earning Volatility Risk, Project Financing (Debt Equity), Interest Rate Changes (Credit and Interest Rate Risks), Commodity Price Fluctuations (Derivatives), Liquidity Risk

However, there is a need to look beyond the existing risks to be able to identify the emerging risks to the organization and one needs to ask questions:

- ✓ What new business processes have been added to the organization?
- ✓ What changes have been made in the organizational chart
- ✓ What are some external risks that could impact the organization like economic, environmental, societal, geopolitical and technological?

There can be multiple inputs to Risk identification – Structured Interviews, Brainstorming, Flowcharts and 'What if' analysis, Social media feedback, Financial statements, Loss histories etc.

Approach to developing a robust ERM framework - Assessment of risks

Risk Assessment allows an entity to understand the extent to which potential events might impact objectives. Risks are analyzed, considering likelihood, impact and velocity as a basis for determining how they should be managed. Risk assessment is a forward-looking activity applied to future possible events to identify the potential impact on the achievement of objectives and the likelihood of occurrence over a defined horizon. Risk assessment time horizons are linked to objective horizons.

- Impact (or consequence) refers to the extent to which a risk event might affect the enterprise. Impact assessment criteria may include financial, reputational, regulatory, health, safety, security, environmental, employee, customer, and operational impacts.
- Likelihood represents the possibility that a given event will occur. Likelihood can be expressed using qualitative terms (frequent, likely, possible, unlikely, rare), as a percent probability, or as a frequency. When using numerical values, whether a percentage or frequency, the relevant time period should be specified such as annual frequency or the more relative probability over the life of the project or asset.
- Speed of onset refers to the time it takes for a risk event to manifest itself, or in other words, the time that elapses between the occurrence of an event and the point at which the company first feels its effects. Knowing the speed of onset is useful when developing risk response plans.

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

Effective tools to performing risk assessment are as follows:

- Interviews: Individual stakeholder interviews to identify potential events and prioritize associated risk
- Online surveys or Paper surveys: Consisting of either a checklist of events or risks or an open-ended request
- Document review: Review of existing public documents, regulatory reviews, audit reports, special purpose studies and other materials
- Facilitated workshops: An in-person or online workshop attended by key stakeholders
- Targeted reviews: Special studies or targeted analyses to evaluate questions about specific events or anticipated concern

Approach to developing a robust ERM framework - Treatment of Risks

There are four key responses / treatments in which organizations respond to varying risk factors depending upon the nature, severity and risk appetite of the organization. Evaluates options in relation to entity's risk appetite, cost vs. benefit of potential risk responses, and degree to which a response will reduce impact and/or likelihood.

Risk Appetite is amount of risk, on a broad level, an entity is willing to accept in pursuit of value. It reflects the entity's risk management philosophy, and in turn influences the entity's culture and operating style. Risk appetite guides resource allocation and assists the organization in aligning the organization, people, and processes in designing the infrastructure necessary to effectively respond to and monitor risks. Management in alignment with Board guidance develops a view of the organization's overall risk appetite. This view of risk appetite is translated into a written or oral form that can be shared across the organization. Management monitors the risk appetite over time, adjusting how it is expressed as business and operational conditions warrant

- Avoidance/Terminating is a response where you exit the activities that cause the risk. Some examples of avoidance are exiting product line, selling a division, or deciding against expansion
- Treating/Reduction is a response where action is taken to mitigate the risk likelihood and impact, or both

- Transferring/Sharing is a response that reduces the risk likelihood and impact by sharing or transferring a portion of the risk. An extremely common sharing response is insurance.
- Tolerance/Acceptance is a response where no action is taken to affect the risk likelihood or impact.

Factors that one should consider in evaluating risks are:

- Management's strategies and objectives: Risk responses to be tailored to the Management's strategies and objectives
- Risk and reward tradeoffs: The tradeoff is inherent in any choice with respect to managing risk, not only operationally for a company but also from market perspective for a public company
- Risk management capabilities: Risk Response to be commensurate to the company's Risk Management capabilities.
- Time horizon: Consider mismatch between duration of the exposure and length of time that management needs to implement a risk response
- Risk manageability: Effectively reaching out to 'low hanging fruits'

**Approach to developing a robust ERM framework -
Monitoring of risks**

Management needs to identify, capture and communicate pertinent information in a form and timeframe that enables people to carry out their responsibilities. Communication can occur in a broader sense, flowing down, across, and up the organization. One needs to ask questions to set the right reporting mechanism – the content and format to be reported, whom to report, how granular should the reporting be, how one uses those reports and what should be the frequency of reporting. There can be various tools for reporting - Spreadsheets, Risk Registers, Balance scorecards, Reporting dashboards or Governance, risk & compliance software.

The Three lines of defense model – providing clarity on essential roles and duties

The Three Lines of Defense model provides a simple and effective way to enhance communications on risk management and control by clarifying essential roles and duties. It provides a fresh look at operations, helping to assure the ongoing success of risk management initiatives, and it is

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

appropriate for any organization — regardless of size or complexity. Even in organizations where a formal risk management framework or system does not exist, the Three Lines of Defense model can enhance clarity regarding risks and controls and help improve the effectiveness of risk management systems.

In the Three Lines of Defense model, management control is the first line of defense in risk management, the various risk control and compliance oversight functions established by management are the second line of defense, and independent assurance is the third. Each of these three “lines” plays a distinct role within the organization’s wider governance framework.

Governing bodies and senior management are the primary stakeholders served by the “lines,” and they are the parties best positioned to help ensure that the Three Lines of Defense model is reflected in the organization’s risk management and control processes. Senior management and governing bodies collectively have responsibility and accountability for setting the organization’s objectives, defining strategies to achieve those objectives, and establishing governance structures and processes to best manage the risks in accomplishing those objectives. The key to implementation of Three Lines of Defense model hold is active support and guidance of the organization’s governing body and senior management.

1. Functions that own and manage risks. - As the first line of defense, operational managers own and manage risks. Operational management is responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis. Through a cascading responsibility structure, mid-level managers design and implement detailed procedures that serve as controls and supervise execution of those procedures by their employees.
2. Functions that oversee risks - Management establishes various risk management and compliance functions to help monitor the first line of defense controls. The specific functions will vary by organization and industry, but typical functions in this second line of defense include:
 - a) A risk management function or risk management committee that facilitates and monitors the implementation of effective risk management practices by operational management and assists risk owners in defining the target risk exposure and reporting adequate risk-related information throughout the organization.

- b) A compliance function to monitor various specific risks such as noncompliance with applicable laws and regulations such as health and safety, supply chain, environmental, or quality monitoring.
 - c) A controllership function that monitors financial risks and financial reporting issues.
3. Functions that provide independent assurance - Internal auditors provide the governing body and senior management with comprehensive assurance based on the highest level of independence and objectivity within the organization. This high level of independence is not available in the second line of defense. Internal audit provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defense achieve risk management and control objectives.

External auditors, regulators, and other external bodies reside outside the organization's structure, but they can have an important role in the organization's overall governance and control structure. When coordinated effectively, external auditors, regulators, and other groups outside the organization can be considered as additional lines of defense, providing assurance to the organization's shareholders, including the governing body and senior management.

Risk and control processes should be structured in accordance with the Three Lines of Defense model. Each line of defense should be supported by appropriate policies and role definitions and there needs to be a proper coordination among the separate lines of defense to foster efficiency and effectiveness. Risk and control functions operating at the different lines should appropriately share knowledge and information to assist all functions in better accomplishing their roles in an efficient manner. The lines of defense should not be combined or coordinated in a manner that compromises their effectiveness.

Chapter 4

Research Methodology

This chapter describes the methodology used for the current research work. It provides comprehensive information about the objectives, overall conceptual framework, instrument, and various data sources. The research design in the chapter elucidates the exploratory and descriptive research studies along with the sample utilized for the study. Data analysis for the study along with the tools and technique are briefly explained in the chapter.

Research Design

The research design refers to the overall strategy to integrate the different components of the study in a coherent and logical way, thereby effectively addressing the research problem (Sekaran, 2003). A research design is a plan describing the how, when and where of data collection and analysis. It links data collection and data analysis activities to research questions and serves the research's blueprint. The overview of the research study is depicted as under:

Step 1: Understanding the business climate under which CFOs and Auditors can identify the risks and assess their probability and impact.

Method: Literature Survey

Step 2: Identify the research gaps pertaining to the changing risk landscape and what it means for auditors and CFOs in organizations.

Method: Literature Survey

Step 3: Conceptualization and development of Questionnaire on risk management

Method: Exploratory study and review of various research papers.

Step 4: Collection of responses

Method: Field Study and online responses

Data Collection: Getting the Questionnaire filled from the respondents, both offline and online after a Pilot survey.

Step 5: Analysis and Interpretation of the questionnaire

Step 6: Generalization of Findings.

Research Objectives and Questions

In this backdrop, the present study attempts to answer the following research questions:

1. What are the primary drivers of risk management for the auditors and CFOs in terms of the changing risk landscape?
2. How do Auditors and CFOs ensure that they take a pragmatic and balanced perspective of risk management?
3. What are the changing roles and responsibilities of auditors due to the evolving risk environment?
4. To study the relationship between effective governance and risk management and organizational performance. To this end, our study will attempt to answer the following question 'Can an organization influence its financial performance and returns by having a strong and robust risk management system'?

Research Framework

The research study will focus on the complexities in the risk landscape in the context of evolving technology and data-driven experiences. This will help in re-defining the changing role and expectations from auditors and CFOs in the context of rising importance of risk management in India. The four objectives of this study are sought to be achieved by a mix of exploratory and descriptive studies. The study used a mix method approach, comprising of both qualitative as well as quantitative research approach

Sample and Data Collection

Most academic research depends on primary and secondary data. Both primary and secondary data was collected and analysed in the present research work. Primary data was collected through a questionnaire study completed by risk management practitioners to determine, explain and analyse the real situation in practice from the viewpoints of auditors, CFOs and risk managers. Secondary data was captured from the relevant articles and research related to risk management.

Questionnaire construction

The questionnaire constructed for the research study comprised of four sections. A cover letter to the Auditors and CFOs explained that the purpose of the survey was academic and that all responses would be kept anonymous and confidential. The first section covered socio demographic variables such as age, gender, designation, level in management hierarchy and work experience. **Section B** of the questionnaire survey had 28 items. All items were developed and measured using a five point Likert scale ranging from strongly agree = "1" to strongly disagree = "5" to understand the challenges facing Auditors and CFOs in managing risk. This section compiled the answers from respondents about their evolving experiences in managing strategic risk, third party risk, operational risk, cybersecurity risk, to name a few. **Section C** comprised of 6 ranking questions. This section explored the expectation from the risk management function, changes which can make risk management an enabler to taking aggressive business decisions and the frequency with which the organization update the risk profile. Finally, **Section D** had five open ended questions to understand how the role of Auditors and CFOs have evolved in today's fast paced, technology driven world and the shift in their role in the present uncertain economic scenario.

A total of 60 usable responses were received.

The questionnaire in **Section B** had 28 questions centred around three themes.

Theme 1 focussed on risk management, pre-empting risk and risk considerations in decision making. **Theme 2** focussed on Governance and Cyber risk and the preparedness of organizations to detect and respond to these threats. **Theme 3** reviewed Third party and supply chain disruptions, Business Continuity planning and how technology risk will reshape the complexities in the process that can help CFOs and Auditors successfully manage risk.

The questions for the three themes are discussed below.

Theme 1

1. Emerging and changing role of auditors and CFOs in addressing risks and underline what the changing risk landscape means for Auditors and CFOs in organizations.

2. What are the primary drivers of risk management for the auditors and CFOs in terms of the changing risk landscape?
3. How do Auditors and CFOs ensure that they take a pragmatic and balanced perspective of risk management?

Theme 2

1. What are the dimensions of risk management that the auditors as well as the CFOs need to address in understanding the risk management systems of their organization and provide assurance that risks are being managed effectively.
2. Understand the changing roles and responsibilities of auditors due to the evolving risk environment.

Theme 3

1. How the evolving technology and data driven experiences will help in re-defining the changing role and expectations from auditors and CFOs in the context of rising importance of risk management.
2. To this end our study will focus on how audit plans will evolve into intelligent decision making in terms of BCP, Supply Chain risk, Third party risk, Technology risk to name a few.

Pilot Test

A pilot survey is a strategy used to test the questionnaire using a smaller sample/ convenience sample compared to the planned sample size for the research study. Pilot testing of the questionnaire is required to validate the items in the scale. It is important to pre- test the questionnaire survey so that the questions that do not make sense or are ambiguous can be suitably modified. It helps in testing the correctness of the instructions so that all the respondents in the sample are able to follow the directions as instructed. This also reduces the chances from getting biased/unreliable responses and effectively fulfilling the purpose of the study. Also, the wordings of the questionnaire and structure of statements has to be checked to fit in the context of the study. Thus, the main objective of a pilot study is to determine whether it is worthwhile conducting a large scale survey.

In the first stage, several issues were taken into consideration, including wording clarity, redundancy and response formats (De Vellis, 1991). Subsequently, overall content validity was established using 3 expert risk

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

professionals to undertake the appraisal of those items in a 5-point evaluation scale in terms of representativeness, specificity and clarity (Haynes et al., 1995). Based on the suggestions of the experts, a few questions were reworded and refined. In the next stage, we conducted a pilot study of the questionnaire in order to test the reliability and validity of the developed instrument. This pre-test led to wording corrections and to the improvement of the questionnaire before the questionnaire was finalized and distributed.

Data collection

For the final survey, the primary data for the examination of our conceptual model was collected with a multi-mode survey that included concurrently administered e-mail, online survey tool, (google docs) and paper-based versions of the same questionnaire. The reason for our choice of multi-mode survey method was that we wanted to recruit a sample frame with the widest possible diversity of respondent profiles while maintaining a “reasonable similarity to the population of interest” (Mollen, 2010). The e-mail based versions and google docs served us well in this respect by drawing respondents from across industry levels in Delhi, Mumbai, Calcutta, Nagpur, Patna, to name a few.

Time period

The data collection time period was from July 2021 till end of August, 2021.

A total of 60 usable responses were received from CFOs and Auditors both through online and offline mode.

Data Analysis

Structural equation modeling (SEM) is a statistical technique for testing and estimating causal relations using a combination of statistical data and qualitative causal assumptions. Researchers acknowledge the possibilities of distinguishing sbetween measurement and structural models and explicitly take measurement error into account (Henseler et al., 2009). SEM is a statistical method that allows an assessment of complex relationships between one or more independent variables and one or more dependent variables. It is a development of multiple regressions where a series of multiple regression equations are combined into one structural model (Hair et al., 2006). Traditional data analysis approaches like linear regression and univariate analysis of variance do not acknowledge the measurement error. SEM on the other hand, recognizes that measurement error is associated with all variables

(Gefen et al., 2000). SEM also recognizes interdependence of variables i.e. it allows a dependent variable of one equation to become an independent variable of a subsequent equation. Another merit of SEM is that it allows for simultaneous testing of relationships among several independent and dependent variables (Gerbing and Anderson, 1988).

For the semi-structured interviews and focus group discussions carried out during the exploratory studies, a set up sheet was used to record, transcribe and code the information collected during the interviews. The information was later transferred to an excel sheet where themes pertaining to the context of the study were created. Each item identified during the interviews or discussions, whether in the form of complete sentences or „yes/no“ statements, were initially grouped into categories. Similar categories were grouped under one broad theme representing a business process. The interviews and focus group discussions from exploratory study 1 helped in clarifying digital maturity as a construct and generated an exhaustive list of items which were later evaluated using quantitative techniques. IBM SPSS 20 and Structural Equation Modelling (SEM) were used to confirm the factor structure of Digital Maturity Scale along with validating its psychometric properties.

Validity and Reliability

It is vital to study the relationship between the chosen variables therefore the reliability and validity of the model is examined. The initial examination of the model involves checking convergent validity, reliability & discriminant validity as discussed in the available literature (Henseler et al., 2009; Joseph F. Hair et al., 2014).

To analyse the convergent validity, the outer loading of the items chosen and average variance extracted (AVE) were calculated as they support the convergent validity of the constructs (F.Hair Jr et al., 2014; Joseph F. Hair et al., 2014).

Twenty of the twenty eight items included in the instrument presented a factor loading above the threshold criterion of 0.7 (Farrell, 2010; Joseph F. Hair et al., 2014) (see table.3). The available literature argues that AVE must be in excess of 0.5 in order to satisfy the convergent validity criterion (F. Hair Jr et al., 2014; Joseph F. Hair et al., 2014). In the analysis all the values for AVE fall between 0.512 to 0.564 thereby confirming the convergent validity of the constructs.

Chapter 5

Results and Analysis–1

The present chapter reports the findings of a survey of chief financial officers (CFOs) and Auditors. The objective of the study was to investigate if the CFOs and Auditors had a clear understanding of the changing risk landscape. A questionnaire survey consisting of four sections was mailed to respondents. The data collection time period was from July 2021 till end of August, 2021.

Multi-item questionnaire consisting of four sections was developed. **Section A** was regarding the demographics for the participants. The results for **Section A and B** of the Questionnaire survey are presented in this chapter. Chapter 6 discusses the results for **Section C and D**. The Questionnaire is given in **Annexure 1**

The survey on the emerging role of Auditors and CFOs in addressing Risk Management was sponsored by ICAI and was conducted in 2021. The objective of the study is to bring out the changing roles and responsibilities of the Auditors and CFOs in addressing emerging risks and underline what the changing risk landscape means for auditors and CFOs in organizations. The survey conducted had 3 sections with responses involving a mix of multiple choices, ranking of parameters and open ended questions.

The questionnaire was circulated to top, senior and middle level professionals mainly from Consulting organizations, Audit Committee teams and Banking sector about their evolving experiences in addressing risk management in day to day fast paced technology driven world. The role of Auditors and CFOs is shifting on many fronts making it the most important new factor for them. The survey was circulated to 300 + professionals. Responses were received from 75 professionals. However 15 responses were incomplete or were not usable due to various reasons. Thus 60 responses were used for our analysis. The summary details of the final respondents that have been considered for the results are given below.

50% of the responses were from top level

19% of the responses were from Senior level

31% of the responses were from middle level.

In terms of age bracket

31% of the responses were from the age bracket of 25-35 years

7% of the responses were from the age bracket of 36-45 years

27% of the responses were from the age bracket of 46-55 years

36% of the responses were from the age bracket of above 55 years



Table 1: Level in Managerial hierarchy

Level	Count	Percentage
Middle level	18	30%
Senior level	12	20%
Top level	30	50%
Grand Total	60	100%

Table 2: Level in Managerial hierarchy in terms of percentage

Age	Count	Percentage
25 to 35 years	19	31%
36 to 45 years	4	7%
46 to 55 years	16	27%
above 55 years	21	35%
Grand Total	60	100%

Table 3: Age bracket of the participants

The questions in **Section B** were structured around three themes. **Theme 1** addresses Auditors as well as CFOs in understanding the risk management

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

systems of their organizations and to underline what the changing risk landscape means for Auditors and CFOs in organizations. More specifically, **Theme 1** addresses three questions.

Theme 1

1. Emerging and changing role of auditors and CFOs in addressing risks and underline what the changing risk landscape means for Auditors and CFOs in organizations.
2. What are the primary drivers of risk management for the auditors and CFOs in terms of the changing risk landscape?
3. How do Auditors and CFOs ensure that they take a pragmatic and balanced perspective of risk management?

Following the global financial crisis and the current pandemic, risk management strategies are widely seen as a high priority among the organizations surveyed and have become a main focus of businesses globally. Most companies understand that they need to integrate the risk management into the strategy and operating plans of the organization. Risk management has become a necessary consideration for businesses in every industry and companies are increasing their resources to manage risk. Majority of the respondents(80%) strongly agree or agree that they have experienced a significant increase in their team's engagement in the strategic decision-making process amidst the dynamic and heightened risk conscious environment.

80% of the respondents also expressed satisfaction that the risks indicators are refreshed timely and are linked to the corporate goals and value drivers in an organization. **Charts 1 and 2** present the details.

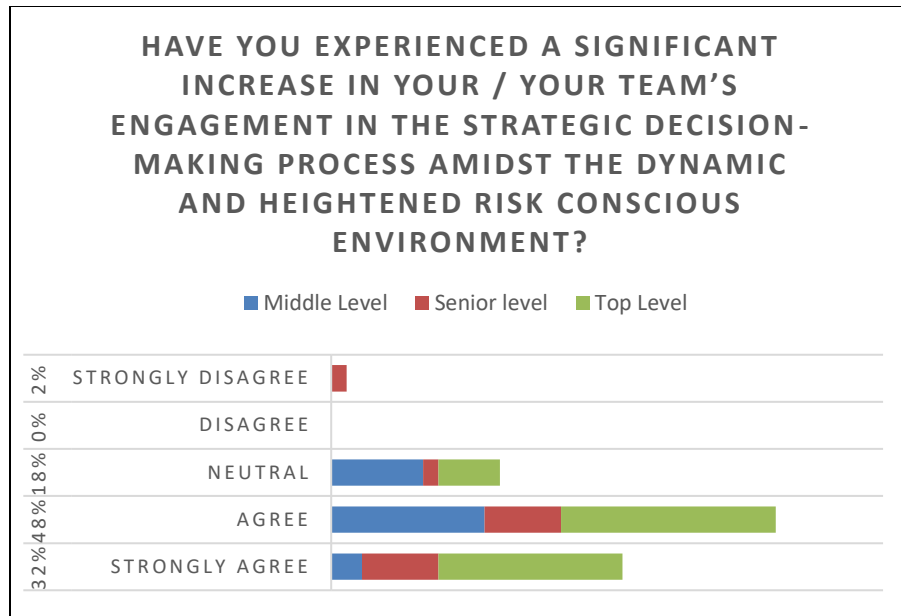


Chart 1

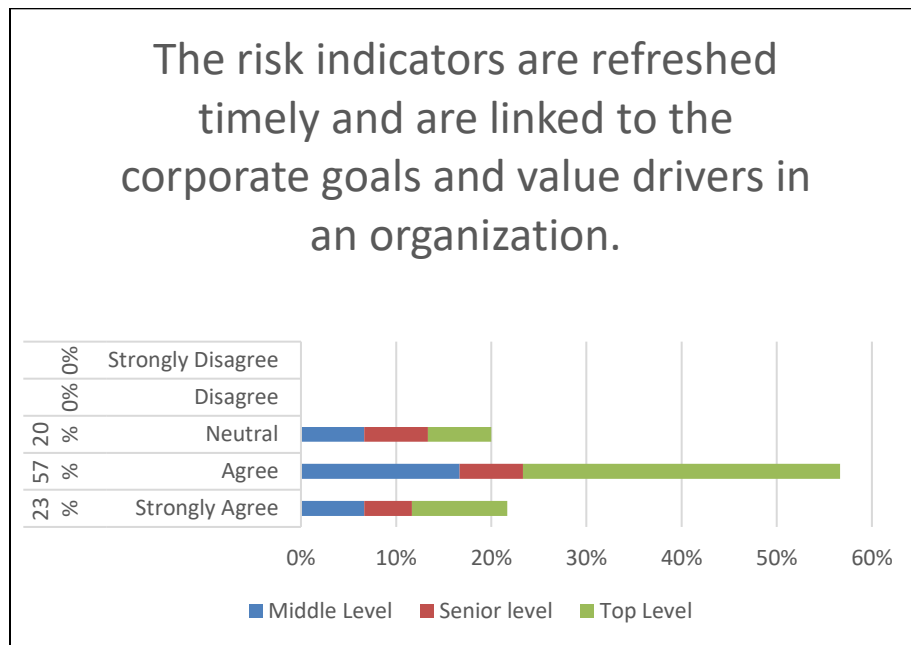


Chart 2

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

Traditionally the role of the Internal Audit function has been on issues related to compliance and internal control systems. But with an increasingly digital workplace and new technologies being implemented to keep pace with the unprecedented challenges like the global pandemic, the focus of internal audit function will need to shift to proactively identifying and adding value to the emerging risks of an organization. Only 22% of the respondents strongly agree while 60% agree that the IA function understands the organization's key goals & objectives to be able to proactively identify emerging risks. **Chart 3** presents the details.

With companies going through a digital transformation, internal audit must effectively learn to mitigate risks the technological changes bring with them.

According to the IIA Strategic Framework, IIA vision 2030, 'Internal audit professionals are universally recognized as indispensable to effective governance, risk management, and control.' (accessed online). Thus Internal Audit can help business increase productivity, reduce risk exposure and position their role as a strategic and value adding business partner within the organization.

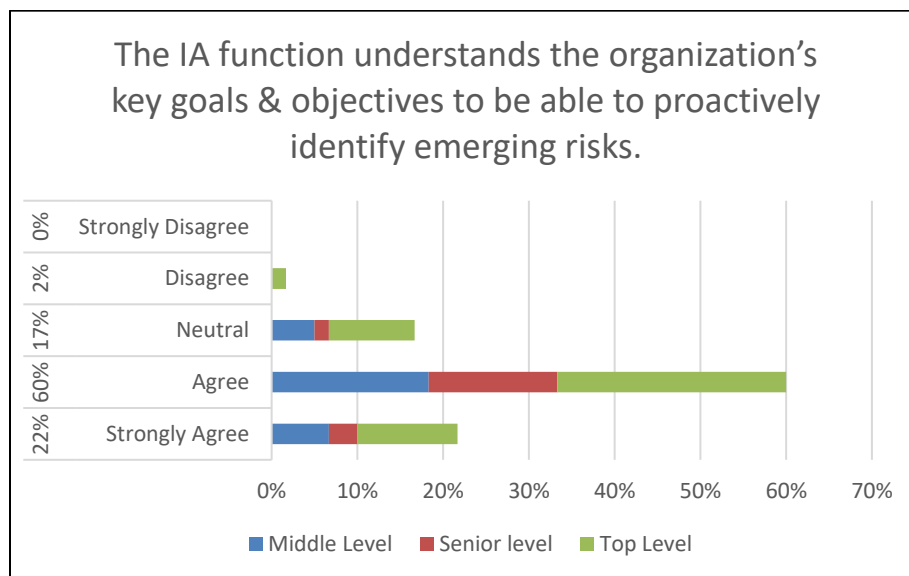


Chart 3

Risk management is widely seen as an important area and Boards are responsible for managing and monitoring the risk management policies and procedures. They play a critical role in deciding which risks the boards should

discuss regularly and the ones that can be delegated to the other committees. 52% of the respondents strongly agree with the statement that there are enhanced expectations from the board/ audit committees around reporting and monitoring risk with no respondent strongly disagreeing with the statement (**Chart 4**). With newer risks emerging, boards can develop risk management policies that are consistent with the strategy and the risk appetite of the organization.

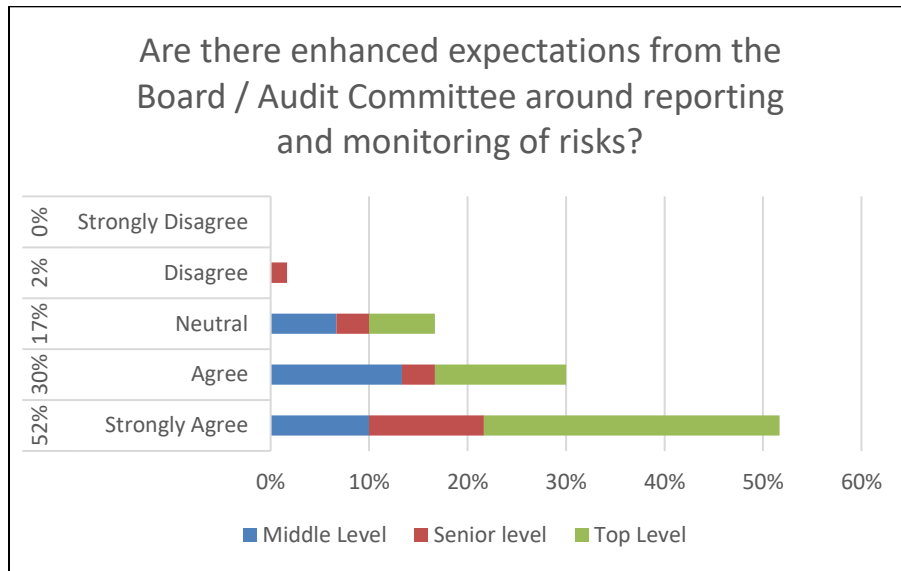


Chart 4

The COVID 19 pandemic has resulted in a sharp rise in work from home in most organizations. Remote working requires changes in policies and processes, resulting in newer risks and challenges for organizations.

Approximately 50% of the survey respondents are of the opinion that organizations face an increased risk exposure to internal control systems with new remote ways of operation (WFH) and dynamic changes in technology & IT landscape, 8% are neutral while only 2 % disagree with the above statement. **Chart 5** gives the details. The World Economic Forum’s COVID-19 Risks Outlook found 50% of enterprises were concerned about increased cyber-attacks due to a shift in work patterns alone. This huge scale unplanned digitization supported by flexible but relatively immature business models and operations is causing quite a bit of challenge for global security.

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

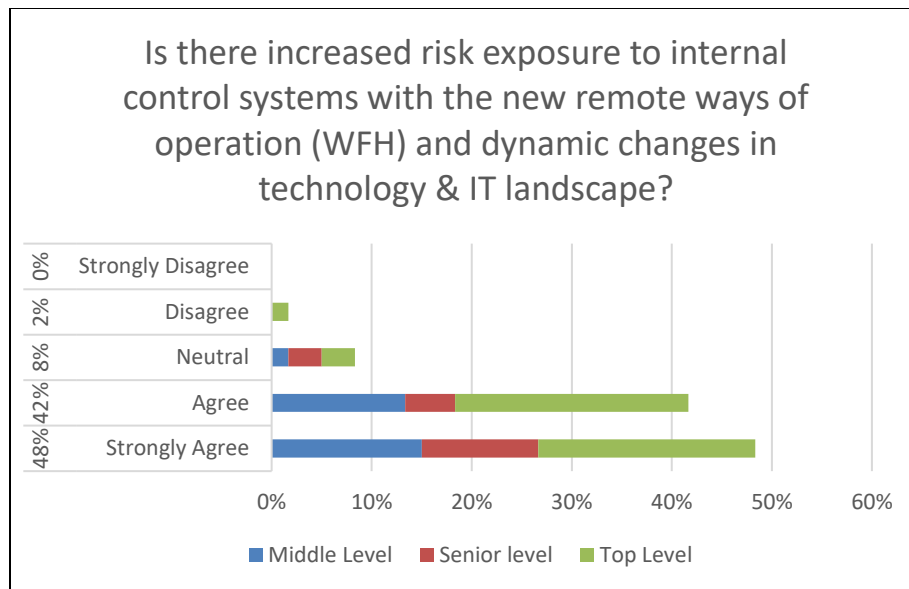


Chart 5

CFOs and Auditors are assuming a greater role in their organizations in ensuring that an effective risk management programme is embedded in every function. An effective risk management program should be embedded in every function/ department so as to become an integrated part of the company's regular decision making processes. Most of the respondents agree with this statement. Integrated risk management breaks down these silos and helps to ensure all departments work together. Integrated risk management also enforces and helps in integration of risk management into the strategy making process within the organization. An effective and well planned strategy along with governance and compliance can help streamline tasks. 52% of the respondents agree out of which 33% are from top level management with the statement that their function has a key role to play in enabling integration of risk management into the strategy making process within the organization. Despite the acknowledged importance of role played by risk management in strategic planning, only 33% from top management, 12% from senior level and 7% from middle level strongly agree with this statement. **Charts 6 and 7** present the details.

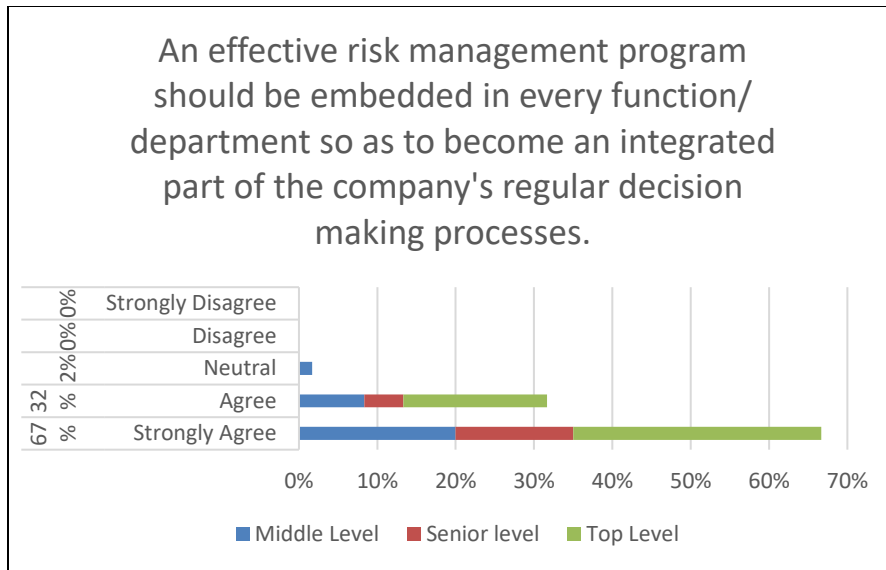


Chart 6

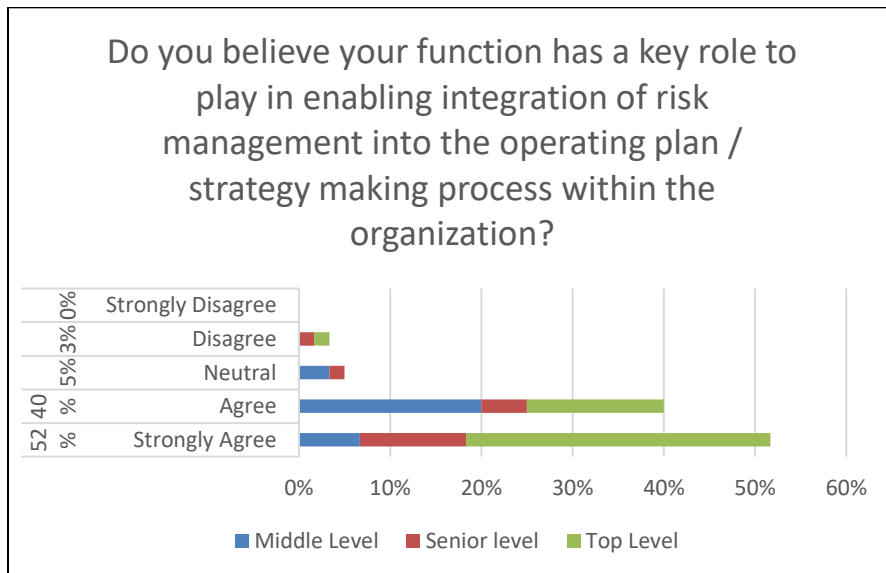


Chart 7

15 % of the respondents strongly agree and 37% agree that they are satisfied with the current enterprise risk profile to adequately manage the broad spectrum of risks triggered off during the pandemic. **Chart 8** presents the details.

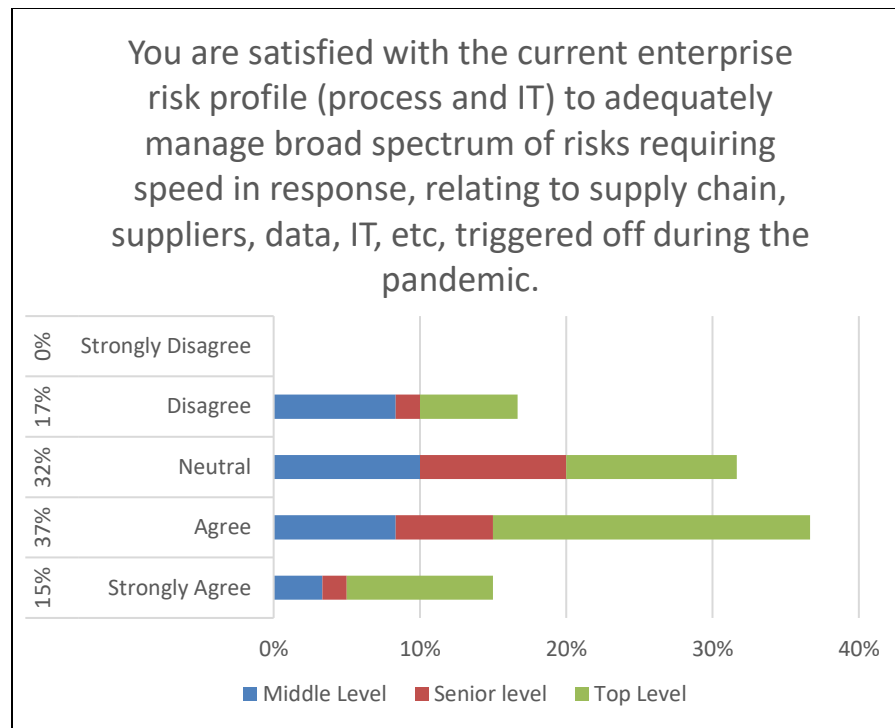


Chart 8

Theme 2

Throughout organizations, CFOs and Auditors consider risk management to be very important and are focussed more fully than ever before on managing risk across the enterprise. The dimensions of risk management that the Auditors as well as CFOs need to address in understanding the interrelationships of risk is to help ensure key business risks are being managed appropriately. An ever changing technological landscape mandates that Companies not only understand and develop their risk appetite but also fully integrate the risk function into strategic decision making and top level decisions. This will help the organization communicate clearly with its stakeholders.

For the present study, our second theme centred around broadly the Governance issue facing organizations. Two questions were focussed during our survey.

1. What are the dimensions of risk management that the auditors as well as the CFOs need to address in understanding the risk management

systems of their organization and provide assurance that risks are being managed effectively.

2. Understand the changing roles and responsibilities of auditors due to the evolving risk environment

The most important and effective risk management systems are those that are entrenched throughout the organization and form an integral part of the organization’s strategic direction. Given the complexity of risks companies face, top management consider risk management to be very important and 83% of the respondents strongly agree or agree with the statement that there are significantly enhanced expectation of foreseeing upcoming/ non-Business as usual risks (**Chart 9**). Risk management plays an important role in strategic planning and CFOs understand the link between risk management and strategy.

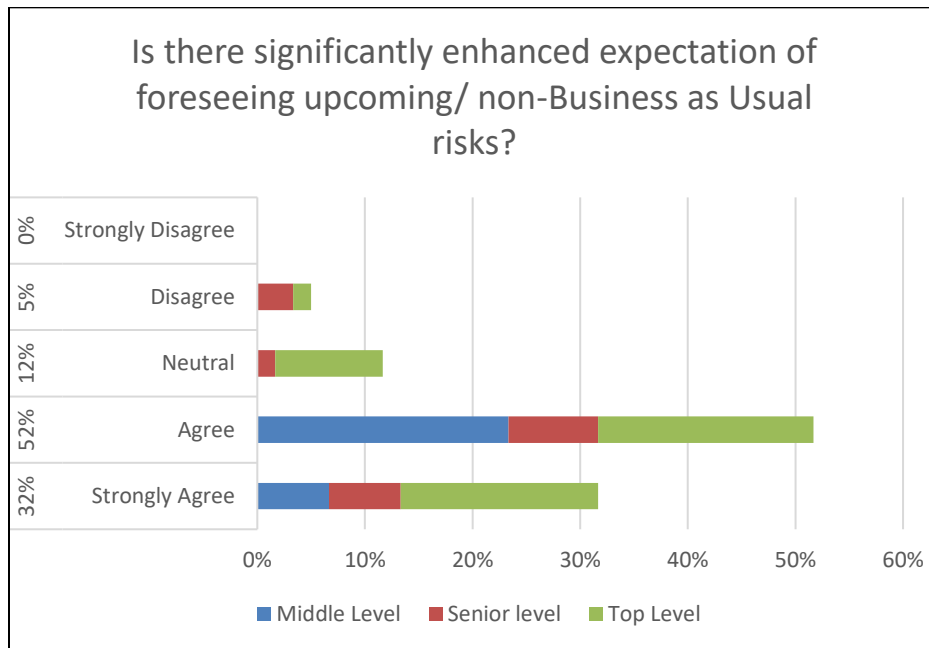


Chart 9

Cybersecurity has become one of the fastest growing security threats to organizations and is today at the top of many Board agendas. The wide scale shift to work from home and sharing home Wi-fi networks has increased the vulnerability of organizations to cyberattacks and is a key focal point for many organizations. Our survey found 20% of the respondents strongly agree and

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

53% agree that their company has adequate processes, controls/ checks and Business Continuity Place (BCP) in place to deal with a cyber-attack / data breach exposure in the short term. **Chart 10** gives the details. Advancements in technology is a key contributing factor in the growing sophistication of capabilities and techniques used by hackers. There is also a greater potential for these attacks through connections with key suppliers and technology partners. (20 key risks to consider by Internal Audit before 2020, KPMG survey)

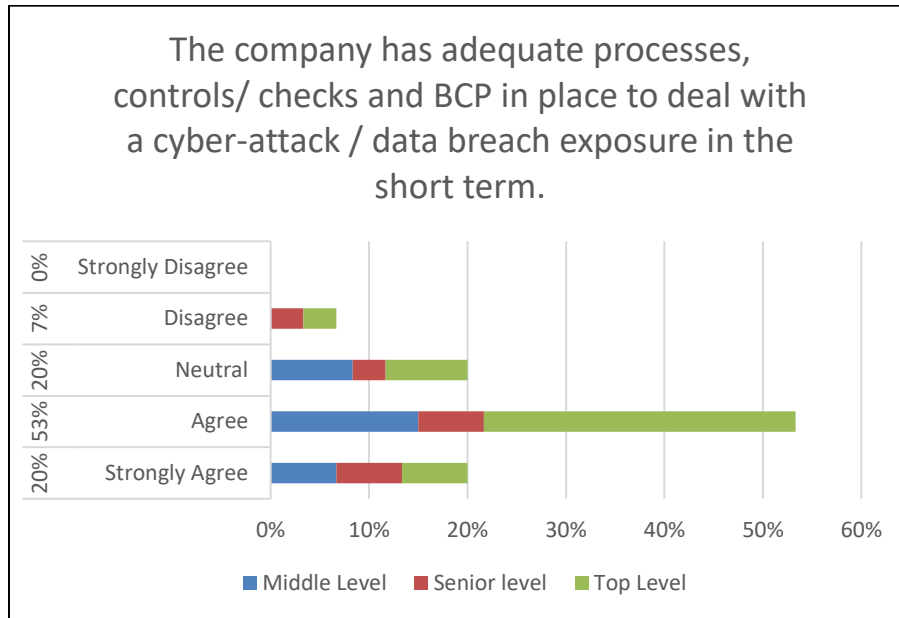


Chart 10

Over the past few years, Companies have recognized the challenges they face in achieving sustainability and climate changes. Climate change is striking harder and more rapidly than many expected. The last 5 years have been the warmest on record with more frequent and intense natural disasters. (The Global Risk report, 2020). CFOs and Auditors need to gain a comprehensive view of the climate risks and ask themselves how best to manage them. 65% of respondents agree that their organization is prepared to respond to sustainability and climate changes while 30% are not sure (**Chart 11**).

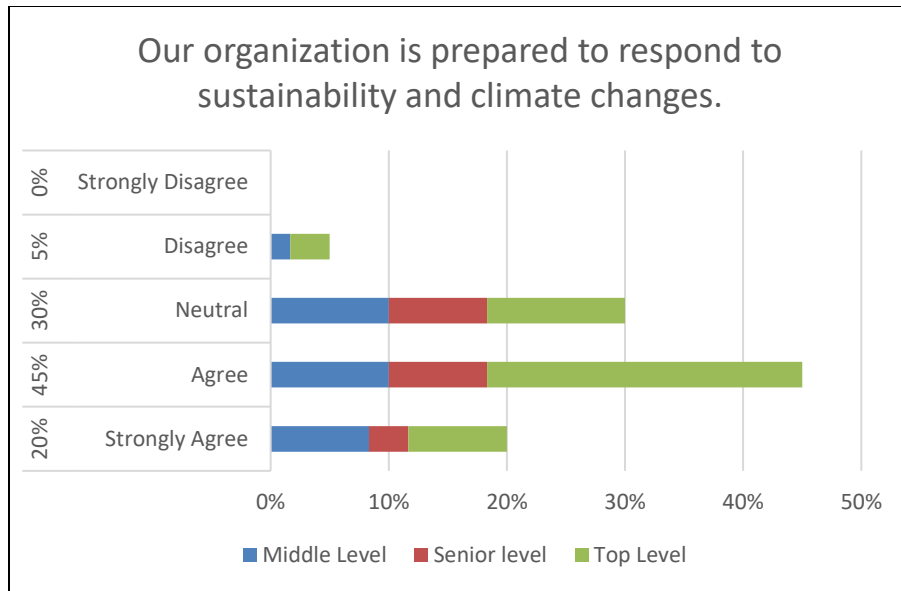


Chart 11

Various surveys and studies have shown that Companies with a clear risk culture and explicit set of values that help the organization to focus on the collective ability to take managed risk are generally more successful in today's environment. 82% of the respondents are satisfied that their company is implementing a whistleblowing policy that is part of their ongoing culture. **Chart 12** shows the graph. In developing a healthy risk culture, organization's need to put in place key risk indicators with a distinct and consistent tone from the top in respect of a risk culture that encourages openness and supports people in speaking out in the interest of the business and the wider public. There need to be a common acceptance throughout the organization of a clear accountability and allowing transparent and timely information that flows up and down the organization.

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

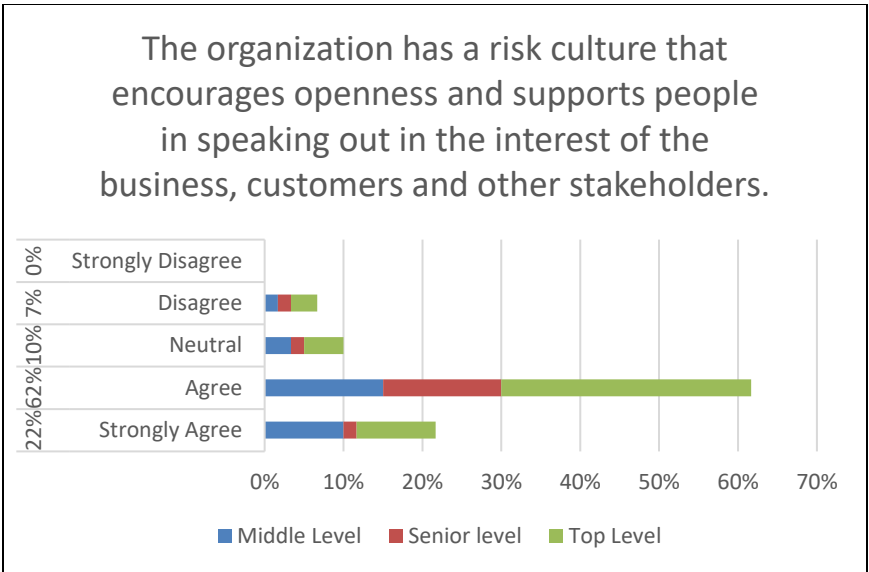


Chart 12

The survey respondents were broadly comfortable with 85 % of the respondents strongly agreeing or agreeing with the view that their organization has a well operating whistle-blower process, with clarity on non-retaliation policy (Chart 13). Proactive protection against retaliation policies help to provide a framework to promote responsible and secure whistle- blowing by anyone in the organization.

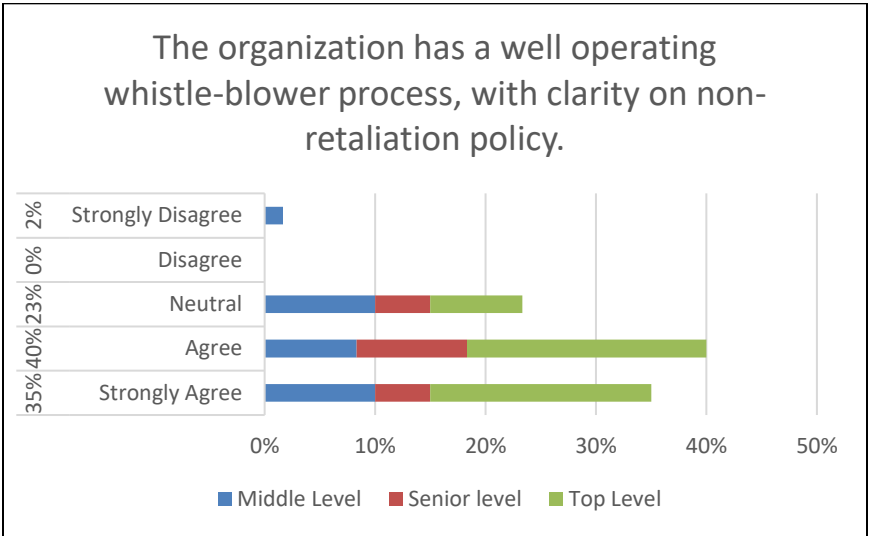


Chart 13

CSR is a vital element of a company’s culture. Today all leading companies seek to maximize stakeholder values – they work to generate not only profits and social and economic return to shareholders but also to employees, customers and society. Companies need to be socially responsible and this requires long term commitment and planning along with promoting a healthy and inclusive workplace. In our survey, 42 % of the respondents strongly agreed that the CSR programme is consistent with the culture of the organization. Understanding the impact that the companies CSR strategy has on employee engagement is an important indicator of success.

80 % of the respondents strongly agree or agree with the statement that their organization has engaged successfully with all stakeholders in developing the CSR programme. **Charts 14 and 15** show the graph

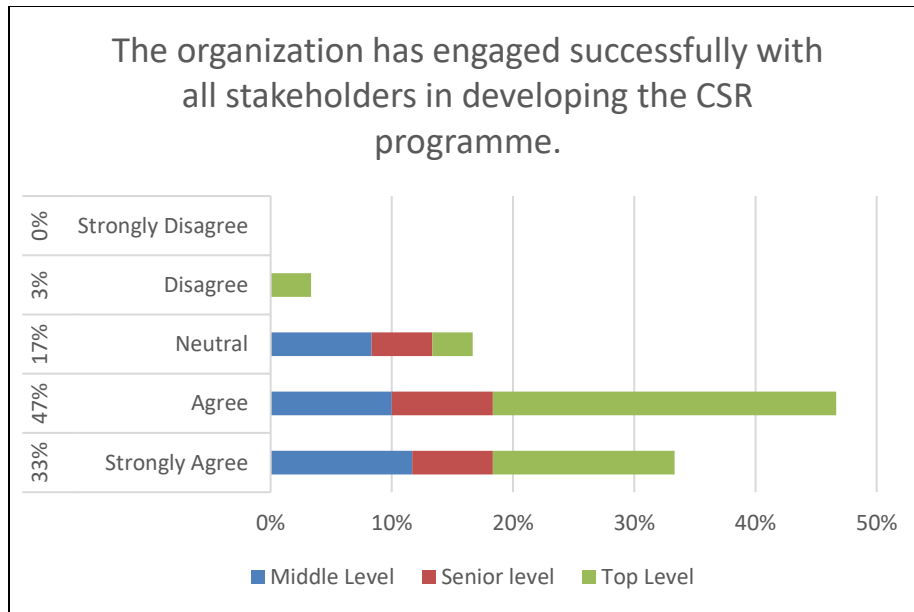


Chart 14

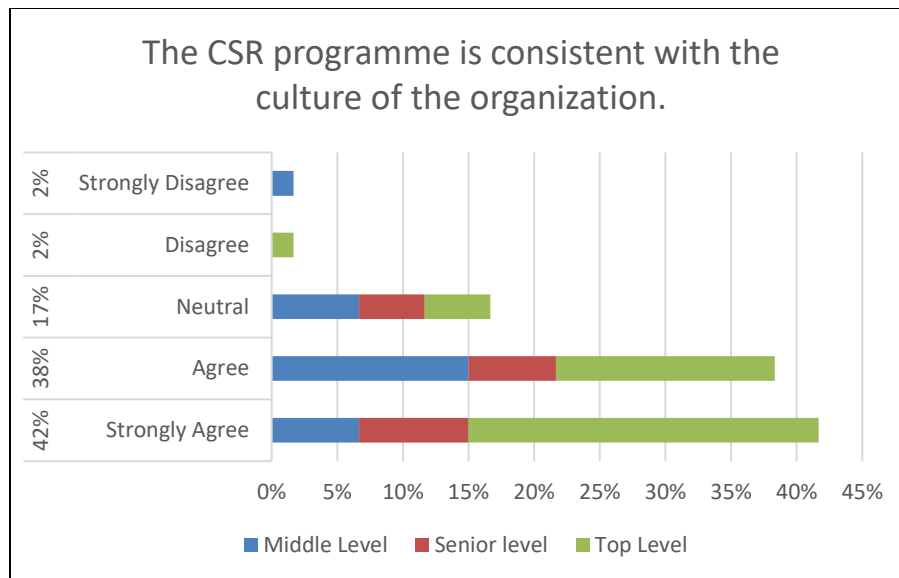


Chart 15

Theme 3

Covid 19 is accelerating the technology and digital transformation of almost all organizations and it is important that CFOs and Auditors have appropriate strategy and skills in place to effectively manage risks. Adopting new technology to improve their risk management practices while simultaneously achieving higher financial returns has become an important focus area for CFOs.

The focus of our third theme is 'How the evolving technology and data driven experiences will help in re-defining the changing role and expectations from auditors and CFOs in the context of rising importance of risk management. To this end our study will focus on how audit plans will evolve into intelligent decision making in terms of BCP, Supply Chain risk, Third party risk, Technology risk to name a few.

Boards need to be periodically appraised about the effectiveness of fraud risk management processes and controls in their organizations. According to our survey, 57% of the CFOs and Auditors perceive that financial challenges and risk profile have changed and may have weakened the financial reporting process after the pandemic. **Chart 16** shows the graph. This could lead to a higher fraud in organizations. Section 447 of the Companies Act, 2013, deals with provisions relating to penalties for fraud, including acts related to the

failure by companies to establish risk management systems to prevent and detect fraud. A survey conducted by Deloitte reports that ‘Companies that invest in building a fraud risk management program are able to build and demonstrate strong ethical culture within the organization and robust anti-fraud controls. Due to the presence of antifraud controls, such organizations are also able to detect and respond to incidents of fraud much more quickly and limit losses due to fraud, compared to organizations that lack anti-fraud controls.’(‘Implementing a robust fraud risk management programme,’ report by Deloitte, 2014, accessed online).

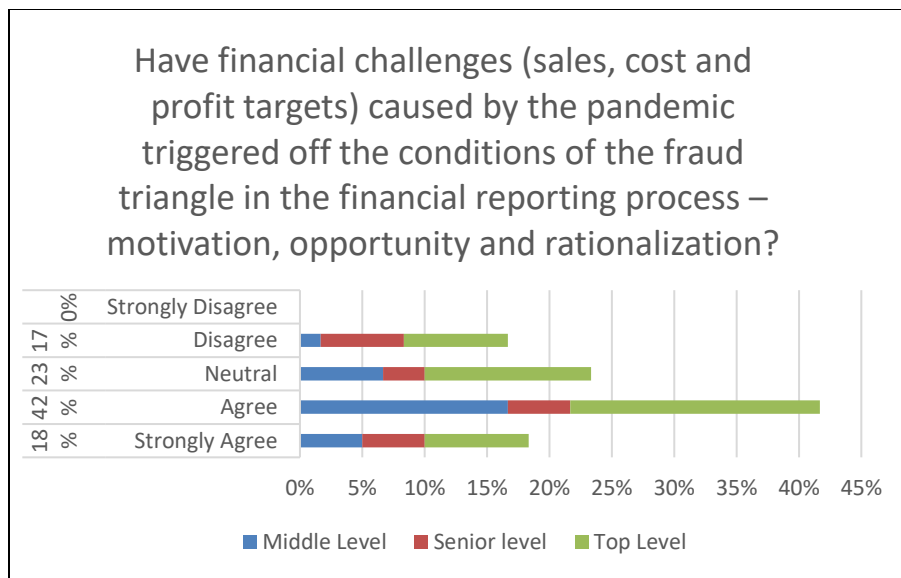


Chart 16

The next three questions were related to the role and expansion of CFOs in the organization. **Charts 17, 18, 19** show the graphs. Organizations are increasingly expecting their CFOs to play a cross-functional leadership role rather than traditional finance role. CFOs need to focus on how to apply their analytical skills and play a strategic consultative role in leading the business. 65% of the respondents agree with this view.

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

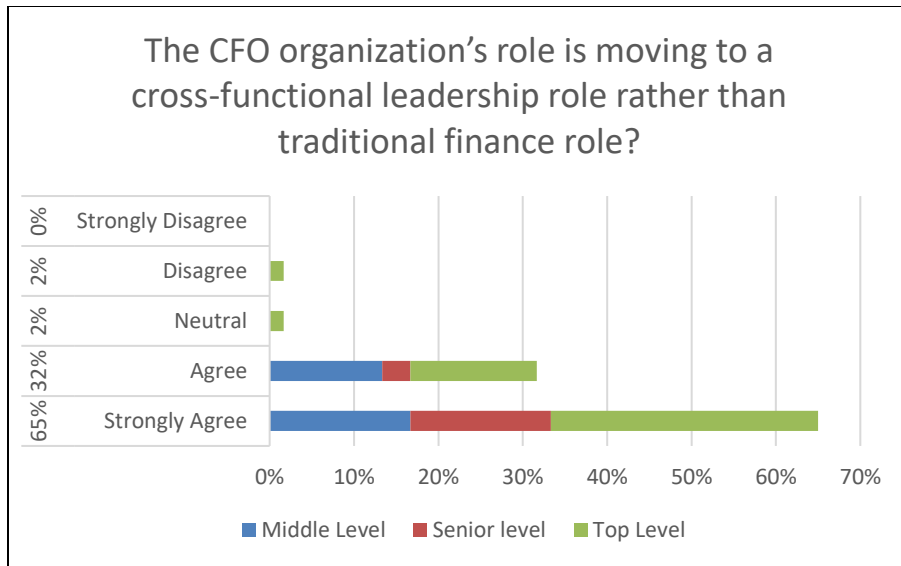


Chart 17

50% of the total respondents but only 27% of the top management interviewed are of the opinion that the CFO's are increasingly expected to be the architect of the organization's value creation journey. They need to expand their traditional value preservation activity and leverage their skills in new ways to support value creation.

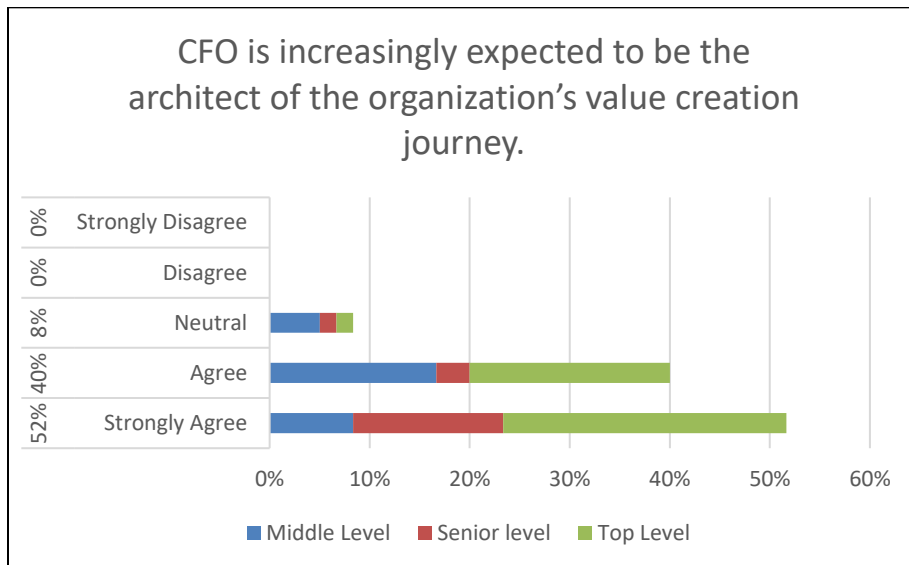


Chart 18

The financial scandals of the early 2000s, the global financial crisis and the events of 2020 have changed the practice of corporate risk management in recent years. CFOs have taken on a greater role in digital transformation, governance and compliance. Digital transformation, be it automation, analytics, robotics processes or data visualization is critical and is a powerful factor behind the changing role of CFOs. Today's CFOs are increasingly involved with respect to the risks of repercussions of security breaches and customer data loss. They are being consulted on technological change and are at the forefront of all digital transformations.

70% of the total respondents out of which 33 % from top management believe that new age CFO's organization should be at the forefront of digital transformations taking place – be it automation, analytics, robotics processes or data visualization.

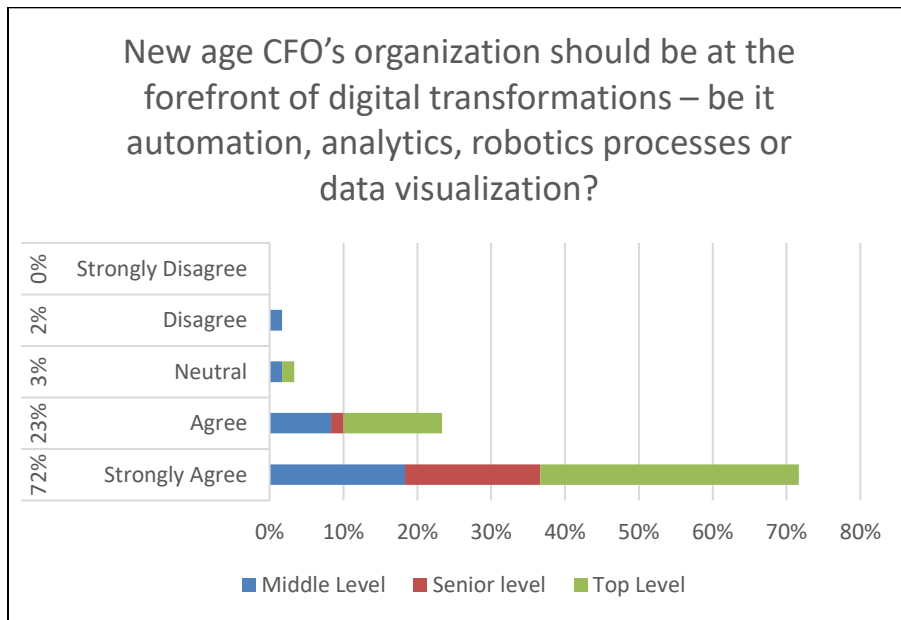


Chart 19

Data Governance risk has become one of the biggest issues requiring CFOs' and Auditors attention in the current environment. Companies need to create effective data governance frameworks to build trust and ensure the integrity of processes. 64% of the total respondents and 16% of senior management agree that their company has an adequate and exhaustive data governance strategy to address data governance risk. **Chart 20** presents the details. Thus,

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

CFOs and audit professionals should encourage companies to build strong data privacy and governance framework that provide greater accountability.

'Data quality has become one of the biggest issues requiring CFOs' attention.

As organisations become more data-driven, the effects of poor data on decisions and resulting performance will become much more serious.' (New Top Concern for Internal Audit: Data Governance, David, McCann, *November 7, 2019*).

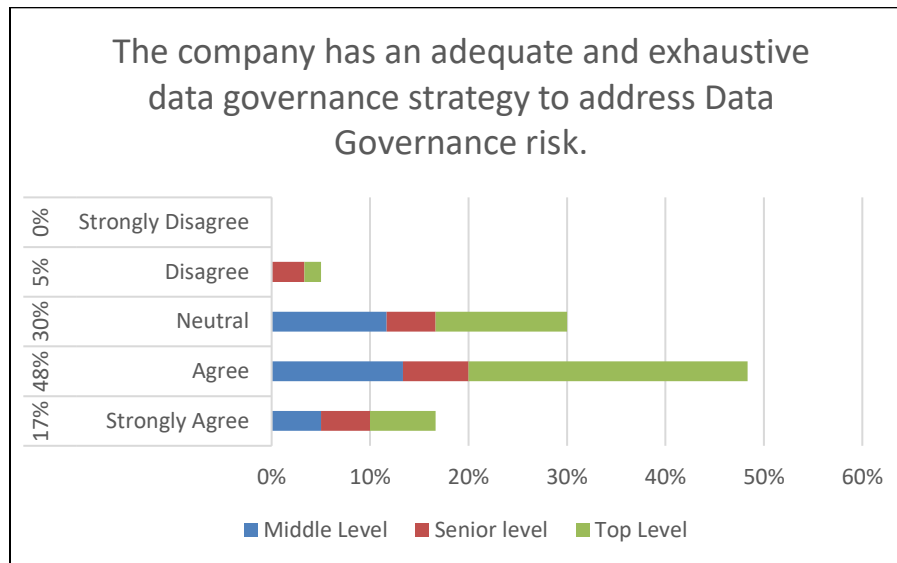


Chart 20

The next two questions relate to Business Continuity Planning risk

The Coronavirus outbreak, increased regulatory requirement and a shift in the global economic outlook have created a challenging environment across the globe. Enterprise risk management and business continuity planning contribute to the resiliency of organizations and need to be integrated for better control.

Business continuity planning is seen as a high priority among the respondents surveyed with 76% of the respondents saying that their function has a critical role to play in the business continuity planning of their organization. Also, 70% of the total respondents but only 23% of the top management are of the opinion that the company has developed and practises a contingency plan that includes a succession plan for the CEO and other key leaders. **Charts 21, 22** show the graphs.

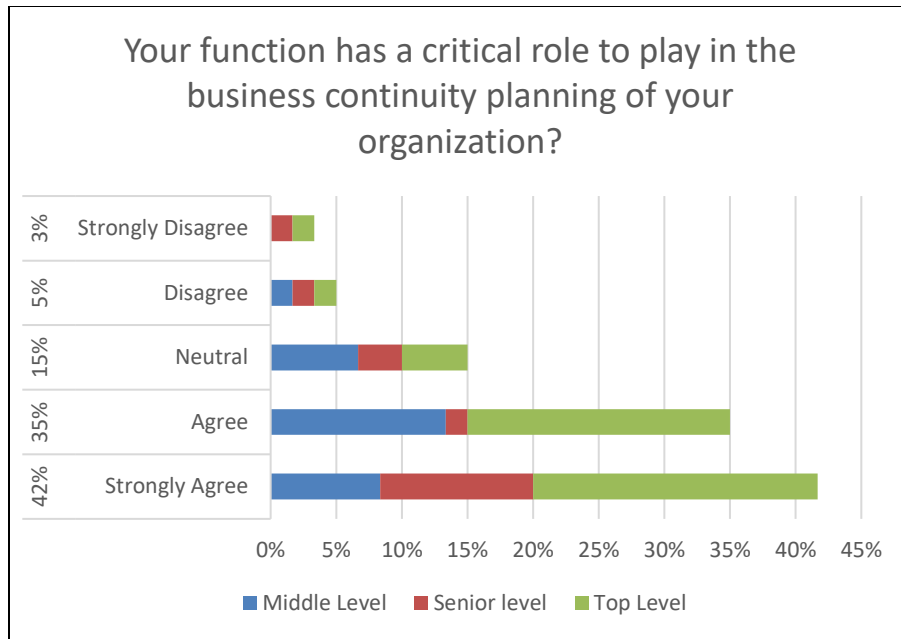


Chart 21

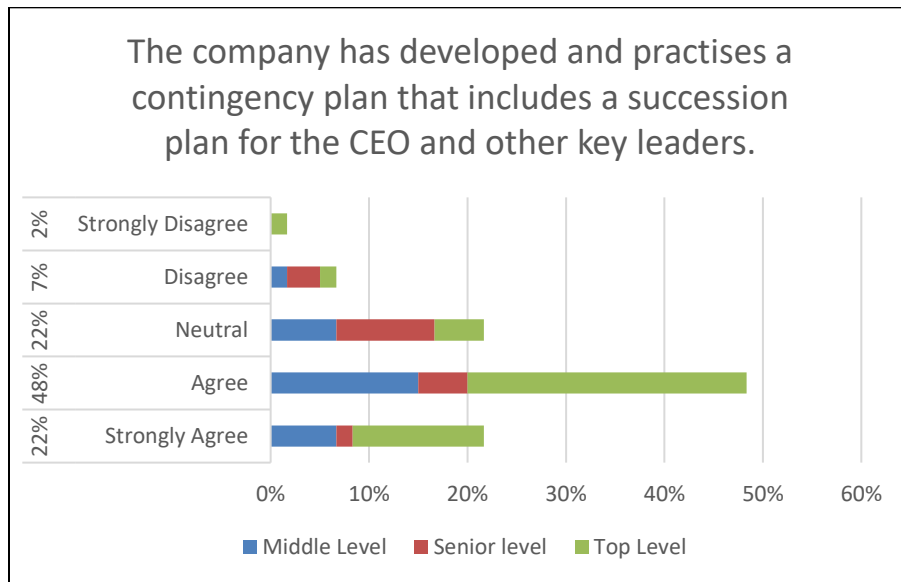


Chart 22

Business Continuity Management is documented information and processes that guides an organization to respond to a disruption and resume, recover

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

and restore the delivery of products and services consistent with its business continuity objectives. A business continuity plan includes analysis of organizational threats, listing of primary tasks required to keep the organization operations flowing, easy location and availability of management contact information, guidance around personnel movement if there is a disastrous event, Information on data backups and organization site backup, guidelines around collaboration among all facets of the organization and most importantly buy-in from different stakeholders in the organization.

The next four questions relate to Third party management and Supply Chain disruptions. Third party and Supply chain disruptions, both domestic and global, can pose a serious threat to organizations today. As the pandemic is disrupting the supply chain set up of many companies, key risk areas include cyber security, data privacy, digital disruptions and compliances.

The risk of Supply-Chain disruptions and management has been intensified by globalization, as today raw material, technology, defence, IT are manufactured in one part of globe and used across at other end. In this global usage and fast movement cycle of products/services across, at times the manufacturer or service provider does not even know how critically it might be impacting other organizations as part of their supply chain. This increased complexity has led to more potential failure points and higher levels of risk. As risks grow and become increasingly complex, businesses should pay enough attention to supply chain risks. 96% of the respondents strongly agree or agree that organizations which had a robust supply chain risk management process have fared better than their peers during and after the Covid period. 87% of the respondents surveyed feel that there is significantly enhanced focus on maintaining long-term vendor / customer relationships. **Charts 23 and 24** present the graphs.

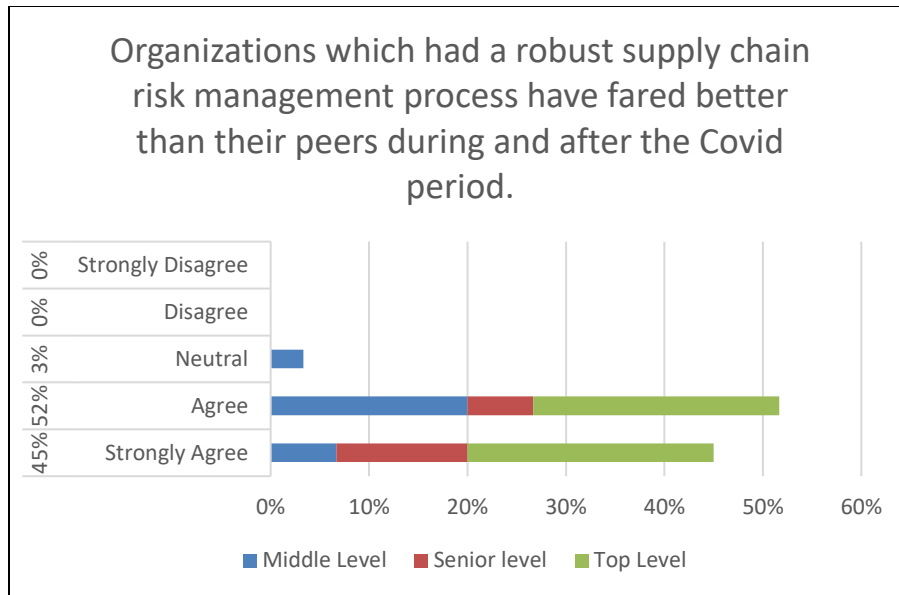


Chart 23

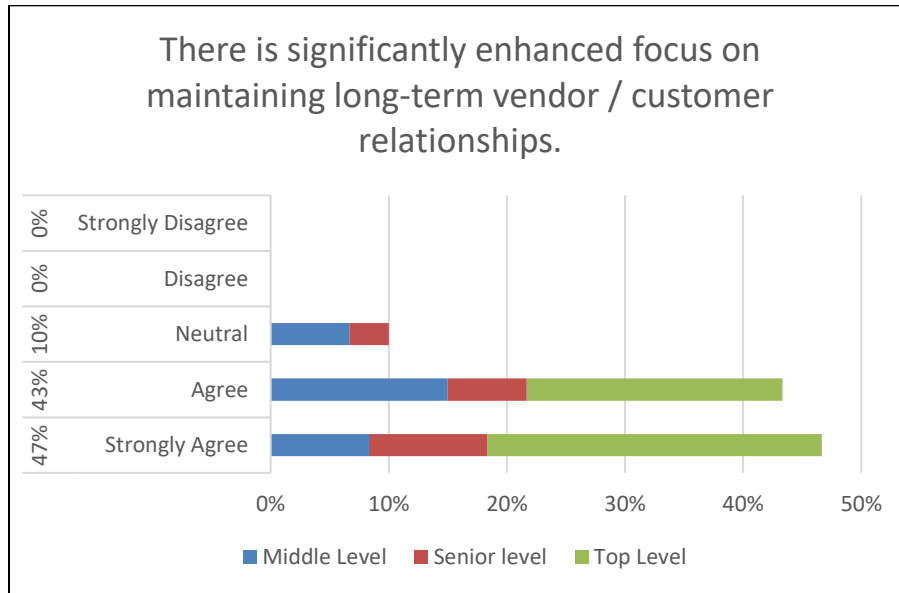


Chart 24

Third party risk are crucial for businesses and should be regularly evaluated to take a holistic view to understand whether the company has a clear vision and a robust framework to support it. There have been increasing incidents

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

related to suppliers causing business disruption due to inadequate processes or non-compliances at their end. For example - Information security, privacy and anti-fraud management etc. Regulators are also increasing the pressure on organizations to better manage their supplier risks. Only 32% of the total respondents and 33% from top management strongly believe that reputation of organizations is at stake due to significant risk exposure from usage of third parties (**Chart 25**). This has important implications as to how companies must choose their service providers and what a good service provider looks like.

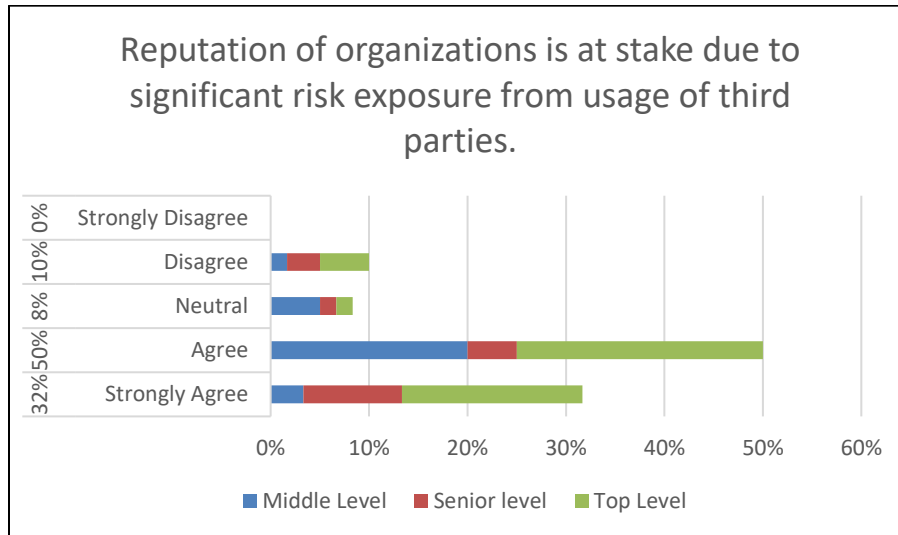


Chart 25

The third party risk management framework should be holistic and technology driven especially during disruptive times. Companies need to be wary of third party risk and hence must have management processes in place not only for vendors, contractors, customers, and joint ventures, but also for counterparties and fourth parties. Only 37% of the total respondents and 33% from top management strongly believe that there is an enhanced expectation from their function to focus on and manage third party risks. How can each level manage third party risk? Top management– setting the tone at the top, strategizing and monitoring, senior management – drive cross functional alignment across procurement, compliance, legal, data privacy, sustainability and middle management – day to day execution of risk management strategy. **Chart 26** shows the graph. Thus, third party risk management process has to be continuous, real time process that includes review, monitoring, and management of vendors throughout the entirety of the relationship.

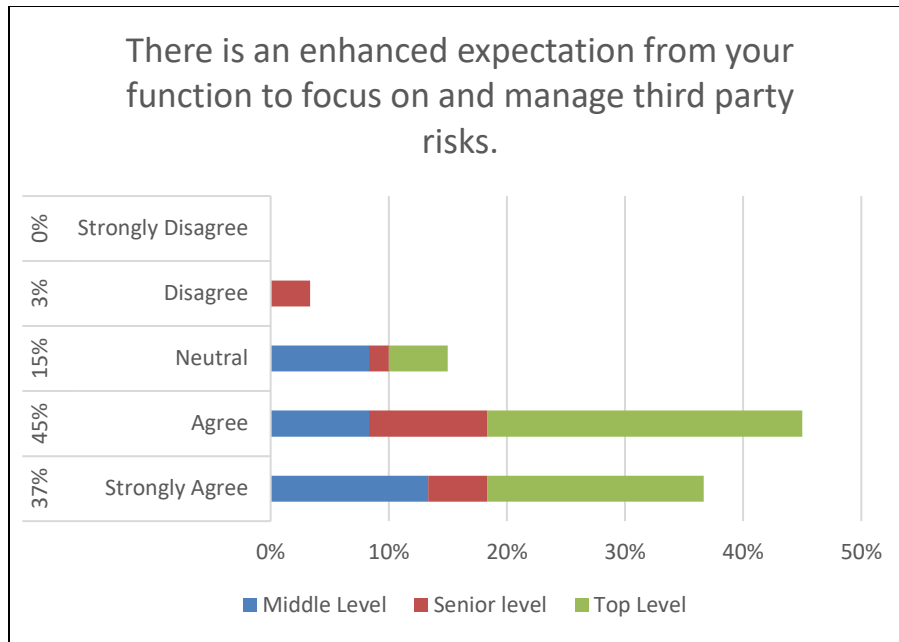


Chart 26

Our next question was regarding the empowerment of Auditors in organizations. 75% of the respondents strongly agree or agree with the view that while auditors have been questioned in case of occurrence of fraud events, they have not been adequately empowered to deal with and prevent such cases. **Chart 27** shows the details.

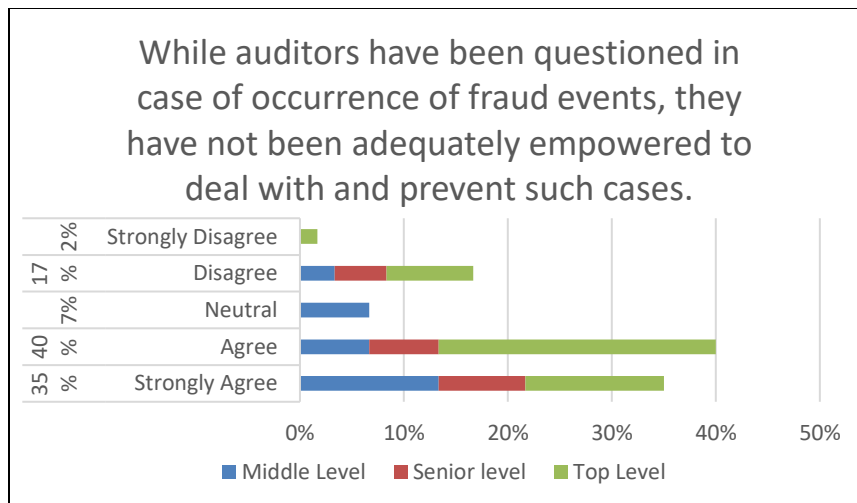


Chart 27

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

Only 17% of the respondents agree that their team have and continue to attract required talent to keep pace with the digital transformation in their organization and external stakeholder groups (**Chart 28**). Required talent expert in Artificial intelligence, Algorithms and other digital technology will have a significant impact on the way businesses will be conducted in future. Mastering the advancements in digital technology is critical to enable risk managers to not only identify new and emerging risks but also enhance productivity and make smart business decisions.

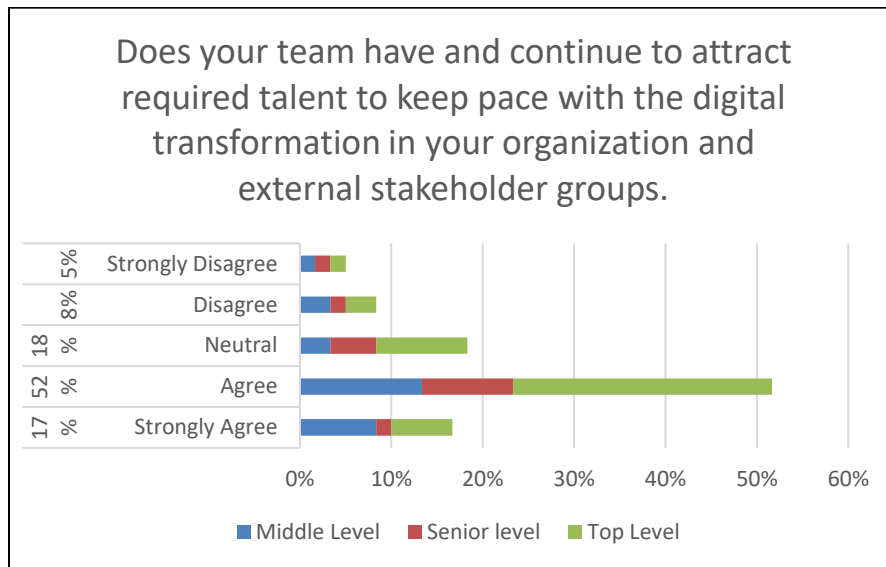


Chart 28

The next chapter discusses the results for **Section C** and **Section D** of the Questionnaire.

Chapter 6

Results and Analysis–2

According to PwC's 2020 Global Risk Study, the focus of which is risk function collaboration, 'Technologies are helping companies to move more quickly and to become highly connected, which makes it more critical than ever before that risk functions collaborate with each other. Risk functions need to be collaborated to increase their collective skills and expertise. Collaborating and coordinating the risk function in organizations not only drives efficiency but also assures that the risk perspective is brought in at the right time and helps to produce greater risk insights for the business.'

The present chapter discusses the results for **Sections C and D** of the Questionnaire – Part 1 discusses the results for **Section C** while Part 2 presents the results for **Section D**.

Part 1

In this section, the overall responses from the survey respondents to each of the risk management ranking questions is presented below.

In the fast changing business landscape, Auditors and CFOs need to have a clear vision which can help them make quick and informed strategic decisions. Newer risks have emerged after Covid 19 pandemic and the CFOs and Auditors need to increasingly recognize the challenges and changing profile of risk management function in their organization. The first question in this section was '**What is your expectation from the risk management function in your organization?** Chart 1 presents the details classified according to the rankings given by top management, senior management and middle level management on a scale of 1 to 8 with 1 being top priority and 8 being least priority.

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

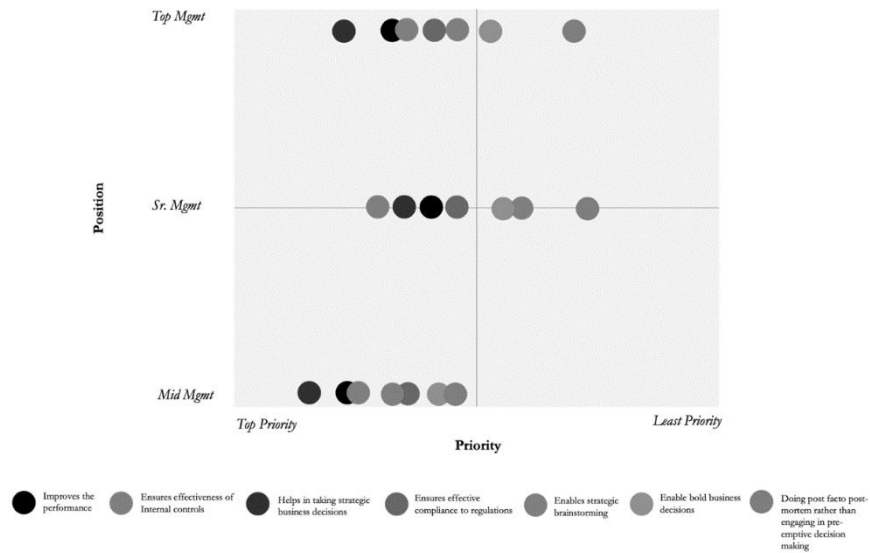


Chart 1: Expectations of management from the risk management function

The first step in understanding and creating an effective risk management system is to understand the prioritization of the expectations from the risk management function. Top management ranked improves the performance, followed by helps in taking strategic decisions and then ensures effectiveness of internal controls as expectations from the risk management function. Senior management ranked ensures effectiveness of internal controls as top priority followed by improves the performance and then helps in taking strategic business decisions. However middle management ranked helps in taking strategic business decisions as top priority followed by improves the performance and then ensures effectiveness of internal controls.

Compliance becomes challenging as companies grow in size and move into newer markets, operate in multiple jurisdiction and possess complex structure. However, in our survey, ensuring effective compliance to regulations was ranked at number 4 by both top and senior management while middle management ranked this at number 5. The least priority by all three levels of management was given to doing post facto post mortem rather than engaging in pre-emptive decision making.

Our next question was **'What according to you is the expectation from the risk management function in your organization?'** Business environment has

become increasingly uncertain and volatile and organizations are under increasing pressure to improve their risk management practices. Risk managers in the last few years have started considering a horizon of risks to assess unforeseeable and emerging risks with serious potential impacts. Business resiliency/ continuity is critical for the future of risk management professionals as all the respondents have given it top priority. Starting from the financial scandals in early 2000s, the global financial crisis to the recent pandemic, the threats to risk managers have magnified. Boards and Auditors need to review how well they are coping with the crisis and whether the business continuity response plans have been updated and are more forward looking than in the past. **Chart 2** gives the details.

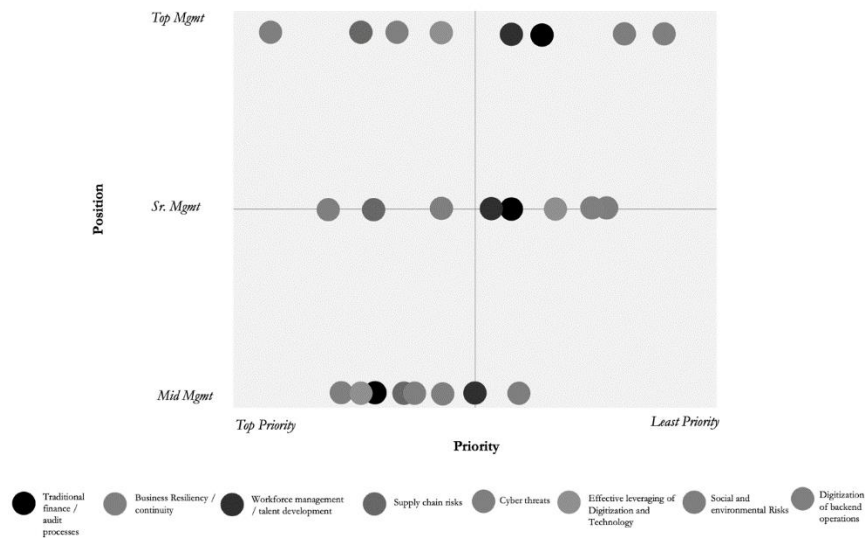


Chart 2: Expectations from the risk management function in organizations.

Supply chain risks and Cyber threats were also ranked high by top, senior management and senior management. Risk managers surveyed overwhelmingly believe that this will be important as organizations choose to outsource their business functions to third party and also work from home. Organization's should assess and improve their vulnerability to cyber -attacks and adopt control and safety measures so that technology systems are not left unsupervised or ignored. Effective leveraging of digitization and technology was ranked at number 4 by top management, number 6 by senior management and surprisingly at number 2 by middle level. According to top management,

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

digitization of backend operations was least important followed by social and environmental risks whereas according to senior management it was just the reverse.

Thus, most executives surveyed do not have a consistent way of assessing and prioritizing the risk across the enterprise. However, business continuity risk is critical for the future of risk management profession. Business Continuity Planning risk involves all the factors that can disrupt the company's operations. Risks may include natural disasters or calamities, cyber-attacks or pandemic. Business Continuity Planning Risk is thus a crucial part of the organization's risk management strategy.

Our next question was regarding the structural changes which can make risk management an enabler to taking aggressive business decisions rather than a bottleneck. **Chart 3** depicts the structural changes which can make risk management an enabler to take aggressive business decisions rather than being a bottleneck. The first three parameters namely having practical guidelines for implementing risk management practices, communicating the value in making risk considerations and risk management and business teams need to communicate in a common language were ranked as important priority factors by all three levels of management. Risk management professionals need to communicate in a common language and look towards creating future value in implementation of risk management practices. The opportunity for CFOs and Auditors to act as a leading change agent has become important as they need to make informed strategic decisions that not only deliver business outcomes, but also help them to focus on complex value adding objectives. In comparison, adding regulatory requirement around risk management was given lower priority by all management levels in our survey.



Chart 3: Structural changes that can make risk management an enabler in taking aggressive business decisions rather than a bottlenecks

The importance of establishing a common risk language to facilitate information sharing by all groups of risk professional cannot be overemphasized. Our next question was regarding how frequently the organization updates its risk profile considering both internal and external factors that impact the strategic execution. According to our survey, 30 % said semi-annually, 25% monthly while 28% respondents did not have a defined periodicity for refreshing risk profile. 8% of the respondents felt that organizations should review their risk profile annually. **Chart 4** presents the details.

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

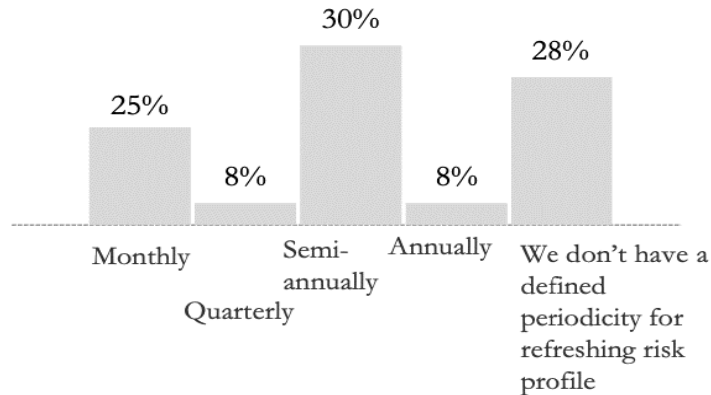


Chart 4: How frequently do organizations update their risk profile

The good news is that risk management as an important driver of influence in organizations is not just perceived to be important at the highest level in organizations but also further down the chain of command. Good risk management means performing a balancing act in order to maintain business relationships. Risk management has to increasingly partner and work collaboratively with other relevant functions. One of the more pronounced outcome of the pandemic is that risk professionals have to look beyond the horizon. All the respondents in our survey starting from top, senior to middle level management, gave the highest importance to risk management as a function. **Chart 5** presents the ratings given by the respondents.

According to our survey, top management spend most of their time on risk management and strategy development. CFOs play a role in prioritizing and supporting strategy development and helping enable its execution and funding.

For the middle management, strategy development is not an important area and was ranked at number 5 by them. Senior management ranked strategy development at number 3.

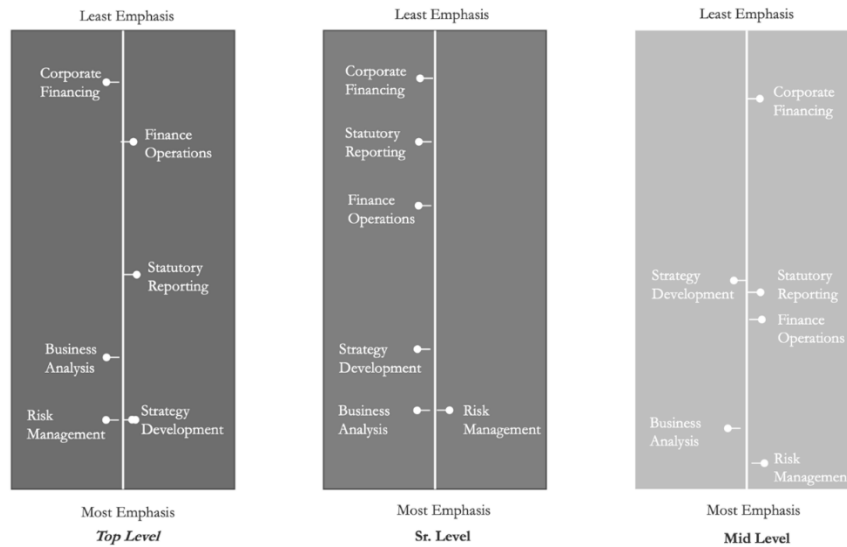


Chart 5: Risk management as an important driver of influence in organizations

The historical task of financing operations such as financial reporting and statutory compliances are ranked at number 5 by top management. One probable reason for this could be that these tasks are taken as minimum requirements by top management and a regular part of their function. However, these tasks continue to be important for senior level and middle level, being ranked at number 4 and 3 respectively. Corporate financing was given the lowest priority by all the respondents in our survey.

The final question in this section was whether organizations have focussed brainstorming sessions to discuss cross-functional risks. Brainstorming is one of the best methods for identifying risk and the technique can be used to identify new risks with frequent meetings with the team. It helps to bring groups of risk professional together to leverage their varied skill sets, ensure that important risks are not overlooked and provide a cross functional perspective. Cross functional brainstorming perspectives are crucial for risk assessment and helps to bring different perspectives to the table to promote innovation. Second, it fosters a more creative environment. Third, it allows organizations to leverage diverse skills by bringing together expertise from different areas. Finally, organizations are forced to look at fresh and newer perspectives.

Chart 6 gives the details of our survey.

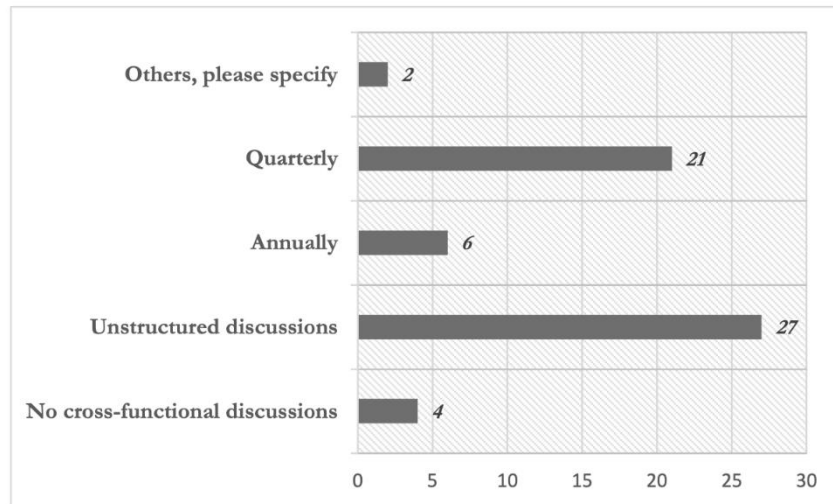


Chart 6: Brainstorming sessions to discuss cross-functional risks

Having full visibility of risks, as opposed to a silo perspective, helps stakeholders receive risk insight across the enterprise. Organizations may suffer huge brand risks if they do not understand the risks to their customer front lines. It is important that risk functions and business leaders come together to establish a common risk language to facilitate collaborative information about the key risks. In our survey, 45% of the participants favoured the unstructured discussion format followed by 35% who felt quarterly discussions were useful. 10% were in favour of annual brainstorming sessions while 7% opined that no cross functional discussion is required for understanding risks.

Part 2

In the final section, respondents were requested to provide responses in their own words to 5 open ended questions. Open ended questions do not provide respondents with a pre-determined set of answer choices. In fact they provide freedom to the participants so that they can respond to the questions in a way they like and are comfortable. Open ended questions are an integral part of qualitative research and the purpose was to motivate the CFOs and Auditors to put their responses and thoughts in words towards enhancing risk management knowledge.

In our survey, we asked the respondents 5 open ended questions on the evolving perspective of risk management amidst the new ways of working, how their roles/responsibilities have evolved in the last few years and what behavioural changes are required in the organization to be better prepared to manage unforeseen risks and uncertainties. We present below the responses given by a few respondents from Top level (**Subhashis Nath, Anu Priy Purkayastha**), Senior level and Middle level.

First question

'Do you believe your role, responsibilities and accountability have significantly evolved over the last decade? If yes, how? Please explain briefly?'

Subhashis Nath - In my view, the last 4-5 years have seen a significant increase in evolution and adoption of digital enablers and leverage of data. While some believe the pandemic to have hastened the adoption, in my view the pandemic has only hastened adoption of remote working but rest of digital and data evolution has been in the works for the last decade or so. Consequentially, in my role as a trusted business advisor for our customers, I have had to ensure that our team has re-tooled and upskilled themselves on an absolutely consistent basis to be able to recommend the best of breed digital solutions to our customers and to also help customers de-risk their business for newer risk avenues faced by their businesses as they adopted to more digital ways of working/ doing business. My role has also evolved in terms of the global regulatory landscape over time. More regulations now have a remit beyond the country of origin of the regulation given the global footprint that most of our customers have. Additionally, most of the regulators are also getting better at driving improved implementation by way of monitoring and auditing and hence we need to advise customers on what they need to do on an ongoing basis to be able to demonstrate necessary diligence on part of management to remain compliant with regulations.

Anu Priy Purkayastha- Yes. digital transformation , managing newer risks , partnering with best in class players are some initiatives we have taken in the last few years.

Some other responses given by Top level were:

Boards expectations have gone up and focus on ERM and Governance is very high now.

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

With business complexities increasing the Role of Audit has also Evolved significantly to facilitate Risk. Management Process across the group. And proactively mitigate them

Responses given by Senior Level and Middle level management:

Senior Level

It has moved from being limited to traditional accounting and finance to compliance and more strategic business support

Due to more challenges in the business environment for various factors more responsibility on timely reporting on Business Analysis, Receivable Days, Non Moving Inventory, Budgetary controls and cost reduction measures

Middle Level

Yes. Internal audit is now mandatory as per General Financial Rules of Ministry of Finance.

Yes, the internal audit function has become more risk based and consulting organization

Second Question

How do you strike a balance between exploiting and avoiding risks in your organization?

Subhashis Nath: Exploiting and avoiding risks is something that needs to be viewed at a portfolio level and is significantly driven by the organization's risk appetite, and also leadership style. To the extent an organization can manage/ mitigate their risk to being within their risk appetite they do not need to avoid such risks. However, risks beyond an organization/s risk appetite does need to be avoided. Certain risks for most organizations are kind of non-negotiable and hence have to be avoided, eg, brand reputation risk, regulatory compliance. Exploiting risks provides an organization competitive advantage over competition as long as they are managed the right way in terms of being periodically monitored with insights from accurate and comprehensive data. Usually most decision making of exploiting risk yield best results when they are well informed decision which typically requires good quality of data – both internal and external.

Other Responses given by Top Level, Senior Level and Middle level Management:

Top Level

Calibrated Analytics supporting entrepreneurial calls and ensuring the financial impact of failures are not very high and remain within acceptable limits for the organization. Encouraging business prudence in commitments and spends, in a practical assessment of the opportunity pursued.

Risk avoidance is a myth. What can be done is to have tolerable risks through appropriate risk appetites

Senior Level

By having a strong estimation process and strategies to achieving the business goals . Also having a monthly/quarterly review system on ensuring the ship is sailing on the right way.

Middle Level

My organization, which operates on public monies is traditionally risk averse. However, strategic risk taking has increased over the years to bring about rapid e-governance reforms.

By participating in various risk management projects and pre-assessment of various transformation and other strategic projects

Third question

How do you perceive the emerging risk of frauds and financial mis-reporting amidst the new /remote ways of working?

Subhashis Nath: Aside of risk arising from remote ways of working, the current environment of many businesses coming out of the pandemic impact inherently exposes organizations to the risk of targets – operating performance measures like sales, profits, cost of procurement reduction, as well as financial numbers being reported as against last quarter, year and plans, creating a stress factor for many employees like they have never experienced before. This by design exposes most organizations to the risk of operating and financial reporting frauds. This situation is referred to as the fraud triangle theory, which essentially has the elements of pressure (to perform) opportunity (less focus on controls), and rationalisation/ motivation (employees under personal financial stress and also justifying in their mind that they are doing it

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

for the company's good buy reporting better numbers). As far as remote working is concerned, it certainly has exposed, those companies which have been forced to adopt digital in their ways of working at a pace faster than they had planned to, more acutely in terms of lack of adequate controls, as against those companies who already had been on a digital journey pre-pandemic. Eg, a brick and a mortar business being required to suddenly switch over to a predominantly e-commerce model may not have all the necessary controls required to deal with frauds by remote working team members and virtual interaction with stakeholders across the business value chain and/or supply chain.

Anu Priy Purkayastha: It's a big risk and has to be tackled...One level of advanced scenario thinking is needed. Added to it advance analytics to monitor data online.

Other responses by Top Level, Senior Level and Middle level Management:

Top Level

Having effective controls in overall working of organisation.

They can be managed through automation and analytics

Senior Level

There is an increasing threat of these risks and there is a need to evolve a comprehensive mechanism to tackle these risks

Big Challenging thing. I think strong ERP system and Internal controls is the only solution.

Middle Level

The risk definitely increase with allowing remote access to employees

Do not see any risk.

Fourth Question

As organizations have embraced newer technologies and tools, how do you see your team's role evolving in ensuring a reliable control environment?

Subhashis Nath: There are two essential elements to be addressed. One aspect is of businesses embracing technology in their core business value

chain cutting across planning, procurement, production, distribution channels, collections, etc. This essentially requires all of our team members to continuously evolve and upskill themselves to think through the new risks/ what can go wrongs ('WCGW') in the newer business models and therefore what should be the right set of prevent and detect controls to identify, monitor and mitigate these risks. The second element is around new tools available to leverage much greater quantum of data availability as compared to before and hence the need for skill sets to derive insights for action from the increased volume of digital data available. This requires team members to understand new concepts and skills around natural language processing – dealing with structured and un-structured data, along with language neutralization, handling data in a secure environment to be compliant with newer global data privacy regulations as well as general good practices of information security. Overall, it is therefore essential for professionals to remain extremely dynamic in their learning process as there is very little about ways of doing business that many professionals would have learnt say a decade back that would any longer completely relevant. That hasn't been the quite the pace at which one has experienced business process knowledge redundancy impact the consulting businesses and hence it is a new challenge that most organizations are having to deal with and at speed and scale.

Anu Priy Purkayastha: Our organization continuously updates the logics basis the findings to make it more suited to the organization's needs.

Other responses by Top Level, Senior Level and Middle level Management.

Top Level

Team has to adopt advanced analytics to keep pace with changes in the business environment. Added to this Risks are ever increasing and have to tackled on a regular basis.

We need to ensure the human element is there as machines can't work in isolation, we need to train them to business scenarios of

By discussion on various issues during the Board Meeting.

Senior level

There has to a larger emphasis on controls and testing environment in the entity to address these

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

Assuring the system are working as per the designed process and report for deviation if any

Middle Level

With internal audit and accounting moving beyond their traditional definitions, we are responsible not just for statutory compliance but to add value to the decision making and scheme evaluation process through providing insights and flagging key areas of risk

Getting trained on the new tools and technologies and involved in the risk assessment process on a regular basis

Final Question:

What behavioural changes do you see in your organization to be better prepared to manage unforeseen risks and uncertainties?

There are some very essential behavioural changes that are required in all organizations to be better prepared for the unforeseen risks as well as uncertainties. Some of the essential ones are as follows:

Ability to think through critical business scenarios / decisions in a “what if” mode. Most organizations are prepared to deal with what can go wrong in their business as usual ('BAU') processes and have necessary controls or mitigants in place. However, more often than not the bigger and more significant/strategic risks arise when the unplanned event happens.

Ability to monitor and correlate external data to internal data. Organizations that monitor relevant external data market conditions – suppliers, customers, compete on a very regular basis and across geographies and then compare the same to how it reflects and impacts their processes and business plans, are more likely to have thought through how to deal with potential uncertainties that could impact them. A certain crisis that a competing business went through in say the Europe market could manifest itself in an exact similar fashion or as a slightly modified variant of it say in the Asian market for Company A. If Company A management has done scenario planning exercises ahead of time of that situation then it is likely to handle the uncertainty better than if it required an unplanned hasty decision.

Overall improvement in data interpretation skillsets. As on date most organizations believe data analytics to be a skill set that resides in a group in the company and they are meant to write up codes and generate certain

reports. In reality, while it is OK to have coding and programming as a specialised skillset, there is an acute need for behavioural change in more business leaders becoming more aware of availability and reliability of business data so that they can then think through application of business scenarios on the available data to get meaningful insights for action. This is a very big change required across almost all organizations, with the need for speed of change may be more intense in some organizations as compared to others who have been on the journey now for some time. Yet I would believe more than 80% of the companies are in a state of infancy around this specific behaviour aspect.

Anu Priy Purkayastha:

Running continuous monitoring programs to detect patterns and trends, more awareness to invest in risk programs to detect risks, cross leadership report outs to discuss findings suggest recommendations.

Other responses by Top Level, Senior Level and Middle level Management:

Top level

Take outside experts advice.

Businesses must accept that they have to force the unforeseen all the time. They cannot adopt an " I know it all and I manage all risks daily" is being too complacent. A good amount of negative thinking is good for the business. It makes them more prepared.

Senior Level

Strategic business decisions could be taken after holistic discussions cutting across functional lines

A management style to quickly respond with cross functional teams to address risks as new risks emerge

More focus on the strategies rather than easy takings.

Middle Level

Increased training in Fintech and data analytics tools

Conclusion

The pandemic has transformed the traditional role of CFOs and Auditors and today they are dealing with advanced technology, digitization, redesigning

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

operations and their role has shifted to incorporate strategic planning, risk management and fully integrating the link between risk management and strategy. Risk management under the new normal ways of working has increased dramatically on many fronts. Each company has a different risk profile and to stay resilient through unexpected circumstances, companies need to adjust so that their strategy is constantly agile, more use of data analytics and establish long term relationship and trust with customers, employees and investors.

Thus companies need to ensure that risk management is the business of all departments and not just a single department and management of risk is seen as a high priority function. It is absolutely essential for companies to connect all the dots when evaluating risks from multiple perspectives and see how they are linked and aligned to enable an enterprise wide risk assessment going forward.

Chapter 7

Conclusions, Recommendations and Policy Implications

Today's businesses must be more risk savvy and need to focus on risk programs and profile to meet their changing business models to take maximum advantage of today's technological innovation, new regulatory requirements, global business environment and increased threat of cyberattacks. Risk framework and function must evolve from merely being a compliance and internal control system to a value driven process.

With the onset of digital transformation and emerging technological advances, CFOs and Auditors also need to act as a leading change agent. Modern CFOs and Auditors need to be value creators and strategic partners in their organization adopting a futuristic mindset and consequently make better risk informed decisions. They should understand the organizations key risks and proactively identify the emerging upside as well as downside risks ensuring that risk management programs add value and improve financial performance in the long run.

By ensuring that risk management is not the responsibility of a single department but a function concerning the whole organization, CFOs and Auditors are slowly becoming fully engaged in understanding the link between risk management and strategic planning. A proactive understanding of the risk will help senior management use risk management as a tool and clearly understand the velocity at which risks may occur, how risks are interlinked and ensure that the organization's capability in risk management are keeping up with an agile forward looking and fast changing business landscape. Modern CFOs need to focus on complex, value additive activities, and to remain relevant need to quickly adapt to the new normal ways of working in the post pandemic scenario.

Based on the recent survey, the research study bring out the emerging and changing role of Auditors and CFOs in addressing risks. The chapter also discusses the key takeaways from the project. Top 4 categories of key risks that auditors and CFOs should consider that can make risk management an enabler to take aggressive business decisions in implementing risk management practices within the organization are discussed.

1. THIRD PARTY RISKS

Third Party risks also known as Vendor Risk or Supplier Risk arise from external institutions on which an organization relies on to conduct activities or business services on their behalf and in the process the organization makes itself vulnerable to the third party's processes, systems, culture, people and behaviour. In this global and technologically advanced business era, sensitive customer, vendor or employee data, IT infrastructure or business operations etc are mostly shared with various partners, which could be in-house or at third party premises. Cloud computing and internet usage has although made business process efficient, but has also increased the risk of mishandling or data loss. Organizations are also exposed to Intellectual Property (IP) and credentials theft as they share data with third parties without ensuring a robust IT risk management process at the supplier's end. Ethical conduct, usage of child labour, human rights violations of third parties are also under immense scrutiny and may have a significant bearing on the reputation of the organization.

2. SUPPLY CHAIN RISKS

Supply Chain risks are factors associated to the chain of stakeholders engaged from the stage of purchase of inputs or raw material to the stage of delivery of finished products to the end customer and includes multiple stakeholders i.e vendors, customers, dealers, distributors, logistic service providers, IT service providers, in-house teams amongst others. Supply Chain risk impacts every organization irrespective of sector, size or location in the supply chain.

Supply chain encompasses the stages of purchasing of raw material from suppliers, to movement of material/products, within and out of their own organization and reaching the customer. Thus, there is a broader responsibility for the flow of materials through the whole supply chain; and there are multiple entry and exit points and crucial touchpoints within the entire process, where there is scope for risk to enter and invade the smooth functioning of business operations.

The fact that organizations are having to engage multiple suppliers for providing raw materials for manufacturing a single finished products furthers lends vulnerability as the dependency is on each and every supplier. Even if one supplier does not supply on time, the entire supply chain gets disrupted. Example – During Covid, car manufacturers had to slow down production of

cars as they were struggling to secure critical car components for the manufacturing process. Some of the raw materials also have sole suppliers due to nature, complexity and confidentiality of the parts or equipment which exposes to the locational disruption, geo-political or pandemic risk at the specific location. Depending on the nature and usage of the products, there are huge dependencies on the various stakeholders to ensure timely supply of finished goods to the end customer through the intermediary support system of logistics partner, distributors, dealers and retailers as applicable. Supply chain being at the heart of every organization, it is critical for organizations to have a robust mechanism to understand the risks involved and address them through a systematic and structured approach.

3. DATA GOVERNANCE RISKS

Data governance is a set of processes that ensures that important data assets are effectively managed throughout the organization and are in compliance with various regulatory standards and framework, thereby ensuring secure and effective management of an organization's data. Data risk occurs due to loss of value or reputation caused by issues or limitations to an organization's ability to acquire, store, transform, move, and use its data assets.

As various data and metrics across different organization interlink with each other and validates one report with another report, lack of data convergence, data quality, data management, data policies, impacts the business management; and this lack of data handling and governance mechanism leads to data governance risk.

Many organizations are striving to manage data risks by improving data management, adopting advanced analytics techniques, leveraging cognitive technologies and extend the same governance standards and return-on-investment analyses which were applicable on technology to the underlying data assets.

Further involvement of various vendors, third parties and in-house business lines and each entity following its own set of data process and data handling mechanisms can lead to strategic and operational inefficiencies, such as duplication of systems, multiple data standards, and inability to monetize data. There is heightened risk of lack of consistency in processes and standards with respect to data and a lack of adequate infrastructure to manage and assess data on a continuous basis.

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

If the organization's data is not reliable or of poor quality, the probability of taking optimal or best decision is also compromised. Inaccurate, insufficient or out-of-date information assets in a data-driven organization increase the risk of making wrong choices, which may lead in loss of business opportunities, poor capital investments and may adversely impact the reputation of organisation. There are stringent regulations and compliance requirements as well around maintaining adequate data governance and protection standards which is only an added trigger for organizations to implement robust data governance framework and approach.

4. BUSINESS CONTINUITY PLANNING RISKS

Businesses are prone to a multitude of adversities that may vary in degree from minor to catastrophic. Any unpredictable environmental or societal happenings, natural disasters, human catastrophes in distant parts of the world could have adverse concerns for businesses in other part of the globe. Threats and disruptions mean a loss of revenue and higher costs, which leads to a drop in profitability. And businesses can't rely on insurance alone because it doesn't cover all the costs and all the grounds of disaster.

Business continuity planning are different from a disaster recovery plan, which focuses mainly on the retrieval of a company's Information technology system after a crisis. In order to ensure business continuity; risk assessments, internal control remediation, and testing — with plenty of input from all parts of the business entities needs to be ensured.

Business Continuity Management is critical to an organization's functioning and value delivery due to various factors including:

- Business perspective – Supporting its strategic objectives, creating a competitive advantage, protecting and enhancing its reputation and credibility, contributing to organizational resilience
- Financial perspective - Reducing legal and financial exposure, reducing direct and indirect costs of disruptions
- Interested parties' perspective - Protecting life, property and the environment, considering the expectations of interested parties, providing confidence in the organization's ability to succeed
- Internal processes perspective - Improving its capability to remain effective during disruptions, demonstrating proactive control of risks effectively and efficiently, addressing operational vulnerabilities

Conclusions, Recommendations and Policy Implications

- Key to survival - A well thought out, practical plan can mean the difference between coping with a disaster and going bust.
- Revealing inefficiency - BCP starts with a thorough analysis of the business to highlight the vital parts. Thus, the non-critical processes / resources reveal themselves.
- Boosting staff morale - To find and keep staff there is a need to inspire confidence and loyalty. When something goes wrong, they expect the business to cope
- Vendor Compliance - The demand for BCPs is now trickling down from big business to their smaller suppliers
- Insurance premiums - A robust BCP demonstrates commitment to managing risks which the insurer should consider when calculating insurance premium.

Key takeaways

Our survey demonstrates that amidst the dynamic and heightened risk conscious environment, the focus of new age CFOs and Auditors should be at the forefront of digital transformations – be it automation, analytics, robotics process or data visualization. The role of CFOs is moving to a cross functional leadership role from the traditional finance role. Organizations have a key role to play in enabling integration of risk management into the operating plan or strategy making processes. Top risks perceived by management are third party risk, technology risk, Supply chain risk, Business Continuity Planning risk, Cyber risk, Governance risk, Data governance risk, to name a few. Supply chain risks and Cyber threats were ranked high by respondents in our survey. Risk managers surveyed overwhelmingly believe that this will be important as organizations choose to outsource their business functions to third party and also work from home. Organization's should assess and improve their vulnerability to cyber -attacks. Risk management professionals need to communicate in a common language and look towards creating future value in implementation of risk management practices. The opportunity for CFOs and Auditors to act as a leading change agent has become important as they need to make informed strategic decisions that not only deliver business outcomes, but also help them to focus on complex value adding objectives.

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

More specifically some of the key takeaways are the following:

- Risk management has become a necessary consideration for businesses in every industry and companies are increasing their resources to manage risk.
- Auditors understand the organization's key goals & objectives to be able to proactively identify emerging risks.
- With newer risks emerging, Boards should develop risk management policies that are consistent with the strategy and the risk appetite of the organization.
- An effective risk management program should be embedded in every function/ department so as to become an integrated part of the company's regular decision making processes.
- Risk management plays an important role in strategic planning and CFOs understand the link between risk management and strategy.
- CFOs and Auditors need to gain a comprehensive view of the climate risks and ask themselves how best to manage them.
- Organizations are increasingly expecting their CFOs to play a cross-functional leadership role rather than traditional finance role.
- Companies need to create effective data governance frameworks to build trust and ensure the integrity of processes.
- Third party risk are crucial for businesses and should be regularly evaluated to take a holistic view to understand whether the company has a clear vision and a robust framework to support it.
- Auditors should be empowered in case of occurrence of fraud events and must be adequately empowered to deal with and prevent them.
- Top management ranks improvement in performance, followed by helps in taking strategic decisions and then ensures effectiveness of internal controls as expectations from the risk management function.
- Ensuring effective compliance to regulations is not a top priority for management.
- Business resiliency/ continuity is critical for the future of risk managers. Business continuity risk is critical for the future of risk management professionals.

Conclusions, Recommendations and Policy Implications

- CFOs and Auditors believe that Supply chain risks and Cyber threats will be important as organizations choose to outsource their business functions to third party and also work from home.
- Risk managers and Business teams need to communicate in a common language.
- Top management spend most of their time on risk management and strategy development. CFOs play a role in prioritizing and supporting strategy development and helping enable its execution and funding.
- Cross functional brainstorming perspectives are crucial for risk assessment and helps to bring different perspectives to the table to promote innovation.
- Having full visibility of risks, as opposed to a silo perspective, helps stakeholders receive risk insight across the enterprise.
- Digital transformation , managing newer risks , partnering with best in class players are some initiatives taken by top management in the last few years.
- With business complexities increasing the Role of Audit has also evolved significantly to facilitate risk.
- Certain risks for most organizations are kind of non-negotiable and hence have to be avoided, eg, brand reputation risk, regulatory compliance.
- To continuously evolve and upskill themselves to think through the new risks/ what can go wrongs ('WCGW') in the newer business models.
- With internal audit and accounting moving beyond their traditional definitions, we are responsible not just for statutory compliance but to add value to Decision making and scheme evaluation process through providing insights and flagging key areas of risk
- Getting trained on the new tools and technologies and involved in the risk assessment process on a regular basis
- Ability to think through critical business scenarios / decisions in a "what if" mode. Most organizations are prepared to deal with what can go wrong in their business as usual ('BAU') processes and have necessary controls or mitigants in place. However, more often than not the bigger

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

and more significant/ strategic risks arise when the unplanned event happens.

Policy Implications

The policy implication from our research study are discussed. We first present the overall recommendations, and then discuss the policy implications specifically for CFOs and Auditors.

1. There is a significantly wider spectrum of risks including supply chain, information technology, data privacy, financial, business continuity, third party etc which are likely to hit organizations at an enhanced speed requiring organizations to be nimble footed and have robust risk mitigation practices
2. Given the dynamic risk landscape, the auditors and the Chief Financial Officers' organization have been expected to take charge and play a significantly enhanced role in the strategic decision-making process of organizations.
3. The new normal has brought with itself newer risk or has accentuated existing risk factors to the extent organizations didn't consider earlier. These include managing remote operations, data privacy, employee morale, employee inter-personal relationships, attrition, productivity etc.
4. The roles and responsibilities of CFO's organizations are no longer limited to the traditional finance function setup, but are way more engaging and cross-functional which has poised it to be the architect of the value creation journey of the organization.
5. Given the need for evaluation of risks and opportunities in the digital transformation initiatives at organizations, the CFO's organizations has been increasingly expected to lead the transformation initiatives including automation, analytics implementation, business reporting enhancements or process efficiency initiatives.
6. Business continuity was more so perceived as an IT team's responsibility, but the Covid-19 induced disruption has been an eye-opener and it has become core to an organization's success strategy and requiring significant attention span from the auditors and CFO's organization.
7. There is a pressing need to identify emerging risks, review and refresh risk indicators given the uncertain business environment that

Conclusions, Recommendations and Policy Implications

organizations are dealing with and there is rising expectation from the CFO and auditors community to identify and deal with these uncertainties. The community is expected to have a holistic view of the business, have understanding of strategic goals of the organization and align its risk management practices to achieve those goals.

8. Rather than risk considerations being made in silo, there is a need to integrate risk considerations into the business decision making process at a department level and also merit in enabling a collaborative view to risk considerations across multiple department / functions.
9. Maintaining healthy customer and vendor relationships have transformed from a business gesture and ethical practice to a survival / success strategy and needs enhanced focus from CFOs and auditors to oversee third party relationship strategies.
10. While there is increasing responsibility and accountability on the auditors and CFOs organization and an undisputed role they are expected to play in architecting the value creation journey, they at the same time also need to be empowered to take decisive actions and contribute to strategic decision making.

For CFOs

1. *CFOs need to have a thorough understanding of the risks that matter most in organizations and accordingly prioritize the resources.*
2. *As the nature of risk continues to evolve due to technological advances, CFOs have understood that companies that fail to manage them appropriately and on time will endanger their future sustainability.*
3. *Today's complex business environment requires CFOs who need to embrace and digest the data for effective decision making and use data to drive meaningful insights.*
4. *Modern CFOs have moved from being limited to traditional accounting and finance to compliance and more strategic business support that allow them to successfully manage risk.*
5. *CFOs must accept that they have to force see the unforeseen risk all the time. They cannot adopt an ' I know it all and I manage all risks daily' is being too complacent. A good amount of negative thinking is good for the business. It makes them more prepared.*

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

6. *Certain risks are non-negotiable and hence have to be avoided e.g brand reputation risk, regulatory compliance.*
7. *With the pandemic changing several business fundamentals CFOs need to remain extremely dynamic in their learning process and management of risk. There should be an open communication between the Board and Auditors about the risks that may emerge several years later and how to manage them.*

In today's increasingly volatile and uncertain business environment CFOs need to be pro-active before the occurrence of a disaster and need to ensure that appropriate procedures and systems are in place should a risk event occur. Enterprise risk needs to be integrated into the corporate strategy. Risk Management is now an integral part of the corporate strategy making and execution process. Even the new COSO ERM model now talks about integrating risk management into Strategy and Performance. It is not only limited to identifying risks and uncertainties which can prevent achievement of an organization's strategic objectives, but also addressing those risk factors by integrating into operating plan and KRA definition in organizations.

For Auditors

The new generation Auditors should proactively identify emerging risks so as to understand the business climate where they operate in order to add value to the organization. How auditors can proactively identify emerging risks –

- *Identifying global and domestic industry trends (what other companies in the industry are going through)*
- *Sudden movements in the KPIs, key financial parameters*
- *Review of outliers identified as part of business analytical review*

Keeping up to speed with upcoming industry regulations and dynamics

Auditors are indispensable for effective governance and risk management.

Auditors need to be vigilant and continuously look for newer risk. Apart from being risk focussed, there is a need to increase capability of risk assessment at an individual level and also at an organizations process level.

Auditors need to cultivate an innovation and promoter mind- set that accepts the reality of risk as a task to be managed – not to be brushed under the carpet or smirked at in grapevine.

Conclusions, Recommendations and Policy Implications

The role of Auditors in many companies need to move from pure compliance to a function that regularly reviews the risk profile for newer and emerging risk that integrate risk management into their strategic planning decisions. Some suggestions for Auditors could be-

- 1. Auditors need to socialize the value risk function brings in rather than giving a threat connotation or being treated as a governance burden.*
- 2. Drive change in outlook towards risk management- needs to change and move from transaction and reactive to being more holistic and proactive.*
- 3. Enhance skill sets to use the available tools and techniques*
- 4. Showcase understanding of business nuances and industry landscape to be able to make meaningful and practical recommendations.*
- 5. Enhance skill sets around behavioral aspects, sharpening of soft skills and ability to socialize findings for Leadership's consideration.*

References

- Ahmad, S., Ng, C., Ann, L., 2014. Enterprise risk management (ERM) implementation : some empirical evidence from large Australian companies. *Procedia–Soc. Behav. Sci.* 164, 541–547. August.
- Beasley, M.S., Clune, R., Hermanson, D.R., 2005. Enterprise risk management : an empirical analysis of factors associated with the extent of implementation.
- B'edard, J.C., Hoitash, R., Hoitash, U., 2014. Chief financial officers as inside directors. *Contemp. Account. Res.* 31 (3), 787–817.
- Bertinetti, G.S., Cavezzali, E., Gardenal, G., 2013. The Effect of the Enterprise Risk Management Implementation on the Firm Value of European Companies. Department of Management, Universit'a Ca' Foscari Venezia. Working paper 10/2013, Available at. <http://ideas.repec.org/p/vnm/wpdman/46.html>.
- Brian Schwartz 'Are your risk functions Optimized,' Partner, US Pwc, Accessed online.
- Bromiley, P., Mcshane, M., Nair, A., Rustambekov, E., 2015. Enterprise Risk Management : Review , Critique and Research Directions, 48, pp. 265–276.
- Brown, I., Steen, A., Foreman, J., 2009. Risk management in corporate governance: a review and proposal. *Corp. Govern. Int. Rev.* 17 (5), 546–558.
- Caglio, A., Dossi, A., Stede, W. A. Van Der., 2018. CFO role and CFO compensation : an empirical analysis of their implications. *J. Account. Public Policy* 37, 265–281. August.
- COSO, 2004. Enterprise Risk Management – Integrated Framework: Executive Summary & Framework. Committee of Sponsoring Organizations of the Tread Way Commission, Jersey City, NJ.
- Clyburn, G., 2012. The CFOs Relationship with the Audit Committee for Effective Risk Management. Enterprise Risk Management Initiative. North Carolina State University, Raleigh, NC. <http://www.poole.ncsu.edu/erm/index.php/articles/entry/CFO-auditcommittee/>.
- Crockford, N., 1980. An Introduction to Risk Management. Woodhead-Faulkner, Cambridge.

References

- Cummins, J. David, Phillips, Richard D., Smith, Stephen D., 2001. Derivatives and corporate risk management: participation and volume decisions in the insurance industry. *J. Risk Insur.* 68 (1), 51–91.
- Datta, S., Datta, M.I., 2014. Upper-echelon executive human capital and compensation: generalist vs. specialist skills. *Strat. Manag. J.* 35 (12), 1853–1866.
- Duong, L., Evans, J., 2015. CFO compensation : evidence from Australia. *Pac. Basin Finance J.* 35, 425–443.
- Florio, C., Leoni, G., 2017. Enterprise risk management and firm performance : the Italian case. *Br. Account. Rev. J.* 49, 56–74.
- Fraser, J.R.S., Simkins, B.J., 2016. The Challenges of and Solutions for Implementing enterprise Risk Management.
- Grace, M.F., Leverty, J.T., Phillips, R.D., Shimpi, P., 2014. The Value of Investing in Enterprise Risk Management. *J. Risk Insur.* 9999 (9999), 1–28.
- Gordon, L.A., Loeb, M.P., Tseng, C.Y., 2009. Enterprise risk management and firm performance: a contingency perspective. *J. Account. Public Policy* 28 (4), 301–327
- Graham, J.R., Rogers, D.A., 2002. Do firms hedge in response to tax incentives? *J. Finance* 57 (2), 815–839.
- Hill, D., 2008. An asian perspective on risk management Australian risk. In: Roundtable, A.R. (Ed.). *Brolga Publishing Pty Ltd*, Melbourne, VIC, Australia, pp. 27–38.
- Hoyt, R.E., Liebenberg, A.P., 2011. The value of enterprise risk management. *J. Risk Insur.* 78 (4), 795–822.
- IFAC, 2018. Enabling the Accountant's Role in Effective enterprise.
- Kashif, M., Lai, F., Lai, C., 2019. Integrating Sustainability Reporting into enterprise Risk Management and its Relationship with Business Performance : A Conceptual Framework, p. 208.
- Kleffner, A.E., LEE, R.B., McGannon, B., 2003. The effect of corporate governance on the use of enterprise risk management: evidence from Canada. *Risk Manag. Insur. Rev.* 6 (1), 53–73.
- Kloman, F., 2010. A brief history of risk management. In: Fraser, J., Simkins, B. (Eds.), *Enterprise Risk Management: Today's Leading Research and Best Practices for Tomorrow's Executives*, pp. 9–29.

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

- KPMG, 2013. Global Audit Committee Survey. Audit Committee Institute.
- Liebenberg, A., Hoyt, R.E., 2003. The Determinants Of Enterprise Risk Management : Evidence From The Appointment Of Chief Risk Officers, 6(1), pp. 37–52.
- Myers, S.C., Read Jr., J.A., 2001. Capital allocation for insurance companies. *J. Risk Insur.* 68, 545–580.
- Nor, N.M., Bahari, N.A.S., Adnan, N.A., Kamal, S.M.Q.A.S., Ali, I.M., 2016. The effects of environmental disclosure on financial performance in Malaysia. *Procedia Econ.*
- Ojeka, S.A., Egbide, B.C., Edara-Obong, I.E., 2017a. Cyber security in the nigerian banking sector: an appraisal of audit committee effectiveness. *Int. Rev. Manag. Mark.* 7 (2), 340–346.
- Pagach, D., Warr, R., 2011. The characteristics of firms that hire chief risk officers,. *J. Risk Insur.* 78 (1), 185–211.
- Quon, T.K., Zeghal, D., Maingot, M., 2012. Enterprise risk management and firm performance. *Procedia - Soc. Behav. Sci.* 62, 263–267.
- Radner, R., & Shepp, L. A. (1996). Risk vs. Profit-Potential: A Model for Corporate Strategy. *Journal of Economic Dynamics and Control*, 20 (8), 1373-1393. [http://dx.doi.org/10.1016/0165-1889\(95\)00904-3](http://dx.doi.org/10.1016/0165-1889(95)00904-3)
- Renault, B.Y., Agumba, J.N., Balogun, A.O., 2016. Drivers for and obstacles to enterprise risk management in construction firms : a literature review. *Procedia Eng.* 164, 402–408. June.
- <http://www.rmmagazine.com/2020/06/29/the-link-between-erm-and-organizational-financial-performance/>
- Saeidi, P., Parisa, S., Sofian, S., Parastoo, S., Hashim, A., Business, I., et al., 2019. The impact of enterprise risk management on competitive advantage by moderating role of information technology. *Comput. Stand. Interfac.* 63, 67–82. November 2018.
- Soltanizadeh, S., Rasid, S.Z.A., Golshan, N., Quoquab, F., Basiruddin, R., 2014. Enterprise risk management practices among Malaysian firms. *Procedia - Soc. Behav. Sci.* 164, 332–337. August.
- Sprčić, D.M., Kožul, A., Pecina, E., 2015. State and perspectives of enterprise risk management system development – the case of Croatian companies. *Procedia Econ. Finance* 30 (15), 768–779.

References

Standards Australia/Standards New Zealand AS/NZS 4360, 2004. Risk Management. Sydney, NSW 2001 & Private Bag 2439, Wellington 6020.

Tarchouna, A., Jarraya, B., Bouri, A., 2017. How to explain non-performing loans by many corporate governance variables simultaneously? A corporate governance index is built to US commercial banks. Res. Int. Bus. Finance 42, 645–657. September 2016.

Tekathen, M., Dechow, N., 2013. Enterprise risk management and continuous re- alignment in the pursuit of accountability: a German case. Manag. Account. Res. 24 (2), 100–121.

Vij, Madhu., 2019, Emerging importance of Risk Management and Enterprise Risk Management strategies in the Indian Hospitality Industry: Senior Managements' perspective. Worldwide Hospitality and Tourism Themes, Vol.11, Issue 4, pp392-40.

Vij, Madhu and Palan, Jayant, Emerging Roles and Responsibilities of Auditors and CFOs in the Light of Transforming Risk Landscape, GLIM Management Review and Transformation 1(1), Vol 1, Issue 1, June 2021.

Web sites

<https://www2.deloitte.com/ca/en/pages/risk/articles/reduce-your-third-party-risk.html>

<https://www.logicgate.com/blog/grc-101-what-is-third-party-risk/>

<https://awakesecurity.com/glossary/third-party-risk/>

<https://www2.deloitte.com/global/en/pages/governance-risk-and-compliance/articles/third-party-risk.html>

<https://deloitte.wsj.com/articles/making-data-risk-a-top-priority-1524456137>

<https://www.itprotoday.com/data-analytics-and-data-management/why-governance-data-starts-risk-awareness>

<https://bi-survey.com/data-governance>

<https://www.channelfutures.com/from-the-industry/data-governance-is-key-to-managing-security-privacy-and-risk>

<https://www.cefpro.com/wp-content/uploads/2015/09/Rajib-Chakravorty-article-Liquidity-Insight-2.pdf>

<https://www.cefpro.com/wp-content/uploads/2015/09/Rajib-Chakravorty-article-Liquidity-Insight-2.pdf>

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

<https://www.mckinsey.com/business-functions/operations/our-insights/a-practical-approach-to-supply-chain-risk-management>

<https://www.forbes.com/sites/jwebb/2016/01/26/what-is-supply-chain-risk-five-ways-to-build-resilience/?sh=2e7b04856aaf>

<https://eclass.unipi.gr/modules/document/file.php/BDT227/%CE%A5%CE%B%CE%B9%CE%BA%CF%8C%20%CE%94%CE%B9%CE%B1%CE%BB%CE%AD%CE%BE%CE%B5%CF%89%CE%BD/Supply%20Chain%20Risk%20Management%20Vulnerability%20and%20Resilience%20in%20Logistics-2007%20%281%29.pdf>

<https://www.rockdovesolutions.com/blog/risk-costs-of-not-having-a-business-continuity-management-program>

<https://www.stayinbusiness.com/resource/business-continuity-risk-assessment/>

<https://bcmmetrics.com/business-continuity-risks/>

<https://www.navexglobal.com/blog/article/how-to-start-business-continuity-plan/>

Annexure 1

Questionnaire on The Emerging Role of Auditors and CFOs in Addressing Risk Management

Overview

The regular business disruptions and the changing risk landscape has had a disruptive and devastating effect on organizations. A new perspective of risk management in the context of evolving technology and data driven experience in the last few years have prompted an important shift in the role of auditors and Chief Financial Officers (CFOs) in organizations. Against this backdrop, the objective of the present questionnaire is to bring out the changing roles and responsibilities of the auditors and CFOs in addressing emerging risks and underline what the changing risk landscape means for auditors and CFOs in organizations. The research will offer suggestions and insights to auditors, board and top management a framework for effective implementation of risk management and ERM. This would help the auditors understand their changing role as also the changing dynamics in the management of risk in the current scenario and also help them to mitigate risks more proactively.

Section A

PERSONAL DATA FORM

01. Name :
02. Age (in completed years)
- | | |
|-----------------------------------------|-----------------------------------------|
| <input type="checkbox"/> 25 to 35 years | <input type="checkbox"/> 26 to 45 years |
| <input type="checkbox"/> 46 to 55 years | <input type="checkbox"/> above 55 years |
03. Gender : MALE FEMALE
04. Qualifications :
05. Designation :

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

06. Level in managerial hierarchy
 Top level Senior level Middle level
07. Name of your organization :
08. Total work Experience (approx.) : _____ Years
09. Total Duration with present organization : _____ Years

INSTRUCTIONS

The questionnaire seeks your opinion on the **Emerging role of Auditors and CFOs in addressing risk management.**

Please read the instructions carefully and respond to the items that follow. Response confidentiality is assured. Please do not leave any item unanswered in **Sections A and B**. We would appreciate if you could also attempt **Section C** briefly.

You are requested to carefully read each question and respond to the items accordingly by a ✓ mark.

Section B

SI No	Question	Category	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1.	Have you experienced a significant increase in your / your team's engagement in the strategic decision-making process amidst the dynamic and heightened risk conscious environment?						
2.	The risk indicators are refreshed						

Questionnaire on The Emerging Role of Auditors and CFOs in...

	timely and are linked to the corporate goals and value drivers in an organization.						
3.	You are satisfied with the current enterprise risk profile (process and IT) to adequately manage broad spectrum risks requiring speed in response, relating to supply chain, suppliers, data, IT, etc, triggered off during the pandemic.						
4.	Is there significantly enhanced expectation of foreseeing upcoming/ non-Business as Usual risks?						
5.	The IA function understands the organization's key goals & objectives to be able to proactively identify						

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

	emerging risks.						
6.	Are there enhanced expectations from the Board / Audit Committee around reporting and monitoring of risks?						
7.	An effective risk management program should be embedded in every function/department so as to become an integrated part of the company's regular decision making processes.						
8.	Is there increased risk exposure to internal control systems with the new remote ways of operation (WFH) and dynamic changes in technology & IT landscape?						
9.	Have financial challenges (sales, cost and profit						

Questionnaire on The Emerging Role of Auditors and CFOs in...

	<p>targets) caused by the pandemic triggered off the conditions of the fraud triangle in the financial reporting process – motivation, opportunity and rationalization ? Do you feel increased exposure for your company?</p>						
10.	<p>New age CFO's organization should be at the forefront of digital transformations – be it automation, analytics, robotics processes or data visualization?</p>						
11.	<p>CFO is increasingly expected to be the architect of the organization's value creation journey.</p>						
12.	<p>The CFO organization's role is moving to a cross-</p>						

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

	functional leadership role rather than traditional finance role?						
13.	The company has an adequate and exhaustive data governance strategy to address Data Governance risk.						
14.	The company has adequate processes, controls/ checks and BCP in place to deal with a cyber-attack / data breach exposure in the short term.						
15.	Our organization is prepared to respond to sustainability and climate changes.						
16.	The organization has a risk culture that encourages openness and supports people in speaking out in the interest of the business,						

Questionnaire on The Emerging Role of Auditors and CFOs in...

	customers and other stakeholders.						
17.	The organization has a well operating whistle-blower process, with clarity on non-retaliation policy.						
18.	The organization has engaged successfully with all stakeholders in developing the CSR programme.						
19.	The CSR programme is consistent with the culture of the organization.						
20.	Your function has a critical role to play in the business continuity planning of your organization?						
21.	The company has developed and practises a contingency plan that includes a succession plan for the						

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

	CEO and other key leaders.						
22.	Do you believe your function has a key role to play in enabling integration of risk management into the operating plan / strategy making process within the organization?						
23.	Organizations which had a robust supply chain risk management process have fared better than their peers during and after the Covid period.						
24.	There is significantly enhanced focus on maintaining long-term vendor / customer relationships.						
25.	Reputation of organizations is at stake due to significant risk exposure from usage of third parties.						

Questionnaire on The Emerging Role of Auditors and CFOs in...

26. There is an enhanced expectation from your function to focus on and manage third party risks.						
27. While auditors have been questioned in case of occurrence of fraud events, they have not been adequately empowered to deal with and prevent such cases.						
28. Does your team have and continue to attract required talent to keep pace with the digital transformation in your organization and external stakeholder groups.						

Section C

1. What is your expectation from the risk management function in your organization? Rank the following in terms of your order of priority / focus. (1 being top priority, 8 being least priority)

a.	Improves the performance	
b.	Ensures effectiveness of Internal controls	

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

c.	Helps in taking strategic business decisions	
d.	Ensures effective compliance to regulations	
e.	Enables strategic brainstorming	
f.	Enable bold business decisions	
g.	Doing post facto post-mortem rather than engaging in pre-emptive decision making	

2. What according to you is the expectation from the risk management function in your organization? (Why Risk Management is Important to Your Business). Rank the following in terms of your order of priority / focus. (1 being top priority, 8 being least priority)

a.	Traditional finance / audit processes	
b.	Business Resiliency / continuity	
c.	Workforce management / talent development	
d.	Supply chain risks	
e.	Cyber threats	
F	Effective leveraging of Digitization and Technology	
G	Social and environmental Risks	
H	Digitization of backend operations	

3. Rank the below structural changes which can make risk management an enabler to taking aggressive business decisions rather than a bottleneck? (1 being top priority, 4 being least priority)

a.	Having practical guidelines for implementing risk management practices	
B	Communicating the value in making risk considerations	
C	Risk Management and business teams to communicate in a common language	
D	Adding regulatory requirement around risk management	

Questionnaire on The Emerging Role of Auditors and CFOs in...

4. How frequently does your organization update the risk profile considering internal and external factors that impact the strategic execution? (Tick any one)

A	Monthly	
B	Quarterly	
C	Semi-annually	
D	Annually	
E	We don't have a defined periodicity for refreshing risk profile	

5. Rate the following on a scale of 1-5 (1 being highest emphasis and 5 being least emphasis) in terms of your focus on these in your current role.

A	Strategy Development	
B	Business Analysis	
C	Statutory Reporting	
D	Risk Management	
E	Finance Operations	
F	Corporate Financing	

6. Does your organization have focused brainstorming sessions to discuss cross-functional risks? (Tick any one)

a.	No cross-functional discussions	
b	Unstructured discussions	
c	Annually	
d	Quarterly	
e	Others, please specify	

Section D

1. Do you believe your role, responsibilities and accountability has significantly evolved over the last decade? If yes, how? Please explain briefly.

The Emerging Role of Auditors and CFOs in addressing Risk Management:...

2. How do you strike a balance between exploiting and avoiding risks in your organization?
3. How do you perceive the emerging risks of fraud and financial mis-reporting amidst the new / remote ways of working?
4. As organizations have embrace newer technologies and tools, how do you see your team's role evolving in ensuring a reliable control environment?
5. What behavioural changes do you see in your organization to be better prepared to manage unforeseen risks and uncertainties?

ISBN : 978-93-90668-12-0



www.icai.org