Guide to non-financial risks

Navigating a rapidly changing environment

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Contents

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Introduction

"Scanning the future for risks and taking proper note of what you see is a mark of prudent maturity. It is also a salutary expansion of the imagination."[1]

It may seem hard to imagine but the top ten risks facing businesses in the next decade are not economic but predominantly environmental, geopolitical, societal and technological according to the World Economic Forum (WEF).[2] Of all the global risks highlighted in the WEF's *Global Risks Report 2020,* nine of the top ten most likely risks are non-financial, while all of the top ten risks in terms of impact are non-financial.[3]

We ignore non-financial risks at our peril.

In this guide to non-financial risks, we explore how risks are increasingly global, interconnected and multi-tiered. At the same time, risk management is currently underdeveloped, particularly when it comes to non-financial risks. Many risk management strategies are reactive rather than proactive, or they fail to be integrated into the organisation's overarching strategy. A more holistic response in needed.

Accountants have a pivotal role to play in identifying and managing non-financial risks. Also, in maximising the opportunities that emerge from non-financial risks. Because "risk management is not about eliminating all risks, it is about identifying and responding to risks in a way that creates value for a company and its shareholders."[4]

As German philosopher, Arthur Schopenhauer said: "The challenge is to see what everybody has seen and think what nobody has thought." Schopenhauer wasn't talking about non-financial risks when he said that, but the sentiment applies. Risks present not just challenges, but also potential opportunities for accountants to create value for their organisations.

This guide to non-financial risks is intended for:
- members working in business
- members working in not-for-profits
- members working in mid-tier firms and small-to-medium public practices.

The aim of this guide is to help members navigate non-financial risks for their business or clients in the current environment. It will also aid improvements in current risk management systems, especially where they are ineffective or inefficient in dealing with the rapidly changing operating environment.

Non-financial risks and your business

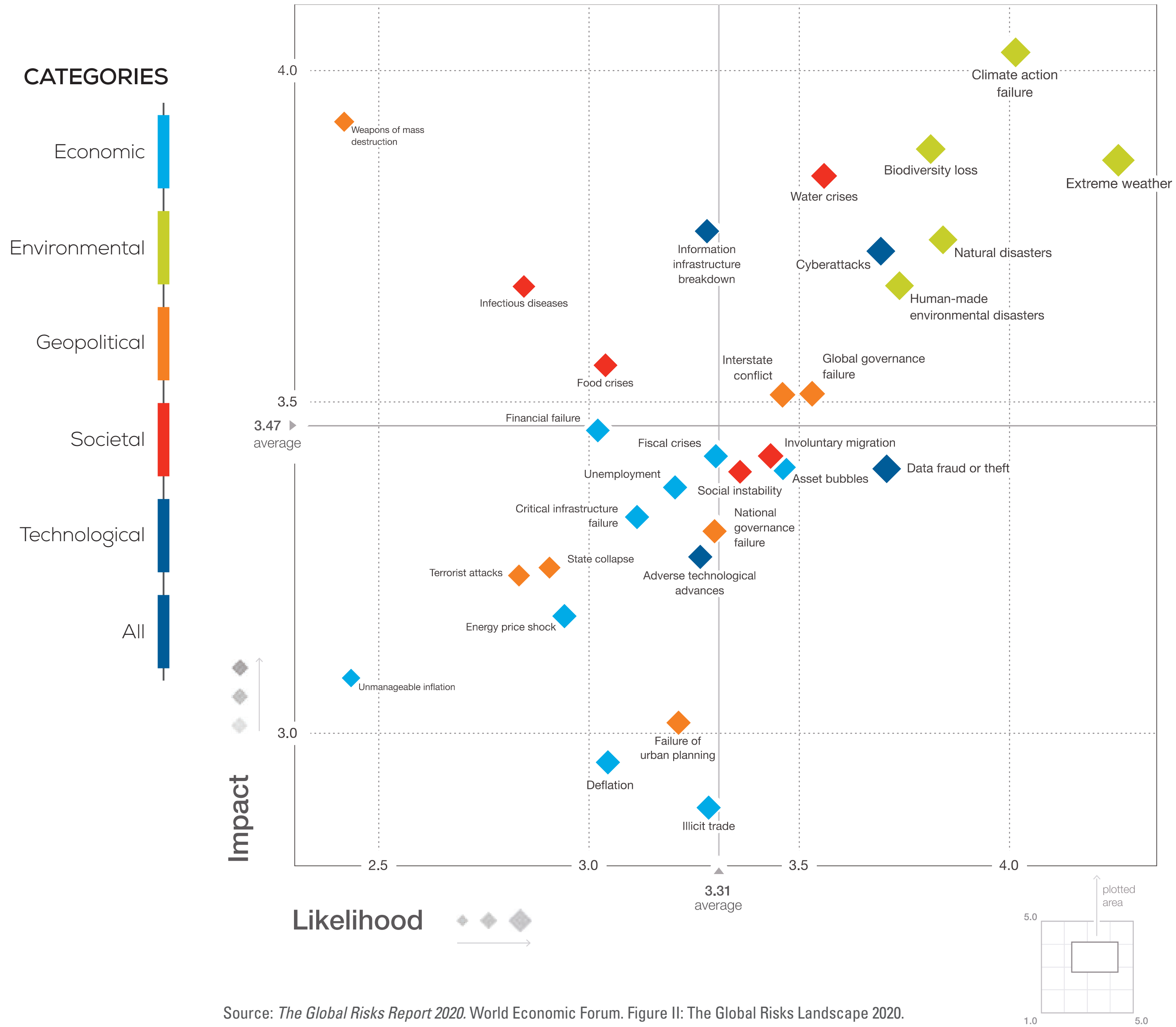
Risks are global, interconnected and multi-tiered

The risk landscape has changed dramatically in the past few months. Never before have non-financial risks, such as the COVID-19 global pandemic, felt like such a serious threat.

Certainly, non-financial risks have always existed. However, it's only relatively recently that the way we conceive of risk has broadened beyond traditional risks (such as credit risk, competition and market factors) to include operational risks, conduct risks, compliance risks and cyber risks, as well as environmental, social and governance (ESG) factors.

For so long these have been viewed as non-financial risks, although they have very real financial impacts. In response, some organisations prefer the term "pre-financial" to non-financial risks because, as was pointed out by James Shipton, Australian Securities and Investments Commission (ASIC) Chair: "all risk can have financial consequences."[5]

Figure 1: The global risks landscape 2020 (WEF)[9]



Source: *The Global Risks Report 2020.* World Economic Forum. Figure II: The Global Risks Landscape 2020.

The risks we're facing right now

According to Global Compact Network Australia (GCNA), "Australia is a 'hotspot' for climate litigation and global developments can set a precedent."[6]

The GCNA's *2020 Pressures Report: Summer 2020 – Australia* outlines the key issues facing businesses in 2020, and "what companies can do to take advantage of the opportunities presented by the challenges in our landscape to ensure their long-term viability."[7]

So, what are the related issues and opportunities?

- responding to the intersection between climate change and human rights
- human rights in the age of Artificial Intelligence (AI)
- supply chain transparency
- effective water management
- waste (and the challenge of moving towards a circular economy)
- action towards a net zero carbon economy
- financing sustainable development goals
- understanding changing social norms, and
- effective communication.

As GCNA points out: "The opportunity for business to respond and lead the change is clear. How they choose to tackle these major pressures however will be both critical and defining."[8]

Source: *2020 Pressures report: summer 2020 Australia*, GCNA.

Figure 2: **Top ten risks in terms of likelihood and impact** (WEF)[10]

	Top 10 risks in terms of **Likelihood**	Top 10 risks in terms of **Impact**
1	Extreme weather	Climate action failure
2	Climate action failure	Weapons of mass destruction
3	Natural disasters	Biodiversity loss
4	Biodiversity loss	Extreme weather
5	Human-made environmental disasters	Water crises
6	Data fraud or theft	Information infrastructure breakdown
7	Cyberattacks	Natural disasters
8	Water crises	Cyberattacks
9	Global governance failure	Human-made environmental disasters
10	Asset bubbles	Infectious diseases

CATEGORIES

Economic Environmental Geopolitical Societal Technological All

Source: *The Global Risks Report 2020*. World Economic Forum. Figure II: The Global Risks Landscape 2020.

The likelihood of any given risk, as well as its predicted impact, is critical to risk management, as is the interrelation between them. It's only once we have an accurate picture of both likelihood and impact that we can anticipate inherent risk.

As we can see from figure 2, financial risks barely feature in the World Economic Forum's global top ten risks in terms of likelihood and impact. The table is dominated by non-financial risks.

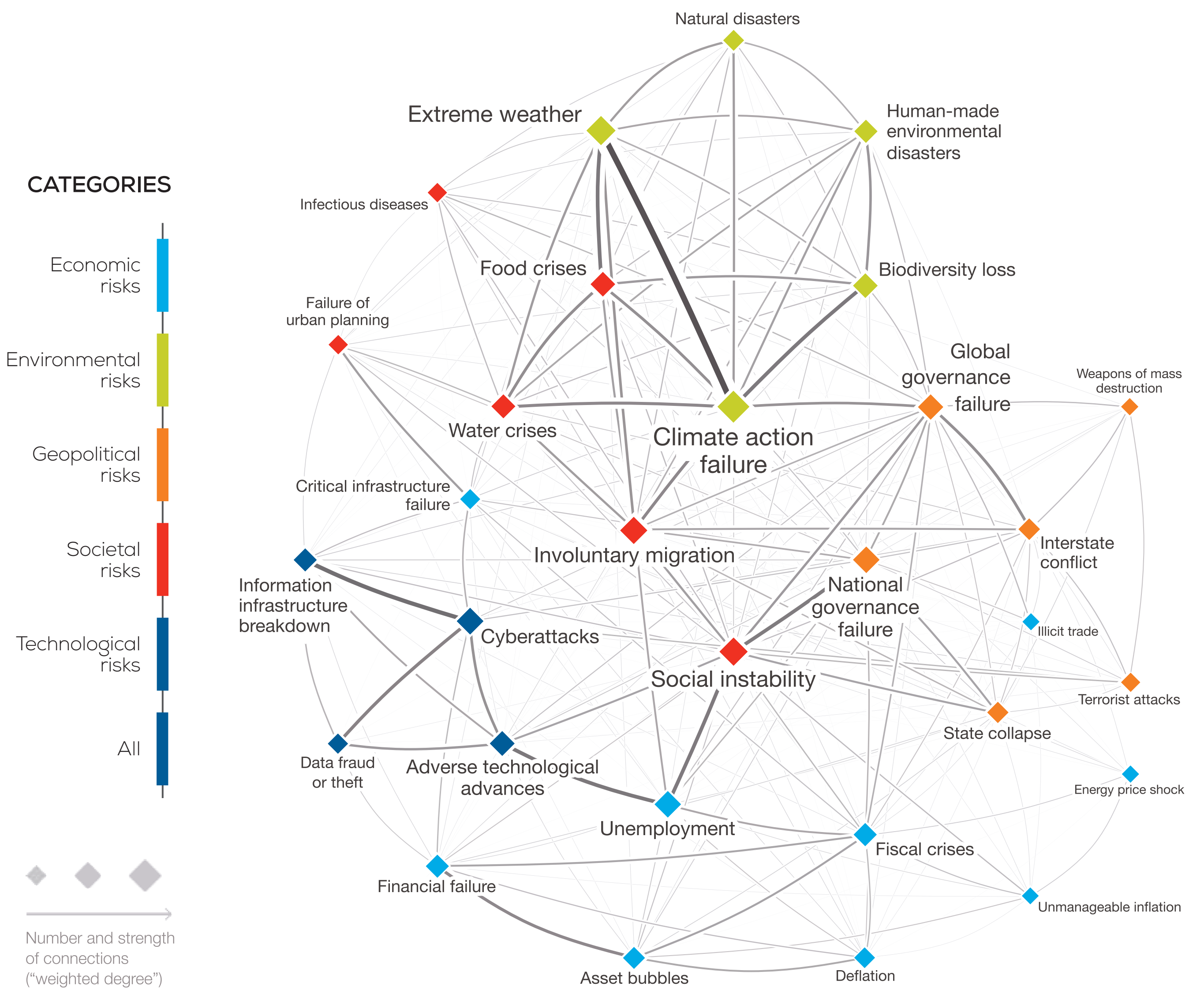
Inherent risk is the level of risk without giving consideration to the impact of controls.

In Australia and New Zealand, meanwhile, there is a clear distinction between the top ten risks of doing business in each country, according to the World Economic Forum. Australia's risks are predominately economic,[11] while New Zealand's are chiefly environmental.[12] However, there are some top ten risks that are common to both countries (albeit ranked in different positions).

These common risks are: cyber attacks, failure of critical infrastructure, fiscal crises, failure of climate-change mitigation and adaption, data fraud or theft, failure of urban planning and water crisis.

In Australia, energy price shock ranked highest (56% of respondents selected this risk among the five of highest concern), while extreme weather events ranked number six (27.5%).[13] Energy price shock does not even appear in New Zealand's top ten risks, meanwhile, natural catastrophes ranks as the number one risk of doing business in New Zealand.[14]

Figure 3: The global risk interconnections map 2020 (WEF)[15]



Source: *The Global Risks Report 2020.* World Economic Forum. Figure IV: The Global Risks interconnections map 2020.

It is also important to note that most risks are interconnected. The WEF's *Global Risks Report 2020* provides examples of interlinked risk scenarios (figure 3) such as how extreme weather events are connected to food and water crises, as well as to climate action failure. Australia experienced this interconnectedness during the 2019-20 summer bushfires, which were associated with climate action failure and drought. At the same time, the bushfires affected food supplies (when agriculture harvests and transportation routes were impacted) and caused bio-diversity loss.

Risks are not only interconnected, they are also multi-tiered, and so the relationship between various risks changes with high velocity. Consider the hoarding of grocery items at the outset of the COVID-19 pandemic. Demand for items such as toilet paper skyrocketed in direct response to consumer uncertainty, before stabilising almost as quickly. Traditional models of risk management don't account for the change in velocity of risks. What's needed is a holistic approach to risk management, taking into account the interconnected, multi-tiered nature of risks, and the way their relationships change at speed.

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Role of accountants

Accountants have a pivotal role to play in translating non-financial risks into potential operating impacts – positive and negative – for an individual business, industry sector and the overall economy.

In its report, *Enabling the accountant's role in effective enterprise risk*, the International Federation of Accountants (IFAC) says: "Enterprise Risk Management (ERM) needs to be part of the professional accountant mindset and makeup."[16]

Moreover, IFAC explains: "The accountant's primary role in ERM is not solely to mitigate risk, but to promote and facilitate effective risk and opportunity management in support of value creation and preservation over time. This involves being focused on the benefits of intelligent risk-taking in addition to the need to mitigate and control risk. ERM requires information and analysis that may indicate success or failure, and support decisions around potential courses of action."[17]

In short, the accountant's role is not just about managing risk, it's also about opportunities and value creation.

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In particular, IFAC identifies three ways in which CEOs and finance functions can enhance their contribution to ERM:

- Align risk management with value creation and preservation.
- Drive insights and enable decisions through provision of risk modelling and analytics, data governance and identification of organisational risk appetite.
- Enable integration and interconnectivity by breaking down siloes across the organisation to share information.[18]

Lines of defence

CA ANZ calls for integrated lines of defence against risk in its comprehensive 15-point plan for audit and risk in Australia.

Amir Ghandar, CA ANZ Reporting and Assurance Leader, says: "Australians have a fair and reasonable expectation that auditing and other lines of defence will protect them from risks and shocks in their financial and consumer lives, and will similarly provide for confidence, integrity and transparency in business."[19]

These lines of defence should cover operational and emerging risks (such as cyber/data risks, fraud, misconduct and consumer protection), and CA ANZ emphasises the key roles of:

- management and internal compliance/audit functions
- external auditors
- the board (and those charged with governance)
- external regulators
- institutional investors.

Similarly, the Institute of Chartered Accountants in England and Wales (ICAEW) recommends a "four lines of defence" model, where each line of defence has a purpose and can provide robust assurance, and all four lines are integrated and mutually supportive.[20]

ICAEW's four lines of defence are:

- **First line:** The way risks are managed day-to-day, including front line accounting roles. Assurance comes directly from those responsible for delivering specific objectives or purposes.
- **Second line:** The way the organisation oversees the control framework so that it operated effectively. Assurance is separate from those responsible for delivery, but not independent of the management chain, such as risk and compliance functions.
- **Third line:** Objective and independent assurance (eg internal audit).
- **Fourth line:** Assurance from external independent bodies such as external auditors.

Source: *'The four lines of defence', ICAEW.*

What is risk management?

Risk management is a process in which businesses identify, analyse, evaluate and manage the potential financial and non-financial risks that could affect a business. Businesses develop strategies and frameworks in order to reduce the potential risk from unexpected events to their business. As IFAC points out: "Risk management is therefore fundamentally about making decisions in the context of uncertainty."[21]

In *Enabling the accountant's role in effective risk management*, IFAC notes that risk management is often seen as a process designed to prevent rather than facilitate an event or activity. Too often it's simply about reacting to a crisis. But applying risk management activities solely through a lens of risk mitigation leads to increased costs with little improvement in the organisation's resilience and success.

Therefore, IFAC warns against a "mitigation mindset" when it comes to risk management, and instead advocates "risk taking in the context of value creation".[22]

COVID-19 has changed the way many businesses operate, from retailers closing physical stores and moving to an online presence, to entire workforces shifting to remote working. Organisations have had to think fast to preserve and protect their current businesses and, as the world begins to emerge on the other side of the pandemic, businesses will need to consider how they will operate in a post-COVID-19 world. What changes will be required to their business model so they can continue to operate? What risk management tools are needed for the organisation to achieve business continuity, and to develop long-term resilience?

Unpacking risks

If 2020 has shown us anything, it's the extent of risks that exist.

Most obviously, the COVID-19 pandemic caused an unprecedented global health crisis, forcing entire economies to shut down, and plunging much of the world into recession. The crisis triggered rapid digitalisation, bringing with it an array of risks around cyber security and data governance. At the same time, we're witnessing a rise in populism and a post-global marketplace, putting pressure on international supply chains. This year has also heralded extensive political and social unrest, as well as natural disasters such as droughts and bushfires in Australia.

Meanwhile, the World Economic Forum 2020 *Global Risks Perception Survey* found the greatest risk category in terms of likelihood was climate change and related environmental issues. Climate change and related environmental issues ranked in the top five risks – the first time in the survey's history that one category has occupied all five of the top spots.[23]

All of these risks – from COVID-19 to climate change – are considered non-financial, and yet their financial impact is colossal. So, too, is the financial impact of *not* adequately managing these risks.

The Global Compact Network Australia found that, since 2015, there have been more than 40 stakeholder resolutions against Australian companies on human rights due diligence and climate change risk matters, with some focusing on the interconnections between the two areas.[24] The Global Compact Network Australia notes: 'Whilst none of these resolutions passed, they are clearly not going away and highlight that compliance with the law is no longer enough, and that there is a need for business to understand and disclose their climate-related risks and the activities that they are undertaking to reduce them'.[25]

All of these risks – from COVID-19 to climate change – are considered non-financial, and yet their financial impact is colossal. So, too, is the financial impact of *not* adequately managing these risks.

Recent global events have, and will continue to, significantly change the external risk landscape and increase the impact of external risks on the business environment. This will affect many sectors – locally and abroad. Australia's recent Royal Commission into misconduct in the banking, superannuation and financial services industry, for instance, highlighted the financial impacts of social risks, including risks around conduct and ethical behaviour. These risks are relevant not just within the banking and financial services industry, but underline issues faced by organisations more generally. Conduct and the oversight of conduct are a vital part of a strong risk culture.

Similarly, there is an increased focus on the risks associated with employee health and wellbeing. A report into health and safety reporting from the Australian Council of Superannuation Investors found that the scope of health considerations for companies has expanded, and there have been a number of qualitative disclosures related to health and wellbeing initiatives in the ASX200.[26] The report identified four themes underpinning effective health and safety management systems, namely: health and safety leadership, health and safety risk management, people capability, and assurance and continuous improvement.[27]

Overall, there has been a fundamental shift in thinking and in public recognition by government and regulators around issues previously seen as social (and so, mistakenly, as having limited financial impact). As the Sydney Morning Herald recently pointed out: "The inclusion of ESG into financial decision-making is based on an understanding that such issues will increasingly present a financial risk to investments and ought to be considered alongside other performance metrics."[28]

Increasingly, we are seeing non-financial issues receiving greater attention and gravitas. The introduction of Australia's *Modern Slavery Act 2018* (Cwlth), for example, demonstrates the seriousness with which regulators are addressing social responsibilities around supply chains. Similarly, regulators such as ASIC and New Zealand's Exchange (NZX), and standard setters including the International Accounting Standards Board (IASB), Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB), are issuing guidance on climate-related risks and other non-financial risk impacts in mainstream financial reporting and risk and governance frameworks.

Likewise, cyber security is becoming a greater risk – both in terms of incidence and impact. There has been heightened risk of cyber security breaches during the COVID-19 pandemic, as demonstrated when a number of political and private-sector organisations in Australia came under cyber attack by a "sophisticated state-based cyber-actor".[29]

Cyber security breaches will often lead to financial and reputational damage, and businesses must adopt a business perspective on cyber security according to *Cyber and the CFO*, a joint report by CA ANZ and the Association of Chartered Certified Accountants (ACCA).[30]

Cyber security is a business and commercial risk that needs to be considered by the board (or those charged with governance) and finance teams as attacks may lead to data loss and operational disturbance, as well as to long-term implications such as reputational damage, regulatory losses and losses to shareholder value.

What are non-financial risks?

While difficult to define, non-financial risks can be understood in contrast to financial risks, which are (traditionally) risks around market, credit and liquidity, and which have a *direct* impact on core revenue-generating activities.[31]

That's not to say non-financial risks are without financial impact; all risks can have financial consequences.[32] The key thing to note is that non-financial risks also need to be understood in a broader context.

Non-financial risks include (but are not limited to):

- environmental risks (including climate-related risk)
- social risks (including understanding changing social norms)
- supply chain transparency and other supply chain risks
- health and safety risks
- technology risks (including business continuity)
- cyber security risks and data privacy breaches
- compliance failure
- misconduct.

These broad risks should then be broken down into specific risks. For example, the Task Force on Climate-related Financial Disclosures (TCFD) recommends businesses consider climate-related risks by two major categories: Transition risks (ie risks related to the transition to a lower-carbon economy) and physical risks (ie risks related to physical impacts of climate change).[33] Breaking this down further, transition risks may entail policy and legal risks, technology and market changes, and reputational risk.[34] Meanwhile, physical risks can be caused by events (acute) or the result of longer-term (chronic) changes in climate patterns, and may disrupt supply chains, operations, or even employee safety.[35]

Governance

Responsibility for risk management sits with the governing body

Corporate governance comprises the principles, practices and processes that determine how an entity is directed and controlled, and is "critical in promoting and facilitating fair, efficient and transparent financial markets."[36] In any organisation, those charged with governance are ultimately responsible for the corporate governance framework.

This includes responsibility of the risk management framework.

The design and implementation of the organisation's risk management framework sits with the organisation's management. The governing body is required to provide oversight of the risk management process, and of ongoing material risk assessments.

As a part of this risk assessment, the governing body and management need to understand both the business and its operating environment. They must identify *what* material risks exist, as well as determining *why* these risks need to be addressed and *how* they will be managed. This should be considered from an operational perspective (in the next 0-6 months), plus a strategic perspective (6-12 months).

Each organisation will "ultimately establish its own unique level of risk maturity appropriate for its environment, industry and stakeholder expectations."[37] To be effective, risk management "requires strong leadership and organisation-wide ownership. Talking about risks and communicating plans to mitigate them is a leadership responsibility and an important part of a successful risk management framework."[38]

Your organisation's unique level of risk that it is willing to accept in order to meet its strategy – its risk appetite – is set by your governing body.

The risk appetite for the organisation may vary according to specific risks. For instance, the risk appetite for compliance risks might be low, while the risk appetite for market-based risks might be higher, in order to encourage innovation. These levels should be embedded into the organisation's risk framework and overall business model. That way, the governing body can make informed decisions about strategy and value creation without breaching the organisation's risk tolerance.

Risk management guidelines

New Zealand's Financial Market Authority (FMA) offers the following guidelines for governing bodies when addressing risk management.[39]

Principle 6:

6.1 Boards should ensure there are rigorous risk management processes and internal controls in place.

6.2 Boards should receive and review regular reports about the risk management framework and internal control processes, including any developments about material risks.

6.3 Board reports should include a copy of the entity's risk register and should highlight the main risks to the entity's performance and the steps being taken to manage them.

6.4 Boards should report on risk identification, risk management and relevant internal controls to investors and stakeholders, at least once a year.

The FMA also recommends:

- risk management frameworks are used to identify, monitor and manage risks
- entities consider ESG matters in their risk assessment. Here, entities may adopt a formal framework to report on ESG factors or use other forms of reporting
- entities use a risk register to identify material risks
- a separate risk management function or committee may be used by larger entities
- an internal audit function can aid risk management and internal controls.[40]

Source: *Corporate governance in New Zealand: Principles and Guidelines*, FMA.

Avoiding the omission of non-financial risks

The risk management function of any governing body goes beyond financial risks, and yet research shows non-financial risks are routinely ignored.

ASIC's *Director and officer oversight of non-financial risk assessments* (2019) found that, "all too often, management was operating outside of board-approved risk appetites for non-financial risks, particularly compliance risk".[41] Moreover, that "material information about non-financial risk was often buried in dense, voluminous board packs. It was difficult to identify key non-financial risk issues in information presented to the board."[42]

To ensure non-financial risks are included within your organisation's overall risk management strategy, consider establishing a risk register. A risk register assigns accountability for certain material risks to individuals or teams who then report on the status and management of these risks. A simple risk register for a small-to-medium sized listed entity could look like this:

An example of accountabilities within a small-mid market capitalised company[43]

Overall responsibility for risk management process	Company secretary or CFO
Overall responsibility for all material business risks	CEO
Responsibility for individual material business risks (in conjunction with CEO):	
• financial risks	CFO (or equivalent)
• operations	COO (or equivalent)
• technology	CIO (or equivalent)
• human resources	Head HR (or equivalent)
• compliance	Company Secretary
• etc	

Source: Principle 7: Recognise and manage risk, ASX Markets Supervision Education and Research Program.

For a sample risk register, see Appendix A.

Under *ASX corporate governance principles*[44] and *FMA corporate governance principles and guidelines*[45] it is recommended that your governing body reviews the organisation's risk management framework – including risk identification, risk appetite and relevant internal controls – at least annually. This review and its findings should be reported to investors, providers of finance and other relevant key stakeholders each year.

The role of culture and diversity in risk management

Culture

"Risk culture refers, in simple terms, to an entity's attitude to risk management".[46] This includes the behavioural norms, values and traditions within an organisation, and is not necessarily separate to organisational culture.

Importantly, risk culture can be positive.

"A positive risk culture is one where staff at every level appropriately manage risk as an intrinsic part of their day-to-day work. Such a culture supports an open discussion about uncertainties and opportunities, encourages staff to express concerns, and maintains processes to elevate concerns to appropriate levels."[47]

As the Australian Prudential Regulation Authority (APRA) explains: "a strong risk culture does not imply an avoidance of risk-taking. It does, however, ensure that risk is taken within well-defined boundaries, that risk-reward trade-offs are actively considered, and that an entity is alert to the consequences of adverse risks crystallising. This can be achieved when organisational values and beliefs promote behaviours that support robust risk management and decision making, and when effective risk frameworks and clear accountabilities are in place.

"A weak risk culture, on the other hand, has insufficient regard to risk management. As a result, it can encourage excessive risk taking, undermine the effectiveness of risk management practices, entrench patterns of misconduct and ultimately result in material losses".[48]

Findings from the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* in Australia highlighted important links between a strong risk culture and financial soundness within organisations, as well as linkages between weak organisational risk culture and misconduct.[49]

Diversity

Within the broad range of financial and non-financial risks impacting an organisation, it is important for the governing body to be inclusive, comprising diverse and ethical thinkers from a range of ethnicities, genders, ages and backgrounds.

A good risk culture encourages diversity of thought.

ASX corporate governance principles include recommendations around diversity so that the board of a listed entity should set measurable objectives for achieving gender diversity in the board and in its senior executive ranks and its workforce generally. Also, the measurable objective for a listed entity in the S&P/ASX 300 Index is to have not less than 30% of its directors of each gender within a specified period.[50]

Risk tolerance

If risk appetite is the amount of risk the organisation is willing to accept, then risk tolerance is the practical application of this appetite. The Australian Government Department of Finance defines risk tolerance as "the levels of risk taking acceptable to achieve a specific objective or manage a category of risk."[51] Risk tolerance is usually linked to specific categories of risk, such as strategic, governance, operational, market and investment, liquidity, financial and reputational.

While risk appetite usually involves qualitative statements, risk tolerance puts these statements into practice and uses quantitative measures, which can be monitored and reviewed.[52]

Risk exposure can be compared against risk appetite through key risk indicators (KRIs), and tolerance limits and triggers can be assigned to each KRI, as shown in this example from the Department of Finance:

Figure 4: KRIs and associated risk tolerance limits (Department of Finance)[53]

Specific risk area	Key risk indicator		Tolerance		Metric owner
	Metric	Timeframe	Range	Comparator	
Employee safety	OH&S compliance and training completion	Annual	Not more than 10% not completed	Commonwealth government average	Name would be inserted here
Systems & infrastructure	Number of outages for System A	Annual	Not more than 5% allowance	Commonwealth government average	Name would be inserted here
Financial	% of material external audit findings >2	Quarterly	No findings greater than 2	Commonwealth government average	Name would be inserted here

Source: *Developing a positive risk culture, Department of Finance.*

Of course, how much risk your business can tolerate comes back to how successful your lines of defence are.

Strategy and risk management

Risk management is integral to your organisation's strategy and, as such, should be embedded within your broader strategy. Or as IFAC puts it: risk strategy should be built-in, not bolted-on.[54]

In their guide, *From bolt-on to built-in: Managing risk as an integral part of managing an organisation*, IFAC says: "Risk management should never be implemented in isolation; it should always be fully integrated into the organisation's overall system of management. This system should capture the organisation's processes for good governance, including those for strategy and planning, making decisions in operations, monitoring, reporting, and establishing accountability."[55]

Integrating risk management

IFAC has compiled the following considerations for effectively integrating risk management into the overall management of an organisation:[56]

- Organisations should primarily focus on setting and achieving their objectives to create sustainable value and growth; managing risk is an integral part.
- Risk should always be identified, assessed, treated, reported, monitored, and reviewed in relation to the objectives an organisation wants to achieve, while giving consideration to the organisation's ever changing internal and external context.
- While risk management is a body of knowledge with global frameworks, standards, and guidance, the application of risk management needs to be tailored to the organisation.
- Those responsible for setting and achieving the organisation's objectives should also be responsible for effectively managing the related risk.
- Decisions should be informed by an appropriate assessment of risk.
- High-quality information is crucial to good decision-making as it reduces uncertainty.
- Effective management of risk is equally important to all managerial steps following the decision-making process.
- Organisations need to remain sufficiently agile to make the changes needed to continue to create and preserve value.

At a practical level, FMA suggests organisations might consider implementing some or all of the following processes to manage risk:[57]

- A formal risk framework outlining the organisation's risk management approach, risk appetite, risk tolerance, accountabilities for managing risk, and reporting on ESG factors
- A risk register recording the likelihood and impact of material risks (see Appendix A: Sample risk register)
- Internal controls, including financial and non-financial reporting
- A separate risk management function or committee (for larger entities)
- An internal audit function
- An annual risk assessment and report to stakeholders and investors.

Note: Under the *ASX Corporate Governance Principles and Recommendations* (Principle 7: 'Recognise and Manage Risk', recommendation 7.1) "Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies".[58]

Tools for risk management

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, *Enterprise Risk Management – Integrating with Strategy and Performance*, highlights the importance of considering risk in both the strategy-setting process and in driving performance.

ISO 31000: Risk management was developed by the International Organization for Standardization (ISO) to help organisations develop a risk management strategy. The standard includes specific terms for risk treatment, and is applicable to all organisations regardless of type, size, and activity. It covers all types of risk.

Whether you publish your organisation's risk management policy publicly (eg on your company website or in your annual report), or share it directly with key stakeholders, your risk management framework should be readily available.

For an example outline of an organisational risk management strategy, see Appendix B.

Supply chain risks

Visibility is perhaps the greatest challenge when it comes to supply chain risk management. More than simply knowing where inventory is at any one time, visibility involves:

- detailed monitoring of supply chain activity and rapid response to disruptions
- effective flow of data and information such as real-time updates for customers
- transparency around suppliers including first- and second-tier suppliers.
- potential indicators of modern slavery practices

Because of the complex nature of supply chains – particularly global supply chains – risk can never be fully removed. You can, however, minimise your organisation's supply chain vulnerabilities, promoting resilience and business continuity. It all comes down to early detection of vulnerabilities, and strategic planning to mitigate risk.

Here, the key is proactive risk management.

Harvard Business Review says: "The best way to make supply chains more resilient is by mapping the layers of suppliers, manufacturing plants, distributors, and other elements of the logistics network and applying a stress test to evaluate the ability to recover from the disruption of these sites. Once there is an understanding of where bottlenecks are located, various mitigation strategies can be considered, including adding manufacturing capabilities or suppliers or creating buffer stocks."[59]

Technology also has a role to play. Big data, advanced analytics, AI, automation, blockchain, 3D printing and on-demand transportation will work to make supply chains more secure and less vulnerable to disruption. PwC's *Connected and autonomous supply chain ecosystems 2025*, for instance, shows nearly half (47%) of successful supply chain managers ("Digital Champions") surveyed were implementing a digital twin of their supply chain, which allowed them to virtually replicate their entire chain and run simulations of the downstream and upstream impacts of a supply break.

When facing disruption, your organisation needs to consider both the short-term impacts *(How critical is this product or input? Are substitutes readily available? What is the immediate cost or impact on cash flow?), as well as the long-term effects (Can we find product substitutes or new forms of transport? Are we taking adequate measures to monitor inventory levels? Can we better prepare to manage supply/demand?).*[60] You must ensure you're complying with all relevant regulations and liabilities under existing supplier agreements, and that you're communicating regularly with suppliers and customers.[61]

Resilience is about more than just the continuity of supply, however. There is now greater expectation for transparency and accountability around ethical and ESG considerations, including human rights due diligence, and businesses must have processes in place to closely monitor their supply chains.

Under the *Modern Slavery Act 2018* (Cwlth), large Australian businesses must publish modern slavery statements, reporting on their structure, operations and supply chains, identifying any modern slavery risks (including those of subsidiary entities).[62] Digitalisation can help here, too. PwC's Know Your Vendor monitoring solution, for instance, uses an analytics-based approach to perform due diligence on extended vendor networks.

This Deloitte article outlines how New Zealand organisations may be affected by the Australian Modern Slavery Act.

Offshoring

One of the knee-jerk responses to the COVID-19-induced supply shortages has been a call for greater reshoring and nearshoring. Moving supply chains onto home soil makes for more security, the argument goes. But as *Harvard Business Review* points out: "Reshoring alone does not necessarily create resiliency."[63] Nor does it eradicate risk.

Better, then, to improve your offshoring processes, minimising risk via strategic planning. After all, the benefits of offshoring can be significant. CA ANZ's *future*[inc] paper, *What is the future for offshoring?*, found that relocating a business function overseas can achieve not only cost savings but also enhanced organisational capability and efficiency, maximising the value-add of the workforce and making organisations internationally competitive.[64]

There are a number of business models for the delivery of offshore services, from captive offshoring through to joint ventures and offshore outsourcing, offering varying levels of control.

How, then, do you mitigate risk when your remote team may be located tens of thousands of kilometres away, working in a different time zone to the base organisation?

Communication is key. Boost employee engagement, team unity and quality of output via regular communication. Team member inductions at head office are a great idea but if travel isn't possible then video technology is a good substitute. Encourage remote employees to take ownership of processes and tasks, and provide multiple channels for easy and regular feedback. Again, video technology can help. Transparency and visibility of processes will always be a challenge and risks can be mitigated by conducting regular, comprehensive assessments of processes, as well as sample audits of key functions and tasks.

CA ANZ found the key issues determining success in offshoring include:[65]

- recognising the diverse range of benefits
- preparing and securing buy-in
- dealing with risks and challenges
- finding the right offshoring model
- finding the right location
- planning for the future.

In short, offshoring requires continuous close monitoring and management of risks. You cannot simply set and forget and this is particularly relevant in the current environment.

The paper highlighted risks including employee retention, regulatory matters and cultural differences.[66] Reassessing the risks associated with offshoring now might include consideration of modern slavery risks, health and safety considerations – which are particularly heightened during the COVID-19 pandemic, business continuity and cyber security related risks.

The ongoing process for offshoring should be: plan, monitor, review, and, most of all, integrate. Any risks associated with your offshoring model should be fully incorporated into your overall strategic plan.

Read more detail in *What is the future for offshoring?*

Scenario planning

Scenario planning is a critical tool at any time but during a global pandemic, with seismic ramifications, the need for managing uncertainty has perhaps never felt greater.

So what is scenario planning, and how do you get it right? Scenario planning involves making multiple assumptions about the future – from the best-case scenario to the worst – and then asking yourself: Would our business be equipped to cope in these various circumstances? [67]

In short, scenario planning is perfect for modelling non-financial risks.

When planning for scenarios, it's important for businesses to understand the impact and be ready to respond. Consider the following five step process Deloitte New Zealand have outlined in their article *strategic scenario planning for COVID-19*.[68]

Understand the impact

1 **Understand the driving force behind your performance:** e.g. describe the impact that COVID-19 is having on your organisational performance and prospects

2 **Access impact and relevance:** identify and prioritise the critical uncertainties that are likely to shape your future operating environment

Get ready

3 **Develop scenarios:** using combinations of these critical uncertainties, create scenario narratives that describe differing versions of the future

4 **Identify opportunities and mitigate risks:** identify the opportunities and risks in each scenario, and create resilience by confirming the strategic choices you would make in each scenario, before confirming the scenarios most likely to eventuate

Respond

5 **Agree actions and execute the plan:** identify the choices you can make confidently given you would make that choice in multiple scenarios, and then plan accordingly.

When applying a stepped approach, there are some common risks to be aware of. CPA Canada's *scenario planning applying a six step process to your organization* paper covers these common risks and the accompanying mitigation strategies in more detail.[69]

Below are further resources that outline a stepped approach to scenario planning as well as common risks and mitigation strategies to consider.

Further reading

Overcoming obstacles to effective scenario planning, McKinsey & Company
Scenario Planning: A tool for strategic thinking, MIT Sloan Management Review
Scenario planning applying a six step process to your organisation, CPA Canada
Scenario planning and strategic forecasting, Forbes
Why scenario planning is crucial to business recovery, SME
Scenario planning template, ANZ
Strategic scenario planning for COVID-19, Deloitte

Disclosure and reporting

The dual forces of investor expectations and evolving regulatory requirements are pushing companies toward greater disclosure of a range of emerging non-financial risks including climate-related risks.

Investor expectations

Investors want more information to inform their investment decisions, including relevant and robust disclsoures. EY's research into expectations around non-financial disclosures (*'How will ESG performance shape your future?'*) found that non-financial performance has played a pivotal role in their decision making over the last 12 months.[68] In fact, 98% of surveyed institutional investors say they conduct either an informal (25%) or a structured evaluation (73%) of a target company's non-financial disclosures.[69]

Moreover, ESG information is particularly valuable for decision-making during a downturn,[70] so expect to see the trend towards heightened investor expectations to continue as long as the current recession does.

Larry Fink, CEO BlackRock, recognises that investors want information on non-financial risks to inform their decisions. In his renowned annual letter to chief executives, Fink stated: “Investors are increasingly reckoning” with questions around climate risk and that, “in the absence of robust disclosures, investors, including BlackRock, will increasingly conclude that companies are not adequately managing risk”.[71] In his letter, Fink announced BlackRock’s intention to improve their ESG reporting (including releasing a TCFD-aligned disclosure by the end of 2020).[72]

Australian regulatory requirements

Regulatory changes and requirements are also driving the shift towards disclosure. For instance, ASIC’s Regulatory Guide 247 (RG 247) Effective disclosure in an operating and financial review sets out guidance for directors on providing useful and meaningful information when preparing an operating and financial review (OFR). An OFR is required for organisations to provide certain material information to their users – in particular, information that might not be immediately visible through the financial statements themselves.

An OFR comprises part of the wider annual report and is particularly useful to illustrate a board’s accountability. An OFR is required to include information that users would reasonably require in order to make an informed assessment of an organisation’s prospects for future financial years.[73] As such, information around emerging risks could be particularly relevant to the extent that these risks are likely to have a material impact on the organisation going forward.

ASIC recently updated RG 247 to highlight climate change as a risk that could impact an entity’s financial prospects for future years and, therefore, may need to be disclosed in an OFR.[74] As noted by the supplementary memorandum of opinion commissioned by the Centre for Policy Development: “[W]e are now observers of a profound and accelerating shift in the way that Australian regulators, firms and the public perceive climate risk. There has been a series of coordinated interventions by Australian regulators, which will require in practice that increased attention be given to both the assessment and disclosure of climate risk... Company directors who consider climate change risks actively, disclose them properly and respond appropriately will reduce exposure to liability. But as time passes, the benchmark is rising”.[75]

Also, the ASX *Corporate Governance Principles and Recommendations* notes that greater guidance on disclosure of carbon risk is needed and boards are increasingly being called on to address new or emerging issues, including sustainability and climate change.[76]

New Zealand regulatory requirements

Section 137 of the *Companies Act 1993* (the Companies Act) establishes a director's duty of care, including an obligation for directors to exercise the care, diligence and skill that a reasonable director would exercise in the same circumstances.

Section 137 was considered as part of the Aotearoa Circle's Sustainable Finance Forum (which sought legal advice on the question: "To what extent (if at all) are New Zealand company directors and managed scheme providers permitted or required to take account of climate change considerations in their decision-making?").[77] The forum concluded that section 137 gives rise to an obligation for directors and managers to "assess and manage climate risk as they would with any other financial risk".[78] A natural extension of this legal opinion, and the language of the legislative obligation, confirms that directors are required to consider other emerging risks and, if these are material, disclose them accordingly.

Specific to listed entities, NZX Corporate Governance Code, Principle 4 – Reporting and Disclosure, requires the disclosure of material non-financial information.[79] In addition, NZX has released a guidance note relating to ESG reporting, designed to accompany the NZX Corporate Governance Code, and to provide information about global ESG frameworks.

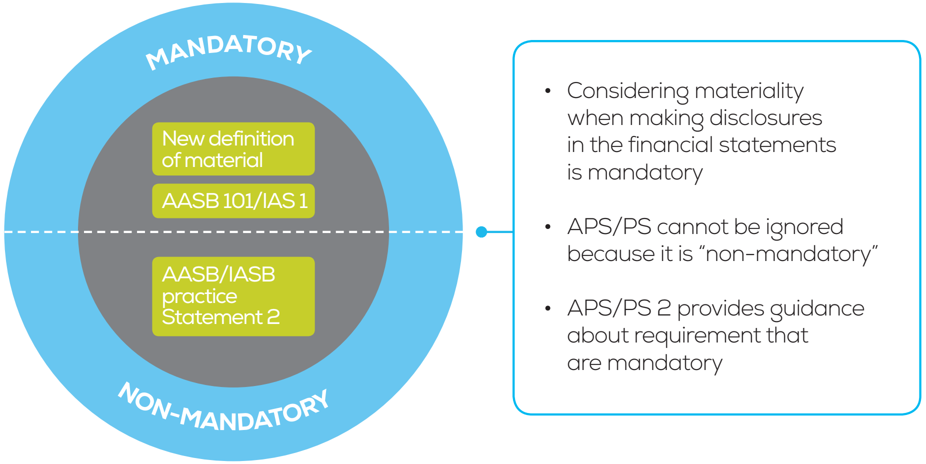
Financial statements

When should information around non-financial risks be included in financial statements?

The AASB and AUASB have acknowledged the shift in investor focus towards emerging risks, including climate-related risks. In a joint bulletin, *Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2*, the two bodies addressed climate-related and other emerging risk disclosures, saying: "Entities can no longer treat climate-related risks as merely a matter of corporate social responsibility and may need to consider them also in the context of their financial statements".[80] The IFRS Foundation was 'inspired' by this bulletin to issue its own article *IFRS Standards and Climate-related Disclosures*. The XRB website includes a reminder that the impact of material risks is not exclusive to Extended External Reporting (EER) and provides links to both statements noting that they explain how existing requirements within IFRS Standards relate to climate-related and other emerging risks.

With respect to making materiality judgments, both articles refer to Practice Statement 2, which, although non-binding, relates directly to mandatory requirements (see figure 5).[81] In particular, this Practice Statement notes that qualitative external factors such as the industry in which an organisation operates, as well as investor expectations, may mean particular risks are material and so require disclosure.

Figure 5: Relationship between APS/PS 2 and making mandatory materiality judgments (taken directly from APS/PS 2)



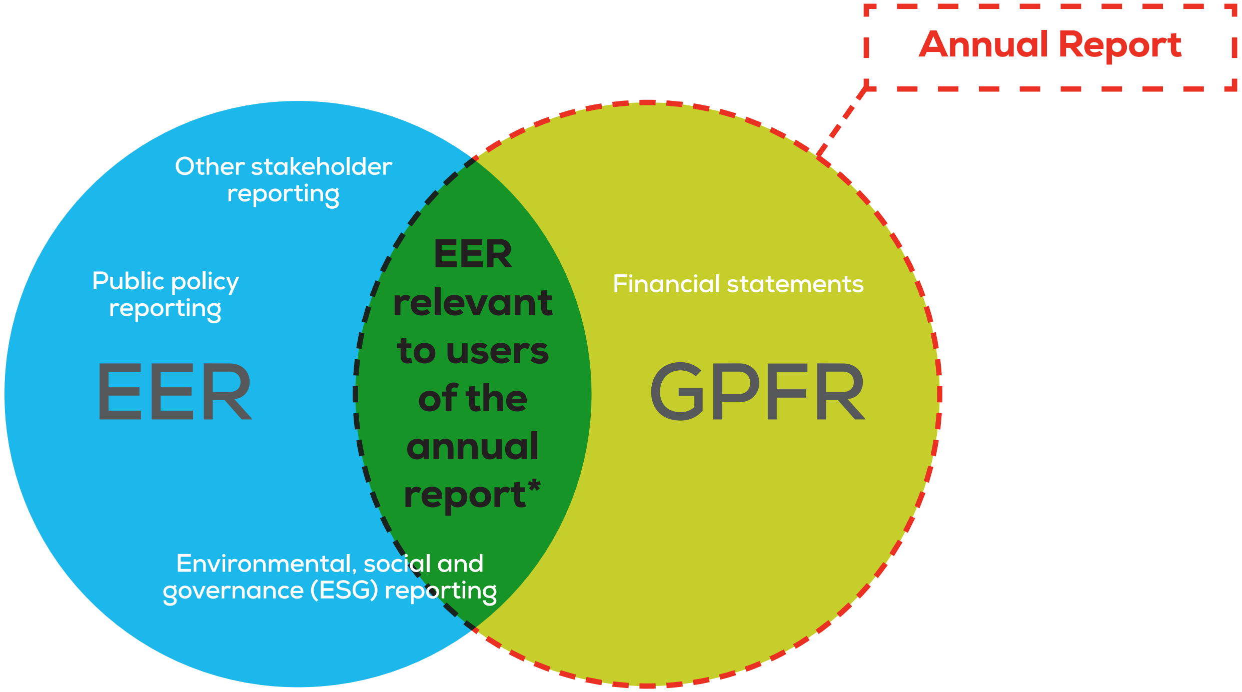
However, APS/PS 2 only applies to the financial statements and not to the other information contained in the annual report

Source: *AASB/AUASB (2019)*[82]

Materiality and risk

How, then, do you decide which non-financial risks to disclose? It comes down to materiality. Determining which EER information is relevant to users of the annual report requires judgement, as shown in figure 6.[83]

Figure 6: Relationship between EER information relevant to users of annual reports, and EER information relevant to a wider group of stakeholders.



Source: XRB

Materiality judgements (and the resulting disclosure and presentation) are factual assessments, and the process followed is likely to be similar across sectors and countries.

In assessing whether non-financial risk disclosures are necessary, Practice Statement 2 released by the AASB and AUASB (and as referred to previously) suggests you consider the following:

- Are investors likely to have expectations?
  - Could investors reasonably expect that the risk in question could have a significant impact on the organisation?
  - Would this risk qualitatively influence investor decision-making regardless of the quantitative impact on financial statements?
- If there are likely to be investor expectations present, then consider:
  - Has this risk affected any of the amounts recognised or disclosed in the financial statements? If so, what disclosure is necessary and what assumptions have been made?
  - Is this risk likely to have a material impact in the organisation's specific circumstances? If so, what impact is the risk likely to have? Does this affect amounts recognised and what disclosure is necessary?

If information regarding non-financial risks is deemed material (and therefore should be disclosed), you must comply with the relevant legislation and guidelines regulating disclosure and financial statements.

To illustrate how disclosures might be made, the following example explains how to report on climate change (and other climate-related risks) as a material non-financial risk.

Climate change as a material non-financial risk

In April 2015, the G20 asked the Financial Stability Board (FSB) to review how the financial sector should account for climate-related issues. As part of this review, the FSB established the TFCD – an industry-led body. In June 2017, the TCFD released a set of recommendations for voluntary climate-related risk disclosures to be made within the financial filings of an entity.

In June 2019, the TCFD published a status report noting that: "Although disclosure of climate-related financial information has increased since 2016, it is still insufficient for investors, highlighting the need for continued efforts to support implementation of the recommendations."[84]

As previously mentioned, the TCFD identified two types of risks that organisations should consider: transition risks (that is, risks arising as a result of the shift towards low-emissions), and physical risks (the direct and indirect impacts of changing climate patterns).[85] To aid in the disclosure of these risks, the TCFD developed 11 recommendations covering the four areas of: Governance, strategy, risk management and metrics/targets.

Figure 7: Overview of recommendations and supporting recommended disclosures as presented by the TCFD

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Source: *'Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017)'* (TCFD)

For further information see the TCFD *Good Practice Handbook* and TCFD Knowledge Hub.

Note: New Zealand's Ministry for the Environment is currently considering mandating climate risk-related disclosures. Consultation on the Climate-related financial disclosures discussion document has closed, however, a summary of submissions is available here.

Disclosure outside financial statements: Modern Slavery Act 2018 (Cwlth)

The 2019-20 financial year is the first modern slavery reporting period in Australia, following the introduction of the Modern Slavery Act 2018 (Cwlth). Where identified risks meet the criteria for materiality, they should be disclosed in the organisation's annual report.

Outside of financial statements, however, companies with annual turnover above A$100 million are now also required to file annual Modern Slavery Statements. At a minimum, expected reporting requirements for Modern Slavery Statements include:

- details of the identity, structure, operations and supply chains of the reporting entity
- a description of the risks of modern slavery practices in operations and supply chains
- actions taken to address modern slavery risks (including due diligence and remediation processes), and the effectiveness of such actions, and
- a description of the consultation processes.[86]

The *NSW Modern Slavery Act 2018* (The Act) requires commercial organisations in NSW with an annual revenue turnover of at least A$50 million to prepare an annual Modern Slavery Statement has not yet come into force. The Act and associated matters was referred to the Standing committee on social issues in 2019 and issued their final report in March 2020. The NSW Government is yet to consider the committees recommendations and commencement of the Act in NSW.

For more details see Commonwealth Modern Slavery Act 2018: Guidance for Reporting Entities (Department of Home Affairs).

Due to COVID-19, a three-month extension has been granted for organisations due to lodge Modern Slavery Statements in 2020. The extension does not alter the reporting period of the Modern Slavery Statement.

Further details:
CA ANZ Modern Slavery updates in Australia (Commonwealth and NSW) February 2020
CA ANZ COVID-19 reporting extension for annual modern slavery statements
CA ANZ mandatory criteria for modern slavery reporting requirements (video)

Integrated reporting

While it can be tempting to silo non-financial disclosures into a specific area of the annual report (or into a separate report altogether), risk assessment must be approached in a connected, cohesive way.

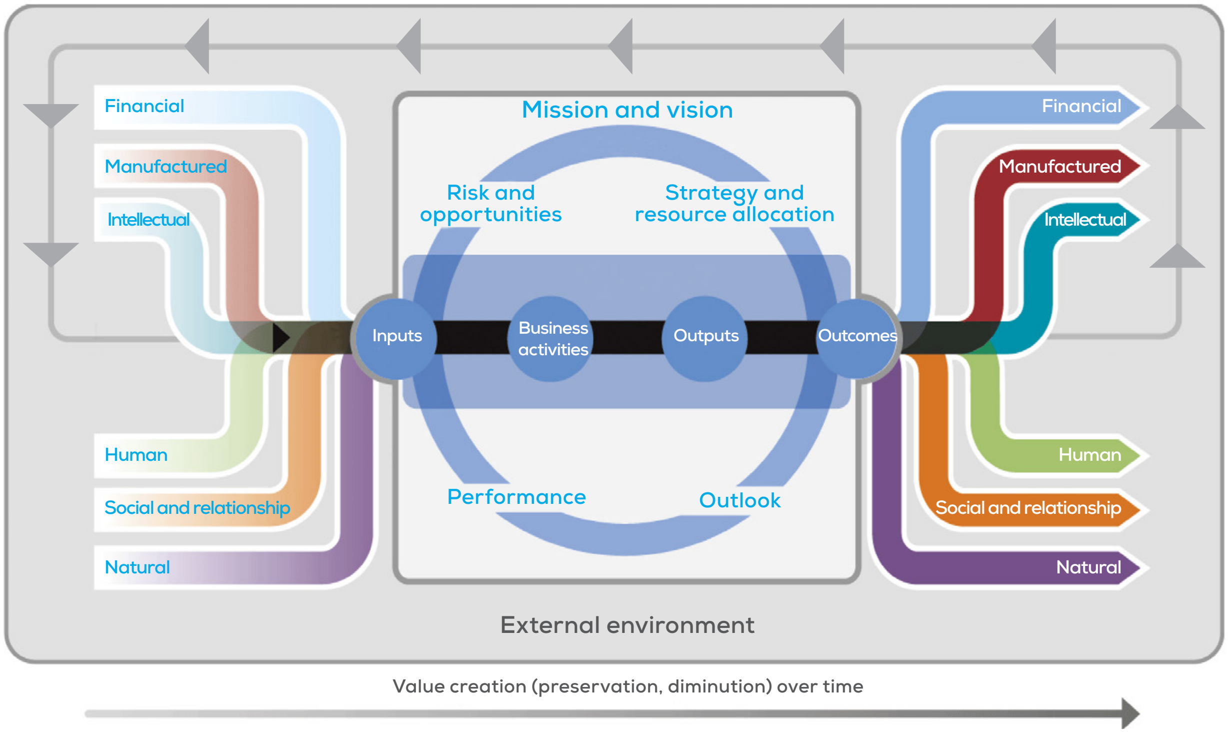
Integrated reporting is a holistic approach to corporate reporting.[87] At its crux, integrated thinking recognises "the connectivity and interdependencies between the range of factors that affect an organization's ability to create value over time."[88]

According to the International Integrated Reporting Council (IIRC), an integrated report is "a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term".[89] This should be done via both qualitative and quantitative information, using the following six capitals (as shown in figure 8):[90]

1 Financial
2 Manufactured
3 Intellectual
4 Human
5 Social and relationship
6 Natural.

This multi-capital approach gives organisations a more comprehensive understanding of the business environment.

Figure 8:



Source: IIRC

The IIRC's integrated reporting framework offers principles-based guidance for entities preparing an integrated report. So what should an integrated report include?

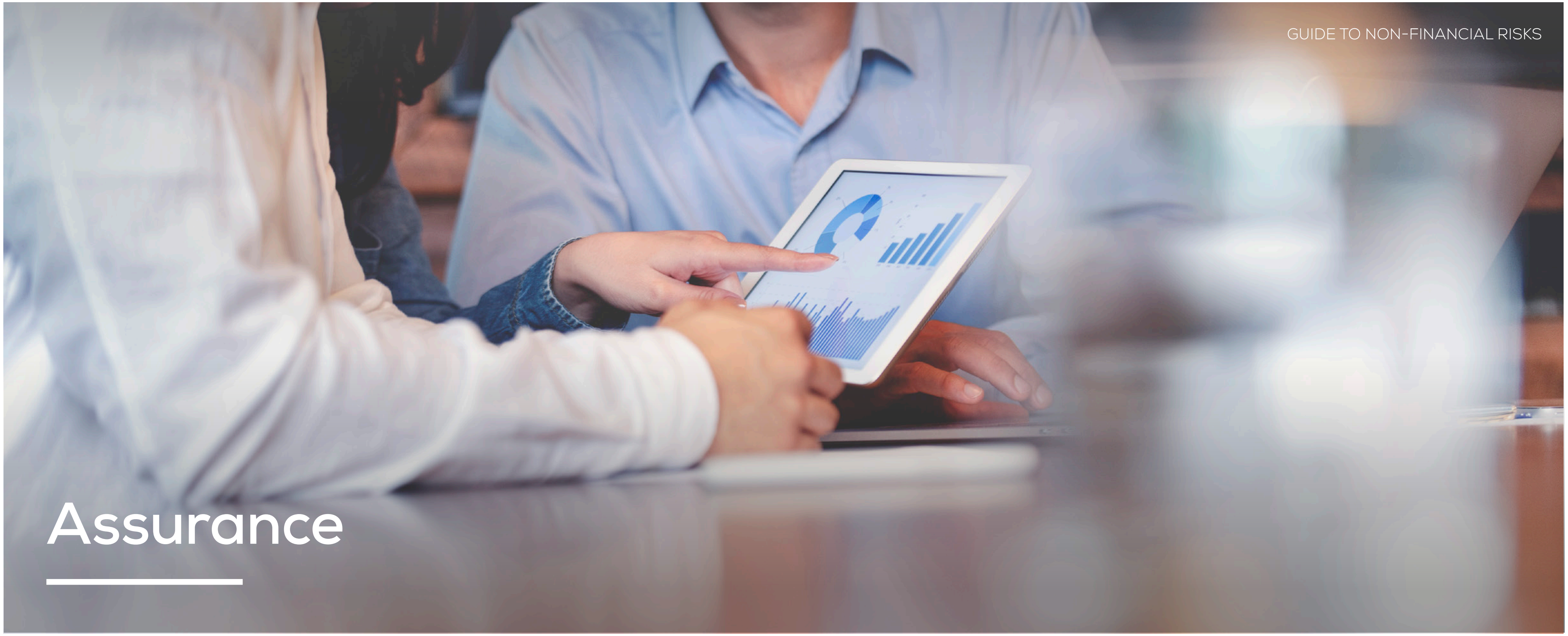
The IIRC recommends the following content elements (which are fundamentally linked and are not mutually exclusive):[91]

1. **Organisational overview and external environment:** What does the organisation do and what are the circumstances under which it operates?
2. **Governance:** How does the organisation's governance structure support its ability to create value in the short, medium and long term?
3. **Business model:** What is the organisation's business model?
4. **Risks and opportunities:** What are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term, and how is the organisation dealing with them?
5. **Strategy and resource allocation:** Where does the organisation want to go and how does it intend to get there?
6. **Performance:** To what extent has the organisation achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
7. **Outlook:** What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
8. **Basis of presentation:** How does the organisation determine what matters to include in the integrated report and how are such matters quantified or evaluated?

Some key risks to consider during the 2019-20 reporting season

As a result of COVID-19, the raft of non-financial risks and challenges for the 2019-20 financial year are many. We recommend members read our new guide, *Financial reporting and audit issues stemming from COVID-19*, which explores the following:

- Going concern
- Accounting estimates
- Leases and rent concessions
- Subsequent events
- Government relief packages
- Lodgement date relief
- Physical limitations.



Assurance

Similarly to disclosure and reporting, investor expectations and evolving regulatory requirements are creating a need for assurance around a growing range of reporting and processes related to emerging non-financial risks.

In their joint bulletin, 'Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2', the AASB and AUASB include guidance for auditors to consider with respect to climate-related risks and other emerging material risks when undertaking assurance engagements, including of financial statements.[92]

When applying to climate-related risks, for instance, auditors would be expected to consider the implications of climate-related risk: i) for their own work, and ii) where climate-related risk has a significant impact on an entity, whether the entity's financial statements adequately reflect this.[93]

The AASB/AUASB bulletin also states that auditors must consider the importance of other emerging risks as part of their risk and estimates assessment in applying ASA 315 *Identifying and Assessing the Risks of Material Misstatement through understanding the Entity and Its Environment* and ISA (NZ) 315. Here, auditors should consider an entity's regulatory climate-related risk implications and market risk implications, as well as climate-related risk implications for committed and proposed capital expenditure and for the entity's objectives and strategies.[94]

As the bulletin indicates, auditors would be expected to consider and understand the implications of climate-related risk and how it affects their own work and procedures. Specifically, under ASA 330 *The Auditor's Procedures in Response to Assessed Risks* and ISA NZ 330, as well as ASA 540 *Auditing Accounting Estimates and Related Disclosures* and ISA NZ 540, where climate-related risk may be relevant for accounting estimates, including assumptions used to arrive at a fair value estimate and potential impairments, auditors should:

- perform risk assessment procedures to understand the entity and its environment
- identify and assess the risk of material misstatement to evaluate the degree of estimation uncertainty associated with the estimate
- respond to the assessed risks of material misstatement by selecting an appropriate testing strategy
- perform an overall evaluation including the reasonableness of the estimate
- assess the adequacy of disclosures relating to estimates
- obtain written representations from management
- communicate with those charged with governance, management or other relevant parties about certain matters, as appropriate
- document the basis for their conclusion about the reasonableness of accounting estimates and indicators of possible management bias, if any.[95]

If material disclosures are made in relation to climate-related risk and any financial impact is reflected in the financial statements this information would be audited as part of the annual audit under the Australian Auditing Standards.[96] Under ASA 700 *Forming an Opinion and Reporting on a Financial Report* and ISA NZ 700 auditors must consider information presented in the annual report but outside the financial statements in accordance with ASA 720 *The Auditor's Responsibilities Relating to Other Information* and ISA NZ 720.[97]

Extended external reporting

From integrated reporting and sustainability reporting, through to reporting by entities about ESG matters, extended external reporting (EER) can take many forms, and it is becoming increasingly common.[98]

It's important to note, however, "EER is not always governed by accounting standards, which can present auditing challenges."[99] EER reports may be required by law or regulation, and therefore prepared using specific frameworks, or they may be produced voluntarily and be less structured.[100]

The International Auditing and Assurance Standards Board (IAASB) is currently developing guidance to support creditability and trust in emerging forms of external reporting, and issued a consultation paper: 'Extended External Reporting (EER) Assurance' (2019).

In particular, the IAASB is working to overcome ten key challenges identified for assurance engagements. The challenges identified include: determining the scope of an EER assurance engagement; evaluating the suitability of criteria in a consistent manner; testing and assuring future orientated information and addressing materiality for diverse information with little guidance in EER frameworks.

Further resources

'Consider non-financial risks in the reporting season', CA ANZ

Enterprise Risk Management: Integrating with Strategy and Performance, Committee of Sponsoring Organizations of the Treadway Commission

Enabling the accountant's role in effective enterprise risk management, IFAC

Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures, Task Force on Climate-related Financial Disclosures

2020 Pressures Report: Summer 2020 – Australia, Global Compact Network Australia

The Global Risks Report 2020, World Economic Forum

Cyber Reporting Survey: Cyber risk reporting in the UK, Deloitte UK

ASX diversity resources

XRB EER resources

'Corporate governance in New Zealand: Principles and guidelines', FMA

Contacts

COVID-19 Hub Chartered Accountants ANZ's dedicated hub is regularly updated to keep you informed with the latest developments, ensure you're equipped with the tools and resources to assist you with navigating the pandemic and recovery, and support your mental health and wellbeing. Visit the hub here.

Regional Managers We know this is an extremely challenging time for many of our members and we're here to support you in any way we can. Please feel free to connect with your regional contact. To find your regional managers details, please visit our COVID-19 hub contact page.

My CA Gain the support of other CAs with My CA Groups. With the impact of COVID-19 significantly changing our day-to-day work life and business landscape, you've probably got many questions to ask. It's a great time to gain the advice of your CA network and experts in your community. Explore 'My Groups' where you are able to ask other CAs anything you like, as well as share your knowledge and give support to other members.
Visit My CA to join the discussion and connect with other members.

CA Wellbeing CA Wellbeing provides resources and information to support mental health and wellbeing for our members. During the COVID-19 pandemic, as a member of Chartered Accountants ANZ, you can access complimentary counselling services for you and your family. Visit CA Wellbeing for more information.

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Appendix

Appendix A: Sample risk register

1. Identify material business risks (refer section 5.1)				2. Prioritise the risks (refer section 5.1 and Appendix E)			3. Manage material business risks (refer section 5.2)		4. Report (refer section 5.3 and Appendix F)
#	Risk description	Current controls	Effectiveness of current controls	Likelihood	Consequences	Risk level	Further management action required	Responsibility /timeframe	Status
	1 Describe each risk including potential consequences that may impact on the company if it eventuates.	*List management controls currently in place to prevent or minimise the effect of risk occurring.*	*Consider the effectiveness of current controls in addressing the risk.*	*Determine the likelihood of risk occurring*	*Determine the impact on the company if it does occur.*	*Determine the overall risk level. The arrows may be used to track change in risk level since last report.*	*If risk level is too high or above company's risk tolerance, document additional management action required to reduce the risk level.*	*Allocate responsibility for each risk and specify timeframe.*	*Track the status of risk mitigation actions and report to the board.*

Legend

Risk level increased from last review

Risk unchanged from last review

Risk level decreased from last review

Source: *Principle 7: Recognise and manage risk, ASX Markets Supervision Education and Research Program.*

Appendix B: Outline of a risk management strategy

Prepared by: ______________

Approved by: ______________

Revision date: ______________

Effective date: ______________

Purpose:
Outline the purpose of creating a risk management policy and what it will achieve for the company.

Scope:
Document the scope of the policy, where it applies (including subsidiaries, if applicable) and what risks should be covered by the policy.

Policy:
Describe the key elements of a company's risk management policy:

- *the objective and rationale for managing risk in the company*
- *clear links between the policy and the company's strategic plans and business plan*
- *guidance on the company's risk tolerance*
- *a statement on how risk management performance will be measured and reported*
- *details of the support and expertise available to help staff undertake effective risk management practices.*

A company's risk management policy can also provide guidance to staff on the company's commitment to:

- *integrating risk management principles into existing procedures and practices*
- *communicating the company's approach to managing risk*
- *coordinating the interface between risk management, compliance and assurance programs within the company*
- *incorporating risk management training into internal staff development programs.*

Definitions:
Provide relevant definitions and terms used throughout the policy and procedure documents.

Procedure:

Risk strategy and risk tolerance
Outline the company's tolerance for accepting risks and the strategy the company is intending to adopt to meet this requirement.

Risk management requirements
Outline the steps that the company is intending to take to incorporate risk management into day to day operations as well as how it intends to make the risk management process sustainable.

Assurance
Document what assurance process will be undertaken (internal and external) to determine that the risk management process and management of individual risks continue to operate effectively.

Risk management roles and responsibilities
Outline responsibilities for managing risks at all levels of the company. Normally the following people will have some responsibility for developing a risk management process and managing risks on a day to day basis:

- *Chief Executive/Board of Directors*
- *Audit and Risk Committee (if exists)*
- *Management team*
- *Supervisors (if applicable)*
- *Risk Manager (if applicable)*
- *Individual staff (if applicable).*

Source: *Principle 7: Recognise and manage risk, ASX Markets Supervision Education and Research Program.*

Endnotes

1 *"The next catastrophe / Politicians ignore far-out risks: they need to up their game," The Economist,* 25 June 2020.

2 *Global Risks Report 2020,* WEF, January 2020, p3.

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7 *'2020 Pressures Report: Summer 2020 – Australia'*, Global Compact Network Australia (2020), p3.

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9 Figure II: The Global Risks Landscape 2020, *Global Risks Report 2020*, WEF, p3.

10 Figure II: The Global Risks Landscape 2020, *Global Risks Report 2020*, WEF, p3.

11 Risks of Doing Business 2019 (Australia), *Global Risks Report 2020*, WEF, 2020.

12 Risks of Doing Business 2019 (NZ), *Global Risks Report 2020*, WEF, 2020.

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