



INTEGRATED ASSURANCE AND SMCR: THE NEXT ENTERPRISE RISK MANAGEMENT CHALLENGE?

The PRA and the FCA have rolled out the Senior Managers and Certification Regime (SMCR). One of the main parts of the regime is the ‘duty of responsibility’. This means that senior managers covered by the regime could be held accountable if they do not take ‘reasonable steps’ to monitor the business with a view to prevent regulatory breaches.

This is an interesting regulatory challenge given that financial services businesses have made significant investments to develop suitable Enterprise Risk Management (ERM) frameworks over the last five to ten years. The SMCR expectations also reflect the gradual shift in industry from focusing on the design of ERM frameworks to their effective implementation. An important aspect of the effective ERM implementation should be the focus on assurance, i.e. the outputs provided to senior management and the Board.

The essence of integrated assurance is formalising effective information flows to senior management and to the board to evidence effective implementation of the ERM framework. This information would complement regular management information that informs about risks, finances and operational performance of the business.

This briefing summarises Crescendo Advisors’ perspective on the challenge and our thoughts about how financial services business should respond to it.

THE CHALLENGE FOR THE INDUSTRY

Financial services businesses have invested in ERM frameworks, implemented through policies and systems. However, boards and senior management understand that they can be surprised by events that are not necessarily driven by external developments and that reflect poor ERM implementation.

Traditionally there has been a professional focus on framework design rather than outcomes and evidenced implementation, including learning appropriate lessons to improve the framework, policies and procedures. Where this line of thinking prevails, the response to cases of poor implementation of an ERM framework is to review the framework. There might be cases where this is necessary, but the real question is whether there was appropriate follow-up and feedback about the implementation that could have identified the issue.

Financial services businesses are likely to have in place elements of an integrated assurance framework. For example, internal audit functions already provide independent assurance about the control environment. There are, however, limits to the resource available to internal audit functions and not every assurance may need to be independent. From a board perspective, assurance is assurance. The challenge is understanding what forms of assurance are provided, by whom and what may be missing.

HOW SHOULD BUSINESS RESPOND?

Delivering integrated assurance requires first of all a top-down approach that should include a stock take to identify activities that provide (or could provide) assurance to senior management and the board.

The work of internal audit would be an important component of these assurance activities and represents a useful starting point. The challenge is to identify additional activities in the first and second line of defence that can also provide assurance to the board. For example, the first line is likely to undertake various quality assurance activities (e.g. call reviews) and the second line is likely to undertake compliance reviews.

While such activities may take place, they may not have sufficient visibility to provide the appropriate level of on-going assurance to the Board and senior management. In other cases, the activities may not take place on a standardised basis which challenges the management's overall ability to aggregate messages and provide assurance.

Integrated assurance requires the review, coordination and enhancements of these activities to ensure that information flows to senior management and the board are enhanced as appropriate. In many cases, this may include setting in motion a process where the risk function also undertakes structured reviews; some people refer to these reviews as 'deep dives' and 'thematic reviews'. These reviews should be planned so that they are coordinated with internal audit and subject to appropriate governance.

These activities would result in a structured top-down approach to assurance. This would further enhance senior management and board understanding of the business. Overall, it would offer value for money and result in fewer avoidable surprises.

HOW CAN CRESCENDO ADVISORS HELP?

We have developed an integrated assurance framework which identifies relevant categories of assurance activities across the three lines of defence.

This framework can be used to identify the specific challenges that your company faces in delivering integrated assurance. The framework can also be used to drive focused reviews of existing assurance activities and enhance them as appropriate.

We have already worked with various clients to enhance assurance provided in a way that reflects the business and the maturity of their risk management activities.

IN SUMMARY

- The introduction of SMCR creates expectations about assurance provided to senior management and the board with respect to the implementation of ERM frameworks.
- Financial services businesses already undertake activities that provide assurance about ERM implementation, most notably internal audit. There are likely to be other assurance activities in the first and second line.
- The challenge is to identify these activities and ensure that they provide value for money as well as generate the required assurance to senior management and the board.
- Additional activities may also be needed to provide assurance to senior management and the board, such as a structured programme of risk reviews.
- These activities could result in a structured top-down approach to assurance which further enhances senior management and board understanding of the business and may result in fewer avoidable surprises.

FURTHER INFORMATION

If you would like to discuss further Crescendo Advisors' approach to integrated assurance, please contact Isaac Alfon on 077 66 725 315 or isaac.alfon@crescendo-erm.com

Visit www.crescendo-erm.com for further details about our credentials.