



# Navigating uncertainty through ERM

## A practical approach to implementing OMB Circular A-123

In our everyday lives, we all face uncertainty. It is how we manage uncertainty that matters. We all accept risk. What matters is deciding how much risk we are willing to accept. Government is no different. It faces uncertainty and must make informed trade-offs in the public interest between risks and rewards.

In July 2016, risk management took a dramatic turn with the most significant revision in over 30 years to Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Federal agencies are now required to implement an enterprise risk management (ERM) capability. ERM is to be coordinated with the strategic planning and strategic review processes established by the Government Performance and Results Modernization Act and the internal control framework required by the Federal Managers' Financial Integrity Act (FMFIA) and the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (Green Book). This integrated governance structure is intended "to improve mission delivery, reduce costs, and focus corrective actions towards key risks."

The changes in OMB Circular A-123 are transformative to the program and operational practices, as well as the culture of federal agencies. Federal agencies are being challenged to identify and focus on the most important risks through the aperture of an enterprise lens, looking across management stovepipes and organizational boundaries. Adding the dimension of risk tolerance to management's decision-making represents a growing maturity in how federal agencies address program management. The consideration of how risk may impact program decisions provides an opportunity for managers to realize greater value from their processes and systems because they will balance resources against the agency's appetite for risk.

KPMG LLP (KPMG) developed a practical approach to implementing OMB Circular A-123. Our perspectives are based on first-hand knowledge from extensive work with government agencies and private sector companies in the United States and globally and include 10 critical elements.

1	<b>Establish clear "ownership"</b> by the agency's top leadership and cascade ownership down the organizational chain of command, so everyone understands their responsibility.
2	<b>Appoint a chief risk officer</b> and establish a risk management council.
3	<b>Establish the risk appetite</b> , and make it part of the day-to-day program and operations management.
4	<b>Incorporate ERM in strategic planning.</b>
5	<b>Include ERM in the agency's formal governance process</b> to include clear roles and responsibilities, well-designed policies and procedures, oversight and monitoring, education, open communication, customer and stakeholder engagement, and an ERM maturity model.
6	<b>Embed fraud risk management</b> in ERM.
7	<b>Identify and rank risks</b> and establish mitigation actions premised on whether to accept, avoid, reduce, and/or share risks.
8	<b>Understand long-tail and emerging risks</b> and their potential impact.
9	<b>Make risk mitigation a critical component of management expectations</b> , focusing on root causes and leveraging leading practices.
10	<b>View this as a never-ending marathon</b> and not a sprint, and get started!

## How KPMG can help

Developing a sustainable, value-added ERM program is an art. KPMG has deep experience facilitating and guiding large, complex organizations through the ERM journey, from design to implementation to reporting.

First, we offer unique context. Members of our team have served in leadership positions in the federal government, from working with Congress on passage of FMFIA, to leading GAO's Green Book development, to overseeing FMFIA implementation.

Second, we use established methodologies to help organizations identify and seize opportunities, to understand the impact of risk on mission performance, and to use that knowledge to help make changes that mitigate strategic, operational and external risks.

Our in depth understanding of government programs, our regulatory compliance experience, and our audit and forensic capabilities enable us to help our clients develop, implement, and manage programs using a risk based approach.

To demonstrate our knowledge and experience, the KPMG Government Institute has published thought leadership on ERM and a range of other risk management and regulatory compliance issues.

Our extensive methodologies and tools address the following ERM framework elements and can be tailored to agency needs:



## Contact us

To learn more about leading practices for ERM, please contact us.

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