

ENTERPRISE RISK MANAGEMENT PROCESS

DEFINITION

Enterprise Risk Management enhances an organization's ability to effectively manage uncertainty. It is a comprehensive, systematic approach for helping all organizations, regardless of size or mission, to identify events, and measure, prioritize and respond to the risks challenging its most critical objectives and related projects, initiatives and day-to-day operating practices.

OVERVIEW

The basis of Mestron Group's Enterprise Risk Management Process is a continuous cycle anchored in the five steps of identify, analyse, respond, monitor and report as shown below. Within each step of the process, regular and meaningful communication is essential to improve the likelihood of success. By viewing this cycle as a continual loop, managers are reminded of the need for thoughtful and regular feedback, as improvement is critical to successful risk management.



ENTERPRISE RISK MANAGEMENT PROCESS STEP 1: IDENTIFY

Systematically and continuously identify risks faced in meeting objectives

For each business objective, it is necessary to identify the key risks that might impede the achievement of the respective business objectives. Risk identification should be performed as part of all major decision-making processes, as shown below:

Each major decision levels <ul style="list-style-type: none">- Group strategy planning- Business Unit operating plans- Core processes- Project plans- Investment (Buy/Sell) decisions- Personal plans	Collective and individual assessment of risks <ul style="list-style-type: none">- By individuals in groups using techniques such as brainstorming, internal and external input e.g. project sub-contractor presentations
Process or system changes <ul style="list-style-type: none">- Change requests	New Projects <ul style="list-style-type: none">- Project team planning- Project paper presentation and discussions

Identifying the current risk profile is a separate and discreet exercise when Enterprise Risk Management framework is first adopted. Thereafter, risks can be updated on an ongoing basis by integrating the identify step with core business management processes.

SOURCES OF RISK

Risks identified are categorized by sources to facilitate the determination of root cause and subsequently to assign responsibility for responses. The following list represents Mestron Group's key sources of risk.

- Fluctuations in Price of Raw Materials
- Competition
- Products Defects
- Direction and Decision Making
- Human Capital
- Technology
- Finance
- Economic
- Regulatory/License

ENTERPRISE RISK MANAGEMENT PROCESS STEP 2: ANALYSE

Assess the significance of risks to enable the development of Risk Responses

Once the risks have been identified, the **likelihood** of the risk occurring and the potential **impact** if the risk does occur are assessed using the risk rating table below.

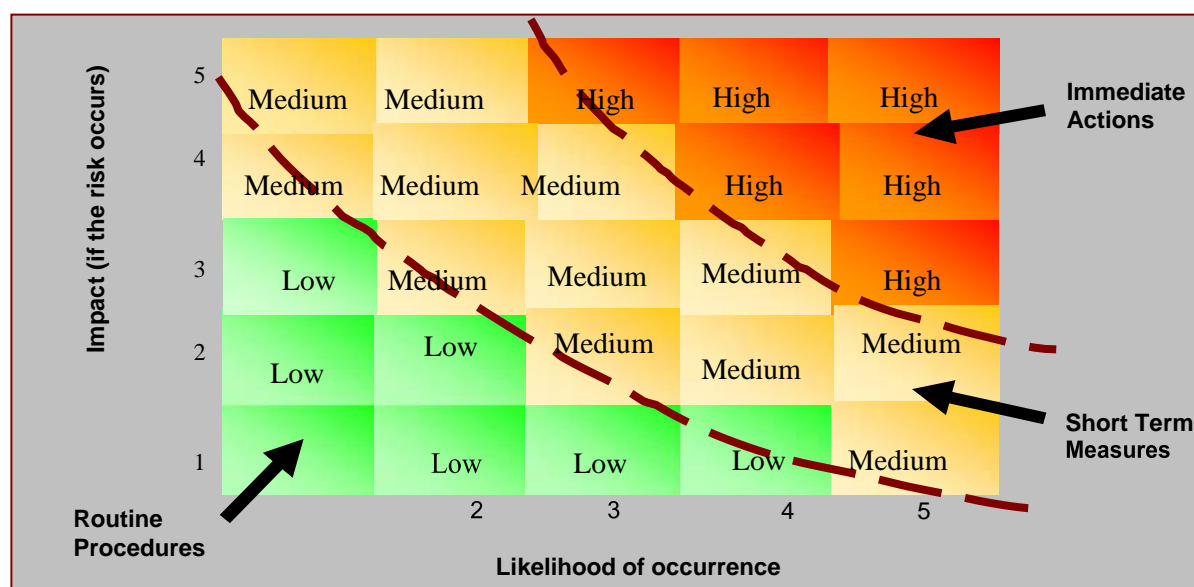
Likelihood Rating

5	4	3	2	1
Almost certain	High probability	Possible	Low probability	Unlikely

Risk Impact Rating

5	4	3	2	1
Financial – direct loss or opportunity costs of:				
>2.5m	>1.5m – 2.5m	>1.0m – 1.5m	>0.5mil-1.0mil	0.1mil – 0.5 mil
Operational - missed milestone by:				
>6months	>3-6 months	1-3 months	1-4 weeks	<1 week
Regulatory				
Large scale action, material breach of legislation with very significant financial or reputational consequences	Regulatory breach with material consequences but which cannot be readily rectified	Regulatory breach with material consequences but which can be readily rectified	Regulatory breach with minimal consequences but which cannot be readily rectified	Regulatory breach with minimal consequences and readily rectified
Strategic / Organisation-wide				
Failure to meet key strategic objective; organisational viability threatened; major financial overrun	Major impact on strategy; major reputational sensitivity	Moderate impact on strategy; moderate reputational sensitivity	Minor impact on strategy; minor reputational sensitivity	Minimal impact on strategy. Minimal reputational sensitivity
Personnel - Loss of managerial staff in 1 year:				
5	4	3	2	<1

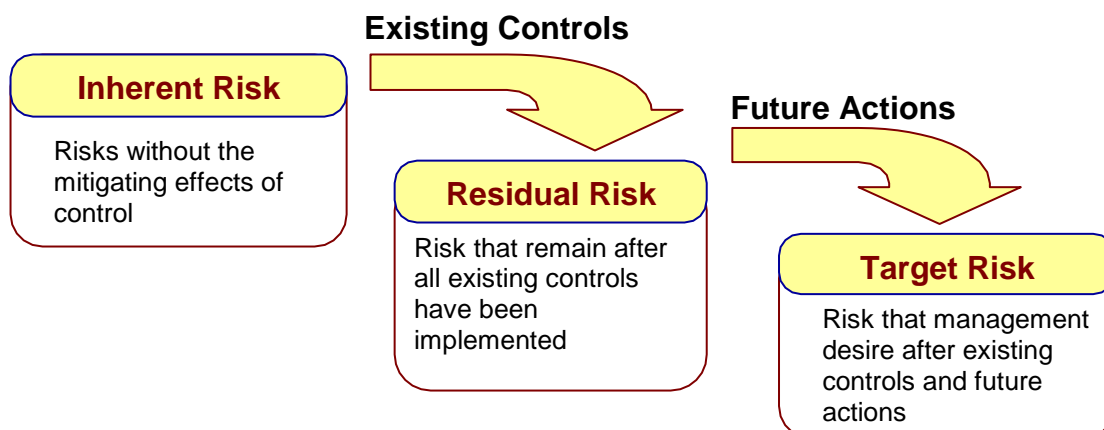
The risks are depicted in a 5x5 **Risk Map**, which represents Mestron Group 's risk profile: -



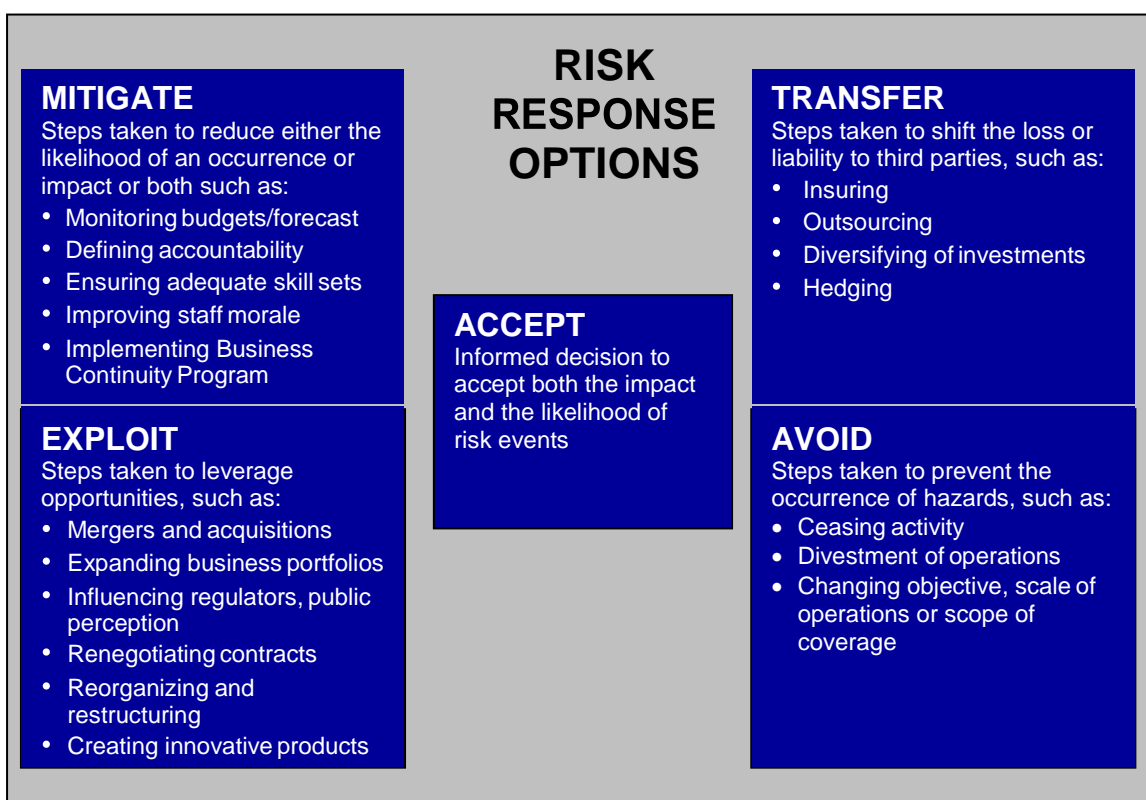
ENTERPRISE RISK MANAGEMENT PROCESS STEP 3: RESPOND

Decide and formulate effective risk response strategies and plans

Once risks have been analysed, appropriate risk responses can be determined to mitigate risk to an acceptable level within reasonable costs. Mestron Group's inherent and residual risk profile presented on the Risk Map are monitored against the target risk profile.



Risks can be dealt with in various ways. The risk response options encompass all possible management response to risk, whether viewed as opportunities, uncertainties or hazards. The risk response options and examples of activities under each option are outlined below: -



ENTERPRISE RISK MANAGEMENT PROCESS STEP 4: MONITOR

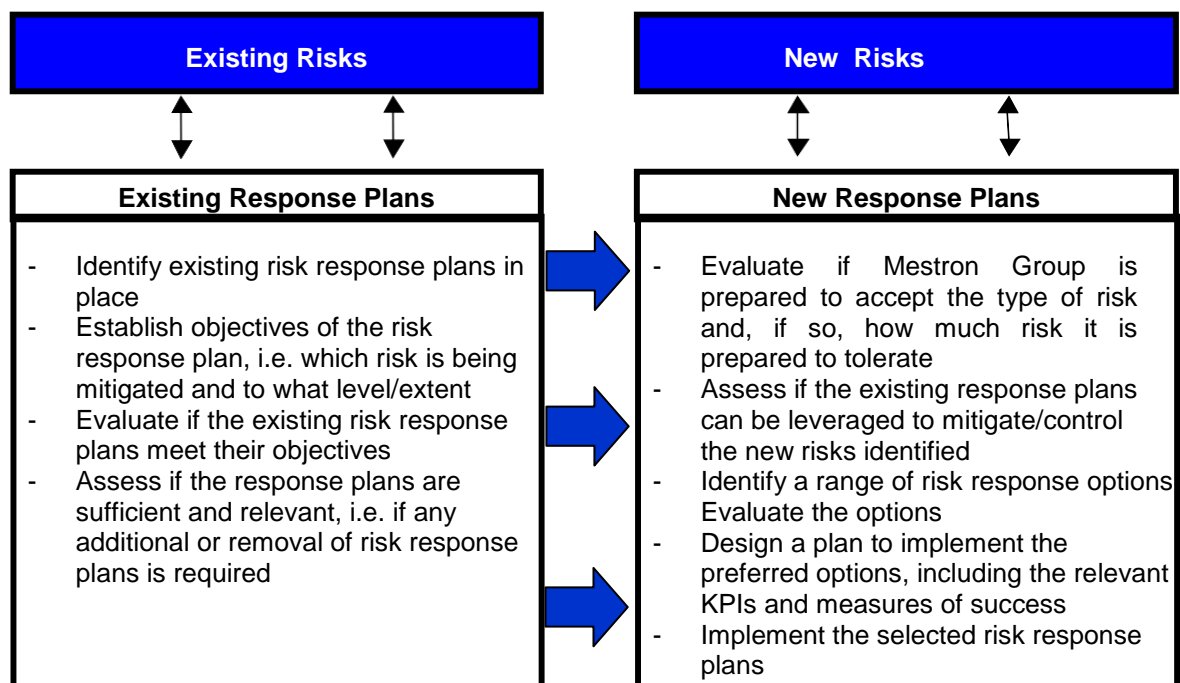
Continuously ensure that the risk response plans are operational and relevant

The monitoring and review of the risk profile and the risk response plans is a continuous process. The purpose of the review is to:

- provide assurance that risks are being managed as expected;
- assess whether the risk response plans remain relevant; and
- ensure that the risk profile anticipates and reflects changed circumstances and new exposures.

Risk monitoring consists of a combination of regular communication, periodic reviews or audits and evaluation by independent executives at appropriate levels at Mestron Group. Assurance techniques include:

- periodic or random testing of controls, risks and control environment;
- quality assurance reviews;
- post-implementation reviews; and
- performance appraisals



Risk response should be measured in terms of efficiency and effectiveness. Efficiency measures the cost of implementing risk management responses in terms of time, money and resources, whereas effectiveness measures the relative degree to which the responses reduce the impact or likelihood of the risk occurring.

To maximise efficiency and effectiveness of risk responses, monitoring and reporting should be integrated with existing business processes and reporting as far as possible.

ENTERPRISE RISK MANAGEMENT PROCESS STEP 5: REPORT

Determine risk owner and report the status of risks and associated responses

While everyone in Mestron Group is responsible for enterprise risk management in their respective areas, some staff have specific responsibilities. The policy, design and framework for enterprise risk management is driven by the Board and managed by the enterprise risk management team.

The reporting structure ensures that risk response gaps are addressed and the risk responses are operating effectively under changing conditions. Enterprise risk management activities should be monitored and reported upwards throughout Mestron Group as illustrated in the following diagram.

