Update on ISO 31000 and Practical Considerations in Implementing It

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There is a link between performance and standards. Standardization, at a minimum, guarantees some level of performance expectation.

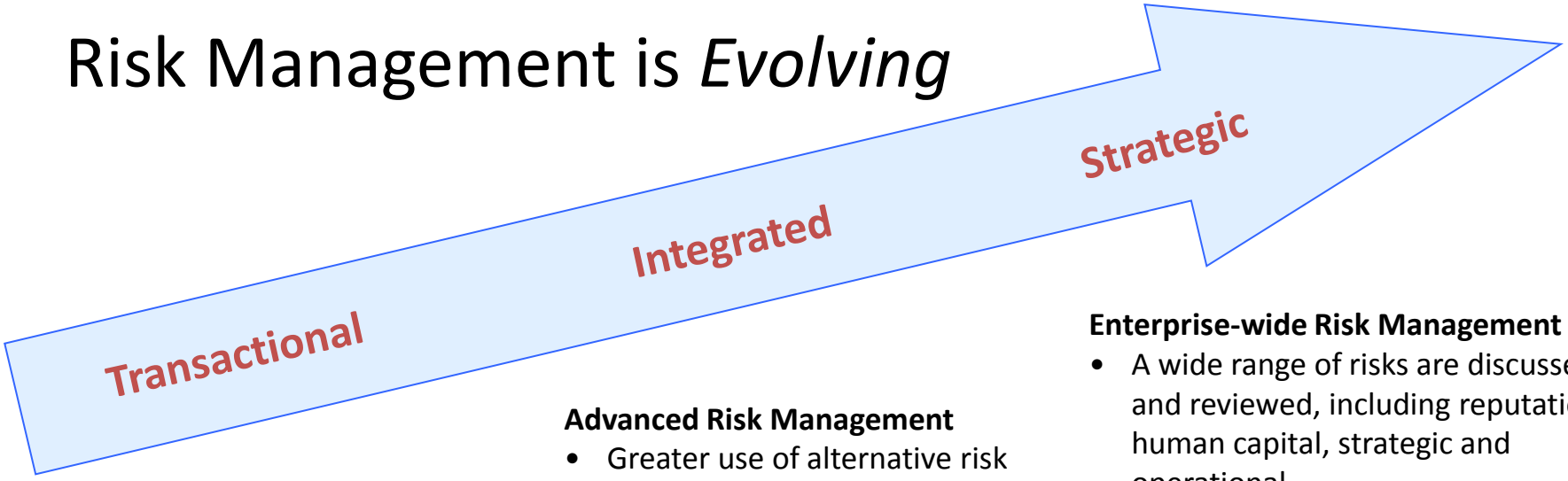
As fiscal constraints continue, agencies will need to create collaborations to share risk and help finance mission critical activities.

Risk Management Standardization- when a certain standard of practice is expected across all federal agencies, this will help optimize agency performance across the board.

Presentation Objectives

- What is a Standard?
- What are the benefits of standardization?
- Background on ISO31000 Risk Management Standard
- Is there policy support for ISO31000?
- Elements of Risk Management
  - ISO31000 process and framework
  - ISO 31000 as a standard for decision-makers
- Practical Examples of Implementation
  - Budget formulation
  - Integration into Board Decisions
  - Mission Critical Risk
- Where do we go from here?

Risk Management is *Evolving*



Traditional Risk Management

- Purchase insurance to cover risks
- Hazard-based risk identification and controls
- Compliance issues addressed separately
- Safety & emergency mgmt handled separately
- "Silo" approach – risk mgmt is not integrated across the organization
- Risk Manager is the insurance buyer

Advanced Risk Management

- Greater use of alternative risk financing techniques
- More proactive about preventing and reducing risks
- Integrates claims mgmt, contracts review, special event RM, insurance and risk transfer techniques
- Cost allocation used for education and accountability
- More collaboration – as depts are willing
- Risk Manager may be the risk owner

Enterprise-wide Risk Management

- A wide range of risks are discussed and reviewed, including reputational, human capital, strategic and operational
- Aligns RM process with strategy and mission
- May include "upside risks" (opportunities)
- Helps manage growth, allocate capital & resources
- Risks are owned by all & mitigated at the department level
- Many risk mitigation & analytical tools available
- Risk Manager is the risk facilitator and leader

Risk is bad – focus is on transferring risk

Risk is an expense – focus is on reducing cost-of-risk

Risk is uncertainty – focus is on optimizing risk to achieve goals

Source: Arthur J. Gallagher

What is a Standard?

- Definition as cited in the National Technology Transfer and Advancement Act of 1995 (NTTA).
- NTTA directs Federal Agencies to use consensus standards developed by consensus standards bodies.
- Encourages participation in voluntary consensus standards bodies
- NTTA brought civilian agencies into the practice of using private sector standards in place of government unique standards.
- Grew out of DoD's experience of relying more on voluntary consensus standards and less on Military Specifications (MIL SPECs)

The term “standard” includes…

1) **Common and repeated use of rules, conditions, guidelines** or characteristics for products or related processes and production methods, and related management system practices.

2) **The definition of terms**; classification of components; delineation of procedures; specification of dimensions, materials, performance, designs, or operations; measurement of quality and quantity in describing materials, processes, products, systems, services, or practices; test methods and sampling procedures; or descriptions of fit and measurements of size or strength.

OMB Circular A-119

Entitled: Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities

<u>General Agency Requirements</u>: ***Use voluntary consensus standards in lieu of government-unique standards except where the use is consistent with law or otherwise impractical.***

- Guides Federal agencies on the implementation of the NTTAA.
- Establishes policies on Federal use and development of voluntary consensus standards and on conformity assessment activities.

OMB Circular A-119- GOALS

Goals of the government's use of voluntary consensus standards (VCS) are to:

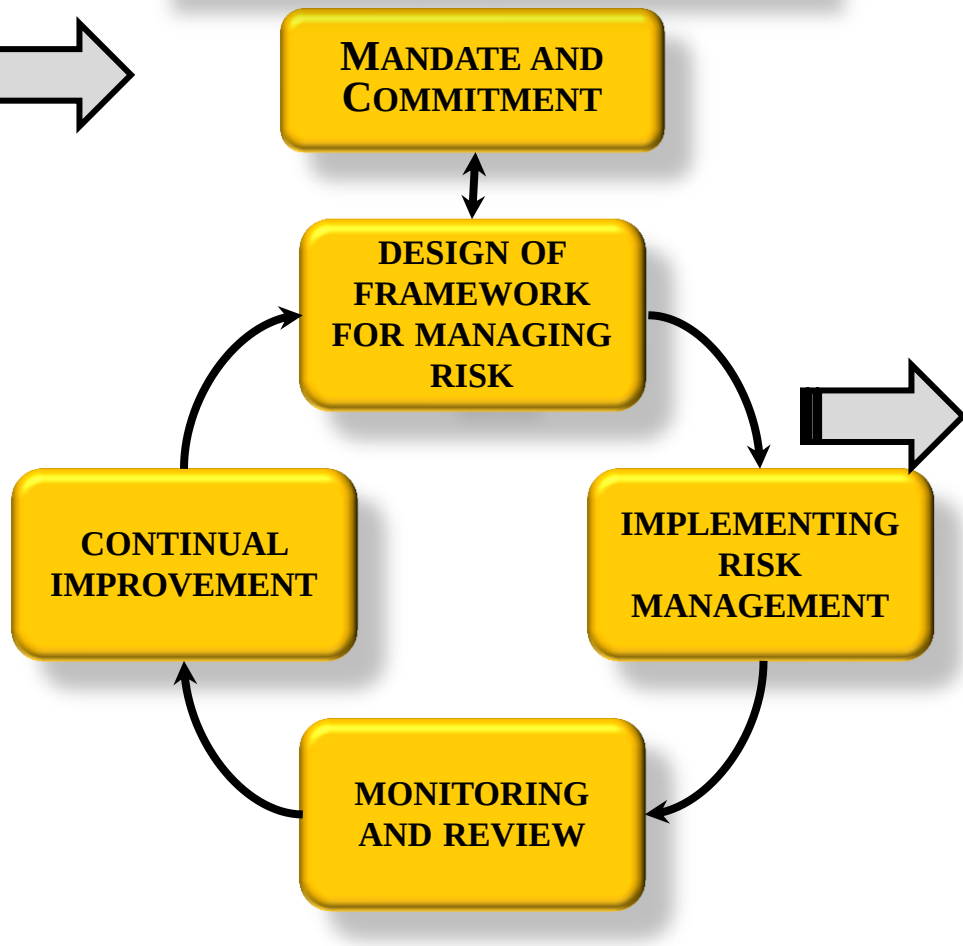
- Eliminate costs of developing in-house standards;
- Decrease cost of goods and services procured by the government;
- Minimize burden of complying with agency regulation;
- Provide incentives/opportunities to establish standards that serve national needs;
- Encourage long-term growth for US enterprises;
- **Promote efficiency** and economic competition;
- Further the government's policy of reliance upon the private sector to supply goods and services by the Federal government.

Objectives of ISO 31000

PRINCIPLES

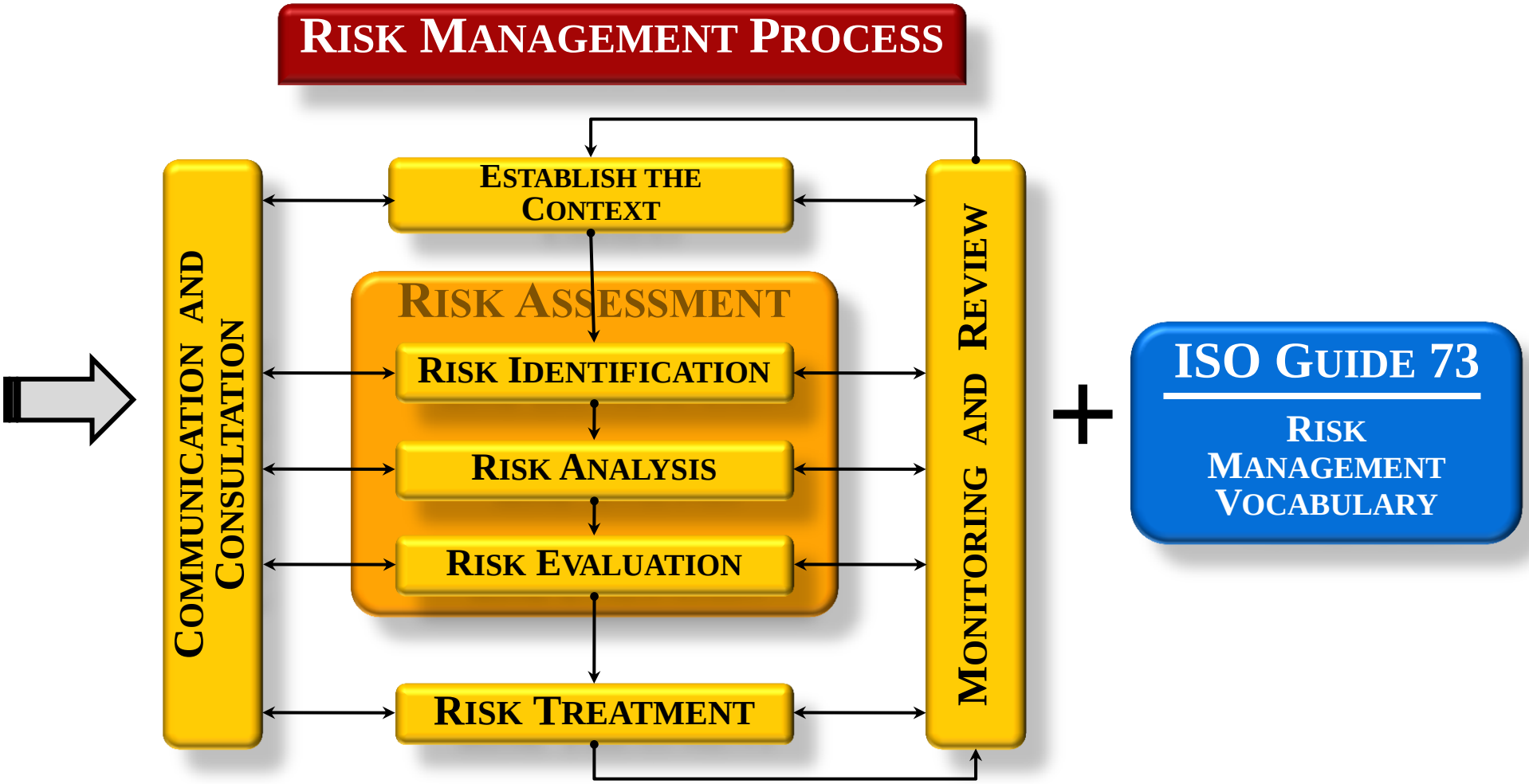
a) *Creates value*
b) *Integral part of organizational processes*
c) *Part of decision making*
d) *Explicitly addresses uncertainty*
e) *Systematic, structured and timely*
f) *Based on the best available information*
g) *Tailored*
h) *Takes human and cultural factors into account*
i) *Transparent and inclusive*
j) *Dynamic, iterative and responsive to change*
k) *Facilitates continual improvement and enhancement of the organization*

FRAMEWORK



Source: Global Risk Management Institute

Implementation of ISO 31000



Source: Global Risk Management Institute

Implementation of ISO31000

- **Establishing the Context-** Defining the external and internal parameters to be taken into account when managing risk, and setting the scope and risk criteria for the risk management policy.
  - External environment in which the organization seeks to achieve its objectives.
  - Internal environment in which the organization seeks to achieve its objectives.

Establishing the Context

External Context

- The cultural, social, political, legal, regulatory, financial, technological, economic, natural and competitive environment;
- Key drivers and trends having impact on the objectives of the organization, and
- Relationships with, and perceptions and values of external stakeholders

Internal Context

- Governance, organizational structure, roles and accountabilities;
- Policies, objectives, and the strategies that are in place to achieve them;
- The organization's culture;
- Standards, guidelines and models adopted by the organization;
- Form and extent of contractual relationships

External and Internal Context Issues to Consider

- Risk Assessment – FISMA requires following a separate Risk Management Framework for IT Security.
- FMFIA (Federal Manager's Financial Integrity Act)- Internal Controls Over Financial Reporting.
- Increased Continuing Resolutions and Sequestration.

ISO 31000 Implementation - Examples

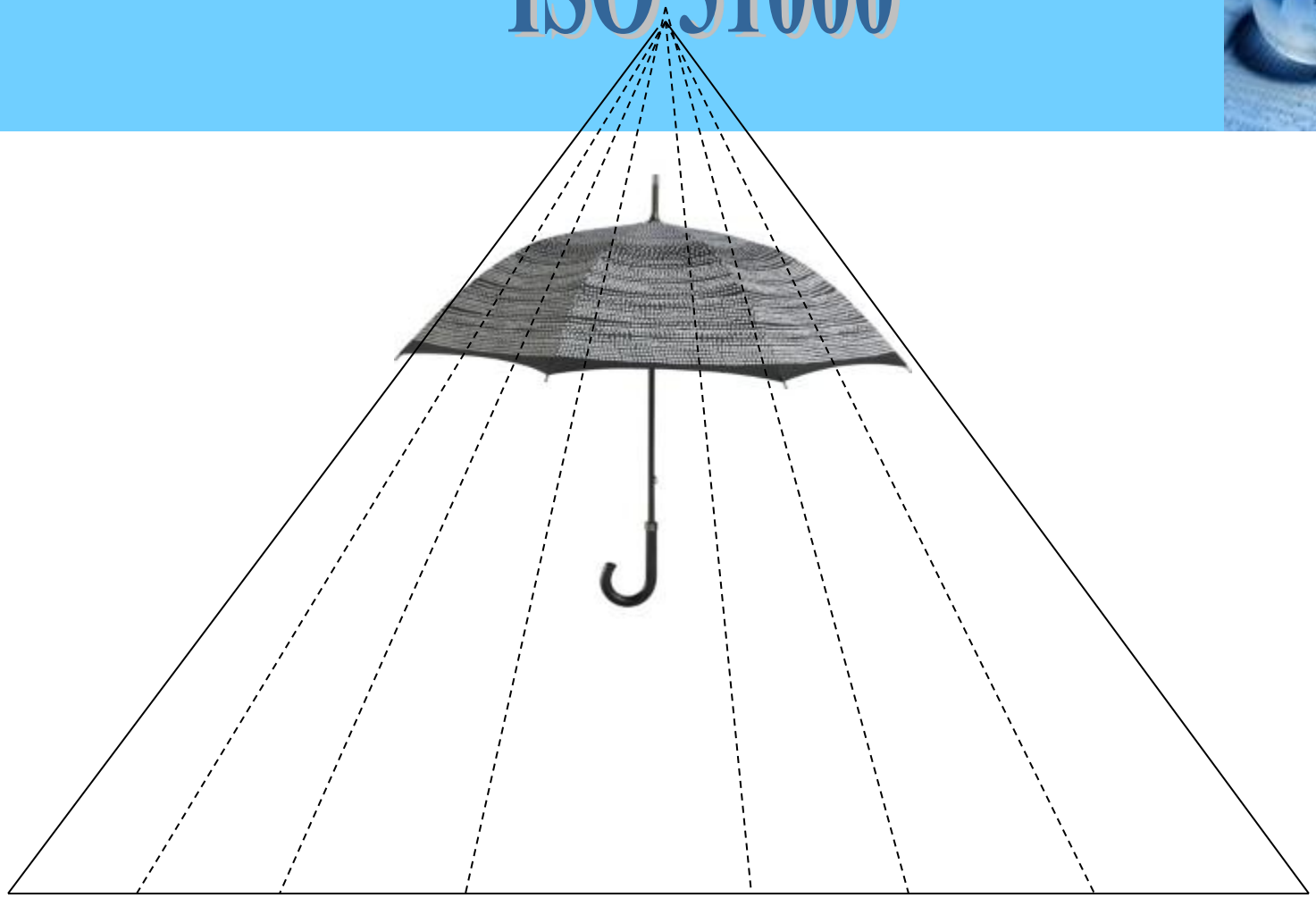
Application of Risk Management in all Decision-Making:

"All decision making within the organization, whatever the level of importance and significance involves the explicit consideration of risks and the application of risk management to some appropriate degree"- ISO 31000

EXAMPLES:

- Budget Formulation/Justification Process
- IT Review Board
- Milestone Review Board
- Mission Critical Risk using GAO High Risk List Model

ISO 31000



Quality OH&S Finance IT security Project

Environment Food safety Equipment Supply chain

Thank You!

For more information about ERM implementation:

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