Risk Management

What Boards Should Expect from CFOs

Hugh Lindsay, FCA, CIP
What Boards should expect from the CFO

This publication provides an overview of directors’ responsibilities for the financial aspects of governance and the role of the CFO. It describes the situations in which CFOs provide directors with the information and guidance they need to understand and address financial issues. Boards, CFOs and others can use it as a guide to planning Board information packages and agendas.

Each section of the text deals with a specific financial aspect of governance by describing the responsibilities of directors, what directors need to know and how CFOs can help. The conclusion summarizes the highlights which collectively describe What Boards Should Expect from CFOs.

Written by
Hugh Lindsay, FCA, CIP

Risk Management Advisor
John Fraser, CA, CIA, CISA

Project direction by
Gigi Dawe
Principal, Risk Management and Governance, CICA
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The Canadian Institute of Chartered Accountants
The Risk Management and Governance Board of the Canadian Institute of Chartered Accountants has developed this briefing to describe how the Chief Financial Officer can work with the Chief Executive Officer, management team and Board to support the Board’s responsibilities for the oversight of risk management.

The objectives of the document are to establish guidance on the CFO’s role in risk management and to provide practical suggestions to help CFOs participate as active members of the risk management team. It sets out what the Board and CEO should expect from their CFO and how the CFO can meet those expectations. It is intended as a guide for CFOs who are starting out in risk management and as a reminder for those who are more experienced.

CFOs, as functional heads of finance, have a unique perspective on the organization and its relationship to the capital markets and business environment. They have established credibility by being competent and reliable in their financial role. They are also respected for their values of objectivity, independence and integrity. These provide the basis for the acceptance of the CFO as a key member of the risk management team.

This document is designed to complement CICA’s 20 Questions Directors Should Ask about Risk. CFOs and their organizations will find it useful in assessing their present approach to risk management and enhancing it where appropriate. The questions from 20 Questions Directors Should Ask about Risk are included in this document.

The Board acknowledges and thanks the members of the CFO Task Force and Directors Advisory Group, and John Fraser for their invaluable advice, Hugh Lindsay, who wrote this briefing under their guidance, and the CICA staff who provided support to the project.

Frank Barr, FCA
Chair, Risk Management and Governance Board

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Boards of directors are responsible for approving their organization’s level of risk tolerance and for overseeing the management of the risks it faces. They are also responsible for the public disclosure of the organization’s risks and risk management processes.

In this document, the Board’s responsibilities for risk, and the contribution of CFOs, are organized into the same four sections as those used in 20 Questions Directors Should Ask about Risk:

See CICA’s 20 Questions Directors Should Ask about Risk

• Strategic Planning and Risk;
• Risk Management Processes;
• Risk Monitoring and Reporting;
• Board Effectiveness.

There are many ways in which organizations manage risk. Some large organizations, and those whose businesses involve high levels of risk to their customers and the public (e.g., financial services, health products and services, engineering, etc.), have a designated individual with responsibility for risk management. In other organizations responsibility for risk management may be assigned to the CFO or another senior manager, or be handled less formally. In the latter case, the CFO may assume a broad responsibility for risk management by default. Boards should make sure that they clearly understand how the organization divides responsibility for risk management within its senior management group.

See Appendix 1 — The CFO’s Approach to Risk Management

The Toronto Stock Exchange Joint Committee on Corporate Governance described the Board’s role in their report Beyond Compliance: Building a Governance Culture:

They [Boards] will oversee the processes that management has in place to identify business opportunities and risks. They will consider the extent and types of risk that it is acceptable for the company to bear. They will monitor management’s systems and processes for managing the broad range of business risk. And most important, on an ongoing basis, they will review with management how the strategic environment is changing, what key business risks and opportunities are appearing, how they are being managed and what, if any, modifications in strategic direction should be adopted.

There is no single process that works for every Board and every company. In our view, it is the joint responsibility of the “independent Board leader” and the CEO to develop ways to involve the Board in the ongoing processes of strategic planning and risk management that are constructive and appropriate to the circumstances of the company.

In determining what the Board should expect from the CFO, it can be helpful to consider the CFO’s responsibility for risk management under two headings:

• CFO — Core Risk Responsibilities. What Boards should expect from any CFO;
• CFO — Extended Risk Responsibilities. What Boards may expect from CFOs with broader responsibility for risk management.
CFO — Core risk responsibilities

The “core risk responsibilities” of a CFO are those related to the organization’s financial systems, records, reporting and internal financial controls. They include providing information, advice and guidance to Boards and management on decisions on strategy, operations and investments that have financial implications. This document provides relatively detailed descriptions of the core risk responsibilities that Boards should expect any CFO to meet.

Some organizations have individuals with designated responsibility for risk management. CFOs should always ensure that they work closely together on risk management issues and coordinate their reporting to the Board and management.

CFO — Extended risk responsibilities

In many organizations, CFOs have a broader responsibility for risk management and play an active role in advising and reporting to the Board on risk. This responsibility may be formally defined in the CFO’s position description, or assumed in response to the expectations of the CEO and management team.

This document provides an overview of the responsibilities of a CFO who has overall responsibility for risk management. Such CFOs are encouraged to refer to the risk management material listed in the “Where to find more information” section.

Regardless of the scope of their responsibilities CFOs should have a close relationship with their Boards. In effective organizations the CFO attends most meetings of the Board of Directors and Audit Committee to present information and answer questions. If directors need additional information between meetings, they should have full access to the CFO. The CFO should not only be receptive to requests for information from Board members but also be prepared to take the initiative in communicating with them.

CFOs can help the Board understand the risks and complexities of the organization’s business and how they are reflected in the operating statements and balance sheet. They can also explain the key indicators that help identify potential problems.

The Board-CFO relationship should be one of mutual trust based on honest, open communication that does not shelter the directors from tough issues. It should support informed discussions of trends and potential problems and the options available to the organization. It should also give Board members the opportunity to contribute their expertise and experience to solving problems.
Boards are directly involved in developing and approving strategy. This requires them to consider the risks associated with proposed strategies and the organization’s risk tolerance.

The Board’s involvement in strategy includes participating in strategic planning sessions to develop strategic directions, approving the mission, vision and values and approving the strategic plans and major initiatives.

The Board will also approve major strategic transactions and projects including mergers, acquisitions and other projects involving large investments and expenditures.

The planning and approval processes should include provisions for monitoring ongoing performance and the outcomes of decisions.

**CFO — Core risk responsibilities**

The CFO’s primary contribution to managing strategic risk is to provide the information for evaluating and monitoring strategic decisions. CFOs bring objectivity and clear thinking to the strategic planning process by contributing to the:

- quantification of risk tolerance limits;
- evaluation of strategic options and business cases;
- development of risk measures and warning signs.

**Quantifying risk tolerance limits**

Risk tolerance is a key element of strategic planning and risk management. Every organization must strike a balance between risk and return so that its strategies are likely to provide an acceptable return at a level of risk it can tolerate. Establishing risk tolerance criteria and limits before undertaking new strategies and initiatives helps the management and Board of an organization make better, more informed decisions. Communicating risk tolerance policies to stakeholders and following the policies consistently can help support an organization’s credit rating, investment quality and other factors that affect its reputation.

Risk tolerance limits, which vary by industry, may be based on:

- ranges of acceptable financial statement ratios (debt-equity, etc.);
- ranges of acceptable asset and other mixes;
- the percentage of a company’s capital that can be put at risk on a single contract, project, investment or acquisition;
- earnings at risk;
- the organization’s financial resilience — its capacity to recover from losses and setbacks;
- the availability and cost of risk transfer options — hedging, insurance, etc.

Sustainability — long-term survival and success — is closely linked to the organization’s risk tolerance limits. A key strategic consideration is the organization’s intended life span, which may be based on:

- accomplishing a specific project or event;

The Questions

1. How do we integrate risk management with the corporation’s strategic direction and plan?
2. What are our principal business risks?
3. Are we taking the right amount of risk?
4. How effective is our process for identifying, assessing and managing business risks?
5. Do people in the organization have a common understanding of the term “risk”?
• developing a facility, product or process that will be sold once it becomes commercially viable;
• exploiting specific assets — e.g., ships, buildings, mines, etc.;
• establishing a long-term business.

The intended life span can influence the organization’s approach to planning, systems, processes, reporting and controls. The term “sustainability” is sometimes used to describe the organization’s capacity to meet its objectives for growth, profitability and improvement over time. This requires a capacity for dynamic, continuous improvement and the ability to adapt and respond to a changing strategic environment.

The CFO contributes to establishing and monitoring risk tolerance policy and limits by:
• converting risk tolerance limits into financial terms — where possible and appropriate;
• developing a range of scenarios and financial projections to test the implications of risk tolerance limits;
• developing and implementing a methodology for providing consistent, objective and accurate financial and other data for measuring risk tolerance limits;
• reporting both historical and projected data on risk and identifying trends that call for investigation and corrective action.

Evaluating strategic options and business cases
A key element of strategic planning is the evaluation of strategic directions and options. This includes consideration of:
• compatibility of strategies with the organization’s strengths, weaknesses, opportunities and threats (SWOT);
• financial projections of cash flows, capital requirements, revenues, etc.;
• key performance drivers;
• the financial capacity to deal with risk;
• scenario analysis and stress testing of strategies;
• financing strategies.

The CFO is well placed to prepare objective assessments of strategies and business cases to determine the potential financial outcomes and how they fit within the organization’s risk tolerance limits.

Developing risk measures and warning signs
Establishing measurements and comparing them to targets or assumptions are powerful techniques for anticipating problems and managing risks. The strategic planning process should establish and confirm risk measures which can include:
• sensitivities to factors in the economic environment: interest rates, commodity prices, exchange rates, labour costs, etc.;
• acceptable ranges for ratios: debt-equity, working capital, risk-adjusted return on capital, etc.;
• budget-actual variances;
• non-financial measures: employee turnover, customer satisfaction, system downtime, reputation, etc.;
• credit ratings;
• regulatory compliance requirements.

The CFO contributes by promoting development of key measures and their use as a basis for warning signs.

Examples of early warning signs:
• rapid growth;
• the introduction of new products;
• employee turnover;
• transaction breaks;
• system downtime.

_Basel Committee para. 27_
**CFO — Extended risk responsibilities**

The CFO may also be responsible for the coordination of strategic planning and the business plan, and for:

- developing a process for establishing and updating risk tolerances;
- preparing annual corporate risk profiles;
- consolidating and communicating the status of risk management issues to the Senior Management Team and the Audit Committee;
- maintaining a registry of key business risks.

The CFO’s role in strategic planning and major projects is discussed in greater detail in the CICA documents *Strategic Planning: What Boards Should Expect from CFOs* and *Financial Aspects of Governance: What Boards Should Expect from CFOs*.

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**Strategic Planning: What Boards Should Expect from CFOs** describes the CFO’s role in:

- Establishing guidelines and procedures for strategic planning;
- Gathering financial and other information;
- Formulating the strategic plan;
- Critically evaluating the strategic plan;
- Presenting the strategic plan to the Board for approval;
- Implementing the strategic plan;
- Follow-up reporting to the Board on the strategic plan.

**Financial Aspects of Governance: What Boards Should Expect from CFOs** describes how the CFO can provide help and guidance to the Board on:

- Understanding the business;
- Approving the strategic plan;
- Monitoring performance against the strategic plan;
- Monitoring changes in the business environment;
- Reviewing and approving financial policies;
- Reviewing and approving financial disclosures;
- Approving and communicating major business decisions.
Boards are responsible for overseeing the organization’s processes for managing risk. Much of the detail may be assigned to the Audit Committee or committees responsible for specific risks. The committees report their findings to the Board.

The process and structure for risk management varies with the size of the organization and the business it is in. Most business units manage the day-to-day risks associated with their own operations. Some elements of risk management, however, are best handled by central functions with specialized expertise — e.g., insurance, safety programs, environmental protection, etc.

The processes for risk management require coordination to ensure that there are no gaps or duplications and that there is consistency across the organization. Risk management needs sustained support and coordination by a designated individual or a group with the authority and resources to establish and coordinate risk management across the organization.

In smaller organizations the CFO will often play a major role in coordinating and reporting on risk management. Larger organizations, and those in intrinsically risky industries (financial services, engineering, health services, etc.) generally have more formal risk management programs that are managed by an executive with the appropriate expertise on a full-time or part-time basis. Some companies have used project teams to establish a risk management system and then assigned responsibility for its maintenance to a senior manager.

The Questions

6. How do we ensure that risk management is an integral part of the planning and day-to-day operations of individual business units?
7. How do we ensure that the Board’s expectations for risk management are communicated to and followed by the employees in the company?
8. How do we ensure that the executives and employees act in the best interests of the organization?
9. How is risk management coordinated across the organization?

CFO — Core risk responsibilities

The CFO’s major responsibility for risk management involves the processes for:

• establishing and maintaining internal financial control;
• maintaining a business continuity plan for financial resources, records, systems and activities.

Internal Financial Control

In this document “internal financial control” refers to the specific responsibility of the CFO for controls over the processing and recording of financial transactions, financial reporting and the protection of the organizations’ assets.
Establishing and maintaining internal financial control
Almost everything a company does involves an associated cost, benefit, asset or liability that is recorded in the accounting records — which are the responsibility of the CFO. Operating management is responsible for managing the activities and risks in their business areas and for providing accurate and timely information to the accounting system. These may include the detailed systems and records of customers, suppliers, employees, investments, capital assets, etc.

The CFO may be required to provide certification on internal financial controls. This is discussed in the section on risk monitoring and reporting.

Maintaining a business continuity plan for financial records, systems and activities
Organizations may be faced with crises that threaten corporate survival when:

- they experience a major unexpected blow such as a catastrophic earthquake, terrorist attack, outbreak of disease, or major lawsuit;
- they are affected by a major development such as a rapid change in currency exchange rates or the cost of commodities;
- a strategic decision turns out badly;
- a neglected problem flares up; or
- a combination of such factors.¹

The CFO should establish, test and be prepared to report to the Board on measures to protect and preserve the company’s capital and liquidity, including:

- back-up and recovery plans for corporate financial records and systems;
- plans for maintaining essential financial operations and records during business interruptions;
- plans for managing cash flow during crises;
- plans for accumulating costs associated with crises for reporting to management and the Board and for business interruption insurance claims and litigation.

CFO — Extended risk responsibilities
In organizations where the CFOs are responsible for coordinating risk management they should be prepared to establish and maintain the appropriate structures, methodologies and procedures. In so doing, the CFO assumes some or all of the responsibilities for the risk management function and reports to the Board on how the directors’ expectations for risk management are met.

¹ CICA — Learning About Risk
The Board is responsible for monitoring risk management to confirm that:
- the organization is performing according to the business plan and within appropriate risk tolerance limits;
- management monitors changes in the external environment, evaluates their impact on the organization’s strategy and risk management practices, and responds appropriately.

To meet its responsibility for risk management the Board needs accurate, timely, relevant and objective financial information. Experienced CEOs and CFOs anticipate the Board’s need to know and understand the risks the organization faces and their implications. The CFO, working with the CEO and Chair of the Board, identifies the issues the Board should consider and prepares the material for inclusion in the agenda package.

When directors contact the CFO between meetings, the CFO should make sure that any significant additional information is communicated to the other directors. The CFO may add the information to written reports to the Board, include it in a presentation or suggest that the director ask the CFO about it at the next meeting.

**CFO — Core risk responsibilities**

The CFO is a major resource to the Board in:
- risk monitoring and reporting;
- providing assurance on internal financial control;
- preparing corporate disclosures.

**The Questions**

10. How do we ensure that the organization is performing according to the business plan and within appropriate risk tolerance limits?
11. How do we monitor and evaluate changes in the external environment and their impact on the organization’s strategy and risk management practices?
12. What information about the risks facing the organization does the Board receive to help it fulfill its stewardship and governance responsibilities?
13. How do we know that the information the Board receives on risk management is accurate and reliable?
14. How do we decide what information on risks we should publish?
15. How do we take advantage of the organizational learning that results from the risk management program and activities?

**Risk monitoring and reporting**

Management should provide the Board with regular and timely reports on major risks that highlight warning signs and issues that require attention. Good reporting reduces the risk of surprises, serves as a catalyst for informed discussion and helps the Board understand and support management’s actions.

Although it’s clear after the fact that warning signs were there, managers and Boards can easily slip into denial.

*CICA – Crisis Management for Directors*
The CFO is responsible for reporting to the Board on operating results, and on financially-related Key Performance Indicators, Key Risk Indicators and Early Warning Indicators. The reports should be in a consistent format with executive summaries and supporting data, and include management’s comments and recommendations.

The report material should clearly indicate management’s reasons for presenting it to the Board and the response, if any, that management is requesting. Where management is taking or planning corrective action, the material should identify the critical issues, the options management considered, and the reasons for selecting the chosen options. Where appropriate the implications should be illustrated by scenario analysis and revised projections.

In addition to highlighting unusual items, concerns and variances the CFO should raise any technical issues that could affect the quality of earnings. For example:

- changes in reserves and provisions, inventory valuations and the timing of revenue recognition — these can significantly affect the reported financial results;
- accounting policy selection and the significance of conservative and aggressive approaches;
- contingent liabilities and pension plan funding obligations.

Providing assurance on internal financial control

The CFO’s reporting on internal financial controls is primarily to the Audit Committee. The CFO must be in a position to provide assurance as to the presence and effectiveness of the policies, systems and processes that:

- maintain control over receipts and payments;
- provide information to the accounting records;
- maintain detailed records of assets and liabilities;
- ensure the timely payment of liabilities critical to the status of the company and its directors and officers (taxes, payroll deductions, debt obligations, insurance premiums, etc.);
- account for risk transfer processes — insurance, hedging, etc.

The CFO may not be responsible for all the individual systems and procedures that supply information to the accounting records and may seek assurance from the organization’s internal audit function.

Companies listed on stock exchanges in the United States and Canada are required to file certification of annual and interim filings signed by the CEO and CFO. The certificates, which address the financial statements and internal controls, are not exactly the same for both countries. However, Canadian companies that file with the U.S. Securities and Exchange Commission are exempt from completing the Canadian reporting forms.
CFOs of companies that are not subject to the requirement to provide certification on internal control should be prepared to provide equivalent assurance to the Board.

Preparing corporate disclosures
Boards are responsible for meeting the corporate disclosure requirements of the regulatory bodies that have jurisdiction over the company. These include annual financial statements and returns and continuous disclosures to shareholders and regulators.

The Board delegates responsibility to the Audit Committee which meets with the CEO, CFO, internal and external auditors, actuaries and other experts to perform the detailed review of the disclosure process.

The CFO usually oversees the preparation of the financial statements and Management’s Discussion and Analysis as well as the continuous financial disclosure documents. The CFO coordinates with the external and internal auditors to provide assurance to the Board on:

- the underlying accuracy and completeness of accounting records;
- the appropriateness of the selection and application of accounting policies;
- compliance with disclosure requirements.

A company should disclose its principal risks and describe related risk management systems to enable MD&A report readers to understand and evaluate the company’s risks and its decisions regarding the management of such risks. Such disclosure should include:

- the principal risks and uncertainties facing the company and its core businesses and segments, as appropriate;
- the strategies and processes employed for managing these risks; and
- the potential specific impact of these risks on results and capabilities, including capital resources and liquidity.

CICA – Management’s Discussion and Analysis: Guidance on Preparation and Disclosure

The CFO may also contribute to reporting on corporate governance to regulators and rating agencies.

CFO — Extended risk responsibilities
CFOs may be required to prepare or coordinate reporting on non-financial risk management issues.
Boards are expected to evaluate their performance, which includes assessing their effectiveness in managing risk. It also involves ensuring that Board members receive orientation and education on the organization and its risks and that individual directors:

- know their business and the associated risks;
- understand and approve the organization’s tolerance for risk;
- knowledgeably decide what risks they must take and manage to gain rewards;
- understand how these risks might affect achieving strategy and how they are managed;
- share common ethical values and demonstrate a commitment to high standards of integrity.

**CFO — Core risk responsibilities**

The CFO’s primary responsibility is to make sure that the Board receives appropriate information on risk-related financial matters. This should include consultation with individual directors to confirm that they are satisfied that they receive the information they need in a clear and timely fashion.

**CFO — Extended risk responsibilities**

CFOs who are responsible for the coordination of risk management should consider the Board’s role and responsibilities and be prepared to point out any areas in which the Board could enhance its oversight of risk.

**The Questions**

16. What are our priorities as a Board for the oversight of risk management?
17. How does the Board handle its responsibility for the oversight of opportunities and risks?
18. How does the Board ensure that at least some of its members have the requisite knowledge and experience in risk?
19. How do we, as a Board, help establish the “tone at the top” that reinforces the organization’s values and promotes a “risk aware culture”?
20. How satisfied are we that the Board is doing what it should in overseeing risk?
The Board’s responsibility for risk management requires it to participate in the development and monitoring of strategy, and to ensure that the organization has effective processes for risk management and reporting.

The CFO is a key resource to the Board in its oversight of risk. The extent of the CFO’s involvement will vary with the organization’s assignment of risk management responsibilities. In some cases the CFO will have broad responsibility for coordinating risk management across the organization. In others, the CFO’s risk responsibilities may be more focused on the management of risk in the areas for which the CFO has functional responsibility. In the latter case, the Board must be satisfied that there are no gaps or overlaps in risk management.

The principal areas in which the Board should expect support from the CFO are:

- Strategic planning — including the establishment and quantification of risk tolerance limits, the evaluation of strategic options and business cases, and the development of risk measures and warning signs;
- Risk management processes for internal financial control and the continuity of financial integrity during crises;
- Risk monitoring and reporting — both internal and external;
- Board effectiveness in managing risk — by ensuring that the Board receives the information it needs to effectively meet its risk management responsibilities.
CFOs should be familiar with current risk management practice including Enterprise Risk Management.

Risk management essentially addresses five questions which experienced CFOs use to test much of what they do and see:
- How much risk can we tolerate? — Establishing risk tolerance levels;
- What could go wrong? — Identifying risks and the likelihood of their occurrence;
- What would happen if it did? — Analyzing and assessing risk consequences;
- What can we do about it? — Designing and implementing strategies for managing risk — avoiding, mitigating, managing or accepting;
- What do we need to know? — Measuring, monitoring and reporting.

Although the responsibilities of CFOs vary among organizations, risk management should always be an integral part of the CFO’s role. Much of what an organization does has a financial aspect that flows through the accounting records. Maintaining financial records that completely and accurately reflect the organization’s transactions, developing financial projections, reporting internally on operating performance, preparing external financial disclosures — all require the CFO to thoroughly understand the business, how it works and how the risks it faces are reflected in and affect the financial position and results. This requires the CFO to be familiar with and constantly review the organization’s:
- business model;
- risk profile;
- market risk;
- economic factors;
- risk tolerance limits;
- value drivers — how the organization really makes money in both the short and long term;
- formulas, mechanics and metrics of the business that will work through time;
- early warning systems.

CFOs are not alone in managing risk. They are members of a team with a collective responsibility for risk management. All areas of an organization practice risk management, but the CFO may be more conscious of the effect of the risks on the entire organization and provide a balance and sense of realism to discussions by promoting an objective, long-term view of risk. For example: SWOT analysis (Strengths, Weaknesses, Opportunities, Threats) is often used in strategic planning but discussions can be optimistic and overemphasize strengths and opportunities. CFOs can play a valuable role in ensuring that weaknesses and threats get proper attention and analysis in the risk assessment process.

As members of management teams, CFOs also contribute to the effectiveness of the corporate culture. Identifying and managing risk can be time-consuming, controversial and stressful, and require the recognition and management of conflict. By demonstrating a commitment to ethical behaviour, open communication and by providing objective information, CFOs can help establish a healthy climate for airing and resolving risk issues and a credible risk management process.
APPENDIX 2 — THE CFO’S RISK TOOL KIT

Many of the tools and techniques commonly used by CFOs are valuable in identifying, quantifying and predicting risks. The definition of specific terms used may vary.

Stress testing

Risk management requires organizations to gauge their potential vulnerability to exceptional but plausible events. CFOs can contribute by participating in tests that:

- Determine how sensitive outcomes are to changes in key variables, e.g., interest and exchange rates, commodity prices, load factors, etc.;
- Project the effect on outcomes of threats identified in the process of strategic planning; e.g., the entry of a strong competitor into a key market or a major plant closure resulting from a labour dispute;
- Model the potential outcomes of strategic directions, major projects, etc. (best case, worst case, most likely).

The tests can include:

- **Simple sensitivity test** — the effect of a move in a single risk factor (interest rates, foreign exchange, prices, etc.);
- **Scenario analysis** — a simultaneous move in a number of risk factors;
- **Maximum loss approach** — an estimate of the combination of events that would be most damaging to the organization.

The value of these tests lies in the identification of a range of possible outcomes and the need for management and the Board to be prepared when things differ from the plan.

Stress testing, except for simple sensitivity testing, can require complex statistical and actuarial skills. CFOs should promote the use of testing and be prepared to work with experts from other parts of the organization who have the necessary knowledge and expertise.

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Key financial ratios
Identifying and using ratios between financial statement items to determine if they are within approved risk tolerance limits — e.g., risk-adjusted return on capital, debt-equity, current and quick ratios.

Are we operating according to plan and within our risk tolerances?

Cash flow
Projecting and measuring cash flow to identify potential financing requirements or investment opportunities.

Are we likely to face a cash crunch? What can we do about it?

Variance analysis
Comparison of actual results to plans and budgets and analyzing the variances in revenues, costs, ratios, etc. to identify issues and trends that could require action.

Mix analysis
Analysis of revenues, costs, assets and liabilities to determine their composition and the degree of risk from over-concentration or economic dependency — e.g., investment assets, sales, etc. Analysis may be by product, geographical region, etc.

Internal control frameworks
Developing and applying frameworks that identify potential gaps in risk management — e.g., CICA’s CoCo model or COSO’s Enterprise Risk Management Framework.

Internal Audit reports
Internal Audit is a valuable resource for confirming the presence and effectiveness of internal financial controls and other aspects of risk management.
Canadian Institute of Chartered Accountants publications

The 20 Questions series
20 Questions Directors Should Ask about Building a Board
20 Questions Directors Should Ask about Codes of Conduct
20 Questions Directors Should Ask about Director Compensation
20 Questions Directors Should Ask about Executive Compensation
20 Questions Directors Should Ask about IT
20 Questions Directors Should Ask about Information Technology Outsourcing
20 Questions Directors Should Ask about Internal Audit
20 Questions Directors Should Ask about Management’s Discussion and Analysis
20 Questions Directors Should Ask about Privacy
20 Questions Directors Should Ask about Risk
20 Questions Directors Should Ask about Strategy
20 Questions Directors Should Ask about their Role in Pension Governance

The CFO series
Financial Aspects of Governance: What Boards Should Expect from CFOs
Risk Management: What Boards Should Expect from CFOs
Strategic Planning: What Boards Should Expect from CFOs

Other CICA publications on governance, strategy and risk
CEO AND CFO CERTIFICATION Improving Transparency and Accountability: A Canadian Performance Reporting Board Discussion Brief

Crisis Management for Directors
Guidance for Directors: Dealing with Risk in the Boardroom
Guidance for Directors: Governance Processes for Control
Guidance on Control
Learning about Risk: Choices, Connections and Competencies
Management’s Discussion and Analysis: Guidance on Preparation and Disclosure
Managing Risk in the New Economy

Other publications
Bank for International Settlements

Multilateral Instrument 52-109: Certification of Disclosure in Issuers’ Annual and Interim Filings
Sarbanes-Oxley Act: Rules implementing Section 404
About the author

Hugh Lindsay, FCA, CIP

Hugh Lindsay is a founder and president of FMG Financial Mentors Group Inc. He specializes in writing, training and consulting in corporate governance, risk management and strategic planning. In addition to being a Chartered Accountant, he is a Chartered Insurance Professional and a member of Financial Executives International. Prior to entering full-time consulting in 1992, he held senior financial and internal audit positions with a university and a major insurance company. He is a member of the Vancouver Academy of Independent Scholars.

Hugh has served on the Boards of a number of organizations including the Insurance Institute of British Columbia, the Institute of Chartered Accountants of BC, and the Vancouver Little Theatre Association, and is currently a commissioner on the Board of the Vancouver Museum. He was a member of the Criteria of Control Board of the Canadian Institute of Chartered Accountants and now writes for their Risk Management and Governance Board. His publications for CICA include Managing Risk in the New Economy, Crisis Management for Directors, 20 Questions Directors Should Ask about Internal Audit, 20 Questions Directors Should Ask about Risk, Financial Aspects of Governance: What Boards Should Expect from CFOs, and Strategic Planning: What Boards Should Expect from CFOs.
Risk Management
What Boards Should Expect from CFOs