

IJFRM[®]

The IUP Journal of Financial Risk Management

Vol. 20 No. 4 (Quarterly)

Hyderabad, December 2023

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ISSN 0972-916X

Initially published as *The Icfai Journal of Financial Risk Management* in 2004 and later in 2010 renamed as *The IUP Journal of Financial Risk Management*. It is a 'peer-reviewed' journal published four times a year in March, June, September and December, with editorial support from IFHE, Dontanapalli Village, Hyderabad.

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Changing Role of Auditors and CFOs vis-à-vis Risk Management: A Survey Study

Madhu Vij* and Subhashis Nath**

The aim of the study is to bring out the emerging and changing role of auditors and chief financial officers (CFOs) in addressing risk management. A questionnaire survey consisting of two themes was mailed to the respondents. Theme 1 focused on understanding the risk management system of organizations and what the underlying changing risk landscape means for them. The second theme centered broadly on governance and sustainability issues facing organizations. The findings indicate that CFOs and auditors do ensure that an effective risk management program is embedded in every function so as to make it an integral part of the company's regular decision-making process. The implication is that managing risk in organizations has become an indispensable part of good corporate governance.

Introduction

Regular business disruptions and changing risk landscape can have a disruptive and devastating effect on organizations. A new perspective of risk management in the context of evolving technology and data-driven experience over the last few years has prompted an important shift in the role of auditors and chief financial officers (CFOs) in organizations. With the emergence of new technology at an unprecedented pace, the role of auditors and CFOs is poised for a rapid change. Auditors, along with senior management, need to take a holistic and forward trending view of the emerging risks and risk management practices. They need to be transparent about arriving at the audit opinion and expand their coverage in implementing and improving compliance, governance and risk management-related processes and controls within an organization. In this regard, the occurrence of a Black Swan event like Covid-19 pandemic has raised some profound questions for risk practitioners, given the fact that Covid-19 has affected the health of companies and posed a threat to all organizations. The importance of managing risk is a priority in view of the changing risk landscape and the continued technological advancements. Organizations are under pressure to identify all risks they are confronted with and also the ways they manage them. The question for auditors and CFOs now is to recalibrate the existing risk practices and think more proactively as to how risks can be identified and addressed so that companies do not need to react to risks they are not prepared for.

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The last decade has witnessed a paradigm shift in the way organizations view risk management. Instead of looking at risk management in a siloed manner, the trend is to take a holistic view of risk management. This holistic view of managing an organization's risk is known as enterprise risk management (ERM). The initial ERM Integrated Framework was first released by the Committee of Sponsoring Organization (COSO) in 2004. COSO (2004) defined ERM as a "process, effected by an entity's board of director's, management and other personnel, applied in strategy-setting, and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its appetite, to predict reasonable assurance regarding the achievement of entity objectives." With the 2017 update of the ERM framework, COSO Commission recognized the importance of aligning ERM with an organization's strategy and performance. The update released in 2017 by COSO came at a time when organizations were challenged by technology innovation, ongoing changes in consumer preferences, regulatory uncertainty and other business disruptions that had threatened their ability to compete effectively. Executives were required to anticipate and address these challenges while making choices about risks to enable strategy, build resilience and drive value. The updated COSO framework emphasizes the connections between risk, strategy, and value, and provides a new lens for evaluating how risk informs strategic decisions, which ultimately affects performance. Equally important, it elevates the role of risk in leadership's conversation about the future of their organization (COSO, 2017).

The primary objective of the paper is to bring out the emerging and changing role of auditors and CFOs in addressing risks. As a result of the changed risk and opportunity landscape, auditors need to exercise professional judgement so as to remain focused, and take a leading role in providing value to the organization. The paper is meant to equip the auditors as well as CFOs in understanding the risk management systems of their organization and provide assurance that risks are being managed effectively. It is also important for boards to understand that auditors need to assess the risks of the organization's activities so as to enable them to focus their audit plan that evolves into intelligent decision making, taking into consideration the risk appetite and risk culture of the organization's strategy. This would help the auditors understand their changing role as also the changing dynamics in the management of risk in the current scenario, and mitigate risks more proactively.

The rest of the paper is organized as follows: The next section presents the literature review, followed by research methodology. It then discusses the conceptual framework and the results of the study. The final section provides the relevance, implications and conclusion.

Literature Review

The dynamic nature of global markets and the advent of new technologies have significantly influenced the evolution of risk management. Traditionally focused on financial and hazard risks, the discipline has now expanded under the ERM paradigm to include strategic, operational, and other forms of risk. This shift necessitates a comprehensive and integrated approach to managing risks within organizations (Hoyt and Liebenberg, 2011; and COSO, 2017).

Risk management has historically focused on specific financial and operational risks. However, the development of ERM framework by COSO in 2004, with its subsequent update in 2017, marked a significant shift. These frameworks emphasize the integration of risk management with strategic planning and decision making, highlighting the role of risk management in achieving organizational objectives and enhanced performance (COSO, 2017).

The role of CFOs has evolved from financial stewardship to include strategic advisory, particularly in risk assessment and management. CFOs are now pivotal in embedding risk management into strategic decision-making processes, ensuring organizational resilience and value creation (Vij and Palan, 2022). Similarly, auditors have expanded their roles beyond financial reporting and compliance to include advising on and assessing the effectiveness of risk management practices. This broader role enhances organizational transparency and accountability in managing risks (KPMG, 2013).

Technological advancements, such as artificial intelligence, data analytics, and blockchain, are revolutionizing how organizations identify, assess, and respond to risks. These technologies facilitate more sophisticated and efficient risk management practices (Vij, 2018). Additionally, global challenges, exemplified by the Covid-19 pandemic, underscore the necessity for agile and adaptive risk management strategies to navigate unprecedented disruptions (Vij and Palan, 2022).

Effective governance structures play a crucial role in overseeing risk management and aligning practices with organizational governance to ensure accountability and transparency. The integration of sustainability and climate-related risks into risk management reflects a growing recognition of environmental, social, and governance (ESG) factors in strategic planning. Moreover, fostering a positive risk culture within organizations supports effective risk management by promoting proactive risk identification and open communication (Florio and Leoni, 2017; and The Global Risk Report, 2020).

Despite the existing body of literature, there remains a gap in empirical research with regard to the nuanced roles of CFOs and auditors in the context of modern risk management challenges. This study seeks to address this gap by investigating how these roles are adapting to and influencing risk management practices amid technological advancements and global disruptions. The literature review outlined the evolution of risk management and the expanding roles of CFOs and auditors within this framework. By situating the current study within the broader academic and practical discourse on risk management and corporate leadership roles, the authors seek to underscore the importance of understanding how organizational leaders are navigating and shaping the future of risk management in an increasingly complex and interconnected world.

Methodology

The study focuses on the complexities in the risk landscape in the context of evolving technology and data-driven scenarios. This helps in redefining the changing role and expectations from auditors and CFOs in India. The focus is on the research questions, as

given below, discussed under two themes. The questionnaire used for the study focused on two themes (Appendix).

Theme 1

1. Given the emerging and changing role of auditors and CFOs in addressing risks, what does the changing risk landscape mean for auditors and CFOs in organizations?
2. What are the primary drivers of risk management for auditors and CFOs in terms of the changing risk landscape?
3. How do auditors and CFOs ensure that they take a pragmatic and balanced perspective of risk management?

Theme 2

1. What are the dimensions of risk management that auditors and CFOs need to address in understanding the risk management systems of their organization and provide assurance that risks are being managed effectively?
2. What are the changing roles and responsibilities of auditors due to the evolving risk environment?

Sample and Data Collection

Both primary and secondary data were collected and analyzed. Primary data was collected through a questionnaire completed by risk management practitioners to explain and analyze the real situation in practice from the viewpoint of auditors, CFOs and risk managers. Secondary data was gathered from relevant papers and research related to risk management.

Questionnaire Construction

The questionnaire constructed for the study comprised two sections: a cover letter to the auditors and CFOs explained that the purpose of the survey was academic and that all responses would be kept anonymous and confidential. Section A covered sociodemographic variables such as age, gender, designation, level in management hierarchy and work experience, while Section B had 14 items. All items were developed and measured using a five-point Likert scale ranging from strongly agree = 1 to strongly disagree = 5, to understand the challenges facing auditors and CFOs in managing risk.

We conducted a pilot study to test the reliability and validity of the questionnaire. This pre-test led to wording corrections and improvement before the questionnaire was finalized and distributed. The questionnaire was then circulated among 200+ top, senior and middle-level professionals mainly from consulting organizations, corporate audit teams, audit committee members and banking sector professionals. Responses were received from 75 professionals. However, 15 responses were incomplete or were not usable due to various reasons. Thus, 60 responses were used for our analysis. 50% of the responses were from top level, 19% from senior level and 31% from middle level.

Conceptual Framework

Risk management systems need to be robust and effective in view of the changing landscape and continued technological advancements. Risk management is deemed to be a core driver for business competitiveness. It helps an organization develop a unique strategy to minimize its potential losses, while allowing evaluation of potential new opportunities. Failures in risk management have become all too common, and consumers, in addition to regulators, are taking action (Vij, 2018). Radner and Shepp (1996) argued that ERM is crucial for everyday business activities and organizational practices in the current era as it facilitates business firms to control their internal system. ERM is supposed to minimize direct and indirect costs of financial distress, earnings volatility, and negative shocks in financial markets, as well as improve the decision-making process to select the best investment opportunities (Hoyt and Liebenberg, 2011). It is for this reason that interest in both risk management and ERM continues to occupy the top slot and has never been more important for organizational and strategic management than what they are today.

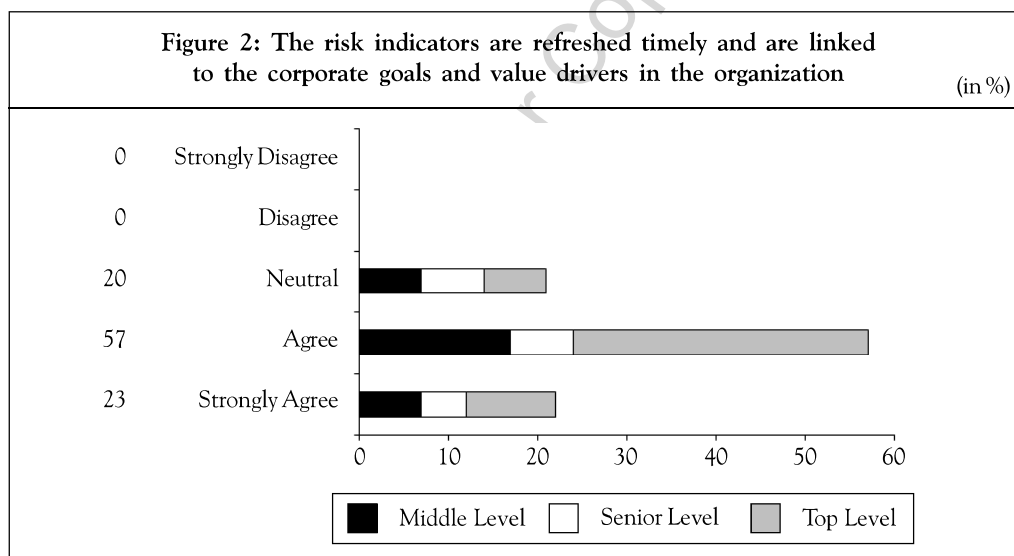
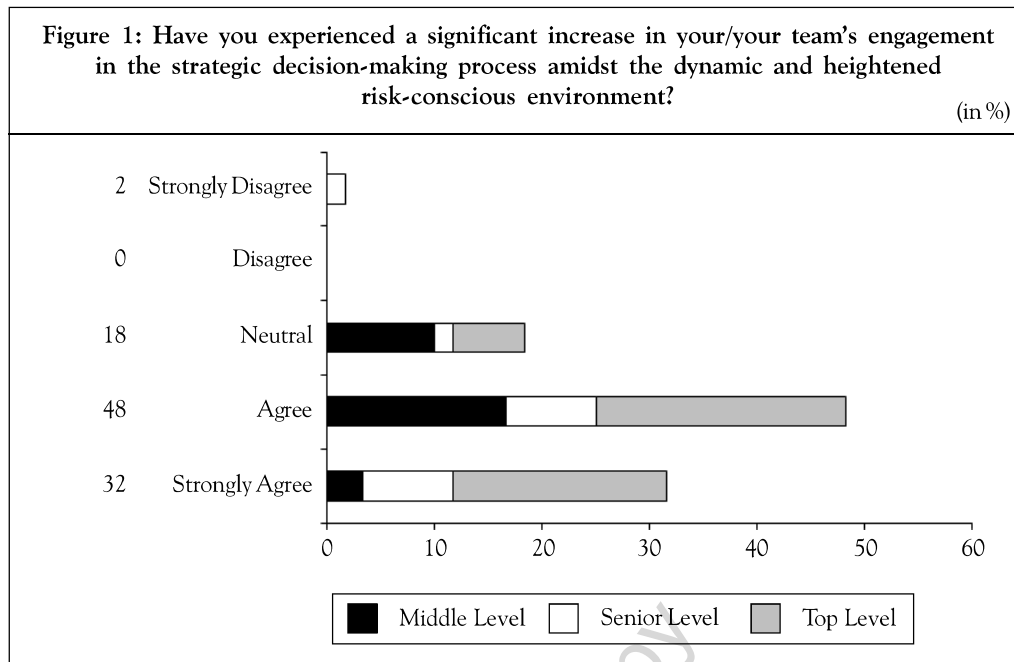
The relationship between ERM and organizational performance has been studied by a number of researchers in the last few years. Most of them found that the overall firm performance could increase significantly if the organization had a strong risk management and ERM system. ERM is a holistic approach for managers to identify risks and select appropriate responses in line with the enterprise's risk appetite. Floria and Leoni (2017) found that firms with advanced levels of ERM implementation reported higher performance. A study on Australia-based companies by Morse (2020) concluded that an ERM framework should not be a compliance tool—it should be insight and value-driven. It helps organizations have greater visibility into the health of their business and consequently make better strategic decisions.

Results and Discussion

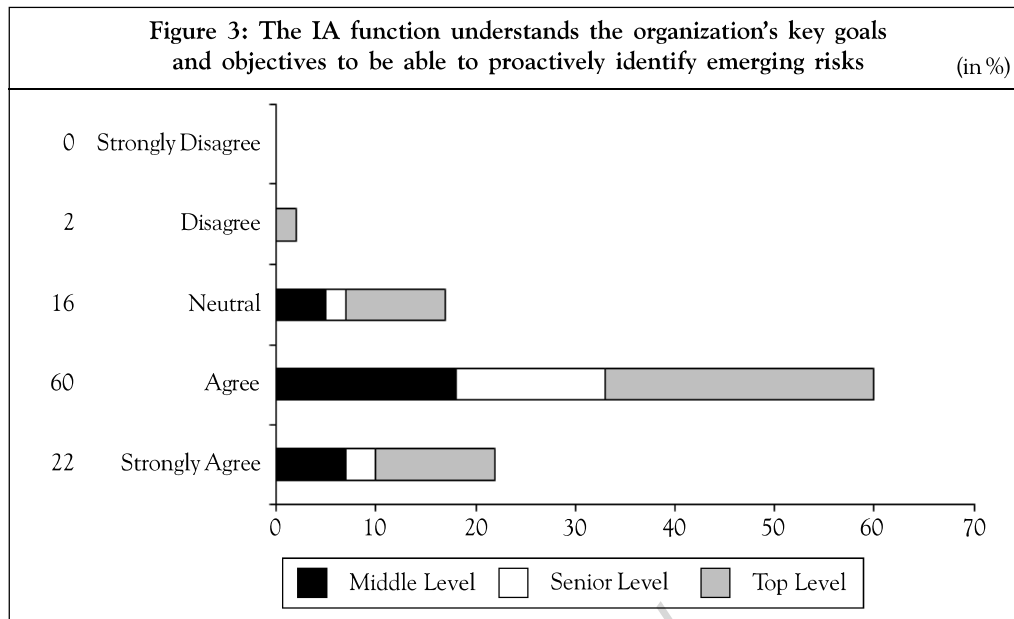
The present section reports the findings of the survey of CFOs and auditors on the changing risk landscape.

Theme 1

Following the 2007-08 Global Financial Crisis and the recent pandemic, risk management strategies are widely seen as high priority among the organizations surveyed and have become a main focus of businesses globally. Most companies understand that they need to integrate risk management into the strategy and operating plans of the organization. Risk management has become a necessary consideration for businesses in every industry, and companies are increasing their resources to manage risk. A majority of the respondents (80%) strongly agree or agree that they have experienced a significant increase in their team's engagement in the strategic decision-making process amidst the dynamic and heightened risk-conscious environment. 80% of the respondents also expressed satisfaction that the risk indicators are refreshed timely and are linked to the corporate goals and value drivers in the organization. Figures 1 and 2 present the details.



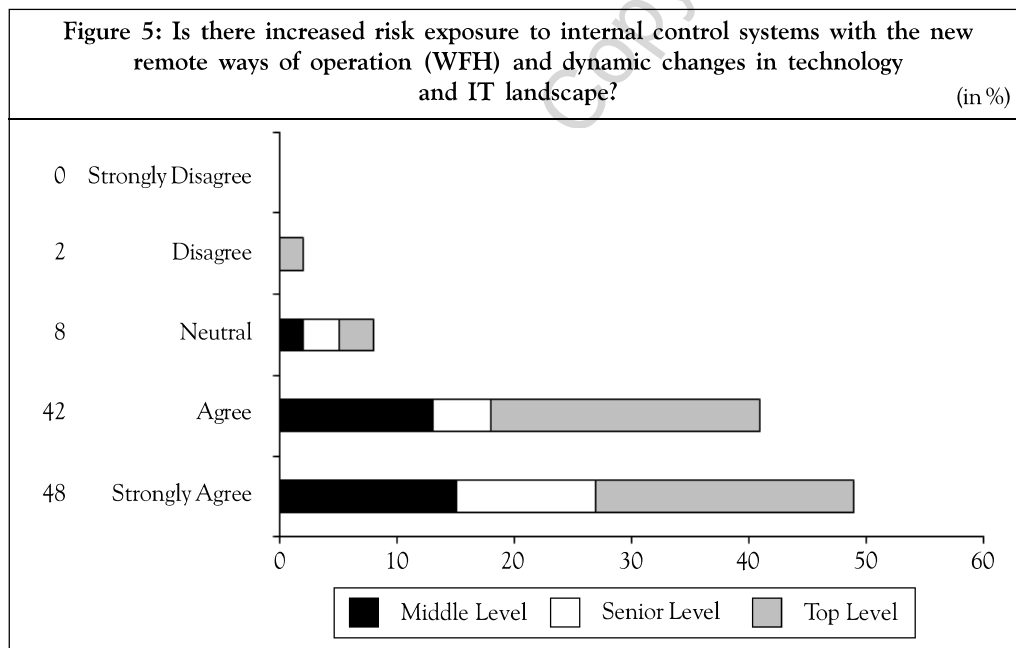
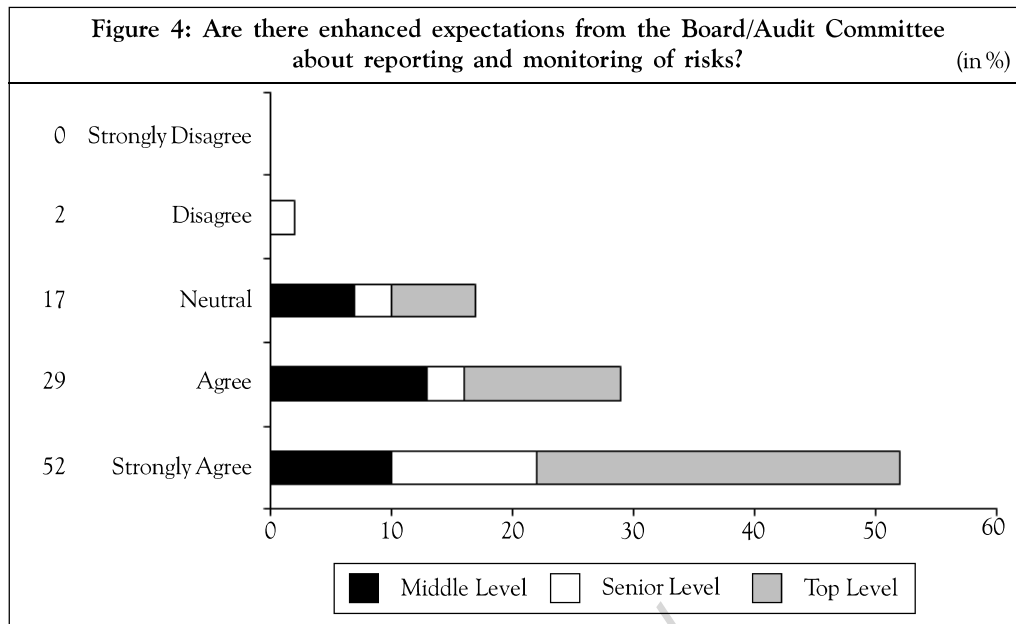
Traditionally, the role of the internal audit (IA) function has been on issues related to compliance and internal control systems. But with an increasingly digital workplace and new technologies being implemented to keep pace with the unprecedented challenges like the global pandemic, the focus of IA function will need to shift to proactively identifying and adding value to the emerging risks of an organization. Only 22% of the respondents strongly agree, while 60% agree that the IA function understands the organization's key goals and objectives to be able to proactively identify emerging risks. Figure 3 presents the details.



With companies going through digital transformation, IA must effectively learn to mitigate risks the technological changes bring with them. According to the IIA Strategic Framework, IIA Vision 2030, “Internal audit professionals are universally recognized as indispensable to effective governance, risk management, and control”. IA can help businesses increase productivity, reduce risk exposure and position their role as a strategic and value-adding business partner within the organization.

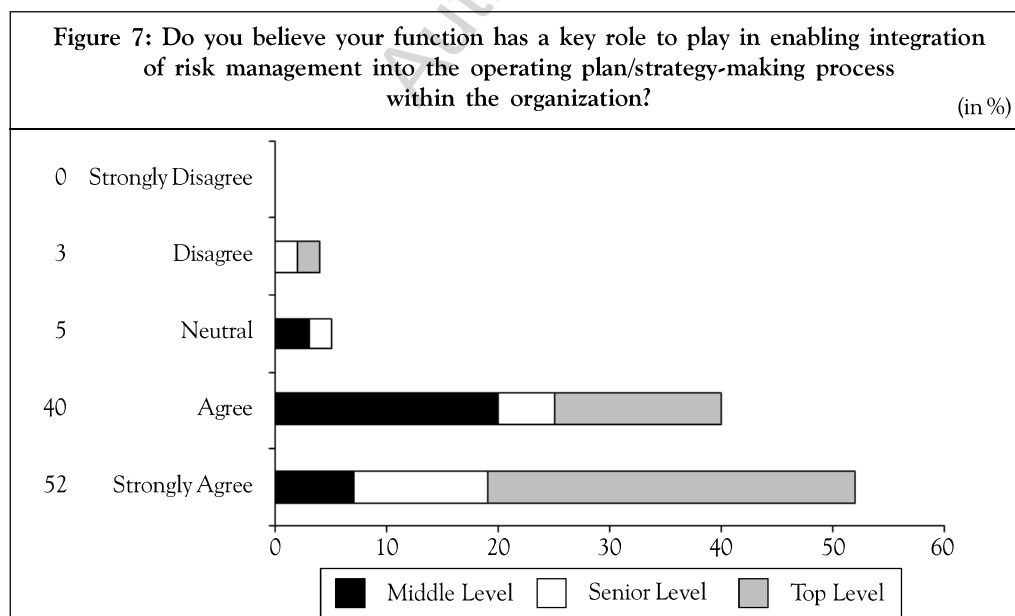
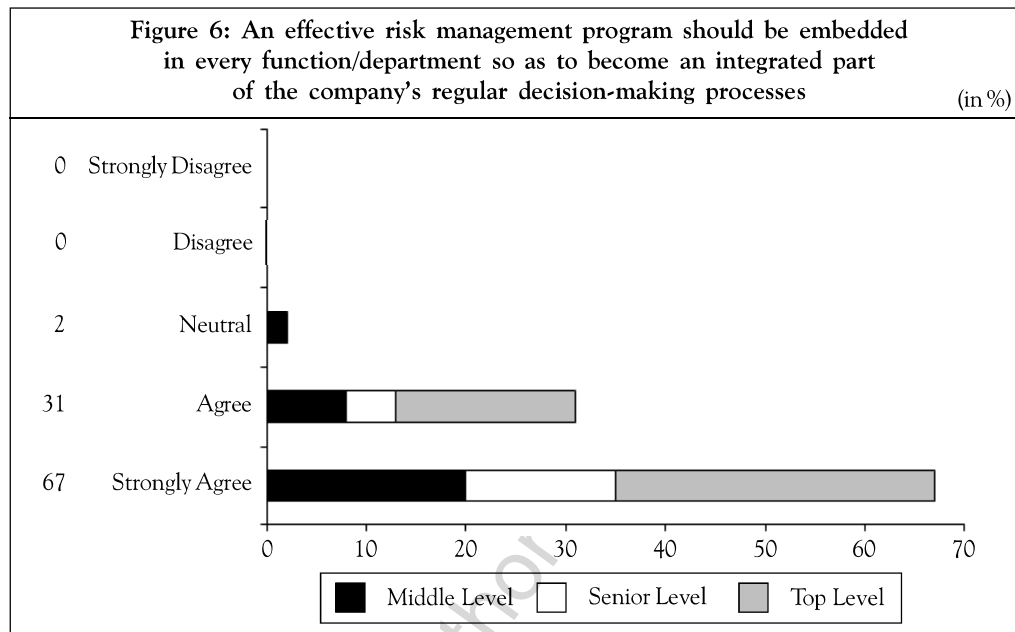
Risk management is widely seen as an important area, and boards are responsible for managing and monitoring the risk management policies and procedures. They play a critical role in deciding which risks the boards should discuss regularly and the ones that can be delegated to other committees. 52% of the respondents strongly agree with the statement that there are enhanced expectations from the board/audit committees about reporting and monitoring risk, with no respondent strongly disagreeing with the statement (Figure 4). With newer risks emerging, boards are expected to develop risk management policies that are consistent with the strategy and risk appetite of the organization.

The Covid-19 pandemic has resulted in a sharp rise in WFH in most organizations. Remote working requires changes in policies and processes, resulting in newer risks and challenges for organizations. Over 90% of the survey respondents are of the opinion that organizations face an increased risk exposure to internal control systems with new remote ways of operation (WFH) and dynamic changes in technology and IT landscape. 8% are neutral, while only 2% disagree with the above statement. Figure 5 gives the details. The World Economic Forum (2020) found that 50% of the enterprises were concerned about increased cyberattacks due to a shift in work patterns alone. This large-scale unplanned digitization supported by flexible but relatively immature business models and operations is causing quite a significant challenge to global IT security.



CFOs and auditors are assuming a greater role in their organizations in ensuring that an effective risk management program is embedded in every function. An effective risk management program should be embedded in every function/department so as to become an integrated part of the company's regular decision-making process. Most of the respondents agree with this statement. Integrated risk management breaks down silos and helps to ensure that all departments work together. Integrated risk management also enforces and helps in

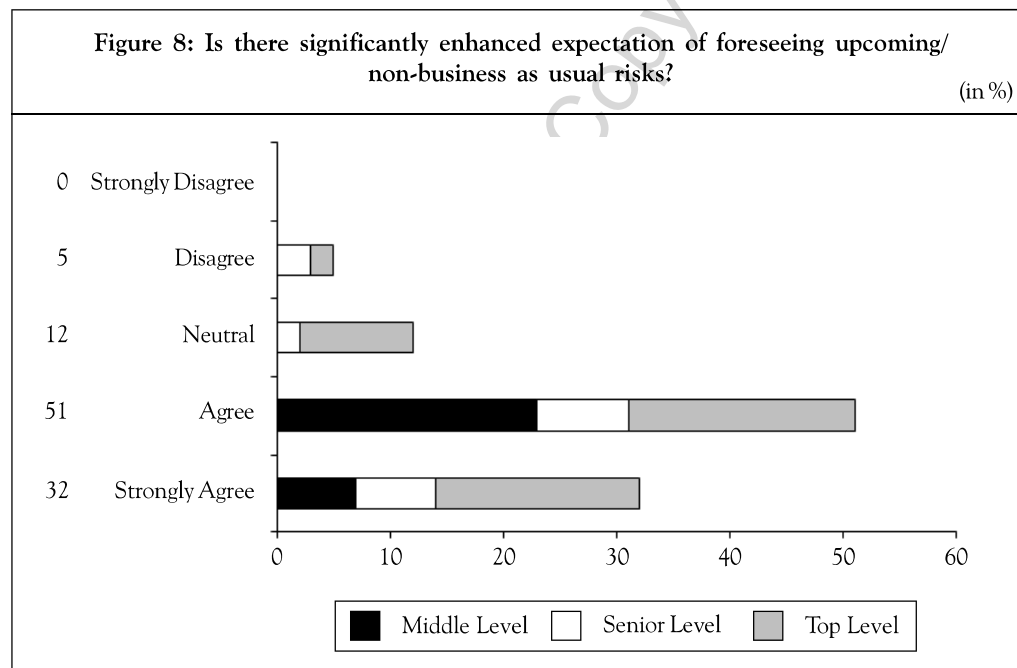
integration of risk management into the strategy-making process within the organization. An effective and well-planned strategy along with governance and compliance can help streamline tasks. Over 90% agree or strongly agree with the statement that their function has a key role to play in enabling integration of risk management into the strategy-making process within the organization. Despite the acknowledged importance of the role played by risk management in strategic planning, only 33% from top management, 12% from senior level and 7% from middle level strongly agree with this statement. Figures 6 and 7 present the details.



Theme 2

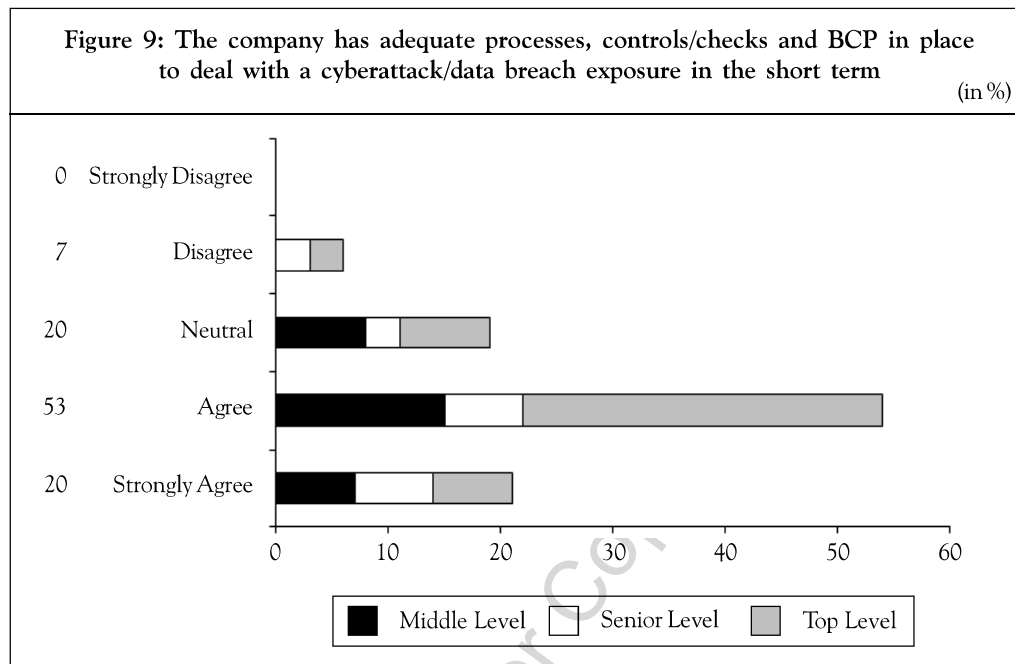
Across organizations, CFOs and auditors consider risk management to be very important and are focused more than ever before on managing risk across the enterprise. The dimensions of risk management that the auditors as well as CFOs need to address is understanding the interrelationships of risk to help ensure that key business risks are being managed appropriately. An ever-changing technological landscape necessitates that companies not only understand and develop their risk appetite but also fully integrate the risk function into strategic decision making and top-level decisions. This will help the organization communicate clearly with its stakeholders.

The most sustainable and effective risk management systems are those that are entrenched throughout the organization and form an integral part of the organization's strategic decision making. Given the complexity of risks companies face, top managements consider risk management to be very important. 83% of the respondents strongly agree or agree with the statement (Figure 8) that risk management is expected to foresee upcoming as well non-business as usual risks, which thereby requires strategy teams and CFOs to understand the link between risk management and strategy.



Cybersecurity has become one of the fastest growing security threats to organizations and is today at the top of many board agendas. The wide scale shift to WFH and sharing home Wi-Fi networks has increased the vulnerability of organizations to cyberattacks and is a key focus point for many organizations. Our survey found that 20% of the respondents strongly agree and 53% agree that their company has adequate processes, controls/checks and business continuity plans in place to deal with cyberattack/data breach exposure in

the short term. Figure 9 gives the details. Advancement in technology is a key contributing factor in the growing sophistication of capabilities and techniques used by hackers. There is also a greater potential for these attacks through connections with key suppliers and technology partners.¹

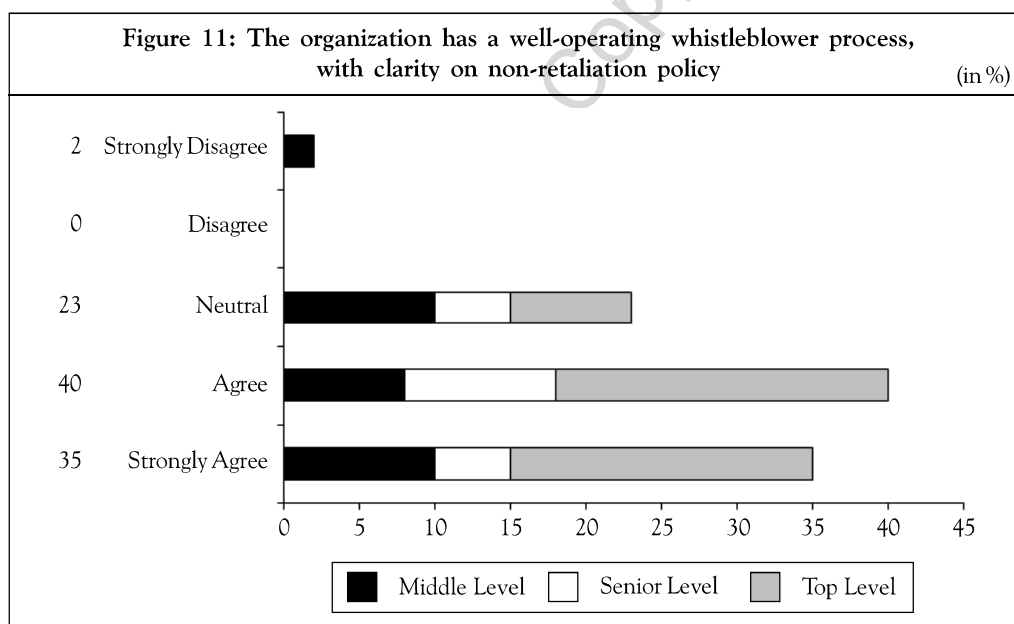
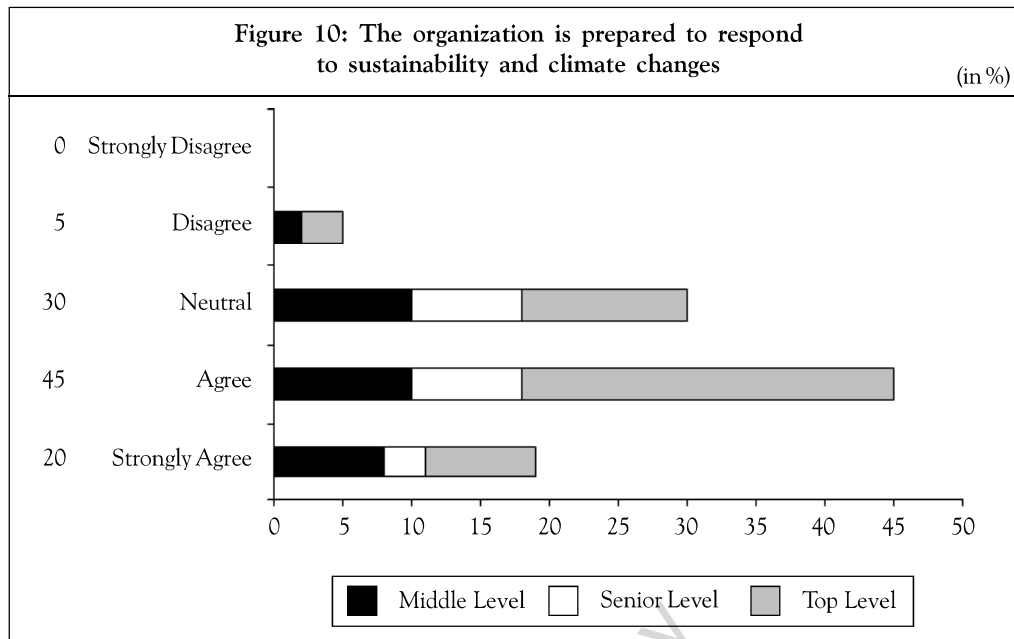


Over the past few years, companies have recognized the challenges they face in responding to sustainability issues and climate change. Climate change is striking harder and more rapidly than many expected. The last five years have been the warmest on record, with more frequent and intense natural disasters (The Global Risks Report, 2020). CFOs and auditors need to gain a comprehensive view of the climate risks and ask themselves how best to manage them. 65% of respondents agree that their organization is prepared to respond to sustainability needs and climate changes, while 30% are not sure (Figure 10).

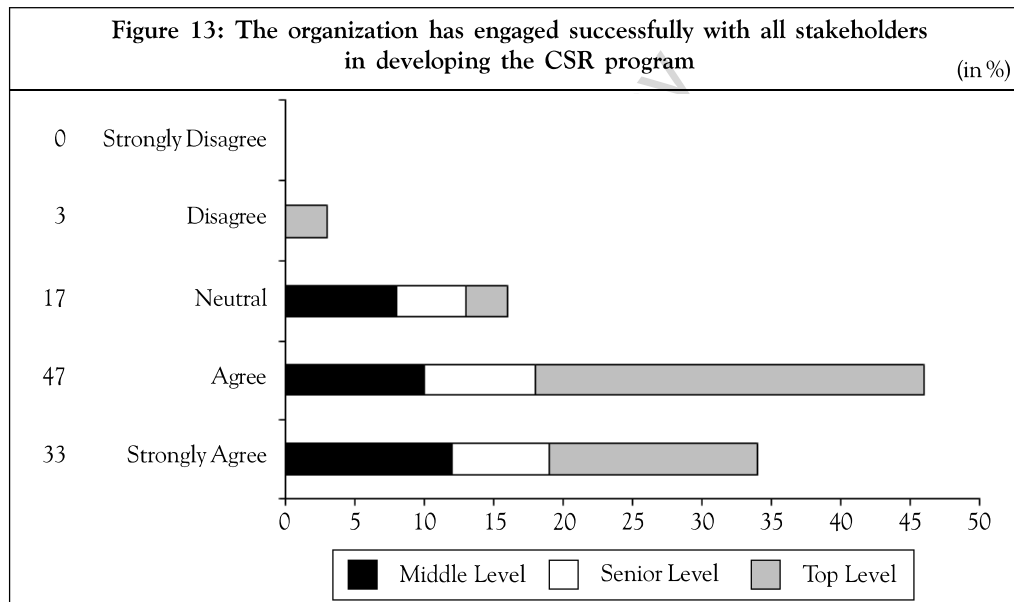
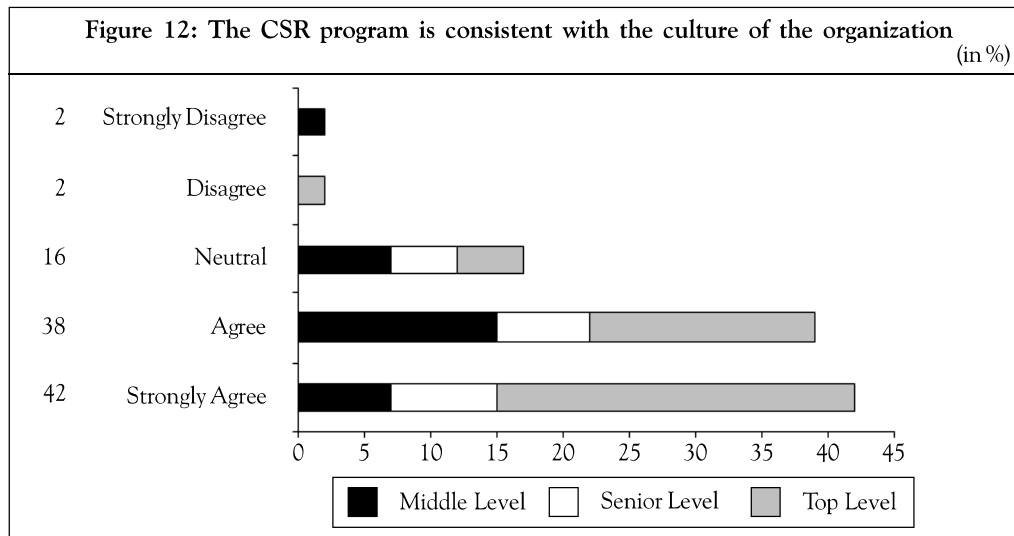
The survey respondents were broadly comfortable with their organization's whistleblower policy, with 75% of the respondents strongly agreeing or agreeing with the view that their organization has a well-operating whistleblower process, with clarity on non-retaliation policy (Figure 11). Proactive protection against retaliation policies helps provide a framework to promote responsible and secure whistleblowing by anyone in the organization.

Corporate Social Responsibility (CSR) is a vital element of a company's culture. Today, all leading companies seek to maximize stakeholder values—they work to generate profits and social and economic return not only to shareholders but also to employees, customers and society. Companies need to be socially responsible, and this requires long-term commitment

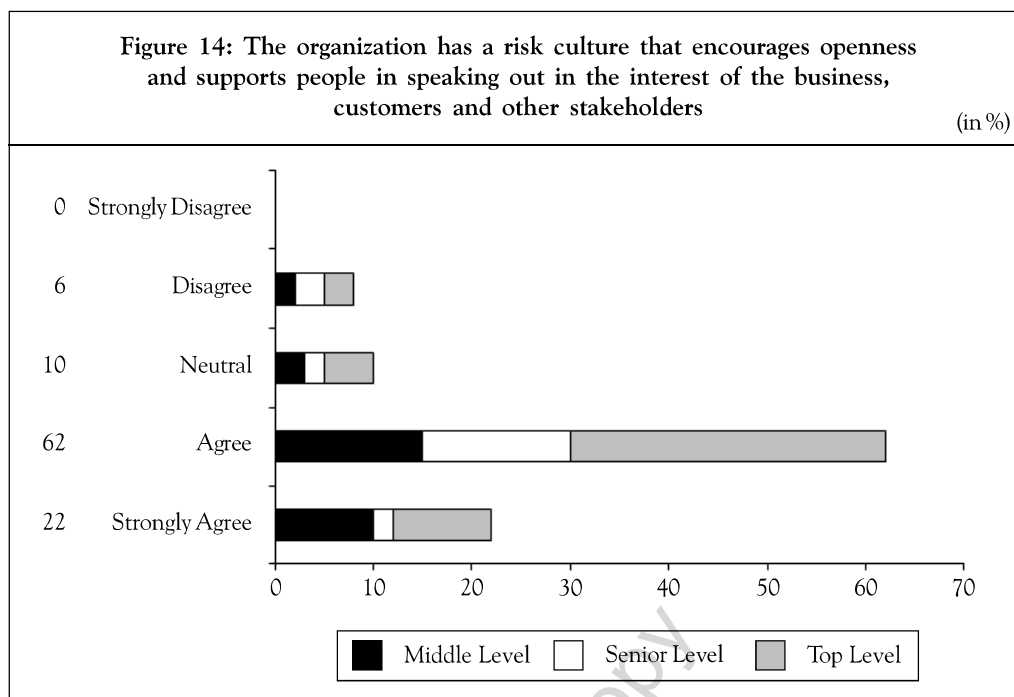
¹ "20 Key Risks to Consider by Internal Audit Before 2020", KPMG survey, <https://assets.kpmg.com/content/dam/kpmg/ch/pdf/key-risks-internal-audit-2020.pdf>, March 2016.



and planning along with promoting a healthy and inclusive workplace. In our survey, 42% of the respondents strongly agreed that the CSR program is consistent with the culture of the organization (Figure 12). Understanding the impact that the companies' CSR strategy has on employee engagement is an important indicator of success. 80% of the respondents strongly agree or agree with the statement that their organization has engaged successfully with all stakeholders in developing the CSR program (Figure 13).



Various surveys and studies have shown that companies with a clear risk culture and explicit set of values that help the organization to focus on the collective ability to take managed risk are generally more successful in today's environment. 84% of the respondents are satisfied that their company is implementing a whistleblowing policy that is part of their ongoing culture (Figure 14). In developing a healthy risk culture, organization's need to put in place key risk indicators with a distinct and consistent tone from the top in respect of a risk culture that encourages openness and supports people in speaking out in the interest of the business and the wider public. There needs to be common acceptance throughout the organization of clear accountability, while supporting transparent and timely information flow, both upwards and downwards.



Conclusion

Amidst the dynamic and heightened risk-conscious environment, the focus of new age CFOs and auditors is certainly impacted by digital transformations—be it automation, analytics, robotic or data visualization. Auditors and CFOs will certainly have a crucial role to play in enabling integration of risk management into the strategy-making processes within their organizations. Processes appear to be largely adequate as far as preparedness for cyberattacks is concerned. Overall, the role of CFOs is moving to be more of a cross-functional leadership role, evolving from the traditional finance role, as they are preparing to respond to sustainability-related issues and reporting requirements, climate change, non-business as usual risks and many more. Thus, the top priority for CFOs and auditors should be to increasingly recognize the challenges and changing profile of risk management in their organizations.

Relevance and Implications: With the onset of digital transformation and emerging technological advances, CFOs and auditors have become value creators and strategic partners in their organization, adopting a futuristic mindset and making better risk-informed decisions. They understand the organization's key risks and proactively identify the emerging upside as well as downside risks, ensuring that risk management programs add value and improve financial performance in the long run.

By ensuring that risk management is not the responsibility of a single department but a function engaging the whole organization, CFOs and auditors are slowly becoming engaged at a more holistic level in understanding the link between risk management and strategic planning. Proactive understanding of the risks will help senior management use risk

management as a tool and also allow them to appreciate the velocity at which risks may occur and how risks are interlinked, and ensure that the organization's capability in risk management is keeping up with an agile forward-looking and fast-changing business landscape. CFOs and auditors need to focus on complex, value-additive activities, and to remain relevant, they need to quickly adapt to the new normal ways of working in the post-pandemic digitally-disrupted world.

Some important policy implications are discussed below:

For CFOs: As the nature of risks continues to evolve due to technological advances and other variables like sustainability and climate change, CFOs need to understand that companies that fail to manage new-age risks along with traditional risks appropriately and on time will endanger their future existence. Modern CFOs need to move from being limited to a traditional accounting and finance role to being a more strategic business support leader who equips the organization to successfully manage risk. With the pandemic changing several business fundamentals, CFOs need to remain extremely dynamic in their learning process and management of risk. There should be open communication between the board and auditors about the risks that may emerge in the future and the need for the organization to be prepared to respond to them at speed.

For Auditors: The new-generation auditors should proactively identify emerging risks so as to understand the business climate in which they operate, to add value to the organization. Auditors need to be vigilant and continuously look for newer risks. Apart from being risk-focused, there is a need for auditors to increase their capability of risk assessment at an individual as well as organizational level. Auditors need to cultivate an innovation and promoter mindset that accepts the reality of risk as a task to be managed—not to be brushed under the carpet or smirked at in the grapevine.❖

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Appendix

Questionnaire

Instructions

Please read the instructions carefully and respond to the items that follow. Response confidentiality is assured. Please do not leave any item unanswered in Sections A and B.

You are requested to carefully read each question and respond to the items accordingly by a (✓) mark.

Section A

Personal Data Form

1. Name: _____
2. Age (in completed years):

<input type="checkbox"/> 25 to 35	<input type="checkbox"/> 26 to 45
<input type="checkbox"/> 46 to 55	<input type="checkbox"/> Above 55
3. Gender:

<input type="checkbox"/> Male	<input type="checkbox"/> Female
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4. Qualifications:
5. Designation:
6. Level in managerial hierarchy:

<input type="checkbox"/> Top Level	<input type="checkbox"/> Senior Level	<input type="checkbox"/> Middle Level
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7. Name of your organization:
8. Total work experience (approx.): _____ years
9. Total duration with present organization: _____ years

Appendix (Cont.)

Section B						
S. No.	Question	Category	Strongly Agree	Agree	Neutral	Disagree
1.	Have you experienced a significant increase in your/your team's engagement in the strategic decision-making process amidst the dynamic and heightened risk-conscious environment?					
2.	The risk indicators are refreshed timely and are linked to the corporate goals and value drivers in an organization.					
3.	The IA function understands the organization's key goals and objectives to be able to proactively identify emerging risks.					
4.	Are there enhanced expectations from the Board/Audit Committee about reporting and monitoring of risks?					
5.	Is there increased risk exposure to internal control systems with the new remote ways of operation (WFH) and dynamic changes in technology and IT landscape?					
6.	An effective risk management program should be embedded in every function/department so as to become an integrated part of the company's regular decision-making processes.					
7.	Do you believe your function has a key role to play in enabling integration of risk management into the operating plan/strategy-making process within the organization?					
8.	Is there significantly enhanced expectation of foreseeing upcoming/non-business as usual risks?					
9.	The company has adequate processes, controls/ checks and BCP in place to deal with a cyberattack/ data breach exposure in the short term.					
10.	Our organization is prepared to respond to sustainability and climate changes.					

Appendix (Cont.)

Section B						
S. No.	Question	Category	Strongly Agree	Agree	Neutral	Disagree
11.	The organization has a well operating whistleblower process, with clarity on non-retaliation policy.					
12.	The CSR program is consistent with the culture of the organization.					
13.	The organization has engaged successfully with all stakeholders in developing the CSR program.					
14.	The organization has a risk culture that encourages openness and supports people in speaking out in the interest of the business, customers and other stakeholders.					

Reference # 37J-2023-12-02-01

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