

ERM COMPONENT: OBJECTIVE SETTING

OVERVIEW:

In anticipation of questions arising from recent changes made to Form 2 within the Optional Use Toolset this document has been prepared containing instructions for its use. These changes were made to better align the form with the intentions of both COSO ERM and the [Green Book](#)*. Green Book principle 6 states that objectives are to be defined in specific and measurable terms in order to ensure clear understanding and to prevent subjective judgments from being necessary in order to measure their achievement. To that end the 'Risk Tolerance' field within Form 2 has been modified by making it a free text cell in which measurable terms to define the acceptable level of variation in performance relative to the achievement of each objective will be documented. This and other minor modifications are discussed further below and supplemental templates and examples have been provided in separate documents.

INSTRUCTIONS:

"Objective Description" Field – Green Book Attributes 6.02 – 6.06

It is important to describe each objective in specific and measurable terms. Each objective should include the why, what, who, how, and a time frame for achievement, as described in the following example.

Example Objective:

In order for the state to maintain access to quality goods and services by maintaining good relations with our suppliers, the AP section will enter and ensure all invoices less than \$2000 are submitted and approved for payment into Edison at least 7 days before the invoice due date in order to make sure the invoices will be paid by the invoice due date.

Why are we doing this?	To ensure the state maintains access to quality goods and services
What is to be achieved?	Invoices will be paid by the invoice due date
Who is to achieve it?	AP section
How will it be achieved?	The AP section will enter and ensure all invoices less than \$2000 are submitted and approved for payment into Edison at least 7 days before the invoice due date
Time frame for achievement?	By the invoice due date

"Key Performance Indicator" Field – Green Book Attribute 6.07

This field describes what will be measured or reviewed to determine whether the objective was achieved. KPIs may be either qualitative or quantitative. For example, if the objective is related to paying invoices on time then a quantitative KPI may be the percentage of invoices paid by the invoice due date.

"Supports Overall Strategy" Field – Green Book Attribute 6.03

Departmental, divisional, and sectional objectives should support the highest level objectives of the organization, the overall strategy, mission, and vision. List your 'Overall Strategies' in the second tab of the workbook in order to populate the drop down list, then select the strategy each of your objectives supports, or is most closely aligned with.

*Standards for Internal Control in the Federal Government, United States Government Accountability Office, GAO-14-704G (see link)

"Risk Tolerance" Field – Green Book Attributes 6.08 – 6.09

Closely related to KPI, risk tolerance quantifies the KPI measurements that would be considered to be successful achievement of the related objective. Risk tolerance establishes the bar, so to speak, that must be met or exceeded in order to achieve the related objective. In our AP example the risk tolerance may allow for a 5% error rate, which means that the objective would be considered achieved if 95% of invoices less than \$2,000 are paid by the due date. Although Green Book attribute 6.09 states that risk tolerance does not apply to compliance objectives, it is still recommended that risk tolerance be described in specific terms to demonstrate management's objective of full compliance.

KPI describes what will be measured to determine whether an objective was achieved, and risk tolerance provides the scale against which the KPI measurement will be compared to make the final determination as to the achievement of the objective. Risk tolerance also influences risk management activities by providing additional guidance as to when internal controls are needed. Risk that exceeds risk tolerance will need to be managed, which typically results in internal controls being designed and implemented in order to reduce the residual risk to a point where it is equal to or less than the stated risk tolerance.