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449 Lewis Hargett Circle
Suite 290
Lexington, KY 40503
Phone: (859) 276-0686
Fax: (859) 278-0507

www.algaonline.org

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Secretariat to the Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: FSB Consultative Document on Principles for an Effective Risk Appetite Framework

Dear Secretariat to the Financial Stability Board:

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to the Financial Stability Board's (FSB) consultative document on *Principles for an Effective Risk Appetite Framework*. Our organization represents 300 audit organizations, totaling more than 2,000 members. This topic is of interest to our members, and we encourage individual audit organizations and members to comment independently should they choose to do so.

We are supportive of the FSB's proposal. We acknowledge the importance of enterprise risk management, and although the document is high-level and relates more to the financial sector, we feel it has useful applicability to government entities in their identification and management of financial and service risks. Our additional comments regarding specific areas of FSB proposal are as follows:

- We appreciate the work to establish a common nomenclature. (Section II)
- We agree that an effective risk appetite statement (RAS) should be used as a tool to promote discussion. This debate can be challenging for organizations, but it is also a critical component of any effective risk management process. (Section III, 1.1,e)

- We suggest that key background information and assumptions be listed under Section III, 2.1 as key elements of a risk appetite statement, rather than being described in Section III, 2, ii as just one of the better examples. This information is necessary for managers to have context and a more complete understanding of the organization's risk capacity, risk profile, risk limits, and the results of scenario or stress testing. This improved emphasis will highlight the importance of having this information in the RAS along with the other listed quantitative and qualitative data to improve understanding across the organization.
- We agree that the RAS should be linked to an organization's short and long-term strategic, capital, and financial plans. This provides a holistic approach. (Section III, 2)
- We concur that risk limits should be specific, measureable, frequency-based, reportable, and based on forward-looking assumptions. (Section III,3)
- We argue that it is vital that a board actively understand and participate in the process to approve an organization's RAS. (Section III, 4)
- We agree that the risk appetite framework should be monitored by management, and independently assessed by an internal or external auditor, or independent third-party. While we do not agree that this needs to occur strictly on an annual basis, we agree that it should be on a periodic basis. (Section III, 4.6, c)

We appreciate the opportunity to respond to this proposal.

Respectfully Submitted,



Harriet Richardson
Chair, Professional Issues Committee

Key ALGA Contributors:

Kristine Adams-Wannberg, City of Portland, Oregon
Larry Stafford, Clark County, Washington