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Enterprise Risk Management and the Financial Reporting Process: The Experiences of Audit Committee Members, CFOs, and External Auditors

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ABSTRACT: The recent financial crisis has brought to the forefront the need for companies to effectively manage their risks. In this regard, one approach that has gained prominence is enterprise risk management (ERM). Importantly, little is known about the link between ERM and the financial reporting process. This link is critical, because it is imperative that financial

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reporting adequately depicts the financial status (e.g., valuations, estimates) and associated risks of a company as revealed by ERM. Additionally, from an auditing perspective, ERM affects the risks of misstatement, which should impact audit planning. Accordingly, the objective of this study is to examine the experiences of audit partners, CFOs, and audit committee (AC) members ("the governance triad") on the link between ERM and the financial reporting process. To determine whether members of the governance triad focus on monitoring, strategy, or both, we also examine their definition of and experiences with ERM with respect to agency and/or resource dependence theory. To address these issues, we conduct semistructured interviews of experienced individuals that form the governance triads from 11 public companies. There are three major findings from our study. First, importantly, all three types of participants see a strong link between ERM and the financial reporting process. Second, despite recognition of the broad nature of ERM, the predominant experiences of the *actual* roles played by triad members center on agency theory, while resource dependence may be relatively underemphasized by all triad members. Finally, CFOs and AC members indicate that auditors may be especially underutilizing ERM in the audit process, suggesting an "expectations gap."

Keywords: Enterprise risk management, COSO, financial reporting process, audit committee, CFO, audit partner, resource dependence theory, agency theory.
JEL: M4-Accounting and Auditing

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Enterprise Risk Management and the Financial Reporting Process:

The Experiences of Audit Committee Members, CFOs, and External Auditors

1. Introduction

There have been a number of dramatic corporate failures in recent years that raise concerns of serious lapses in the risk management processes at many firms such as Lehman Brothers, General Motors, Linen-N-Things, and AIG. In response, there has been considerable interest in the development of enterprise risk management (ERM) frameworks (e.g., COSO 2004, 2009) and strengthening the ERM practices of firms. The most widely accepted ERM framework (Beasley, Branson, and Hancock 2014) was developed by COSO (2004), which defines ERM as follows:

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> Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in a strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of the entity's objectives.

While prior research has examined ERM practices (e.g., Beasley, Branson, and Hancock 2014), to our knowledge there has been no investigation of the link between ERM and the financial reporting process, which encompasses management reporting, internal controls, and auditing. The objective of this study is to investigate how ERM affects the financial reporting process based on the experiences of three key parties involved in this process: CFOs; audit committee members; and audit partners (henceforth referred to as the "governance triad").

The link between ERM and the financial reporting process is important, because it is imperative that financial reports appropriately portray a company's financial status along with its risks as revealed by ERM. When a client's ERM system is ineffective, significant risks that impact financial reports may not be identified, evaluated, and/or disclosed. For instance, risks may not be properly considered in developing accounting estimates and/or disclosures. Also, ERM affects the monitoring and controls of risks, which impacts internal controls as well as auditor risk assessment and program planning (Bell et al. 2005, 1997). Finally, a deficiency in ERM is important to an auditor, for example, when assessing the accuracy of accounting estimates and valuations (e.g., asset impairments).

We examine these issues by conducting semistructured interviews (e.g., Westermann et al. 2015; Trompeter and Wright 2010; Beasley et al. 2009; Cohen et al. 2002, 2010) to capture the experiences of participants from the governance triads of 11 public companies. Using the COSO ERM framework[1], one of our most important findings indicates that across all three types

[1] We recognize that risk management can take many forms (Gendron et al. 2015) and could be managed through a combination of a quantitative or qualitative approach (Mikes 2011). In this paper, as noted, we focus on the risk

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of participants, respondents see a strong link between ERM and financial reporting, internal controls, and auditing. Further, they emphasize the importance of risk assessment/identification and operational efficiency/effectiveness.

Our second area of investigation revolves around the relative conceptual focus of the governance triad with respect to ERM. The results indicate that the governance triad recognizes the importance of both monitoring (agency theory) as well as setting strategy (resource dependence theory) when defining ERM. However, as expected, there was variation in their responses, which reflect the different roles and focus of the various members of the governance triad. Interestingly, although all members of the triad recognize strategic elements when defining ERM, auditors tend to place a relatively lower emphasis on strategy related factors. Overall, our findings suggest that a resource dependence perspective may be underemphasized by all groups.

In addition to participants' conceptualization of ERM provided in their definitions, our next area of inquiry investigates the actual roles played by the governance triad. While, as noted, members of the triad conceptually view ERM from both an agency theory (AG) and resource dependence (RD) perspective, all participants, and especially auditors, are more focused in their work roles on the AG framework than the RD framework. The finding for auditors could be due to their inherent responsibilities that focus on monitoring the financial reporting process. While audit committee (AC) members see a balance of RD and AG in their role, CFOs indicate they place a greater emphasis on monitoring (AG) than resource dependence (RD). This emphasis by CFOs is potentially a concern since a more complete consideration of a company's strategic risks can enhance CFOs' determination of financial reporting risks and the adequacy of disclosures. Finally, CFOs and AC participants expressed concerns that auditors are not leveraging ERM to a

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management principles outlined in COSO (2004, 2009) since this framework is the most widely used in practice and its principles can be more directly linked to the quality of the financial reporting process, the focus of this study.

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sufficient level in the conduct of the audit, reflecting an "expectations gap" between what auditors consider their appropriate role and the role that CFOs and AC members perceive auditors should play.

The findings indicate that an important issue for future research and auditing standard setters is to examine whether further consideration of ERM will aid auditors in arriving at more accurate risk assessments to appropriately determine the nature and extent of audit testing both for financial reporting and internal control evaluation (Asare et al. 2013; Kochetova-Kozloski and Messier 2011). Moreover, an emphasis on understanding ERM from a strategic perspective may potentially strengthen financial reporting by allowing CFOs and auditors to more effectively assess the appropriateness of valuations and estimates such as obsolescence in inventory.

The remainder of this paper is divided into four sections. The next section provides a review of the relevant corporate governance and ERM literatures leading to our research questions. The two sections that follow contain a description of the method and presentation of the results, with the final section devoted to a discussion of the major findings and their implications for future research and practice.

2. Relevant literature and research questions

ERM and the financial reporting process

One advantage ERM has over traditional risk management activities is that ERM looks at the risks of the firm as a whole as well as cross-functionally, rather than evaluating risks within a particular department or function. Thus, ERM adopts a more holistic approach to risk management compared with a "silo" approach (Mikes 2009, 2011), where the focus on risks may be myopic and narrow and hence could result in an under- or overestimation of risks to the entity

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as a whole. There is also increasing regulatory emphasis on ensuring that there is sufficient governance oversight of the ERM process in publicly traded companies. For instance, the SEC (2009) requires companies to discuss in the proxy statements the board's role in the oversight of risk and a study found that 92 percent of public companies have a separate section in their proxy statement for risk oversight (Akin Gump Strauss Hauer & Feld LLP 2010).

Additionally, with the trend towards integrated reporting, which encompasses both financial and nonfinancial disclosures; there is an impetus for reporting and disclosure on ERM to increase in the future (Adams et al. 2011). For example, in integrated reporting there is a need to assess metrics that are strategically important and could incorporate past performance and prospective events. Thus, ERM is likely to play an even greater role in the more holistic approach to reporting that is the cornerstone for integrated reporting (IIRC 2011).

While some prior studies (Baxter et al. 2013; Hoyt and Liebenberg 2011) have focused on the effect of ERM on firm performance and value, they have not explicitly addressed the relationship between ERM and the quality of the financial reporting process. For example, Baxter et al. (2013) examine the association of a single metric (the earnings response coefficient) and the strength of ERM in a single industry (financial services) but do not examine the link between the overall quality of the financial reporting process and ERM. A strong financial reporting process includes diligence by preparers and monitoring parties such as the audit committee and auditors in providing accurate and transparent financial reports and associated disclosures.

The audit process and audit quality have a significant impact on the quality of financial reports (Knechel et al. 2013). The integration of ERM in financial statement auditing is

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consistent with some audit approaches that were experimented with in the past.[2] Although a few prior studies (e.g., Kochetova-Kozloski and Messier 2011; O'Donnell and Schultz 2005) examine the effect of strategic analysis and strategic risk (components of ERM) on auditor judgments, these studies do not consider the effect of ERM on the audit process and audit judgments from a broader, more holistic perspective. The strength of ERM is that it impacts the company's monitoring of controls over major business risks, which is important for auditors to consider in assessing risks and audit planning (Bell et al. 2002). Moreover, as part of the COSO internal control integrated framework (2013), one of the five components that auditors must evaluate when conducting an audit of the internal control over financial reporting (ICFR) is the risk assessment activities of the client. This component reinforces the importance that ERM can potentially play in promoting a high-quality internal control system. Further, although audit committees and CFOs are increasingly required to play a critical role with respect to ERM (KPMG 2013; Clyburn 2012), to our knowledge there has been no research that examines how they perceive the role of ERM in ensuring a high-quality financial reporting process.

Theoretical perspectives

Agency theory (AG) and resource dependence theory (RD) provide two theoretical perspectives through which members of the triad may conceptualize ERM in their different roles. Under AG, managers are presumed to act in their own self-interest even if detrimental to the shareholders. Thus, various contractual mechanisms are formed to align the interests of the management with those of the stockholders, such as employing an ERM system in which the board and the audit committee focus on monitoring the CEO and other high-level executives

[2] In the 1990's and early 2000's, the then Big 5 attempted to change the audit process by adopting a Business Risk Audit (also called a Business Measurement Process) approach because it was viewed as more effective and efficient than traditional audits (Bell et al. 1997; Bell et al. 2005; Curtis and Turley 2007).

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(Shleifer and Vishny 1997; Fama and Jensen 1983). By using these mechanisms, in theory, a firm can reduce excessive risk taking by management. Thus, ERM can be a mechanism that allows for a more formal and transparent perspective on risk, which in turn can reduce the information asymmetry between management and other corporate stakeholders (Liebenberg and Hoyt 2003).

In contrast, RD posits that governance should focus on helping companies successfully develop business strategies to cope with environmental uncertainty, and to gain access to external capital and knowledge networks (Pfeffer and Salancik 1978; Boyd 1990). RD suggests several roles that governance parties may play in ERM including identification of risks, risk responses, and setting the proper balance between corporate strategies, opportunities, and business risks. If an RD perspective is adopted, then the governance parties focus on determining that management's risk-related activities are aligned with the strategic objectives the firm is employing to be successful in the competitive marketplace. As noted previously, an early attempt in auditing that emphasized strategic issues was the Business Risk Audit (Curtis and Turley 2007). It is important to state that the AG and RD perspectives are not mutually exclusive in the sense that they can coexist[3], nor are these perspectives collectively exhaustive. [4]

[3] We explore agency theory and resource dependence both separately and in combination, when there is evidence of both perspectives at play. Similar views have been expressed in Cohen, Krishnamoorthy and Wright (2008, 183) where they posit that these perspectives are not necessarily mutually exclusive and that "a board may be structured so as to be strong in both the agency and the resource dependence perspectives."

[4] For instance, another theory that is potentially relevant to ERM is institutional theory that posits the use of ERM may merely be symbolic in nature and may be put in place to mimic other organizations (Powell 1991). This theory implies that ERM practices are adopted merely to demonstrate to outsiders that the company is doing something about ERM without perhaps doing anything meaningful and of substance. We report in one of the subsequent footnotes whether there is evidence of coercive isomorphism that stems from regulatory pressure, normative isomorphism that emerges from trying to emulate best practices even if they are not necessarily appropriate to the company, and mimetic isomorphism such as merely "ticking a box."

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Illustrations from practice of the link between ERM and the financial reporting process

The conceptual link between ERM and the quality of the financial reporting process was discussed in the previous section. There are also numerous illustrations of the importance of this link in practice. One such illustration is the dramatic losses that emanated from firms that engaged in exotic financial transactions. For example, Phillips (2013) states that a key to understanding the "London Whale" trading losses at JP Morgan Chase is whether such losses resulted from hedging or proprietary trading transactions. Hedging transactions, by their very nature, are designed to offset and balance an identifiable risk and, thus, their fundamental objective is risk-avoidance. Proprietary trading, on the other hand, often involves engaging in speculative activities and is risk-seeking in nature. Importantly, and emphasizing the link between ERM and financial reporting, the accounting standards for hedging and proprietary trading activities vary significantly (IAS 39), and an erroneous or willful misclassification of the gains and losses from these two types of activities can result in materially misstated financial statements. Hence, CFOs, audit committees, and auditors of companies who are engaged in the trading of derivative instruments (which includes industries beyond financial services, such as airlines hedging fuel costs or industrial companies in transactions with interest rate swaps) need to understand the ramifications of how critical enterprise-wide risks facing the organization and ERM practices impact financial reports, disclosures of such risks, and assurance on those reports. The London Whale trading losses and its implications for financial reporting clearly indicate that the financial reporting function is inextricably linked to risk management practices in contemporary business organizations.

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As other practice examples of the link between ERM and financial reporting, the retail industry is replete with situations where the firm's improper choices of strategy led to bankruptcy, and the related implications for financial reporting such as inventory valuations or going-concern audit opinions. For instance, the collapse of Blockbuster occurred in part because the firm did not adapt rapidly enough to changes in the way consumers streamed and demanded videos (Baskin 2013). The retailer Linens-N-Things collapsed in part because their strategy was not appropriate given the decline in the demand for home furnishing products (Monks 2007), and because of their strategic inability to compete with other retailers in the market (e.g., Bed Bath & Beyond). There are also other examples outside retailing that point to the importance of the relationship between ERM and financial reporting. For instance, General Motors bet on the wrong strategy for automobiles, focusing on larger, fuel-inefficient vehicles. As a result, the company had to be bailed out by the U.S. government, and key stakeholders incurred significant losses (*The Economist* 2009). The gross margins on vehicles sold and the related inventory valuation on the balance sheet of General Motors are directly tied to the obsolescence risks related to the vehicles and highlight the importance of the relationship between risk management and financial reporting. As a final illustration, Leslie Fay, a women's apparel manufacturer, whose inventory and accrued expenses/liabilities were found to be fraudulently misstated, traced these misstatements to improper risk management with respect to strategic and market risks related to changes in women's fashion trends as well as a failure of the internal control system to monitor these risks (Knapp 2013). These examples highlight the colossal adverse consequences that may occur if firms do not properly manage the risks of their strategy and operations which in turn have important implications related to financial reporting issues such as valuation of assets, estimates, and risk disclosures. The consequences also affect auditors, for example, the going-

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concern opinion and evaluating the risk assessment processes of the client which is required as part of the internal control over financial reporting (ICFR) audit (COSO 2013).

While the presence of strong ERM does not guarantee a high-quality financial reporting process, critics have argued that weak ERM, poor governance, and, in some instances, audit failures have collectively led to poor financial reporting that served to hide the financial difficulties facing failing firms (e.g., off-balance sheet debt) and, thus, significantly exacerbated the financial crisis (Baxter et al. 2013; Valukas 2010). For instance, Ernst & Young, the erstwhile auditor of Lehman, was strongly criticized for failing to question Lehman's management on some of their excessively risky positions and related disclosures (*The Economist* 2010).

Consideration of ERM processes in a company can potentially also provide important information to auditors in assessing inherent and control risks, financial viability, and business strategies in determining audit planning judgments and in evaluating disclosures (Kochetova-Kozloski and Messier 2011). Despite this, the COSO ERM framework (2004) only tangentially discusses how auditors might consider ERM in the financial audit or internal control evaluation process. The current study examines the auditor's knowledge and involvement in ERM, an issue not fully addressed in prior research or in guidance from audit practice.

The past financial failures inevitably lead to questions of why external auditors continued to issue unqualified audit reports in cases where the client had assumed risks not adequately disclosed in the financial statements. Conceptually, if a company exercises sound ERM practices, it should be cognizant of significant business risks and take measures to contain or control such risks. To the extent that these risks impact financial reporting, these risks should be reflected in financial statement estimates, valuations, and/or disclosures. Further, auditors are

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required by auditing standards to plan the nature and extent of audit tests to address business, inherent, and control risks (AICPA 2007; IFAC 2006). Finally, auditors are required during the audit of ICFR to evaluate the risk assessment processes of their clients (COSO 2013). Accordingly, our first research question examines the link between ERM practices and the quality of the financial reporting process, which encompasses the preparation, corporate governance monitoring, and auditing of the financial statements.

RESEARCH QUESTION 1. *What do the experiences of members of the governance triad indicate about the impact of ERM on the financial reporting process?*

ERM focus and actual roles of the governance triad

The relative focus of each of the triad members with respect to an AG or RD perspective for ERM is likely tied to the knowledge and experiences of each party. We capture this focus in participants' definition (conceptualization) of ERM. This focus is important, since it indicates the breadth of risks considered. Ideally, as discussed previously, financial reports as well as audit planning should reflect the AG (monitoring) as well as RD (strategic) risks of the firm.

Importantly, the focus of members of the governance triad concerning AG and RD perspectives reflected in ERM may differ based on their knowledge and the actual roles they play in practice. For example, their exposure to ERM frameworks such as COSO may lead to recognition of the broad AG and RD perspectives contained in ERM. However, the triad members are likely to vary considerably in their respective experiences within particular companies. Such experiences may affect their relative focus on AG and RD in how they perceive ERM. This background may also result in differences between a respondent's conceptualization of ERM and the focus they actually experience in practice.

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For instance, based on a comprehensive survey of ERM practices, Ittner and Oyon (2014) report that CFOs often have significant risk ownership responsibilities that include both strategic and operational risks. The study finds that in 60 percent of the organizations surveyed, risk ownership of ERM rests with the CFO while the audit committee has risk ownership in 25 percent of the surveyed firms. Other surveys find CFOs are frequently assigned the sole or primary risk ownership responsibility to manage risks (Marsh and RIMS 2014). Thus, the CFO's focus in ERM may encompass both an AG and RD perspective, reflecting the breadth of their responsibilities, which entails both the risks related to monitoring the financial reporting process, as well as making sure that risk is appropriately aligned with the strategic direction of the firm.

In contrast, the primary responsibility of external auditors is to provide an opinion on the fair presentation of the financial statements in compliance with Generally Accepted Accounting Principles and on the strength of internal controls over financial reporting. Further, auditors are not permitted to assist management in establishing company strategies, which is a management function and would result in a potential impairment of auditor independence. Thus, the auditor's actual role and responsibility related to ERM may be restricted, especially with respect to RD.

Given its oversight roles in examining a broad array of risks, the focus of audit committee members regarding ERM will likely be to consider both AG and RD. As stated earlier, the audit committee's primary responsibility with respect to ERM is one of oversight, rather than risk ownership. Given these responsibilities and a focus on monitoring, it is likely that audit committee members will have a greater focus on AG than on RD, but given that the audit committee is often the board committee most involved with ERM (Viscelli 2013), the AC is also likely to consider the RD perspective.

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Beasley et al. (2011) find that ERM practices vary widely among companies and that there is divergence in practice on which party has the primary responsibility for ERM (the CFO, the board of directors, the audit committee, a risk committee, others). Further, Mikes and Kaplan (2012) identify a number of ways that ERM has been implemented and suggest that a contingency approach be used that allows research to view the relative success of ERM within the company's particular context.

Practitioners and academics have asserted (Viscelli 2013; Beasley et al. 2011, 2014) that a key to effective financial reporting and ERM is achieving a synergistic relationship among members of the governance triad. Further, there is limited understanding of how the governance triad interacts among themselves and with others to develop ERM practices that impact the quality of the financial reporting process. Accordingly, we study the experiences of the governance triad since CFOs often have ownership of ERM and are often involved in implementing ERM, audit committees are often charged with monitoring ERM and financial reporting, and auditors' assessments of audit engagement and planning risks are impacted by questionable accounting practices, control risks, or incomplete or inadequate disclosures resulting from a company's risk position (COSO 2004).

The discussion above leads to the following research questions:

RESEARCH QUESTION 2a. *What is the relative focus (AG versus RD) of the governance triad with respect to ERM, and how does the relative focus affect the financial reporting process?*

RESEARCH QUESTION 2b. *What are the actual roles of the governance triad with respect to ERM, and how do the roles played affect the financial reporting process?*

3. Method

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Similar to recent qualitative studies in the auditing and corporate governance domains (Westermann et al. 2015; Hermanson et al. 2012; Trompeter and Wright 2010; Cohen et al. 2010, 2013; Beasley et al. 2009), we employ a semistructured interview approach to address our research questions. An interview approach allows us to gain the rich experiences of governance triad members regarding the "black box" of the ERM process and the interactions among members of the triad for each of the 11 companies in our sample (Beasley et al. 2009; Gendron et al. 2004).

We use contacts from alumni and colleagues in a large Northeastern city in the United States to solicit the voluntary participation of the audit partner, an audit committee member, and the CFO from the same company to identify their experiences in working with ERM at that firm. As indicated earlier, our sample consists of 32 participants from 11 companies.[5]

Table 1, panel A presents provides demographic data on our sample, and panel B presents selected company information. The audit partners have a mean of 7.00 years of experience with ERM, 19.4 years of industry specialization, and an average of 5.11 years with the client in question. In addition, the audit partners have an average of 68 percent of their recent experience with public company clients. The data suggest that the audit partners have the relevant expertise to take part in our study on experiences with ERM and the financial reporting process.

The audit committee members are also an experienced group. Their mean experience as a director is 11.23 years, as a member of the audit committee for the company 7.85 years, and with

[5] One audit partner declined our request to participate in the study. Further, one individual served as the audit committee chair of two companies and hence this individual's responses are included in the triads of these two companies, and counted as two participants. This resulted in a total count of 32 participants. Finally, the CEO of one of the companies volunteered to participate in the study, in addition to the governance triad from this company. However, in the interest of maintaining consistency across all triads and the different roles a CEO may play in this position, we exclude the CEO's responses from the results reported in the tables. Including the responses from the CEO, however, does not qualitatively change the results reported in the study.

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ERM 9.55 years.[6] Eight of the 11 audit committee respondents note that they are chairs of the committee and have served in that capacity for an average of 4.94 years. Other demographic data (untabulated) about audit committee participants indicate the following: CPAs (64 percent); current or former CEOs (45 percent); and current or former CFOs (55 percent).

Finally, the CFOs have a mean of 24.44 years of finance or reporting experience and 8.0 years of experience with ERM. Further, they have been the CFO for their current employer an average of 4.7 years. Collectively, across all three types of participants, the demographic data suggest that our sample is a group of highly experienced individuals who are appropriate for the focus of our study.

Panel B indicates that the mean number of audit committee members in the companies from which the triads were drawn was 3.9, with an average of 2.27 having accounting or financial expertise. In five of the companies, the CEO is also the chair of the board. Finally, six of the 11 companies are listed on the New York Stock Exchange, three on OTC, one on NASDAQ, and one is a mutual insurance company. The participant companies are from a wide range of industries as indicated by their SIC 4-digit industry classification noted in panel B. The mean (median) company sales revenue is $1,964 million ($267 million), and the mean (median) total assets are $985 million ($824 million). However, as indicated by the standard deviations of $3,429 million and $1,031 million for sales revenue and total assets respectively, there is significant variation, thus providing a broad representation of companies in terms of size. Triad members have experience in a wide range of industries (untabulated) including technology (seven participants), manufacturing (six), software and retail (four each), medical devices and

[6] One audit partner, one CFO, and four audit committee members responded as having zero years experience with ERM. However, we did not observe significant differences in the manner in which these respondents answered questions posed in the interview and their responses to various questions do not appear to be qualitatively different from other participants in the study.

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life sciences (three each), and services, healthcare, and consumer products (two each), with some participants having experience in more than one industry.

The interviews are structured around eight questions, with most having subparts. [7,8] When constructing the questionnaire, we carefully reviewed the following sources to identify significant issues for interview questions: the COSO framework on ERM (COSO 2004)[9]; the literature on the implementation of ERM in practice (e.g., Beasley et al. 2010); academic accounting research (Beasley et al. 2011; Beasley et al. 2008; Beasley et al. 2005); and discussions with two recently retired senior audit partners who had been involved in ERM issues. In order to ensure external and internal validity of the questions, four practicing audit partners and several academic researchers (not associated with this study) independently evaluated the questions for clarity, completeness, and relevance.

In addition to the open-ended (OE) questions, we gathered data on questions that required a discrete response (e.g., Yes/No) or responses that used a 10-point scale (e.g., "Based on your experiences at the company and your definition of ERM above, what role(s) do the following governance players/managers play in ERM?" The scales are anchored by (1) "No Role" to (10) "Significant Role."). We refer to questions that require a discrete response or a response on a 10-point scale as closed-ended (CE) questions.

To address our research questions we use the theoretical AG and RD perspectives as well as the widely accepted COSO ERM framework established in 2004 (Beasley et al. 2010; COSO

[7] We also asked questions about the role of internal auditors in ERM, but do not report the findings on these questions since this topic is outside of the primary focus of the current paper (i.e., the governance triad).

[8] Please see supporting information, "Appendix A: List of Interview Questions" as an addition to the online article.

[9] We did not examine participants' experiences with regard to three of the eight components of the COSO framework: objective setting, event identification, and information and communication. This omission was for the sake of conserving time during our interviews and was based on feedback from participants in the pilot testing and development of the instrument that these components are of less significance for our focus on the link between ERM and the financial reporting process.

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2004). More specifically, we focus on the following components of ERM: internal environment; risk assessment; risk response; control activities; and monitoring. Further, four overriding objectives are examined: strategic objectives (establishing high-level goals); operational objectives (effective and efficient use of resources); reporting objectives (high reliability in reporting); and compliance objectives (compliance with laws and regulations). These components and objectives are taken from the COSO framework.

The interviews were conducted in 2009 and 2010 by one of the members of the research team over the phone (with the exception of two interviews that were conducted in-person), with each interview taking approximately 45 minutes to one hour. With the permission of the participant, the interviews were audiotaped to ensure completeness and accuracy and then transcribed by research assistants. [10] Interview questions were emailed to the participants in advance with an explicit instruction that participants refrain from discussing the questions or their responses with colleagues. Participants were informed that the objective of the study was to obtain *their experiences* with the particular company that was being studied, and not about their general perceptions. Following the protocol of other qualitative studies, each participant's anonymity was ensured. As the interviews were semistructured, individual responses were followed up whenever appropriate to ensure that responses would be fully examined (Westermann et al. 2015). In particular, we probed and searched for participants' insights and experiences that informed the broad research questions.

[10] Two participants did not provide their consent for the interview to be audiotaped. For these interviews, the interviewer took careful notes during the interview and later submitted them as transcriptions of the interview for data analysis, similar to the ones employed for other participants.

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To ensure rigor in coding, we established an a priori coding schema.[11]. For example, whenever appropriate we employed the theoretical AG and RD perspectives and the COSO ERM (2004) framework to guide the questions and the coding. All interviews were independently coded by two members of the research team with an average initial intercoder agreement of 82 percent, indicating a high level of coding reliability (Miles and Huberman 1994). The mean Cohen's Kappa across all participants was 0.87 ($p<0.01$), indicating a very high level of agreement between coders (Vierra and Garrett 2005). We attempted to reconcile initial coding disagreements, with all remaining unresolved disagreements reconciled by the third member of the research team. The reported results show the final reconciled responses. To select quotes for inclusion in this manuscript we followed Westermann et al. (2015) in that each author/coder selected quotes which would highlight both the main thrust of the quotes as well as any quotes that indicated surprises. All of these quotes were reviewed by the other authors to determine if the quotes captured the message that are conveyed in the results.

4. Results

Tables 2 and 3 provide results from the analysis of coded responses. Responses to open-ended (OE) questions are coded as 1 (0) if the response is (is not) consistent with our ex ante coding scheme. A response to a closed-ended (CE) question is coded as NAif the question is not asked or if the participant did not respond to the question. Responses coded as NA were excluded from the computation of percentages reported in the tables (see Notes 1 and 2 of Table 2). For each question we also provided participants with an opportunity to explain their response, providing rich, detailed qualitative data describing participants' experiences.

[11] Please see supporting information, "Appendix B: Coding Scheme" as an addition to the online article.

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RQ 1: Impact of ERM on the financial reporting process

To address RQ 1, we ask participants about the impact of ERM on the quality of the financial reporting process, including internal controls and the role of external auditing. We pose two questions regarding the importance of the role that ERM plays (should play) in achieving high-quality financial reporting to the capital markets on a 10-point scale ((1) "No Role" to (10) "Significant Role"). As we report in Table 2, participants felt ERM plays a substantive[12] role (mean 6.6) and should even play a larger role (mean 7.4). Highlighting the importance of considering ERM when evaluating the quality of financial reports, one audit partner notes:

> I think ERM is inherent in financial reporting. As you say, financial reporting is one element of ERM, so what role should it play? It should play a pretty high role because when the company doesn't really have a strong ERM assessment program and compliance to understand what to do with it, they really run the risk of potentially finding surprises in their financial reporting; whether it be poor estimates or lack of compliance. (NASDAQ audit partner)

In terms of the role ERM *should* play in achieving high quality financial reporting, some participants indicate that there is a need for greater appreciation of the integrated nature of ERM and financial reporting quality. For instance, one CFO notes:

> when I am out at subsidiaries doing business reviews or I am out doing business reviews at the business segment level, I don't necessarily believe as we sit here today that everything is all wrapped together. I still think people view ERM as some other risk assessment initiative as being separate from how they are managing the business and the problem is they are not separate. The terminology and the fact there is an element of compliance associated with [ERM suggests] there is a gap that needs to be bridged there and I just don't know if we are there yet. (NYSE CFO)

While triad members predominately articulate the importance of considering ERM in ensuring high-quality financial reporting, a minority view is also present. One AC member states:

[12] Note that because of the limited sample size inherent to qualitative research we do not conduct statistical tests of significance due to a lack of sufficient power. Thus, we use the word "substantive" instead of "significant" when describing a relatively high level of importance or difference in responses.

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> I don't quite see the linkage. I mean the financial reporting is something that is coming out of what we have done. In my mind, ERM is much more focused on where we're going. (OTC AC member)

Another question we asked is, what role does ERM play in achieving strong internal controls over financial reporting? The overall mean response is 6.5, indicating a substantive role, with CFOs providing the highest response (7.3), perhaps due to their strong role in establishing and monitoring internal control systems. Some participants indicated that weak internal controls might be indicative of risks that may need to be considered for the enterprise as a whole, thus highlighting the importance of the inter-relationship between strong internal controls and ERM. One audit committee member states:

> if the internal [controls] essentially [have] material weaknesses or if we find out that there are weaknesses in our control system and they rise to [the level of] material weakness or even significant deficiencies, that would be, if it continued to be, an enterprise risk. (NYSE AC member)

Qualitative responses regarding the nature of the role of ERM on controls indicate the most frequent response is to identify risks (28 percent of respondents). A partner notes:

> So, I think [ERM] plays a very high role in the sense [that] if I see that the company understands its risk, they manage [it] well, how do I set my scope (extent of testing) and how does it make me sleep at night? (NASDAQ audit partner)

Our next two questions examine the role of ERM on the quality of audit services and the extent to which ERM affects (*should* affect) the external auditor's risk assessment and audit scope decisions. Responses to the first question indicate ERM plays only a moderate role (5.7) on the quality of audit services with, notably, the lowest mean response expressed by audit committee members (4.9). However, respondents indicate overall that ERM plays a fairly substantive role in auditors' risk assessment and scope decisions (6.0) and should play an even larger role (7.0).

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Among members of the governance triad, audit committee members assess the lowest impact of ERM on auditors' judgments with the mean of 4.9 as to the actual role and 5.8 as the role ERM should play. In explaining his response, an audit committee member states:

> I think (in a) world of best practices you need more formalized risk assessments by auditors. I do not think [formalized risk assessments are] done because the fees would probably double, it would take too many hours. (OTC audit committee chair)

One CFO expresses his dissatisfaction in his experiences with external auditors as follows:

> It (the auditor's role) should be broader. If the external auditor is expected to cover the full range of risks, material risks, significant risks to an organization, there has to be an ability to better understand the strategic risk element and then more time spent on the pure operational risks element of a company's performance, and certainly continue to mesh in with that finance and compliance side. (NYSE CFO)

Qualitative responses revealed that 50 percent of respondents indicated that ERM plays a role in risk assessments while 53 percent indicated ERM plays a role in scope decisions, with a similar pattern for the role ERM should play on these respective audit judgments.

Collectively, our primary and main takeaway for RQ 1 is that participants view ERM as playing a substantial role in ensuring the quality of financial reporting. In particular, responses indicate that ERM helps monitor the risks that emanate from the financial reporting process and is linked to the quality of internal controls. Finally, there are disparate views on the extent to which ERM influences the audit process with several respondents' experiences indicating a lower impact than desired. This finding highlights a potential expectations gap between how CFOs and AC members view ERM should affect the audit process and its actual influence. This result will be discussed further in the final conclusions section. (Also see Exhibit 1 for a summary of the major findings.)

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RQ 2a: Relative focus on agency and resource dependence

RQ 2a examines the theoretical perspectives (AG or RD) that are reflected by the views and experiences of members of the triad, and the effect of this focus on the financial reporting process. We first discuss findings relating to participants' definition of ERM, since, importantly, participants' definition is a reflection of how they conceptualize the process. We then provide results of our analysis relating to the relative focus (AG vs. RD) that triad participants take.

Definition of ERM

Despite the increasing importance placed on ERM in academia and in practice, there is no universally accepted definition. Consistent with prior qualitative studies (Cohen et al. 2010; Trompeter and Wright 2010) we do not offer a formal definition of ERM, but rather ask participants to provide us with their definition.

Overall, and as expected, there is diversity in participants' responses to the definition of ERM. An analysis of CFO responses (untabulated) indicate that 20 percent, 40 percent, and 40 percent of the coded responses reflected an AG, RD, and both AG and RD frameworks respectively. Reflecting an AG perspective, one CFO states:

> Things within your company, especially in an internal control environment, [indicate] that you [need] to make certain that you got the right controls in place. (OTC CFO)

As an example of an RD perspective, one CFO states:

> Fashioning responses to current economic situations, fashioning strategies to deal with competition. All of those things. The things we do to diversify our product sourcing, things that really are involved in the meat of the business, as opposed to financial reporting, which is sort of after the fact. All of those things I think of as risk management. (NYSE CFO)

Reflecting both perspectives, one CFO states:

> That includes, obviously, all of the system of internal control that we establish and put in place. But beyond internal controls, obvious things [relating to] setting up insurance programs. I understand there are inner relationships between internal controls and

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> insurance programs, but that's not really the same. But really all activities that are aimed at trying to make sure we hit our objectives overall. (NYSE CFO)

With respect to audit partners' definition of ERM, analysis (untabulated) indicates 36 percent, 27 percent, and 36 percent of the coded responses reflect an AG, RD, and both frameworks respectively. As an illustration of an AG perspective, an audit partner suggests that:

> you [have] enterprise risk management as it relates to the financial side, what are the concerns there, what are the controls the company has in place? (NYSE audit partner)

Reflecting both an AG and RD perspective, one audit partner notes the following as his/her definition of ERM:

> Overall assessment of business risk, financial reporting risk, regulatory risk. (NYSE audit partner)

Finally, an analysis of AC members' responses (untabulated) indicates that 9 percent, 27 percent, and 64 percent reflect an AG, RD, and both perspectives respectively. The RD perspective is indicated in the following quote from an AC member:

> Almost any strategizing for the company's growth, pursuing an acquisition, human resources issues and human resources that don't rise to some sort of catastrophic problem. (NYSE AC member)

As an illustration of both an AG and a RD perspective one audit committee member states:

> I have a pretty broad definition of ERM and it includes basically your traditional financial and internal control types of areas. Economics and market risk, data and information integrity risk, regulatory risk execution risk as well as reputation risk. (OTC AC member)

Overall, as expected, there is variation in the responses from participants with respect to their AG/RD perspectives. While all triad participants recognize the importance of both the AG and RD perspectives with respect to their definition of ERM, the emphasis placed on AG vs. RD varies across the triad groups. Of note, audit committee members provide the broadest

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perspective in terms of the highest frequency of identifying both AG and RD as germane to ERM. Importantly, their definition does not necessarily capture their actual job experiences with respect to ERM (discussed in the next subsection), but it provides an indication of the relative emphasis they place in their conceptual thinking about ERM within their respective organizations.

Relative roles (AG vs. RD) of the governance triad with respect to ERM

Beyond the definition of ERM, participants provided their experiences on their role and that of other triad members with respect to ERM in their organizations. We coded participants' qualitative responses to the following question: "Based on your experiences at XYZ Company and your definition of ERM above, what roles(s) do the following governance players/managers play in ERM?"

Our analysis of coded responses (untabulated) with respect to the role of the CFO relating to ERM suggests that CFOs view their role as multifaceted (38 percent AG; 25 percent RD; 38 percent both AG and RD), while audit committee members view the CFO's role more focused on AG than RD (67 percent AG; 33 percent RD) and audit partners view the CFO's role as AG and both AG/RD (50 percent AG; 50 percent both AG and RD). Reflecting an agency role of the CFO, one AC member states:

> However, the CFO's role is often times the gatekeeper pulling the brakes on so it's slightly elevated in terms of monitoring. (OTC AC member)

An analysis of coded responses (untabulated) with respect to the role of the audit partner related to ERM indicates a predominantly AG view (75 percent, 57 percent, and 88 percent respectively for CFOs, AC members, and audit partners respectively). Some AC members criticized the external auditors as being too AG-focused, and not sufficiently focused on ERM:

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> I actually find in the current environment [that] auditors have become very compliance oriented and their relevance for the business is insignificant. (OTC AC member)

> I don't think that they really focus on Enterprise Risk. They're focused on their job of the historical audit and the completion of 404 …. they really don't participate with us in the discussions of enterprise risk. (NYSE AC member)

Finally, an analysis of responses (untabulated) indicates that AC members' roles are largely viewed from an agency lens (71 percent, 63 percent, and 38 percent of the responses respectively by CFOs, AC members, and audit partners). An RD role of the AC is indicated, but to a much lesser extent by respondents (14 percent, 25 percent, and 25 percent of the responses respectively by CFOs, AC members, and audit partners). This finding is consistent with experiences indicating that audit committee members' roles as being more focused on AG than on RD.

The AG perspective is suggested by responses centering on the audit committee and the external auditors. As one CFO states about the audit committee:

> [There is] far less on the more strategic or more operational side of ERM. I think clearly and likely so the [audit committee's] focus was mostly on the financial and compliance types risks, but even there most of the Board relied heavily on management and outside auditors and the like to provide the necessary information to truly help assess and help interpret any types of risks that were identified or discussed in the committee capacity. (NYSE CFO)

Evidence of an RD perspective is illustrated by the following quote of one AC member:

> [Where] I am coming from is [that] I think boards of directors have two basic responsibilities; the first is to make sure you have a competent CEO, who is able to put together a business plan and the second is to evaluate and foresee the overall strategic direction of the company and its ability to operate successfully within that and obviously understanding the nature of risks as well as rewards it is you know the board's first job and there is a need to do that with management obviously. (NYSE AC member)

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In summary, an analysis of participants' responses to the definition of ERM and the roles played with respect to ERM reveals a potential "expectations gap," both within and between triad members. For instance, CFOs appear to largely reflect an RD focus when defining ERM, but their role is viewed by themselves and by audit partners as multifaceted (both AG and RD), and by AC members as more AG. When defining ERM, audit partners reflect an AG focus with a lower (but not minimal) focus on RD. However, partners' actual roles played with respect to ERM is viewed by all as more AG-focused. Finally, AC members reflect a fairly low level of agency and a much higher balanced view (both AG and RD) when defining ERM, but they are viewed by CFOs and by themselves with a greater AG focus, and RD to a much lesser extent. Hence, although AC members appear to recognize ERM from both the AG and RD perspectives in their definition, their role is seen as more AG than RD. These findings shed light on the complex nature of how ERM is viewed by the various triad participants, and the "expectations gap" that exists between how ERM is defined by the triad members and the actual roles they see themselves and others playing relative to AG and RD perspectives.

AG and RD perspectives and their impact on the financial reporting process

As we previously reported, we asked a number of questions that examine the role of ERM and the financial reporting process. In this section, we examine whether this role is driven by an AG, RD, or a balanced conceptualization. When asked about the role of ERM in achieving high-quality financial reporting, there are a number of quotes that emphasize a monitoring orientation that is indicative of AG theory. An analysis of coded responses (untabulated) from triad members indicate that the AG perspective is dominant; with 75 percent, 67 percent, and 67

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percent of the responses from CFOs, audit committee members, and audit partners respectively reflecting an AG perspective. For example, one CFO states:

> We are kind of a very control oriented company and we do an awful lot of making sure that we are very controlled and how we do our reporting. Certainly legal becomes very important in that process of making sure that whatever is being required by the SEC nowadays that we are complying with. (NYSE CFO)

This sentiment is echoed by an audit partner who said:

> I think it plays a high role, because clearly part of the culture around risk management is that this particular company is very keenly focused on "Where are our business risks? What are the enterprises? Where are we going to challenge them?" And therefore, that drives a lot of their judgments about conservative accounting practices, if they do get into a situation, it's your point about estimates and judgments used and reserves, they tend to air more towards the conservative side. And I think that adds to a higher quality so they're not "caught by surprises." (NASDAQ audit partner)

The RD perspective is highlighted by comments that discuss other risks besides a direct link to the financial reports but could ultimately be part of the reporting process. This focus is noted by the following quote:

> I will tell you a number of other risks that would not show up in your financial statements that potentially could drive your shareholder value up or down. (OTC AC member)

Interestingly, there are also sentiments that reflect both an AG and RD perspective as respondents indicate that the risk associated with monitoring covers both financial and strategic risks. This is evident in the following quote by a CFO:

> Because obviously any risk or any material or critical risk has and can have a significant consequence on financial reporting. And so it was my job and the team's job to make sure that we had sufficient systems and controls and a knowledge base in place such that those risks were well understood and well managed. Otherwise, the quality of the financial reporting would be impacted, inversely impacted, so I think [what is important is] the combination of having a confident management, a strong financial team and a solid understanding of the business and the key risks. (NYSE CFO)

When looking at ERM's role in achieving strong controls, the respondents emphasize primarily the monitoring perspective of ERM which suggests an AG perspective. An analysis of coded responses was performed with respect to ERM's role in achieving strong controls in

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financial reporting. This analysis (untabulated) indicates the following percentages from CFO, audit committee members, and audit partner respondents respectively with respect to the AG perspective: 86 percent, 86 percent, and 88 percent. This finding is not surprising since controls, the focus of the interview question, are primarily intended to serve as a monitoring mechanism (COSO 2004).

> There is a tendency for the ERM side to be built around and evolve around more of the financial and compliance risk. (NYSE CFO)

> So [in] some environments you go in, people do what they have to do because Sarbanes Oxley is dictating it or because they get a directive from the board that they are going to do certain types of things and it's a check the box exercise. You have a checklist whereas other places you go there is a real emphasis [on]…an environment that identifies problems or prevents problems, detects problems early on…. You are actually going to use [ERM] and not just give it lip service. (NYSE audit partner)

As an example of where respondents are disappointed that auditors overly focus on an AG approach, one CFO explains:

> So from a standpoint of financing and compliance financial reporting compliance risk, I think, the external audit group is and has been heavily focused on those two categories, and so certainly their knowledge of the types of standard financial risks and the types of compliance risks that were related to [company name] was clearly the sweet spot focus of the external auditor's work program and audit programs and the like. Where it's lacking, from at least my perspective in the quality of the audit services that they provide is that this doesn't link to more of the strategic and operational risks. (NYSE CFO)

Perhaps the lack of recognition by auditors of the importance that ERM can play in managing strategic risk is the result of auditors viewing ERM as outside the scope of the traditional financial statement audit. However, this lack of recognition can also emanate from a "check the box" mentality (Tremblay and Gendron 2011). That is, these quotes suggest that some auditors focus on the presence or absence of ERM as a monitoring mechanism in evaluating internal controls but they may fail to fully consider ERM processes to explicitly recognize strategic risks, such as the feasibility of promoting a product, that are of consequence with

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respect to the financial reporting process (e.g., risk of obsolescence of inventory by emphasizing products that are not competitive).

Across all participant types, the respondents' qualitative responses suggest an emphasis with respect to ERM on a holistic approach to risk, rather than focusing only on one category of risk. For example, one former CFO states:

> Management of any and all risks that could impact survival, reputation or the success of the company. Expansive definition that includes financial reporting risk, operational risk, reputational risk, and internal failure risk. (Mutual company CFO)

Consistent with a broader notion of ERM, one audit committee member states:

> I think it's managing risks in the broad scheme of things. It's not only financial risk, that is risks that affect the income statement or balance sheet of the company, but it also includes risk exposures that the company has with its customers, with its suppliers, with its brands. It's really a very broad definition. (Mutual company AC member)

Further, across all three types of respondents, the participants emphasize the risk assessment/identification component of the ERM process[13]. For example, one CFO states:

> Overall, I think [ERM] is a very simple concept. It's all about understanding and having the identification of your key risks and uncertainties for any corporation. (NYSE CFO)

An audit partner suggests that:

> you [have] enterprise risk management as it relates to the financial side, what are the concerns there, what are the controls the company has in place? (NYSE audit partner)

One component of ERM that is important in controlling acceptable risk is ensuring that risk is aligned with a company's strategic direction. A majority of AC members and CFOs identify strategic issues in their definition of ERM. For instance, an AC member states:

> So I would define it as the process to analyze the business environment, the strategy, to assess systemic risk, and to control those risks. (NYSE AC chair)

[13] When discussing the results, risk assessment includes identification of risk, and we refer to it simply as "risk assessment."

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Collectively, we have several takeaways with respect to AG and RD perspectives and its impact on the financial reporting process. Participants define ERM through both an agency theory and resource dependence theory lens and risk assessment is mentioned the most. However, the participants may be underemphasizing the importance of resource dependence which may attenuate some of the usefulness of ERM information. This finding is especially pronounced for auditors who look at strategy less frequently than other governance triad members. This finding corroborates what we find in relation to the first research question that perhaps ERM should have a greater influence on the audit process.

RQ 2b: Actual roles of the governance triad with respect to ERM and its effects on the financial reporting process

We followed the initial question of the definition of ERM with a series of questions regarding the actual role that each participant in the governance triad plays in ERM within his/her company based on respondents' experiences. The questions are anchored by (1) "No Role," (5) "Moderate Role," and (10) "Significant Role," and quantitative responses are followed by an opportunity for respondents to add their thoughts and experiences. The findings on participants' roles with respect to ERM are presented in Table 3.[14]

[14] We also examine the level of consensus of triads within a particular company. We expect that different members of the governance triad are likely to have different perspectives because of the different roles they play with respect to ERM which should diminish the degree to which consensus is or should be achieved. In untabulated results, the ERM factor where there is the most consensus is risk assessment/identification which is mentioned by a majority in over half of the triads and by all members of the triad in five out of the 11 triads. This result appears intuitive since risk assessment/identification is inherently the first stage of an ERM process. Strategy is mentioned by two triads unanimously and in over half of the triads it is noted by the majority. Of note, these results are largely driven by the agreement of the AC member and the CFO and not by agreement with the audit partner. Four out of 11 triads have unanimous agreement that ERM deals with operational issues, with the majority mentioning it in five triads. Five triads (one unanimous; four majority) indicate control activities when defining ERM, reflecting the importance of effective controls in achieving an effective ERM framework. Finally, a total of seven triads (two unanimous; five

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Some academics and practitioners view the audit committee as a logical committee to oversee ERM (Beasley et al. 2011), since the audit committee may be effective in assessing and monitoring enterprise-wide risks, especially if such risks impact the financial reporting process (Krishnan 2005). Consistent with this view, the mean rating across all participants for the role played by the audit committee with respect to ERM is 7.8 (on a 10-point scale). As expected, approximately half of the respondents in each group mention reporting objectives as a key aspect of the oversight function of the audit committee.

Respondents also note that the CFO plays a major role in ERM (mean = 8.2) with, not surprisingly, the CFO respondents providing the highest rating (mean = 9.4). The CFOs' responses are varied in that they view their role as being important in a number of areas in relation to ERM. For example, a CFO who describes a number of functions of the CFO, states:

> we viewed our role as being very active in not only setting the tone from the top as to how the company would be run in terms of integrity and ethics, [but also have] the ability to have mechanisms and reporting in place to identify what we view as key critical risks, and then doing our best in terms of building a system of checks and balances and internal control mechanisms that managed and prioritized the risks in the corporate environment. (NYSE CFO)

The AC members rate the CFO's role as high (mean = 8.0), with no area standing out. Interestingly, although the audit partners rate the CFO role as high (mean = 7.2), some auditors are concerned about organizations where the finance group drives the ERM function to the exclusion of the operational team. This is exemplified by the following quote:

> on a lot of my current experiences you just see ERM kind of running through the finance organization and [the finance group is] off trying to pull it together on behalf of the organization when it probably needs to be driven by more of the operational team than just the finance team. (NYSE audit partner)

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majority) mention reporting issues in their definition of ERM, highlighting that reporting (including financial reporting issues) is considered a central aspect of the rubric of ERM.

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Consistent with the role of the external audit, respondents view the external auditor as being only moderately important with respect to their role in ERM (overall mean = 5.3). Further, all groups rate reporting objectives as the most important for the external auditor (70 percent for auditor respondents). One partner also comments that auditors have to understand the strategic objectives of ERM:

> In the context of the role of the audit, I think we do look at the strategic objectives because those identify where the risks potentially are and they also drive us to focus on what types of controls there are in place to monitor those risks.…(Mutual company audit partner)

However, even the external auditors indicate that they may not be focusing enough on ERM. As one partner puts it, "They (auditors) need to expand their knowledge base" (NYSE audit partner). This perspective is corroborated by an audit committee member, who states:

> [Auditors] are almost 100 percent focused on making sure that the financial statements are fair and not misstated and so to the extent that they are considered a major enterprise risk…they are not doing anything else in way of adding value from an operational standpoint. (NASDAQ AC chair)

It is important, however, to note that adding value from an operational standpoint or contributing in a major way with respect to ERM objectives (beyond reporting objectives) may be beyond the scope and expertise of the external auditor. This view is reflected in the following comment from an audit committee member:

> It is not their area of expertise. There is none of those people who can tell us what the risk is in our operations better than our people can and unfortunately [auditors] don't always understand that. (NYSE AC chair)

Collectively, these comments suggest that our participants find external auditors currently as neither having the expertise nor do they have a sufficient focus on ERM. However, as will be described more fully in the conclusions, there may be opportunities for auditors to leverage knowledge of the ERM system to potentially make the audit more effective and efficient and improve the overall quality of the financial reporting process.

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We then asked each respondent what *their own* particular role is for each of the four objectives of COSO's (2004) ERM framework for the sample company: strategic, operational, reporting and compliance. As before, each question is anchored by (1) "No Role," (5) "Moderate Role," and (10) "Significant Role," followed by an opportunity for respondents to identify their experiences. External auditors note only reporting objectives as being above the midpoint of the scale (mean = 7.3). In contrast to the external auditors, both the audit committee members and CFOs rate their role as between 7.3 and 9.1 on the different objectives, with CFOs rating their role on each of the objectives higher than the rating by audit committee members. For example, a CFO when discussing strategic objectives states:

> So I think that it's very important that a company understands, and, as they are going through their strategic objectives, they understand the risk. And I know in here, one of the other questions you ask is, 'What other types of risks are surrounding the risk management philosophy, the risk appetite, ethical values?' I think all those have to be on the table when you make your strategic plan. You can't ignore those. (NYSE CFO)

This experience is echoed by the following two audit committee members who state:

> We consider the two major ones to be: making sure we have the right leader and making sure we have the right strategy. (NYSE AC chair)

> My role as a director is very high on helping to challenge and assess the strategic objectives that management brings to us and the plan they bring to us. That has not always been the case. I would say that over the past 4 or 5 years we've evolved a lot to be a much more strategic board in terms of the discussions that we have than what I observed earlier with a lot of tactical discussions. (Mutual insurance AC member)

With regard to their actual roles (RQ 2b), the findings indicate that CFOs and AC members report that they play a major role with respect to ERM. For example, the AC members use ERM to identify and report on risk. However, external auditors appear to play a limited role. The auditors' apparent lack of a strong exposure and understanding of the strategic objectives of the company may represent a significant lost opportunity since there is the potential for audit

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quality to be greatly enhanced by consideration of the strategic risks that a client faces (Knechel et al. 2013). This understanding of business strategies can be especially important in certain industries such as the financial services where there is the exposure of large-scale losses and upheaval if inappropriate investment strategies are pursued, as illustrated previously by the experiences of JP Morgan Chase.[15]

5. Conclusions

Given a number of corporate failures, there has been a growing emphasis on strengthening ERM practices to identify and control business risks and ensure they are consistent with corporate strategies and risk appetite. Further, many critics argue that significant company strategies and risks should be more explicitly and transparently disclosed to investors (Adams et al. 2011) and should be explicitly considered by auditors in risk assessment and program planning (Kochetova-Kozloski and Messier 2011). Importantly, the holistic risks of a company affect financial statement valuations and estimates. Thus, the current study examines the important issue of whether and how ERM affects the quality of the financial reporting process. We do this by conducting semistructured interviews to capture the experiences relating to ERM

[15] Prior research (Gendron et al. 2015) suggests that champions of risk management often engage in a discourse of legitimacy to justify these activities irrespective of how effectively they are actually working. Accordingly, we also evaluate participant responses for evidence of institutional theory (DiMaggio and Powell 1983; Powell 1991; Suchman and Edelman 1996). Using a framework presented by Cohen et al. (2008), we looked for quotes indicative of coercive isomorphism (e.g., being forced to adopt ERM by external pressure), normative isomorphism (using ERM to reflect "best practices" even if they are not always appropriate) and mimetic isomorphism (adopting ERM for "show" or to tick a box). In total, 24 participants (nine CFOs, eight partners and seven AC members) have at least one response that is indicative of institutional theory. Our respondents most frequently use language reflective of coercive isomorphism. Fifteen (six AC members, six CFOs and three partners) have at least one comment that shows evidence of coercive isomorphism (e.g., compliance with regulation). Eight (five audit partners, two AC members and one CFO) note trying to engage in best practices even if the practice may not be appropriate for the company. In total, 11 respondents express at least one comment indicative of mimetic isomorphism (four CFOs, four AC members and three partners), typically involving a checking-the-box mentality.

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practices of three key players in the financial reporting process (CFOs, audit committee members, and auditors, which we refer to as the “governance triad”) within 11 companies. In addition, we focus on evidence of agency theory (AG) and/or resource dependence theory (RD) as the drivers for the conceptualization of ERM among triad members, and we evaluate the roles actually played by the governance triad in their company in accomplishing the objectives laid out in the COSO ERM framework as it affects financial reporting (2004).

Exhibit 1 provides a summary of our results. Importantly and as our overarching takeaway, we find that governance triad members view ERM as having a direct link to the quality of the financial reporting process and the strength of internal controls. In contrast, their experiences indicate ERM has little impact on the quality of audit services. Some participants, particularly audit committee members, argue for greater auditor knowledge and consideration of ERM.

Further, all members of the triad see AG and, to a lesser degree, RD driving ERM practices. We find that participants primarily define ERM in terms of risk assessment / identification practices of the company with less emphasis placed on strategic issues emanating from the ERM process.

The relatively greater emphasis on AG may be an outcome of the notions of monitoring and control that are inherent in accounting and financial reporting—aspects in which all members of the triad are predominately focused. However, this emphasis also raises the broader issue of whether RD is underemphasized by members of the triad, thus not fully utilizing the potential benefits of ERM to help improve financial reporting quality. While the limited RD emphasis by external auditors is somewhat expected given their role, the arguably insufficient emphasis by AC members and CFOs may provide opportunities for significant improvement in

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how preparers and monitors of financial reporting could benefit from taking a broader, more strategic perspective to ERM. For example, greater consideration by CFOs and the audit committees of the strategic aspects of ERM may result in more effective accounting estimates and/or disclosures that appropriately consider the risks associated with, for example, the valuation of receivables or inventory. Future research should explore this issue in greater detail.

Perhaps because of their inherent monitoring role, auditors are found by all members of the governance triad, including auditors themselves, to have relatively low involvement with ERM, especially with little focus on strategic risks. Further, although audit committee members and CFOs perceive they play a significant role with respect to all ERM objectives (strategic, operational, reporting, and compliance), external auditors indicate a weak role with respect to strategic, operational, and compliance objectives. One explanation for this finding may be that the auditors view their primary responsibilities revolve around financial reporting and do not involve a significant role with respect to other aspects of ERM such as corporate strategies. Another explanation may be that auditors are not sufficiently sensitive to the effect of strategic risks on financial reporting quality because of lack of understanding or focus on the link between strategic risks and the financial reporting process. For example, an understanding of strategic risks could allow auditors to assess the viability of their clients more effectively in terms of a going-concern opinion or whether the audit firm should continue to be associated with a particular client.

The experiences of many of the CFOs and audit committee participants indicate that they find auditors as having a relatively low and narrow consideration of ERM practices and strategic risks. Assessing business and strategic risks is important in establishing an appropriate audit strategy (Bell et al. 1997) and in ensuring that financial reporting risks are adequately disclosed.

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Further, auditors can use this understanding of the client's risks in helping to assess the reasonableness of fair values or other subjective judgments inherent in estimates that are prevalent in financial reporting (Bratten et al. 2013; Griffith et al. 2015). As Griffith et al. (2015) point out, auditors may be not be fully effective in evaluating financial statement estimates. This problem could be remedied perhaps by emphasizing the link between ERM and financial reporting where auditors may have a stronger understanding of business risks and strategies. For instance, knowledge of a company's marketing strategies would be valuable in assessing the appropriateness of assumptions relating to the obsolescence estimates regarding inventory. Thus, an important area for future research and auditing standard setting is the appropriate level of knowledge and role of auditors in considering the various components and objectives of ERM.

In all, the findings highlight the importance of ERM in impacting the quality of the financial reporting process, internal controls, and external auditing. ERM appears to primarily play a monitoring (agency theory) role within the sampled companies; however, the potential for ERM to balance corporate strategy and business risks (resource dependence theory) is recognized and, at times, achieved. One limitation though is that our sample was primarily in the midrange of companies in terms of size. A future study could explore how ERM is implemented in large companies, which are especially prone to reputation and other strategic risks. A second limitation is that the companies in our study may be at various stages with respect to their experience and maturity related to ERM, which affects the generalizability of the findings.

This study provides insights that also have implications in an integrated reporting context. Adams et al. (2011, 2) argue that the major differences between integrated reporting and traditional reporting are "incorporating a variety of financial and nonfinancial metrics and their interlinkages; capturing a longer-term perspective; and providing a better reflection of company

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strategy." Thus, given the initiatives on integrated reporting that propose enhanced discussion and disclosure of risks (Adams et al. 2011; Cohen et al. 2012; Humphrey et al. 2014), an understanding of the ERM process will provide guidance on the components of risk that should be reported upon in an integrated reporting framework. For example, outside of the United States we are seeing increased assurance given to corporate social responsibility reporting (Cohen and Simnett 2015), especially given the new standard on assurance on greenhouse gas emissions (IAASB 2012.). Thus, ERM can be used to also assess risks associated with, for example, environmental matters in which auditors are giving assurance.

Our responses can also be evaluated within the framework for ERM proposed by Mikes and Kaplan (2012). They propose that risk management practices can be viewed within three categories that they denote as preventable risks, strategy execution risks, and external risks. It appears that the majority of our respondents viewed ERM within the preventable risk category in terms of attempting to identify risks that were operational or compliance-oriented. The second category of strategy, execution risks, deals with managing the risks associated with a firm's strategy. Although there was some evidence of adopting an RD perspective with respect to ERM, overall it appears that in their respective roles within each company the triad approaches ERM more from an AG perspective than a RD perspective. Mikes and Kaplan (2102) suggest that the third category, external risks, can be managed with the use of contingency plans. None of our respondents mentioned items within this category. However, Mikes and Kaplan argue that even within the same organization different parties may be emphasizing different risk categories that may not be captured by our examination of the governance triad, who are most responsible for the risks associated with the financial reporting process.

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The focus of the current study was on the experiences of the CFO, audit committee, and audit partners regarding ERM practices. However, other parties such as the board and a risk committee, if established, can also play significant roles with respect to ERM. For example, Viscelli (2013) found that although very few firms had departments dedicated to ERM; a number of key players were involved in ERM including at times the general counsel. Future research may focus on the experiences of these parties such as the general counsel and a chief risk officer to get a more complete picture of their roles and focus in ERM to provide additional insights on the very important unresolved issue today of which party (ies) appear to be optimal as the primary one(s) responsible to oversee ERM practices and how that affects the financial reporting process. Moreover, we did not ask respondents to evaluate how information technology and cybersecurity threats are considered within an ERM system. Tewell (2104) discussed how the SEC is now paying attention to how companies are monitoring such issues and how they are disclosed to investors. Future research should evaluate whether the increasing threat from lapses in cybersecurity are now at the forefront of ERM. This issue is important because recent lapses in cybersecurity such as at Target and Home Depot (Granville 2015) can heighten the risk that customers will not return, which could affect estimates that auditors look at such as the validity of the bad debt expense amount.

Finally, another important avenue for future research relates to an examination of audit processes and audit engagements with a specific focus on how ERM is integrated in the audit work flow. Despite acknowledgment by members of the governance triad of the apparent limited involvement of auditors regarding ERM, there is little evidence from the field on how ERM is utilized in work processes in audit settings. Given the paucity of research in this area, interview-based and ethnographic research methods (Guénin-Paracini et al. 2014; Power and Gendron

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2015) have the potential to provide significant insights into the role of ERM in the audit process, and are worthy of emphasis in future studies.

In all, the current study provides baseline evidence for preparers, auditors, and governance parties on the important role of ERM in affecting the quality of the financial reporting process. Thus, future research and practice consideration in this area appear very promising.

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Table 1
Participant and company information

Panel A: Participant demographic data

	Mean	Median	Standard Deviation	Min	Max
Audit partners					
Experience with ERM (years)	7	5	5.95	0	20
Recent experience with public clients	68%	75%	25%	25%	100%
Years industry specialization	19.40	20.00	6.80	10	30
Number of years associated with client	5.11	3.00	5.37	1	18
Audit committee members					
Experience as a Director (years)	11.23	7.00	8.62	3.00	28.00
Years of experience post-SOX	6.45	7.00	2.34	3.00	10.00
Companies served as a director	5.00	5.00	3.13	1.00	10.00
Companies served as member of Audit committee	4.27	4.00	3.00	1.00	10.00
Companies served as chair of Audit committee	3.90	3.00	3.11	0.00	9.00
Number of years served as a board member	8.60	5.75	6.65	1.00	19.00
Number of years as member of audit committee	7.85	4.25	7.07	1.00	19.00
Number of years as chair of audit committee	4.94	4.50	4.33	0.00	15.00
Number of years of external audit experience	7.27	4.00	8.21	0.00	26.00
Number of years of finance/financial reporting related experience	28.36	29.00	8.13	9.00	37.00
Number years of experience with ERM	9.55	5.00	11.20	0.00	35.00
% of public companies as director	67%	65%	29%	0%	100%
CFOs					
Years in current position	4.70	3.50	4.06	1.00	13.00
Years of audit experience	7.06	4.50	5.02	3.00	17.00
Years of finance or financial reporting experience	24.44	25.00	7.81	10.00	40.00
Experience with ERM (years)	8.00	4.50	8.09	0.00	24.00
Years industry specialization	22.40	27.50	11.78	3.00	35.00
Years with company	10.40	7.00	10.21	1.00	31.00

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Panel B: Company demographic data

	Mean	Median	Standard Deviation	Min	Max
Members on Audit Committee at company	3.90	4.00	0.88	3.00	6.00
Members with accounting or financial expertise	2.27	2.00	1.42	0.00	4.00
Members with non-accounting financial expertise	2.10	2.00	1.20	0.00	4.00
	n				
Chair of Board also CEO (1=Yes, 0=No)	5				

Stock exchange	***n***
NYSE	6
NASDAQ	1
OTC	3
OTHER (Mutual insurance)	1
TOTAL	11

Company	SIC 4-digit industry classification
C1	Insurance Agents, Brokers & Service
C2	Computer Programming Services
C3	Hazardous Waste Management
C4	Commercial Lighting Fixtures
C5	Electrical Work
C6	Surgical Appliances and Supplies
C7	Misc. General Merchandise Stores
C8	Gift, Novelty, and Souvenir Stores
C9	In Vitro & In Vivo Diagnostic Substances
C10	Laboratory Apparatus and Furniture
C11	Semiconductors and Related Devices

	Sales revenue* (in $millions)	Total assets* (in $millions)
Mean	$ 1,964	$ 985
Median	$ 267	$ 824
Standard Deviation	$ 3,429	$ 1,031

Notes:

* Based on data for 9 out of the 11 companies since this information was unavailable for 2 companies.

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Table 2
ERM and the financial reporting process

Type of question		AC member		CFO		Partner		Total	
		Response	Frequency	Response	Frequency	Response	Frequency	Response	Frequency
	Role ERM plays in achieving high-quality financial reporting								
CE	Currently plays—Mean (s.d.) [Range]	5.9 (2.4) [1-10]	81.8%	7.3 (2.5) [1.5-10]	100.0%	6.6 (2.5) [1-8.5]	80.0%	6.6 (2.4) [1-10]	87.5%
CE	Should play— Mean (s.d.) [Range]	6.6 (2.9) [1-10]	81.8%	8.2 (1.5) [5.5-10]	100.0%	7.1 (2.9) [1-9.5]	80.0%	7.4 (2.5) [1-10]	87.5%
CE	**Role ERM plays in achieving strong internal controls—Mean (s.d.) [Range]**	6.3 (3.4) [1-10]	63.6%	7.3 (2.7) [1.5-10]	90.9%	6.0 (2.0) [2.5-8.5]	100.0%	6.5 (2.6) [1-10]	84.4%
OE	**Nature of role:** Identify risks	4	36.4%	3	27.3%	2	20.0%	9	28.1%
OE	Control environment/Tone at the top	1	9.1%	4	36.4%	1	10.0%	6	18.8%
OE	Other	2	18.2%	1	9.1%	2	20.0%	5	15.6%
CE	**Role ERM plays in quality of audit services— Mean (s.d.) [Range]**	4.9 (2.5) [1-8.5]	81.8%	6.3 (2.3) [3-10]	63.6%	6.1 (2.1) [2-8.5]	80.0%	5.7 (2.3) [1-10]	75.0%
	Role ERM plays in auditors' risk assessment and scope decisions								
CE	Currently plays— Mean (s.d.) [Range]	4.9 (2.4) [1-9.5]	90.9%	6.1 (2.7) [1-10]	90.9%	7.0 (1.8) [4.5-9.5]	100.0%	6.0 (2.4) [1-10]	93.8%
OE	Impact on audit: risk assessment	5	45.5%	6	54.5%	5	50.0%	16	50.0%
OE	Scope	6	54.5%	6	54.5%	5	50.0%	17	53.1%
OE	Other	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Type of question		**AC member**		**CFO**		**Partner**		**Total**	
		Response	**Frequency**	**Response**	**Frequency**	**Response**	**Frequency**	**Response**	**Frequency**

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	Role ERM plays in auditors' risk assessment and scope decisions								
CE	Should play— Mean (s.d.) [Range]	5.8 (2.6) [1-9.5]	90.9%	7.5 (2.8) [1-10]	90.9%	7.6 (1.6) [5-9.5]	100.0%	7.0 (2.4) [1-10]	93.8%
OE	Impact on audit: Risk assessment	3	27.3%	3	27.3%	7	70.0%	13	40.6%
OE	Scope	3	27.3%	4	36.4%	5	50.0%	12	37.5%
OE	Other	0	0.0%	2	18.2%	0	0.0%	2	6.3%

Notes:

Total number of participants = 32 (AC members = 11; CFOs = 11; Partners = 10)

For open-ended (OE) questions, responses are coded as 1 (0) if the indicated response was (was not) identified by the respondent. The frequency reflects the proportion of the 32 participants who gave that response.

Closed-ended (CE) questions are coded on a 10-point Likert scale, with endpoints: 1=No Role, or Not Important; and 10=Significant Role, or Very Important. The calculations of means, standard deviations and ranges exclude non-responses, i.e., cases when the question was not asked or the participant did not respond. The frequencies report the proportion of the 32 participants who responded to that item.

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Table 3
Triad roles and their effect on the financial reporting process

Type of question		AC Member		CFO		Partner		Total	
		Response	Frequency	Response	Frequency	Response	Frequency	Response	Frequency
	Roles played by governance triad in ERM								
CE	**Audit committee— Mean (s.d.) [Range]**	8.4 (1.4) [5.5-10]	100.0%	7.6 (1.7) [5-10]	100.0%	7.4 (1.2) [5-9]	100.0%	7.8 (1.5) [5-10]	100.0%
OE	Strategic objectives	2	18.2%	0	0.0%	2	20.0%	4	12.5%
OE	Operational objectives	3	27.3%	0	0.0%	0	0.0%	3	9.4%
OE	Reporting objectives	5	45.5%	6	54.5%	5	50.0%	16	50.0%
OE	Compliance objectives	2	18.2%	6	54.5%	4	40.0%	12	37.5%
OE	Internal environment	0	0.0%	1	9.1%	0	0.0%	1	3.1%
OE	Risk assessment	5	45.5%	1	9.1%	4	40.0%	10	31.3%
OE	Risk response	4	36.4%	0	0.0%	2	20.0%	6	18.8%
OE	Control activities	1	9.1%	2	18.2%	2	20.0%	5	15.6%
OE	Monitoring	1	9.1%	1	9.1%	0	0.0%	2	6.3%
CE	**CFO— Mean (s.d.) [Range]**	8.0 (1.8) [4.5-10]	90.9%	9.4 (0.9) [8-10]	100.0%	7.2 (2.6) [3-10]	100.0%	8.2 (2.0) [3-10]	96.9%
OE	Strategic objectives	1	9.1%	3	27.3%	0	0.0%	4	12.5%
OE	Operational objectives	1	9.1%	4	36.4%	2	20.0%	7	21.9%
OE	Reporting objectives	1	9.1%	3	27.3%	3	30.0%	7	21.9%
OE	Compliance objectives	0	0.0%	2	18.2%	1	10.0%	3	9.4%
OE	Internal environment	0	0.0%	2	18.2%	0	0.0%	2	6.3%
OE	Risk assessment	2	18.2%	3	27.3%	2	20.0%	7	21.9%
OE	Risk response	2	18.2%	2	18.2%	2	20.0%	6	18.8%
OE	Control activities	1	9.1%	1	9.1%	0	0.0%	2	6.3%
OE	Monitoring	1	9.1%	1	9.1%	0	0.0%	2	6.3%

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Type of question		AC Member		CFO		Partner		Total	
		Response	Frequency	Response	Frequency	Response	Frequency	Response	Frequency
CE	**External audit— Mean (s.d.) [Range]**	4.8 (2.6) [1-9]	72.7%	5.6 (3.2) [1-10]	90.9%	5.4 (1.6) [3-7.5]	90.0%	5.3 (2.5) [1-10]	84.4%
OE	Strategic objectives	0	0.0%	0	0.0%	1	10.0%	1	3.1%
OE	Operational objectives	1	9.1%	0	0.0%	0	0.0%	1	3.1%
OE	Reporting objectives	4	36.4%	6	54.5%	7	70.0%	17	53.1%
OE	Compliance objectives	3	27.3%	4	36.4%	0	0.0%	7	21.9%
OE	Internal environment	1	9.1%	1	9.1%	0	0.0%	2	6.3%
OE	Risk assessment	2	18.2%	1	9.1%	3	30.0%	6	18.8%
OE	Risk response	0	0.0%	0	0.0%	1	10.0%	1	3.1%
OE	Control activities	0	0.0%	1	9.1%	2	20.0%	3	9.4%
OE	Monitoring	0	0.0%	0	0.0%	1	10.0%	1	3.1%
	Respondent's role with respect to the following ERM objectives								
CE	Strategic objectives— Mean (s.d.) [Range]	8.0 (2.3) [4-10]	72.7%	9.1 (1.1) [7-10]	100.0%	4.0 (2.5) [1-7.5]	100.0%	7.1 (3) [1-10]	90.6%
CE	Operational objectives— Mean (s.d.) [Range]	7.3 (1.9) [4-10]	81.8%	8.4 (1.8) [5-10]	100.0%	3.3 (1.7) [1-5]	100.0%	6.4 (2.8) [1-10]	93.8%
CE	Reporting objectives— Mean (s.d.) [Range]	8.2 (1.6) [5-10]	100.0%	9.1 (1.6) [5-10]	100.0%	7.3 (2.5) [4-10]	90.0%	8.3 (2.0) [4-10]	96.9%
CE	Compliance objectives— Mean (s.d.) [Range]	7.6 (3.4) [1-10]	72.7%	8.3 (1.5) [6-10]	90.9%	5.0 (2.9) [1-10]	90.0%	7.0 (2.9) [1-10]	84.4%

Notes:

Total number of participants = 32 (AC members = 11; CFOs = 11; Partners = 10).

See Notes 1 and 2 in Table 2 for an explanation of how “OE” and “CE” were coded.

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Exhibit 1 Summary of the major findings

RQ 1: What do the experiences of members of the governance triad indicate about the impact of ERM on the financial reporting process?

- ERM plays a substantive role in the quality of financial reporting (FRQ) and should be even higher (estimates/compliance).
- ERM has a low impact on quality of the audit (lowest assessment by audit committee members).
- There is some impact of ERM on audit risk assessment and scope judgments but little focus on strategic and operational risks.

RQ2a: What is the relative focus (AG versus RD) of the governance triad with respect to ERM, and how does the relative focus affect the financial reporting process?

- Members of the triad generally define ERM through both an agency and resource dependence lens.
- With respect to definition of ERM, risk assessment/identification is mentioned the most. Strategy is mentioned infrequently by auditors.
- Although there is variation in the actual focus on agency and resource dependence theories across triad participant groups, the significance of resource dependence may be underemphasized in their roles by all members, especially auditors.

RQ2b: What are the actual roles of the governance triad with respect to ERM, and how do the roles played affect the financial reporting process?

- CFOs and AC members play a major role with respect to ERM.
- The major focus is on risk assessment/identification.
- The focus of the AC is on reporting risk.
- Many believe, especially CFOs and AC members, that auditors are insufficiently using and considering ERM in the audit process.
- Auditors do not perceive they have a major role in the strategic, operational, and compliance objectives of ERM.
- There are concerns by CFOs and AC members of whether auditors have sufficient knowledge of ERM.

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