- The second component of the CRMF is to establish a risk assessment. While it is important to understand the risk assessment process in detail, this series focus is solely on the risk assessment as a component of the CRMF and risk program. Creating the risk assessment will be described in much greater detail in part three. The risk assessment is overseen by the risk officer and is an evaluation of the risks faced by the commercial cannabis business. These are factors to consider products and services, customers, vendors, transactions, geographic locations served, and other relevant factors unique to the business. There are three steps involved in the analysis of risks. The first step is the analysis of inherent risks which are risks that are present before any control activity is put in place. The second step is to measure the quality of control activity, which evaluates how effective the controls are at mitigating the inherent risks identified. The third and final step is the residual risk which is the risk that remains after control activities have been applied. The risk profile is a summary of the residual risks that the commercial cannabis business is exposed to along with the risk direction. Risk direction explains the increase or decrease of risk over a period of time. This is shared with the board and senior management. The risk assessment is a ongoing activity and should be updated when material risks change or at a minimum every 12 to 18 months. For those new to a risk based approach the risk assessment is a foundational piece to create controls tailored to your specific business risks. Simply put, this is where most risk managers believe they create competitive advantages for their businesses by making controls as effective as possible for the cost of the control. For example, the cost of avoiding, transferring, mitigating, or accepting risk can have material differences in cost and effectiveness based on the unique facts surrounding your commercial cannabis business. Some commercial cannabis businesses may want to avoid certain products they consider repealing to minors. Others may choose to mitigate the risk through internal controls to reduce the likelihood of diversion for those products. Others may accept the risk because their client profile does not carry the same risk to minors like medical dispensaries. The risk assessment is a complex tool that allows the risk officer to identify the inherent risk so that the risk mitigation can be aligned to the risk as closely as possible. Finally, it is important to understand that most risks cannot be eliminated. By identifying the residual risk the risk manager can do the control to manage the risk within the business' specific risk appetite which is important because it allows the risk manager to be cost effective by knowing where the business could accept a residual amount of risk. The risk assessment process provides a forum to explain the risks, controls, and current risk profile of the company to all companies stakeholders so that they can assist in managing risks. As identified in the internal control environment, risk management is everyone's responsibility not just the risk officer. However, it is the responsibility of the risk officer to make sure that everyone is aware of their risk responsibilities so they can execute against them. The risk assessment and profile assist the risk officer to clearly document the risks.