



ANNEX 3 – RISK MANAGEMENT FRAMEWORK

The CGIAR Internal Auditing Unit has prepared a Good Practice Note which provides a set of benchmarks to Centers for implementing an enterprise (Center-wide) risk management system. The note draws on the results of a survey of external good practice (national standards and guidance material from various CGIAR member countries) conducted by the CGIAR Internal Auditing Unit, as well as the results of recent work with CGIAR Centers.

Enterprise risk management is becoming widely implemented in both public and private sectors in many countries, including in some CGIAR donors. Various high profile events in recent years – ranging from large scale financial collapses to major failures in the provision of public services – have led to an explosion in regulatory requirements and professional guidelines on managing risks. These have focused on prevention or mitigation of losses. However, in an environment where organizations must evolve to stay relevant and attractive to investors, risk management is also concerned with how well the organization manages opportunities.

Taking a broader view then, enterprise risk management is concerned with how an organization assures itself, for the whole range of activities in which it is engaged, that the opportunities and risks associated with existing operations and with potential new activities are identified, evaluated and acted upon in a timely manner. Enterprise risk management is defined in the COSO Enterprise Risk Management Framework published in the United States, as: “a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”

Centers have always dealt with opportunities and risks in one way or another. However a more systematic, explicit, enterprise-wide risk management process – drawing on good practice from CGIAR member countries – should help Centers better deal with uncertainty and avoid unpleasant surprises. Reporting by management and Boards on the effectiveness of risk management will provide assurance to current and potential donors and other stakeholders in the CGIAR system, and support requests for greater unrestricted funding.

The design of enterprise risk management should reflect a balanced (risks and opportunities) view of the nature of the underlying business activities. Intelligent risk management should also encourage management and staff to challenge existing ways of



making sense of the external and internal environments, enabling a more proactive management approach.

The risks and opportunities that the CGIAR Centers manage are as complex as any found in any international public or private sector organization. However, the challenge for the Centers is to implement integrated risk management processes at a scale and cost that is commensurate with their size and the need to keep costs to a minimum.

Bearing these aspects in mind, the CGIAR IAU Good Practice Note identifies the following good practices which can assist Centers to implement an effective and efficient enterprise risk management process. Internal Auditors should refer to these when providing advice for or reviewing Center risk management frameworks.

THE KEY ELEMENTS OF AN ENTERPRISE RISK MANAGEMENT PROCESS

Establish the context

- Consider risks and opportunities across all the activities of a Center, taking into account both the external and internal environment in which the Center operates
- Promote, through clear policies and procedures, awareness raising activities and senior management emphasis, an internal environment that supports proactive risk management at all levels
- Ensure that clear business objectives are set for all Center business units and programs, so that risks can be readily identified and assessed
- Identify a point of coordination within the Center, which can assist the Director General to integrate the results of various risk management activities across the Center

Identification of Risks

- Integrate, into the Center's regular business processes, steps whereby the key risks and opportunities at process, unit and Center level are considered and are inventoried for assessment and monitoring
- Identify, through collaborative processes with other Centers and System Office components, those risks that are common to or shared across the CGIAR System



Risk Analysis/Evaluation

- Consider how the identified risks might affect the achievement of business objectives from two perspectives: the impact of failure on the Center's objectives should it occur and the likelihood of occurrence of such an event
- Evaluate the Center-wide significance of risks identified at unit / activity level
- Evaluate, through collaborative processes with other Centers and System Office components, common or shared risks
- Evaluate trends in risk impact and likelihood

Risk Treatment

- Establish an oversight process for ensuring that there are clear management responses for all identified risks where likelihood and impact are rated as significant
- Ensure that all risk responses are implemented through appropriate control activities
- Integrate risk management results into established Center policy and planning processes

Monitoring and Review

- Document the results of risk monitoring activities, including action taken to address shortcomings identified and progress with mitigation plans

REPORTING ON RISK MANAGEMENT

- Prepare periodic summary management reports on the status of Center-wide risk management activities
- Prepare Board statements on risk assessment and internal control that are supported by the Center's internal risk management system. A proposed format of Board statement has been developed based on research by the CGIAR Internal Auditing Unit and is documented in a Discussion Note.
- Implement, preferably through existing internal management reporting processes, reporting by unit / activity managers on the status of risk management at their level and actions propose.

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