

# Brainstorming on risks that CGIAR should take to deliver on its mission

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This is a recommended pre-read before Agenda item 6

Purpose: Status update on work the System Management Board is leading to identify a “risk management framework” for the CGIAR System (required from the CGIAR System Framework)

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## Contents of this “Part A” pre-read material

### **Part A: Background Framing**

- 1. Rationale for work**
- 2. SMB Dec 2016 launch of work**
- 3. Centers’ fact finding Q1-2017**
- 4. SMB March 2017 direction**
- 5. Outline timetable to SC5**

#### **Purpose:**

Keeping people up to date, sharing outputs, and checking progress against expectations

### **Part B: Policy questions for System Council input\***

**Purpose:** Seek inputs on concepts emerging from early Center consultations, to help to shape:  
(i) a first outline proposal for a risk management framework of the CGIAR System and (ii) to inform the SMB’s elaboration of Internal Audit Function arrangements

\* **Note** – Presentation numbered **SC4-06B** sets out key questions that will be presented during Agenda item 6 on Thursday 11 May 2017.

# Rationale for taking the work forward

## - Provisions of the Charter and Framework



- **System Council** to approve a *'risk management framework of the CGIAR System'*, with System-level escalation procedures, based on a proposal from the SMB, [*Framework - Article 6.1(l)*]
- **System Management Board** to approve the TOR and means for fulfilling the *Internal Audit Function*\* arrangements considering System Council inputs, and the arrangements of Centers, [*Charter, Article 8.1(i)*]
- **Both Council and Board**: Each to form an Audit and Risk Committee (noting that membership criteria and proposed mandates differ), [*Framework - Article 8.2(a), Charter - Article 9.11(a)*]
  - *'Internal Audit Function'* definition - means the arrangements agreed between the System Council and SMB to provide independent and objective assurance and advisory services to the System Council and SMB.
  - No prescription what those "Internal Audit Function" arrangements are: Rather, what outcomes they must deliver – namely "provide assurance and advisory services"

## What global best practice says on risk

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### **King Code (IV) on Corporate Governance (2016 draft):**

*The governing body should approve the nature and extent of the risks and opportunities that the organization should be willing to take, and particularly:*

- ***The type of risk that an organization/system is willing to take:***  
*The risk and opportunity appetite, namely the propensity to take appropriate levels of risk and opportunity in pursuit of strategic objectives, and*
- ***The amount of risk that is prepared to be taken for a given risk:***  
*The limit of the potential loss that the governing body is prepared and has the capacity to tolerate.”*

In CGIAR’s more-federated governance model – the recommended approach is a framework based on principles, that the relevant governing body can implement

# System Management Board December 2016 Launching work on risk and internal audit needs



**Accepting that risk is an every day part of CGIAR System activities, the Board highlighted the following as three guiding principles**

- 1. Significant risks should be identified and monitored**, enabling management within the respective entities (and across them for system-wide risks) to take informed decisions and take timely action.
- 2. Strategic opportunities should be maximized** (not avoided), based on policies, guidelines and practices that give confidence that risks will be managed/mitigated as required.
- 3. Objectives should be achieved:** In the CGIAR context, this means delivering on 3 strategic goals in the 2016–2030 Strategy and Results Framework.

# System Management Board December 2016

## Other relevant considerations



### Build on what exists

- Identify good risk management practices that exist
- Do not start anew

### Apply common rules

- Agree minimum appropriate elements
- Speak the same language on risk

### Continuously learn

- Recognize no 'right' or 'perfect' model
- Evolve & periodically reassess for lessons

### **Additional Operational context: CGIAR's February 2016 Guiding Principles**

*(At Annex 1 of the CGIAR System Framework)* including: (i) the importance of ensuring clearly defined roles, responsibilities, accountabilities and oversight functions; and (ii) that the principle of subsidiarity should guide policies and implementation, and overreach must be avoided. Emphasis on Center Boards' legal, governance and fiduciary responsibilities for their respective Center was emphasized for this particular principle.

# Additional Center reflections to build on the System Management Board's guidance



Recognition of the importance of the following 6 concepts being built into any overall guiding framework

- 1. Consider having a common categorization of risks** to aid in an informed conversation on risk ownership and effective management.
- 2. Allocate oversight for those risks between the relevant stakeholders so that the right body is charged with responsibility in regard to the most relevant of risks** (and maintaining as a core principle that the Centers themselves manage Center-level risks).
- 3. For the more limited number of risks that are System-level risks, clearly articulate the overall risk appetite for the System**, noting that there are clearly risks such intentional global intellectual assets misuse, where there is no tolerance, but that there are also other risks that also give rise to significant potential opportunity if exploited in an appropriate way.

Centers' additional inputs continued

4. **Ensure that the risk management framework is developed in conjunction with appropriate cross-system escalation processes**, with both escalation and de-escalation of risk issues, building and relying upon Center processes.
5. **Strengthen cross-System capacity to communicate risk issues in a way that enhances the capacity to take informed action on that issue** (whether the responsible party is Center Board, SMB or System Council).
6. **Agree common principles to support framework implementation:**  
Potential elements including: (i) statement of intent;  
(ii) educate staff to more effectively embody risk management in all that they do; (iii) champion values across and within the system;  
(iv) build a better sense of shared responsibility to support the System becoming truly impactful.

# Outcomes of Q1-2017 fact-finding exercise

## A solid foundation exists on which to build

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- **Each Center has in place risk management policies and practices** overseen and routinely discussed by the Center Board of Trustees
- **In all cases Directors General are responsible for implementation of risk management policies**, and are supported by or leading an Executive/Risk Management team.
- **Clearly established practice of reporting on risk to the Board:** annual (10) bi-annual (4) or quarterly (1) basis, providing an overview of key risks, risk changes, and risk-based action plans.
- **For all Centers, the role attributed to their respective Internal Audit provider is to review the design and effectiveness** of the Center's risk management processes and advise the Board on gaps

# Outcomes of Q1-2017 fact-finding exercise

## Selected good practices that already exist

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### **Risk Appetite statement:**

Both **ILRI** and **IRRI** operate according to a risk appetite scale and determine the level of risk that the Center is willing to take per category of risk.

### **Risk Management methodologies**

- **CIFOR** and **IITA** incorporate the assessment of controls to determine the residual risk. In the action plan there is a link between the residual risk and mitigation plans.
- **AfricaRice** assesses the quality of controls to calculate the “net risk”
- **ICRAF’s** risk register describes clearly the risk per category, related events over the past 5 years, risk owner and processes involved. It provides clear description of the mitigation actions presented both in place and for consideration.
- **IITA** provides an overview of the “Current Controls in place”, “Control Gaps identified” and “Additional Controls Required” in the risk register.

## Other important contextual considerations

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- **All Centers already have their own whistle-blowing policies** and within-Center escalation procedures
- **There are already multiple assurance providers across the System**, all relevant to scope of a “CGIAR System” risk management framework *Including: Center’s own management; Internal control teams; Center-specific internal and external audit; the SMB and its Audit Committee, the IEA; funder-specific procedures for bilateral grants, etc.*
- **Every System Council member is also operating according to operational risk management guidelines**, procedures and/or rules and also have multiple assurance providers

**Center/SMB view: Goal therefore is not to put layers on top. Rather, better understand what risk & assurance mechanisms exist, and then identify and address any key gaps**

# System Management Board further direction from SMB5 - March 2017

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## **4 concepts adopted to take development of a risk management framework for the CGIAR System forward:**

1. Work with clear and easy-to-understand definitions and move to a “combined assurance” model if possible based on enterprise risk management principles
2. Adopt a common standard to reach and routinely re-assess capacity taking cost/benefit ratio into account
3. Be pragmatic in defining the “risk universe” and work to identify the most relevant entity to oversee relevant risks
4. Adopt a clear and relevant communications and escalations strategy

# SMB March 2017 - Concept 1

## – Work with straight-forward definitions

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**Risk:** is the possibility that events will occur and affect the achievement of strategy and business objectives

**Enterprise risk management:** is the *culture, capabilities, and practices, integrated with strategy and execution*, that organizations rely on to manage risk in creating, preserving, and realizing value, to add to an internal control environment, not replace it

Taken from definitions that are now set out in the July 2016 **Revised COSO\* Enterprise Risk Management Framework Exposure Draft**

\*COSO: The *Committee of Sponsoring Organizations of the Treadway Commission (COSO)*, is a joint initiative of private sector and not-for profit organizations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

#### **Specifically – taking into account Center Audit Chair recommendations:**

- **Adopt a well-recognized ‘risk maturity’ model**, that Funders and Centers alike can readily interpret in terms of Center and System risk maturity.
- **Set a reasonable standard for ‘today’ that:**
  - Reflects current realities
  - Facilitates Center-management’s ability to focus on priorities all-the-while managing risks and taking opportunities
  - Efficiently matches level of effort & cost of ensuring compliance
- **Set a goal for three years in the future + incorporate a road-map to share lessons learned and good practices**, annually reviewing capacity and progress

# 'Risk maturity' model selected to start to inform the SMB's work

Level of Maturity	Framework	Commitment	Ownership	Processes	Communication & Training	Measurement	HR Support	Oversight	
<b>Ad hoc</b>	No structured approach	Risk management seen as unnecessary expense	No interest in using risk management	No tracking of risk management	No formal risk management training	No risk assessment performed	No HR support	No standard reporting	← Necessary elements for effective risk management
<b>Initial</b>	Policy/process defined	Rules-based approach	Partially defined roles	Risk management champion drives implementation	Risk management materials circulated	One-off requirements announced	New staff trained	Monitored by exception	
<b>Repeatable</b>	Practical guidance provided	Proactive approach	Clearly defined roles	Managers drive implementation	Co-ordinated training provided	Repeat measurements reported	Risk management integrated into all training	Business units monitor own risks	← Suggested as <b>adequate</b> re balance of cost & benefit
<b>Managed</b>	Managers confirm compliance	Risk management embedded	Center of excellence model	Business units drive implementation	Business units drive tailored training	Risks measured consistently	Risk management ability impacts hire/promote decisions	Single view of risk across organization	← Suggested as <b>optimal</b> when balancing cost & benefit
<b>Excellence</b>	Risk management central to decision making	Risk management used for strategic advantage	Managers pursue risk unconsciously	Board and CEO drive risk agenda	Training focuses on best practice	Risk-adjusted performance measures used	Risk management seamlessly integrated into HR	Business driven with key risk indicators	← Feasible but <b>with significant</b> effort & funding

### Centers’ early reflections:

- Multitude of possible risks to oversee, not all with same impact
- Vast majority of all risks are responsibility of Center Boards
- A functional risk management framework would do well to focus on 10 – 15 “key risks” for the System
- Strong benefit in having a common language on categories of risk

### Thus – a need to:

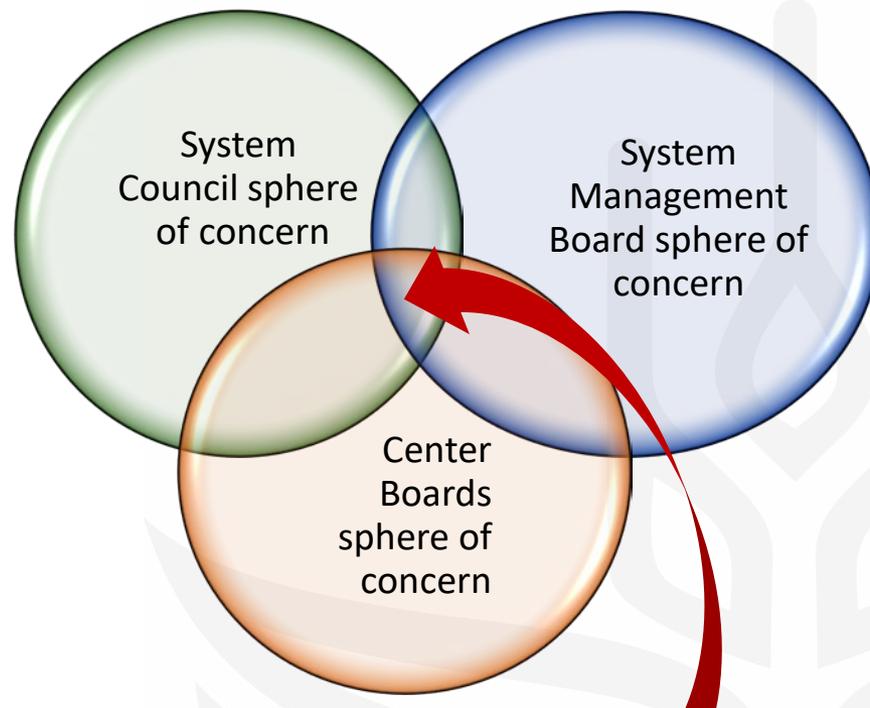
- **Agree what the ‘universe of risk is’** for System-level review (everything ever possible or something more pragmatic?)
- **Agree overall ‘risk appetite’** and then “risk tolerance” by risk (from the definitions on slide number 3)
- **Ensure a principles-based not rules-based application model**

# Concept 3 continued

## Who should oversee which risks?

### Working proposition on CGIAR System risks:

- **Of the universe of priority risks**: Some are most relevantly overseen by Center Boards or System Management Board or System Council
- **Others are so important** that many entities will consider the risk, but perhaps from different perspectives



**Pragmatically**: it may be a small number of risks that need to be reviewed by all, but others are the focus of specific governing bodies.

## SMB March 2017 - Concept 4 - Adopt a clear and relevant communications and escalation strategy



### **Unequivocal input from the Center Boards, DGs & Audit Chairs**

- Build on strength that 15 Centers have a Center-specific escalation procedure that puts most serious risks before Board
- Key: when escalating outside of a Center-specific context, communicate risk issues to right audiences *in the right way*
- Approach: In no way impacts unwavering commitment to transparency
- Rather – recognizes that those receiving the information need to have it provided in a way that they can be informed + act

**Goal - Work across the System to have in place a coordinated communications + escalation/de-escalation (back to Centers) of risks in the System that gives right internal & external stakeholders the tools to be able to take an informed decision/position on the risk or opportunity.**

## Outline timetable

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### **Key steps and timing** (✓ denotes step completed)

- ✓ 24-25 Jan 2017: Inaugural General Assembly of Centers, preliminary identification of system-wide risks
- ✓ 31 Jan 2017: Inaugural joint meeting of Center Audit Committee Chairs; elaborating the risk categories; identifying System-level collaboration required
- By SC4 May 2017 – System Management Board identification of key concepts to help take the work forward, and policy questions then framed for System Council input
- By early Sept 2017 – SC Audit & Risk Committee formed; independent members selected; and SMB to approve system-focused arrangements for an Internal Audit Function that provides SC and SMB reasonable assurance at System-level based on SC consultations over the coming months
- By Nov 2017 – SC approve risk management framework of CGIAR System

[Link to document SC4-06B](#)

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Certain policy questions will be asked of the System Council during SC4.

Those questions are set out in document number SC4-06B, which will be presented during agenda item 6 on 11 May 2017.