

Background Briefing Note:  
Risk and Assurance elements for the CGIAR System

Action Requested:

**The SMB is invited to provide overall observations on the elements of the package that has been developed to take prior PowerPoint summaries on the emerging risk management framework into the basic documentation that is needed – and also for the Internal Audit Function.** The SMB's Audit and Risk Committee will meet on the immediate following day, Thursday 28 September, to consider those inputs and the detailed drafting, and refine the proposal in this document before consultation across the System in advance of the System Council's 5<sup>th</sup> meeting on 9-10 November 2017.

BACKGROUND NOTES

1. **The draft System Council paper follows the detailed PowerPoint presented at SMB5 (March 2017) on:**
  - a. progress towards development of an inaugural Risk Management Framework of the CGIAR System (required under the 'CGIAR System Framework'); and
  - b. identification of appropriate Internal Audit Function arrangements (required under the 'Charter of the CGIAR System Organization', as one of a range of providers of reasonable assurance on System risks).
2. **The Council received an update on early thinking at its May 2017 meeting** and was supportive of the overall emerging approach.
3. **The various Charter and Framework provisions on risk and assurance are numerous and intersecting.** In addition to setting out various responsibilities for risk management and internal audit, the governing documents envisage both the Board and Council having an 'Audit and Risk Committee' with related, but distinct mandates.
4. **The Board's Audit and Risk Committee was put in place in July 2016.** Formation of the Council's committee has been timed to take place after approval of the risk management framework, to ensure that committee has the right mandate to avoid duplication. It is open to the Council to decide not to form its 'Audit and Risk Committee' (NB - we are proposing a name change if the committee remains to avoid ongoing confusion). For the present, we are proceeding as if this additional element

is also required – and a TOR for a newly named ‘Assurance Oversight Committee’ has therefore been prepared as part of delivering to the Council in November 2017 a relatively complete overall ‘assurance package’.

5. **The draft materials in the System Council paper draw on best international practice set out in the revised COSO<sup>1</sup> framework (issued 6 September 2017), and ISO 31000:2009<sup>2</sup>.** Importantly, COSO and ISO 31000 emphasize tailoring to meet the contextual environment, whilst retaining certain minimum elements.
6. **Tailoring in CGIAR’s context has meant devolving actions as far as appropriate, without undermining transparency and oversight.** This is achieved via:
  - a. **Adopting the definition of an ‘extended enterprise’ in our work** – taken from the UK Institute of Risk Management as the basis for thinking about a ‘System’ and not a single organization (in which all elements of a risk management framework would ordinarily be connected through a single governance and management structure); and
  - b. **Fully respecting Guiding Principle 12 – Subsidiarity to guide policies and implementation** from the *CGIAR System Framework*. Accordingly, whilst international standards set out a relatively formulaic set of elements for an adequate Risk Management Framework, wherever it appears appropriate to do so, the Board is proposed as the approval entity of the relevant element. For example, the recommendation is that there is no formal ‘risk management policy’ on top of the over-arching ‘risk management framework’. Instead, it is suggested the Board have the role of approving guidelines for the implementation of the risk management framework. We also suggest the Board owns the register for System-wide risks as the ‘managing’ entity in the System.
7. **For the proposed TOR for the Internal Audit Function arrangements, the Institute of Internal Auditors also set out minimum requirements to be met for the service to be considered adequate in terms of providing reasonable assurance<sup>3</sup>.** The proposal presented for Board review presents a risk-based demand driven model that delivers to minimum professional standards.
8. **Thinking carefully about any additional ‘burden’ on Centers:** The proposed risk management framework is primarily a means for CGIAR System stakeholders to be raising and proactively managing System-related new opportunities and/or risks via common terms and agreed processes, and laying out minimum standards for risk management across the System. Center-own risk policies and practices will not require revision. The Guidelines will set out certain minimums that Centers agree to meet. Voluntarily, Centers may wish to take up some of the language of the System’s

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<sup>1</sup> The Committee of Sponsoring Organizations of the Treadway Commission, 6 September 2017, *ERM Framework: Enterprise Risk Management—Integrating with Strategy and Performance*

<sup>2</sup> International Organization for Standardization, *ISO 31000 - Risk Management: Principles and Guidelines*

<sup>3</sup> Refer, *International Standards for the Professional Practice of Internal Auditing (October 2016)*

framework where it adds value to Center-own operations. Centers continue to maintain their own risk registers and feed information on risks/escalate issues which are also System-related.

9. On the Internal Audit Function arrangements - The proposal presented for System Council inputs before the Board approval at its December meeting builds on what is already in place in the Centers/regional teams, being aware however that, more recently, when taken as a collective whole, internal audit capacity has seen a decline.
10. **Setting 'combined assurance' as the recommended standard.** Center Audit Committee Chairs<sup>4</sup> agreed in January 2017 at their inaugural cross-Center meeting on risk and assurance, to aspire to introduce the 'combined assurance' model across the System. The proposed 'Risk Management Guidelines' take this up on a progressive basis, with the goal of making this approach uniform in a number of years.

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<sup>4</sup> Term used to include a reference to all 15 Center committees, noting that nomenclature differs amongst the Centers for the committee(s) with oversight responsibility for risk management and/or external and internal audit and assurance more generally.