A Risk Management Framework for the CGIAR System

Purpose

This paper summarizes the main elements of the 'Risk Management Framework' for the CGIAR System. As a companion resource document (SMB8-11B), the paper also presents the 'CGIAR System Risk Appetite Statement'; and terms of reference for the System Council's 'Assurance Oversight Committee'. The above elements were all approved by the System Council at its 5th meeting (Decision Ref: SC/M5/DP12).

To complete the CGIAR System's risk oversight architecture, two elements fall within the responsibility of the System Management Board; (i) the CGIAR System-wide Risk Management Guidelines; and (ii) the Terms of Reference for the CGIAR Internal Audit Function.

The full suite of materials was developed under the guidance of the Board's Audit and Risk Committee ('ARC') and benefitted from consultation with a wide range of System stakeholders including a number of Center Audit Committee Chairs, Heads of Internal Audit and Corporate Services Executives, as well as a number of CGIAR's Funders.

The ARC endorsed the Risk Management Guidelines and the TOR of the CGIAR System Internal Audit Function at their 12th meeting on Friday 17 November 2017.

Action requested

The System Management Board is invited to review, and if considered appropriate:

1. Approve, as set out in the following respective documents:

   SMB8-11C   Risk Management Guidelines of the CGIAR System
   SMB8-11D   Terms of Reference of the CGIAR System Internal Audit Function

2. Approve two consequential amendments to the CGIAR System Framework as described in Part C of this paper and as endorsed by the System Council at SC5.

Document category: There is no restriction on the circulation of this document

Prepared by: CGIAR System Management Office under the guidance of the Audit and Risk Committee of the System Management Board

Part A – Effective framing and overseeing CGIAR System opportunities and risks

1. The nature of the CGIAR System brings a unique challenge to the identification of a shared vision of its risk universe, and thus, finding a way to achieve an appropriate balance between related opportunities and risk.

2. **Different to how a single institution might manage and oversee risks, CGIAR operates as an '*extended enterprise*'**, in which a number of organizations, each with its own risk management practices and assurance processes, come together in a joint endeavor, generate System-wide challenges and depend partly on one another.[1]

3. Different also is that the three System Level Outcomes ('SLOs') adopted in CGIAR's 2016 – 2030 Strategy and Results Framework focus on broad social impacts, rather than setting specific operational objectives upon which a risk assessment can be undertaken, with risks then overseen and managed by the relevant entity within CGIAR's extended enterprise environment.

4. **Adapting best practice[2] to CGIAR's extended enterprise environment**, Table 1 (following) summarizes the key elements of the inaugural Risk Management Framework and companion materials. Those materials:

    a. Set CGIAR's agreed **5 System-wide strategic operational objectives** and associated top **'CGIAR risk families'** for several years (*with periodic review of the objectives and risks by the System Council linked to the business cycle concept as approved at SC5*);

    b. Affirm the responsibility of the **System Management Board to develop and oversee a risk register for CGIAR System-wide risks** and **to identify corrective action(s) required to respond to risk issues** (and ensure that the relevant action(s) is/are taken)[3];

    c. Introduce the concept of '**combined assurance**' to better link the full range of CGIAR's assurance providers (including Center Boards, the ISPC, the IEA, the System Management Board and its Audit and Risk Committee, and extending to Funder-sponsored external audits and reviews) to reduce duplication and cost in the assurance environment; and

    d. Put in place the **System Council's 'Assurance Oversight Committee'** to provide independent reasonable assurance that the System's opportunity and risk management practices are fully operational, and improving over time.

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[1] UK Institute of Risk Management, '*Managing risk in complex 21st century organizations – Executive Summary*', 2014.

[2] '*ISO 31000 – Risk Management: Principles and Guidelines*', 2009, International Organization for Standardization; and COSO's '*ERM Framework: Enterprise Risk Management – Integrating with Strategy and Performance*', 6 September 2017, Committee of Sponsoring Organizations of the Treadway Commission (COSO).

[3] As set out in the Charter of the CGIAR System Organization, Article 8.1(pp)

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Table 1: Summary of package of risk management materials presented at SC5

Key element for effective risk management	What this document does	Doc no.
CGIAR Risk Management Framework *(Approved by System Council)*	• **The picture of how all the parts fit together:** explains roles and responsibilities for risk management in the CGIAR System beyond the basic descriptions in the CGIAR System Framework • <u>Sets out</u> the agreed **'5 strategic operational objectives' and associated agreed '5 risk families'** *(See Appendix 1 to this paper. To note: The exercise undertaken to elaborate these 5 risk families is provided in an Introductory PowerPoint as a separate companion document).* • Suggested to be <u>reviewed periodically</u> by System Council + SMB as part of the business planning cycle concept	**Annex 1 –** (SMB8-11B)
CGIAR Risk Appetite Statement *(Approved by System Council)*	• **Within the scope of all that is possible as a System, provides a guide on CGIAR's overall willingness to exploit opportunities to reach the SLOs.** The focus is on taking the right risks, but no tolerance for financial mismanagement or fraud. • Suggested to be <u>reviewed annually</u> by the SMB + the SC's *Assurance Oversight Committee*, and brought to the SC for discussion on potential changes	**Annex 2 –** (SMB8-11B)
Terms of Reference for SC's <u>Assurance Oversight Committee</u> *(Approved by System Council)*	• **Completes the risk oversight infrastructure for the System** *(Risk and assurance architecture: see Appendix 2 to this paper)* • Avoids duplication with the SMB's Audit and Risk Committee ('ARC'), which has a role in the 'details'. • **SC Committee's overall role is to advise SC on current and relative maturity of risk management across the System,** <u>and</u> **make strategic recommendations to the SC** • Most engagement is expected with SMB's ARC • <u>Membership</u>: majority of independents (from CGIAR System Framework) to support objective independent assurance	**Annex 3 –** (SMB8-11B)
CGIAR Risk Management Guidelines *(System Management Board approves)*	• Explains how the SMB will be supporting delivery of the principles set out the Risk Management Framework • **Requires SMB to develop and oversee a CGIAR System Risk Register that includes relevant 'opportunity and risk indicators'. I**ndicators to be reviewed each 1-2 years by SMB with Center Audit Committee Chairs to ensure ongoing relevance. *(Mock-up of Risk Register: see Appendix 3 to this paper)* • **Moves the System progressively to increasing competence in risk maturity**	**SMB8-11C**
TOR for CGIAR System Internal Audit Function *(System Management Board approves)*	• **Builds on Center-own internal audit functions (in-house and/or regional) whenever possible,** as part of a broad suite of System-wide assurance processes. • **Rolling multi-year work plan developed**: considers evaluations and science advisory plans (no duplication + cost-effective) • **Annual engagements are based on risk register prioritization** • SC Assurance Oversight Committee engaged in priority setting	**SMB8-11D**

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B.   Fulfilling Immediate needs and beyond

From 1 January 2018

3.   With these next steps being delivered, with effect from 1 January 2018, the System Management Board will be positioned to provide periodic assurance to the System Council through its Assurance Oversight Committee on:

   a.   The overall status and capacity of the Centers and the System Organization (with its two component parts, the System Management Board and System Management Office) to provide reasonable assurance;

   b.   Whether there are gaps that exist and the proposed action to address them; and

   c.   Where required, the corrective action(s) that will be taken over specified time to address systemic issues.

4.   Center Boards remain responsible for Center-own actions, and the risk and assurance materials presented for System Council endorsement ensure ongoing Center Board responsibility in this regard.

5.   At the time of adoption of the *Risk Management Guidelines of the CGIAR System* by the System Management Board (SMB8, December 2017) the now outdated 26 March 2015 Consortium Board-approved 'CGIAR Consortium Financial Governance Framework'.[4] will also be repealed.

Additional work over 2018

6.   Immediately subsequent steps during 2018 will include, but not be limited to, the System Management Board working with the Centers to have in place the following additional elements set out in the *CGIAR System Framework* and/or *Charter of the System Organization*:

   a.   Defining a clear escalation policy for relevant issues and implement a formal whistleblowing process at System level;

   b.   Agreeing operational protocols for the delivery of System-wide internal audit assurance engagements and for the provision of consolidated information on such engagements; and

   c.   The Centers adopting terms of reference of 'Community of Practice' of Center internal auditors; and

   d.   A mechanism to resolve disputes, if any, between Centers, and between the Centers and the System Organization.

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[4] https://cgspace.cgiar.org/bitstream/handle/10947/4366/Consortium-FinancialGovernanceFramework_Amended_26March2015%20%28final%29.pdf?sequence=1&isAllowed=y

Preliminary reporting to SC-6, May 2018 and instituting annual reporting on assurance

7.   It is proposed that the System Council receives preliminary information on the status of assurance in the System at its mid-year 2018 meeting, and then from November 2018, and annually thereafter, System-wide reporting includes an annual status of assurance element that has been reviewed and assessed for adequacy by the System Council's '*Assurance Oversight Committee*'.

C.   Two consequential amendments to CGIAR System Framework to give effect to proposals in this paper

8.   **To give overall effect to the package of materials presented for System Council approval,** the System Management Board makes the following proposals for formal changes to the following specific articles of the CGIAR System Framework, shown in track changes below:

     8.2(a)   an <u>Assurance Oversight Committee</u> ~~Audit and Risk Committee~~, with a majority of independent members, the purpose of which shall be to provide: The System Council with assurance of the completeness and effectiveness of the Internal Audit Function and the independence of external audit functions; a structured reporting line between internal and external auditors and the System Council; and oversight of system-wide governance, risk management and internal controls

     6.1(j)   ~~Review findings and follow-up emanating from the Internal Audit Function~~

9.   **Justification to retitle the System Council's standing committee:**
<u>Rationale</u>: *Remove confusion from the System Council and System Management Board having identically named Committees, yet with different mandates*.
<u>Explanation</u>: The Council's committee is envisaged to have strategic oversight of the adequacy of assurance across the System. This change better reflects the nature of the role.

10.   **Justification to delete article 6.1(j):**
<u>Rationale</u>: *Put the 'management' of System-wide internal audit findings correctly in the hands of the System Management Board to escalate to the System Council as relevant to System-risks.*
<u>Explanation</u>: Reviewing the detailed findings and follow up emanating from the work of the Internal Audit Function is a detailed task that more naturally falls in the remit of the System Management Board's Audit and Risk Committee. Summarized strategic reporting and recommendations will come to the System Council annually out of that work, or more frequently in the case of an issue requiring early escalation.

APPENDIX 1: CGIAR TOP OPERATIONAL OBJECTIVES AND RISK FAMILES (approved by System Council)

(Proposal: set/review the operational objectives + top risk families each 4-years in line as part of CGIAR adopting a business planning cycle)

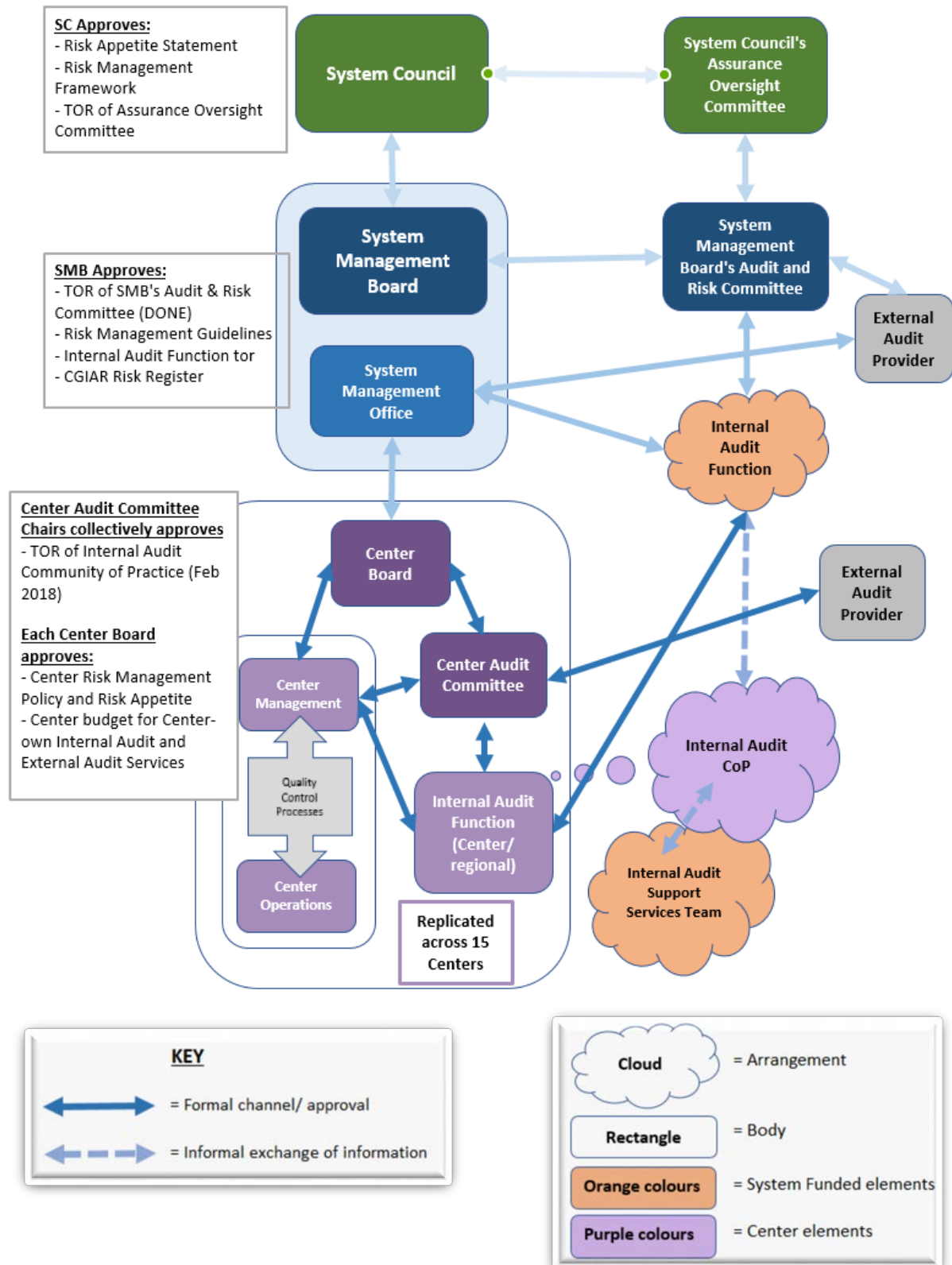| 5 CGIAR STRATEGIC OPERATIONAL OBJECTIVES					CGIAR'S SYSTEM-WIDE FAMILIES OF RISKS
Delivery	Relevance	Reputation	Reliability	Efficiency	Resulting from missed opportunities
X	X	X			CGIAR is no longer a front runner
X	X		X		CGIAR loses its central role in Agricultural Research for Development
X		X	X		Non adherence to appropriate values
X	X	X	X		Unsatisfactory evidence and assurance received
X				X	Poor execution undermines capability

5 CGIAR strategic operational objectives that provide the essential link between CGIAR's 3 System Level Outcomes and actions of CGIAR stakeholders to deliver against those outcomes:

Delivery	<u>Deliver</u> quality science and other research outputs through effective partnerships, to provide critical improvements for food security, nutrition and resilience to climate change
Relevance	<u>Establish and maintain</u> CGIAR as a relevant and sustainable tool for agricultural research for development
Reputation	<u>Make</u> the association with CGIAR a rational and rewarding decision
Reliability	<u>Fulfill</u> formal commitments
Efficiency	<u>Generate</u> all benefits mentioned above efficiently and <u>provide</u> 'value for money'

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APPENDIX 2: SELECTED RISK AND ASSURANCE ARCHITECTURE IN PLACE AFTER SC-5 (Assurance Oversight Committee) AND SMB-8 (Internal Audit Function)

(Focus is on key assurance oversight providers, and not full range of all assurance processes)

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THE FAMILIES OF RISKS — Resulting from missed opportunities	APPLYING RATIONAL INDICATORS — Using "Opportunities and Risk" Indicators	LIKELIHOOD (1: remote 2: non-negligible 3: significant 4: likely)	IMPACT (1: marginal 2:disruptive 3: concerning 4: catastrophic)	SEVERITY — Likelihood x Impact	IMMEDIACY (1: long-term >5y 2: medium-term >2y 3: short-term >6m 4: immediate <6m)	PRIORITY — Severity x Immediacy	HOW DO WE KNOW? — Assurance process(es) for each indicator	Suggested cycle (years)	Type of assurance activity
CGIAR is no longer a front runner	Compelling shared research agenda reinforces Funder commitments			0		0	SC SIMEC	4	Review per CRP/platform of activity plan leading to the next milestone for endorsement by SC
	CGIAR Science is relevant and cutting edge			0		0	SC SIMEC / Evaluation processes	4	Review of scientific processes and related outputs vs. benchmark publications
	Seizing the "next thing" gives sustainable competitive advantage			0		0	Scientific advisory processes	2	Outside review of latest scientific and technological developments and analysis of CGIAR positioning
	CGIAR's research agenda aligns with international community priorities			0		0	Scientific advisory / Evaluation processes	4	Global consultation of NARS, governments, NGOs and key AR4D funders
CGIAR loses its central role in Agricultural Research for Development	Intellectual assets produced by CGIAR are managed innovatively and leveraged by the scientific and development communities			0		0	Evaluation / SC Intellectual Property Group	2	Review of global uptake from CGIAR research (based on Centers' ongoing monitoring data)
	CGIAR a desired and supportive partner			0		0	Scientific advisory / Evaluation processes	2	Analysis of data received from Centers on extent, nature and success of partnerships, complemented by a global direct survey of partners
	Diversity and predictability of funding maintains CGIAR as a global player			0		0	SC AOC and SMB ARC	1	Multi-year analysis per Funder and recipient of funds committed, received and planned (amounts and timing)
	Research activities are well deployed and coordinated in target countries			0		0	Evaluation processes	4	Review and analysis of delivery on pre-defined specific objectives
	CGIAR Genebanks demonstrate their unique role			0		0	Internal Audit + Evaluation processes	4	Consolidation of reviews by Centers of their own genebanks complemented by audit of processes and evaluation of delivery of the Crop Trust
	CRPs and Platforms deliver on the objectives of the SRF			0		0	Evaluation processes	4	Non-process review of the outputs of each CRP/platform and validation of the impact pathways
Non adherence to appropriate values	Ethical research practices employed to achieve research results			0		0	Internal Audit processes	4	Review by Centers of effectiveness of scientific fraud risk management (along Center and CRP/platform dimensions)
	CGIAR values and desired behaviors strengthen its credibility and attractiveness			0		0	Internal Audit processes	2	Review by Centers of effectiveness of fraud risk management complemented by System review of effectiveness of whistleblowing and escalation processes
	Adequate processes are in place to prevent or detect inappropriate use of funds			0		0	Internal Audit processes	1	Process audits by Centers all incorporating potential fraud in risk assessments + sharing of process-related fraud risks noted for consolidation at System level
	Clear and transparent financing of the CGIAR portfolio			0		0	Internal Audit processes	2	Audit of mapping of funds to projects and programs
Unsatisfactory evidence and assurance received	Impact evidenced by hard data			0		0	Scientific advisory/ Impact assessment	4	Review of evidence produced to support communication on impact
	Funds used in accordance with approved annual work programs and budgets			0		0	Internal Audit and/or External Audit processes	1	Audit by Centers of implementation, cost and reporting of activities (in link with bi-yearly audit of mapping)
	Activities implemented for CRPs, platforms and flagships as agreed with Funders			0		0	Evaluation processes	2	Review of consistency between activities implemented and priorities expressed in relation to funding agreements
	Delivery of portfolio adequately evidenced and visible			0		0	Internal Audit + Evaluation processes	2	Review and post-validation of activity-reporting material received by the System Management Board
	Project assessment and lifecycle management are effective			0		0	Internal Audit processes	4	Review by Centers of steering committes' decisions pertaining to project exceeding or not meeting initial expectations
Poor execution undermines capability	Adequate use of intellectual property and licensing tools maximizes accessibility and/or impacts including via the production of International Public Goods			0		0	Evaluation + External processes / SC Intellectual Property Group	2	In-depth analysis of items contained in the IP report (over the last two years)
	Top talent is attracted to and retained by the CGIAR and Centers			0		0	Internal Audit / Evaluation processes + External benchmark	2	Review by Centers of retention and recruitement activities + Global survey with all CGIAR staff
	Effective and efficient Center operations minimize costs and protect key assets (people, systems, data) against threats (internal, external, cyber)			0		0	Internal Audit processes	2	Process audits by Centers all incorporating physical and IT security and risk assessments + bi-annual audits of Business Continuity and Disaster Recovery plans, with sharing of risks and assessments noted for consolidation at System level
	Financial stability requirements met by all Centers			0		0	Escalation from Center Board	1	Analysis by Centers Boards of their KPIs regarding liquidity & solvency, funding and operational efficiency
	CGIAR System adds significant value to outweigh related costs and constraints			0		0	SMB ARC	4	Review by Centers of System-generated costs and savings, under coordination and consolidation by the System Organization

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