

FOR ACTION

Risk Management

Purpose

To monitor risk management within the Trust and consider whether it is being appropriately undertaken.

To consider the need for developing annual Board Statements on Risk Management.

Background

During the early meetings of the Executive Board, Members recognized that the Trust would be well served by adopting a risk management approach (understanding, managing and reviewing risks) and expressed interest in developing a 'risk register' for the Trust. A draft risk register was developed and tabled at EB3, where Members reviewed its utility. It was agreed that the register needed to be short (12-15 of the top risks), that a traffic light system would be helpful in visualizing risk levels and that it should become a standing item at each meeting. Following this feedback, the register was further developed.

Issues

Risk assessment process

The only certainty in life is uncertainty. With this in mind, we have considered risks in three ways – as a threat (potential negative events), as an opportunity (maximizing the upside or return) and as uncertainty (reducing the variance between anticipated outcomes and actual results). As the CGIAR Internal Auditing Unit notes, this three part definition implies that risk management, in the fullest sense, is therefore not just about “avoiding things that go wrong” but also about “helping to make things go right”.

A risk register is only truly useful when used within a risk management approach, that is, where risks are regularly identified, assessed, managed and monitored. In utilising this approach, the Trust should benefit by getting better at grasping opportunities, understanding the possible causes of failure and managing them so as to minimize them or at least mitigate their impact on the organisation when they do occur. The new draft is aligned to this approach.

Currently the register has two scales – a Board level and a Secretariat level. Only the Board level will be discussed here. The Secretariat level risks are primarily focused on management and operational risks and the Trust senior management team regularly monitors these.

After establishing the strategic and operational context under which the Trust operates, including considering external factors such as political and economic, five risk types were identified:

- Performance risk;
- Governance risk;
- Financial risk;
- Operational risk; and

- Programme/project risk.

Risks under each of these categories were identified and then separated into the two scales, those that were of strategic Board responsibility and relevance and those that were primarily related to Secretariat operational relevance.

The Board level risks were then analysed and given an 'inherent' risk rating, based on the Australia and New Zealand Risk Management Standard AS/NZS 4360:2004. This Standard scores risks by considering its impact and likelihood of occurring (pre- risk mitigation actions) using 5x5 qualitative classes (Table 1). This scoring exercise was then repeated after considering risk mitigation actions resulting in a 'residual' risk for monitoring and ranked. The majority of the identified risk mitigation actions were focused on reducing the risk likelihood, impact or both, as opposed to risk avoidance or risk acceptance.

Table 1 – Risk level matrix

	Consequence				
<i>Likelihood</i>	Severe	Major	Moderate	Minor	Insignificant
Almost certain	High	High	High	Significant	Significant
Likely	High	High	Significant	Significant	Moderate
Possible	High	Significant	Significant	Moderate	Low
Unlikely	High	Significant	Moderate	Low	Low
Rare	Significant	Significant	Moderate	Low	Low
Risk Level: Legend High: high risk; immediate action required Significant: significant risk; attention needed Moderate: moderate risk; management responsibility must be specified Low: low risk; manage by routine procedures					

Australian & New Zealand Standard: Risk management No: AS/NZS 4360:2004

The top risks

The top four 'significant' risks identified fell into the categories of performance risk, financial risk and programme risk. All but one of these have the Board identified as the risk 'owner' and all have a fair degree of external factors influencing the outcome.

- Lack of momentum in reaching endowment fund target
- Strategic objectives not matched with political realities (causing political problems)
- Market risk - erosion of financial resource
- Lack of willingness and/or capacity for collaboration among key partners to build a global system

The Trust risk register is small enough to be maintained manually without the need for the risk management software that is currently being trialed in parts of the CGIAR.

Board Statement on Risk Management

There has been much discussion among Boards of private sector companies, public institutions and the CGIAR on the public reporting, by Boards, of risk management and internal control. CGIAR Center Boards are now producing short annual statements of risk and internal control. This began because some key donors (e.g. DFID, World Bank) were conditioning their unrestricted funding to the Centers on such an exercise.

The CGIAR Internal Audit Unit considers Board statements being prepared on risk assessment and internal control and supported by the Center's internal risk management

system as good practice. Indeed, the CGIAR Internal Audit recommends that once a risk management system is established, that “a statement should be prepared for, and adopted by, the Board on an annual basis, for public reporting purposes (including in an appropriate section of the Center’s annual report or similar publication), that adopts the most useful aspect of the example statements and provides summary information on the risk management and internal control system in place in the Center.”

A discussion paper produced by the CGIAR Internal Audit is a useful start as it references a number of guidelines from donors (DFID, World Bank, IDRC), public funded research organisations (CSIRO Australia and CSIR South Africa) and private sector enterprises (Reed Elsevier UK). The coverage of their statements and their level of detail vary considerably. The common feature is a statement on the existence of a risk management and internal control system, overseen by the Board and executed by management. There is also usually some description, even if only in broad terms, of the types of risks that are managed.

The Board is requested to consider if this would be a useful focus (for adoption by the Trust) for addressing risk management on an annual basis and if so, consider where such a statement should be tabled/published. It would provide a focus for an annual assessment by the Board of risk management in the Trust. A sample Board Risk Statement has been drafted based on the most useful aspects from examples from similar organisations, with the basic principle of keeping it simple.

Action

That Members:

- Review and monitor the current risk management approach and resultant risk matrix
- Consider the concept of an annual Board Statement on Risk Management and determine whether such a Statement should be produced and if so, where it should be published