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联合国  
粮食及  
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and  
Agriculture  
Organization  
of  
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United  
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Organisation  
des  
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pour  
l'alimentation  
et  
l'agriculture

Продовольственная и  
сельскохозяйственная  
организация  
Объединенных  
Наций

Organización  
de las  
Naciones  
Unidas  
para la  
Agricultura  
y la  
Alimentación

## FINANCE COMMITTEE

**Hundred and Thirty-eighth Session**

**Rome, 21 - 25 March 2011**

**Progress Report on an Enterprise Risk Management Framework**

Queries on the substantive content of this document may be addressed to:

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### **EXECUTIVE SUMMARY**

- At its 135<sup>th</sup> Session, the Finance Committee considered the proposed Enterprise Risk Management (ERM) framework and commended the direction being taken by the Secretariat to embed ERM in results-based management. In so doing, it asked to be kept informed of the progress achieved.
- Key achievements since October 2010 include the approval of the Business Plan by the IPA Programme Board; issuance of a vacancy announcement for the recruitment of an ERM specialist; completion of an initial round of awareness raising meetings with senior management; discussions with key stakeholders to clarify their requirements of ERM; initiation of a business process analysis to test some underlying assumptions of the ERM concept design; approval of the internal governance framework for ERM in FAO; completion of the initial design of the generic risk assessment process; and initiation of pilot testing.
- The testing of underlying assumptions took longer than anticipated because it was found that some FAO processes need longer to mature before ERM can be based on them alone. This led to some slippage against the original plan and the need to make some aspects of the project design more robust. The work plan has been adjusted to put the project back on schedule for completion by end-2011.

### **GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE**

- The Finance Committee is invited to review and provide any views or guidance on progress towards implementing the ERM framework.

#### **Draft Advice**

- **The Committee takes note of progress achieved since its last session. It appreciates that the ERM framework will be fully operational by the end of 2011 and looks forward to receiving a report on implementation of institutional ERM in FAO, including the format for reporting to the Governing Bodies.**

## I. Background

1. At its 135<sup>th</sup> Session in October 2010, the Finance Committee considered the initial concept design for the development and roll-out of an Enterprise Risk Management (ERM) framework, together with a roadmap and costing for its implementation<sup>1</sup>. The objective of the project is to put in place an ERM Framework which will enable Management to proactively identify, prioritize, manage and monitor the full range of risks to the Organization, whether strategic, financial, operational or reputational.
2. The design of FAO's ERM framework is consistent with current best practice, being based on the recent international standard for risk management (ISO 31000) and the findings of a 2010 JIU report on ERM. It is underpinned by five principles: the use of proven, but simple, ERM concepts and processes; the focus of effort on areas that will add greatest value; the minimization of any avoidable burden on business areas; integration into existing results-based management processes, in particular strategic planning (Organizational Result formulation), operational work planning, project formulation, and monitoring and reporting; and a phased approach to covering all material areas of the Organization's work.
3. The framework is being implemented through a phased approach, using pilots, to embed ERM in five areas of management: the results-based framework of the MTP/PWB (Organizational Results) and operational work planning (Unit Results); managing field projects and business improvement projects; and a "fast problem response" functionality to facilitate the solution of urgent business problems. The project is due to be completed by the end of 2011, at a total cost of USD 700 000 funded under the IPA.
4. At its 135<sup>th</sup> Session, the Committee commended the direction being taken by the Secretariat to embed ERM in results-based management. As requested, this paper reports on:
  - a) progress in implementing the ERM project work plan;
  - b) the results of the pilots of ERM processes; and
  - c) the plan for implementation of the institutional ERM in FAO.

## II. Progress achieved

5. Since the Committee's 135<sup>th</sup> session in October 2010, the ERM project has made progress as described below.
6. The business plan for the ERM project was prepared by the ERM project team and approved by the IPA Programme Board in January 2011. The business plan added further detail to the ERM concept design, including as follows.
  - a) Governance arrangements for ERM in FAO. An internal Corporate Risk Committee, chaired by the Deputy Director-General (Operations), will oversee the development and application of ERM policy throughout FAO. In so doing, the Committee will be responsible for ensuring that the range of risks that FAO faces is kept within acceptable limits, and for taking action in cases of non-compliance with the ERM policy and procedures. It will be supported in these tasks by an ERM secretariat based in the Office of Strategy, Planning and Resources Management (OSP).
  - b) Performance indicators to assess the effectiveness and health of ERM in FAO. These performance indicators will, for example, measure the take-up of ERM training, and the rate of progress in closing mitigating actions against critical risks to FAO's well-being. The indicators will form the basis for reporting on risk management in the Corporate Risk Committee, the Executive Leadership Team, the Senior Management Meeting, and to the governing bodies.

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<sup>1</sup> FC 135/13

- c) Specificity on the ERM methodology to be adopted, including the level of systems documentation that will be produced, and explanations of the concepts and detailed design assumptions that would be evaluated during project development.
7. A vacancy announcement for the recruitment of a full-time ERM specialist at P4 level was issued and widely publicized. The specialist is expected to be in post in OSP by the end of the third quarter 2011, in time for an orderly handover from the project team.
8. The project started awareness raising of ERM with senior management and other key stakeholders, in particular: on the use of risk management in emergencies with the Emergency Operations and Rehabilitation Division (TCE); on the integration of ERM into the revision of project management guidance with the Unit for Field Programme Coordination and Results-based Monitoring (TCDM); and on the new Country Planning Framework with the Policy Assistance Support Service (TCSP).
9. The training requirements for ERM were established with the Human Resources Management Division (CSH), and planning was started on integrating ERM training into corporate staff development programmes.
10. The project has tested the assumptions in the concept design of the ERM framework by undertaking an assessment of the relative maturity of the FAO results hierarchy. The assessment identified several areas where the results hierarchy needed to be reinforced in order to fully support ERM. These findings were consistent with the experience of OSP with implementing the results hierarchy and provided greater clarity on the precise issues that need to be addressed.
11. The initial design of the generic ERM process was completed. As derived from ISO 31000 (the international standard for ERM), the most important elements of the generic process are a rigorous risk identification method, through examining purpose and benefits, future changes, past events, stakeholders and dependencies; a standard risk scoring of potential impact and likelihood, applicable across the Organization, at all levels; and the specification of mitigation actions, together with deadlines and assigned responsibilities for their completion.

### **III. Results of Pilots**

12. ERM pilots have started with Strategy Teams (the results hierarchy) and divisions (the functional hierarchy). Each pilot has three stages: a facilitated session to identify risks, involving the key managers responsible for the function involved; a second session to score the risks in terms of their likelihood and impact and to specify mitigating actions; and the final presentation of the results to the direct supervisor of these managers (usually an ADG). Lessons from the pilots will enable the initial design of the generic ERM process to be refined to meet FAO's needs, ensure that the right approach to facilitation is adopted, and help determine the format and content of management and governance reports on risk.
13. By mid-February, pilots were nearing completion with the Strategy Team responsible for Strategic Objective K (gender equity) and with the Gender Equity and Rural Employment Division. Similar pilots are taking place in March with the Finance Division (CSF), the Policy and Programme Development Support Division (TCS), the Strategy Team for Organizational Result H01<sup>2</sup>, and the Strategy Team for Functional Objective Y (efficient and effective administration). Additional pilots were under consideration in TCE and a technical department under the Deputy Director-General (Knowledge).

### **IV. Plan for Implementation**

14. The assessment of the relative maturity of the results hierarchy took longer than anticipated. This has required a refinement of the approach, in order to include rolling out ERM

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<sup>2</sup> Organizational Result H01 "Countries and other stakeholders have strengthened capacity to formulate and implement and monitor coherent policies and programme that address the root cause of hunger, food insecurity and malnutrition".

through the FAO functional hierarchy, alongside the results hierarchy. The work plan has been adjusted to put the project back on schedule for completion by end 2011. This will involve:

- a) Finalising the design of the generic ERM risk assessment process;
- b) Establishing the Corporate Risk Committee, and defining reporting protocols and formats for management and the governing bodies;
- c) Building risk assessment capacity across the whole Organization, through training, regular communications;
- d) Refining the ERM element for Organizational Results and the functional hierarchy, based on the results of the pilots undertaken, and then implementing across the Organization;
- e) Piloting “Fast problem response” service and then implementing;
- f) Piloting ERM for selected field projects/programmes, and then implementing;
- g) Piloting ERM for business improvement projects and then implementing;
- h) Piloting and establishing the ERM element for operational work planning.

15. ERM remains scheduled to become fully operational by the end of 2011. Thereafter, the lessons learnt will be identified together with options to extend the services provided by ERM and an assessment of what further work may be required to strengthen its application in FAO. The results of this exercise will be shared with the Finance Committee at its first regular session in 2012, including the proposed format for reporting to the governing bodies.

16. The Finance Committee is invited to review and provide any views or guidance on the progress achieved on the ERM framework to date.