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FINANCE COMMITTEE

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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 138th Session in March 2011, the Finance Committee noted the progress achieved in developing an ERM framework for FAO, and asked for a report on the implementation of institutional ERM and for the proposed format for reporting to the Governing Bodies.
- The ERM team has made steady progress in implementing institutional ERM. Commitments for work in 2011 have been largely delivered. FAO is currently assessing the best next steps for ERM, in the light of experience, recent Inspector-General reviews and the on-going revision of the Strategic Framework.
- It is proposed to provide risk information to the Governing Bodies in the MTP/PWB, of three types: (a) external risks, which are less under FAO's control and where the emphasis would be on explaining the nature of the risk, so that the Governing Bodies can take account of the main blockages that FAO is likely to face before approving the MTP/PWB; (b) internal risks, which are more under FAO's control and where the emphasis would be on the proposed mitigating actions; and (c) a summary of the scope and approach of the risk work undertaken in preparing the MTP/PWB to demonstrate that risk management is operational in FAO.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to review and provide any comments or guidance on progress towards implementing the ERM framework, and the proposed format for reporting.

Draft Advice

The Committee:

- **Took note of the progress made on developing the ERM framework and implementing institutional risk management in the context of integrating reform activities within FAO to create an effective results-focused Organization; and**
- **urged the Secretariat to complete implementation of institutional ERM by end-2013 as scheduled and to incorporate risk reporting in the corporate planning and performance implementation monitoring and reporting processes and documents.**

Background

1. At its 135th Session in October 2010, the Finance Committee approved FAO's plans for the development and roll-out of an Enterprise Risk Management (ERM) framework. The Framework is intended to enable Management to identify, prioritize, manage and monitor the full range of risks to the Organization, whether strategic, financial, operational or reputational. Driving the design of the framework was the use of simple, proven language and processes, value added focus and alignment with existing processes. 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 (Organizational Outputs); managing field projects and business improvement projects; and a "fast problem response" functionality to facilitate the solution of urgent business problems.
2. At the Committee's 138th Session in March 2011, the Secretariat reported progress on further testing and refinement of the concepts for the ERM framework, the proposed governance arrangements for ERM, setting performance indicators and establishing the ERM function, and training. As requested, this paper reports on:
 - i) Progress on implementing institutional ERM in FAO; and
 - ii) The proposed format for reporting on risk to the Governing Bodies.

Progress achieved

3. The Report of the CoC-IEE to the Conference on the Immediate Plan of Action (IPA) for FAO Renewal¹ refined the goals and timescales of the ERM project, presenting two high-level targets:
 - Institutionalize the ERM project within the Organization by end 2011;
 - Fully implement ERM structures and systems by end 2013.

Commitment 1: ERM project institutionalized by the end of 2011

4. By the end of 2011, significant progress had been made to institutionalize the ERM project within the Organization:
 - a) ERM is integrated within the Office of Strategy, Planning and Resources Management (OSP) with a requirement to deliver full alignment between risk management and other OSP-managed corporate processes related to strategic planning, resource allocation and management, and performance assessment;
 - b) A defined, documented ERM process is in place, and there is evidence that it is being applied across FAO; and
 - c) OSP is recognized as the authoritative source of corporate practice on operational and administrative risk management in FAO. The risk management terminology and practice has been adopted in change initiatives outside OSP. For example, teams in the Field Programme Coordination and Results-based Monitoring Unit (TCDM) and the Policy and Programme Development Support Division (TCS) preparing the new field programme manual and Country Planning Frameworks are using risk terminology, practices and processes established by the ERM team.
5. The CoC-IEE report to Conference on the IPA contained eight milestones in the ERM project to be delivered by the end of 2011. A significant amount of work has been undertaken against each of these milestones, as detailed in Annex 1. Some elements remain to be put in place, reflecting, as the business case pointed out, the ambitious timescale of the project:
 - a) Two milestones are complete (start to build risk capacity and identify enhancements to RBM);

¹ C 2011/7

- b) Two milestones are substantially complete, with only the formal approval of documented procedures remaining (generic ERM model, ERM in field projects and ERM in business improvement projects);
 - c) Three milestones are partially complete. ERM at Organizational Result level and at Organizational Output level has been deferred for implementation during preparation of the MTP 2014-17/PWB 2014-15 later in 2012. Meanwhile, at the request of heads of departments, risk assessments have been carried out within their divisions. In the third element, ERM in field projects has been successfully piloted, and integration in extra-budgetary processes is progressing within TCDM's revision of the field programme manual; and
 - d) In the last area, "Fast Problem Response", little progress has been made. It is worth noting, however, that this is the lowest priority of the eight milestones:
 - o it is outside the scope of ISO 31000 and beyond JIU UN "Good Practice";
 - o there has been no urgent demand from senior management for this service so far; and
 - o the urgency of other priorities suggests that "Fast Problem Response" should wait until the ERM Secretariat has a full complement of staff.
6. User feedback on ERM has been generally positive. Officers attending risk workshops (typically senior officers and managers) report that they find the experience illuminating and beneficial to managing their programmes.
7. However, the team experienced three main challenges during 2011:
- a) The integration of ERM with the Organization's management, governance and accountability structure remains based on organizational units rather than results (see paragraph 5c), which made it difficult to orient risk assessments to planned results. Furthermore, ERM, like results-based management, cuts across three critical functions – strategic planning, resource allocation and management, and performance assessment – each of which is subject to rethinking and further refinement. The Strategic Thinking Process launched by the Director-General in January 2012 will set the strategic direction and priorities for the Organization in the context of reviewing the Strategic Framework and preparing the Medium Term Plan 2014-17 with a new results framework, which will provide the opportunity to address this challenge;
 - b) The need to work more closely with managers to prepare mitigation strategies for the identified risks; and
 - c) Fully staffing the ERM function with individuals with suitable skill sets and knowledge of the Organization.

Commitment 2: ERM fully implemented by the end of 2013

8. Work on the ERM project was temporarily suspended in January 2012, in order to reassess the integration of ERM in the results-based management framework in light of experience, and taking account of the findings of recent reviews of the Office of the Inspector-General (in particular on RBM, accountability and internal control, and the Immediate Plan of Action). In the meantime, the Senior Strategy and Planning Officer with responsibility for ERM has been addressing immediate priority demands on OSP related to corporate performance assessment and reporting. ERM is included within this work and involves the following elements:

- a) Securing approval for standards and procedures for risk identification, scoring, mitigation and monitoring/reporting for the functional hierarchy, Strategic Framework, field projects and business improvement projects;
- b) Developing and applying standards and procedures in each of the above areas;
- c) Establishing documented procedures and boundaries for the Rapid Response function (including a management decision whether it is in fact required);
- d) Taking either the functional hierarchy or the Strategic Framework through a complete cycle of risk assessment and risk rebase; and
- e) Forming a governance mechanism for risk.

Risk reporting to the Governing Bodies

9. It is a generally accepted good governance principle that Organizations should publish information about risk. It enhances stakeholders' capacity to make informed decisions, advise on strategy, make investment decisions and thereby protect their own interests. It thus helps to build confidence and trust in the Organization's management. However, too much risk information will prove counter-productive or damaging: it will be harder for stakeholders to find the information they need; it may be misinterpreted (for example if a risk is treated as an actual event, rather than a possible scenario); or it could be used against FAO (if, for example, the risks points to a security threat that needs to be managed).

10. Therefore, it is proposed to provide risk information to the Governing Bodies in the Medium Term Plan/Programme of Work and Budget (MTP/PWB), of three types.

- a) External risks (e.g. changes in macro-economic or climatic conditions, or donor priorities, risks which are less under FAO's control), where the emphasis would be on explaining the nature of the risk, so that the Governing Bodies can take account of the main blockages that FAO is likely to face before approving the MTP/PWB;
- b) Internal risks (e.g. administrative and operational, risks which are more under FAO's control), where the emphasis would be on the proposed mitigating actions; and
- c) A summary of the scope and approach of the risk work undertaken in preparing the MTP/PWB. Together with the information above, the objective is to demonstrate that risk management is operational in FAO.

11. The proposed format for risk reporting was benchmarked against observed practice for publishing risk information within the United Nations, and in four national public sectors (Canada, Sweden, the United Kingdom and the United States). It also takes account of national public and private sector statutory requirements (in particular freedom of information and corporate governance guidelines) as well as ISO 31000 and the Joint Inspection Unit's report on ERM. The proposals are consistent with the most transparent of the practices surveyed.

Annex 1: Summary of work done

Note: the milestones used are those reported in paragraph 67 of the CoC-IEE Report to Conference on the IPA (C2011/7, dated June 2011). The Report contained six numbered milestones. Two of these have been separated for ease of analysis.

Milestone	Work delivered
Complete the generic ERM risk assessment process	<ul style="list-style-type: none"> • Risk identification and scoring methodologies extensively tested. • Delivery model/risk catalogue drafted and revised. • Draft risk policy developed. • Draft facilitators manual drafted and revised. • Non-facilitated (forms based) method piloted and revised. • Non-facilitated guidance developed. • Draft ERM team internal procedures prepared. • Draft guidance/training on designing mitigation actions completed. • Draft guidance/training on managerial review stage completed. • Updates cycle piloted (ESW/SO-K).
Begin to build risk assessment capacity across the Organization	<ul style="list-style-type: none"> • 139 employees trained in ERM through attending ERM workshops. • 100 managers briefed on ERM including 26 in the Director or higher grade. • Two risk facilitators trained. • ERM briefing materials contained in IPA programme communications.
Identify enhancements required in the results-based frameworks, if any, to support the introduction of ERM	<ul style="list-style-type: none"> • ERM advice paper developed on RBM for OSP.
Pilot the ERM element at Organizational Results level (for one Strategic Objective and one Functional Objective), then implement in others	<ul style="list-style-type: none"> • ERM successful piloted in SO-K and FO-Y2, and then in 18 divisions and sections.
Pilot and establish the ERM element for operational work planning	<ul style="list-style-type: none"> • Reference to ERM included in work-planning guidance, as recommended practice. • Process flow for ERM in work-planning designed and circulated in OSP.

Milestone	Work delivered
Pilot ERM for selected field projects/programmes (one country programme, one emergency project), then implement in others	<p>Programme pilots completed for UNREDD and South-South Cooperation.</p> <p>Pilots in Somalia office covered:</p> <ul style="list-style-type: none"> • Two development-type projects, • One Emergency project, and • Programme level administrative and operational concerns.
Pilot ERM for business improvement projects and then implement in others	<ul style="list-style-type: none"> • Four risk assessments undertaken within IPA, including the GRMS programme (Oracle R12/IPSAS).
Pilot the “fast problem response” service, and then implement across the Organization	<ul style="list-style-type: none"> • “Fast Response” interventions undertaken of RBM and the TCP Programme. • Advice provided to FI Department on restructuring exercise.