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Annual Report on Enterprise Risk Management Activities in IFAD

Executive Board — Ninety-sixth Session
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For: **Information**

Note to Executive Board Directors

This document is submitted for the information of the Executive Board.

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Annual Report on Enterprise Risk Management Activities in IFAD

I. Introduction

1. In line with the IFAD Policy on Enterprise Risk Management, reviewed by the Audit Committee and presented for information to the Executive Board in September 2008 (EB 2008/94/R.4), this report provides the Board with an annual overview of enterprise risk management (ERM) activities at IFAD. This is the first such report.

II. Background

2. During the Consultation on the Seventh Replenishment of IFAD's Resources, IFAD Management made a commitment to implement ERM, gradually and in a structured manner, within IFAD's decision-making processes. Furthermore, it agreed to do this by building on existing resources, tools and practices rather than creating new permanent structures and positions.
3. Many key elements of risk management and internal control practices – such as results-based strategic planning, investment management (market, currency and credit risks) – have already been put into place or are under development at IFAD. However, recognizing the need for a more coherent and consistent approach to risk, IFAD is now developing a formal and systematic ERM framework. The framework aims to ensure that risks that could impede the achievement of objectives are managed better and mitigated earlier, thereby improving IFAD's ability to carry out its mission and achieve its objectives. It will also bring IFAD's processes in line with best practice.
4. Further information on the development and implementation of risk management at IFAD may be found in document REPL.VII/4/R.5, Management of Risk at IFAD, prepared in the context of the Seventh Replenishment Consultation; and in two information notes presented to the Executive Board in September 2008, which provide a preliminary report and an additional report on ERM activities in IFAD (EB 2008/94/INF.2 and EB 2008/94/INF.8).
5. The ERM Committee was formally established under a President's Bulletin issued in April 2008. The committee is composed of the Vice-President, as IFAD's risk champion, one other member of Senior Management, and senior representatives from each department. The Director, Office of Audit and Oversight, and the General Counsel participate as observers. Other directors and officers are invited to participate to provide additional clarification or assistance to the Committee on specific agenda items.
6. The Committee's role is to guide the development and implementation of ERM in IFAD, and to review and monitor ERM processes and outputs on a regular basis. The Committee brings to the attention of Senior Management risks that it considers serious and of a corporate nature, which contributes to a more informed decision-making process.
7. The Committee met five times in 2008. It has a rolling workplan detailing activities to be carried out during the year and a forward programme up to 2010.
8. The year 2008 saw the development of the ERM policy, establishment of the ERM Committee and heightened awareness raising and knowledge sharing on risk management issues within the organization. Based on its current workplan, the Committee forecasts that, by end-2009, IFAD will have introduced the principal framework documents (the ERM policy, internal control framework and accountability framework) and provided basic training and related tools and materials to underpin the ERM activities that Management and staff normally carry out in their work. Accordingly, and as part of its terms of reference, from 2010

onwards, the Committee will shift its focus to the monitoring and review of ERM procedures.

III. ERM activities in 2008

9. Activities completed by the Committee in 2008 include the following:

- **Development of the ERM policy**, which is scheduled to be issued shortly under a President's Bulletin;
- **Review of divisional risk management activities relating to priority corporate strategic processes and objectives.** The Committee is developing a high-level accountability framework to provide a clear delineation of responsibilities and accountabilities at the various levels of IFAD's governance, from the Governing Council, the Executive Board and its committees, to the President, directors, officers and staff of the organization. It will subsequently develop a more detailed accountability framework for the organization's various functional areas. For example, as part of the human resources reform, it will develop a framework for human resource management accountability. This will serve as the basis for setting out the responsibilities of managers; providing them with a clear set of rules, procedures and guidelines for managing their staff; and putting in place mechanisms to ensure accountability;
- **Biannual review of the corporate and departmental risk registers.** This involved a review of practices with respect to: risk rating and escalation; formulation of appropriate mitigating actions and associated responsibilities for implementation; and risk monitoring. The review highlighted the fact that the current corporate risk register is almost exclusively the result of a "bottom up" approach, with divisions identifying threats and opportunities that may impact overall corporate objectives, rather than a "top down" approach, which identifies, from an overall corporate perspective, the possible threats and opportunities that may affect the Fund's ability to achieve its objectives. The review also identified opportunities for introducing a more consistent approach to risk rating and escalation. These considerations were referred to Senior Management and are being addressed systematically in work on the corporate risk register (described below);
- **Groundwork for the establishment of IFAD's corporate risk profile, corporate risk register and its assessment**, using a "top down" approach. Audit Committee members and senior and middle management have participated in discussions and contributed input that helped identify the principal threats to and opportunities for the achievement of corporate objectives. The materials produced are now being used for ERM training, making the course more relevant and practical for the staff being trained. The next steps will be Senior Management endorsement of the risks considered to be of greatest importance, an assessment of related controls, and a review of mitigating actions and responsibilities;
- **Updating of the corporate performance management and reporting process.** This included refining the guidelines so that they provide more practical guidance to managers carrying out assessments, and instituting a survey of divisional focal points on how this process can be streamlined and made more efficient to add more value to divisions. The results of this survey will be acted on in 2009;
- **Launching of an ERM intranet site.** This provides background information and materials for staff as to what ERM is in IFAD, including a short video with the Vice-President as risk champion, and a section containing frequently asked questions; and

- **ERM training and knowledge management activities.** These activities have included a presentation on ERM to Senior Management, which explained the sequencing of risk identification, assessment, responses to mitigate the risks, monitoring and reporting.
10. As reported to the Seventh Replenishment Consultation, Management has adopted a gradual and structured approach to rolling out ERM activities and has done so, without creating new permanent structures and positions, with the exception of the ERM Committee. Staff who dedicate time to ERM activities are doing this in addition to their normal roles and responsibilities. In 2008, roughly US\$100,000 was spent on external consultancy services, development of training materials and the purchase of an electronic voting tool. Continuation of ERM mainstreaming during 2009 will be a high priority, for which a similar amount will be set aside, mainly for training activities.

IV. Workplan for 2009 and forward programme

11. The ERM Committee's workplan for 2009 includes completion of various activities started in 2008, such as an internal control framework, an accountability framework, and training and communications activities (the first ERM training workshop, aimed particularly at ERM divisional focal points but open to all staff, was held in March 2009). The plan also envisages producing procedures for identifying and reporting on emerging and new risks, when these require additional reporting outside the normal quarterly performance reporting, and completion of the corporate risk register, which will be monitored and fully reassessed at least once a year.
12. Activities have already started in 2009 on the pilot roll out of a financial reporting internal control framework by the Financial Services Division. The pilot will be expanded to other divisions with significant responsibilities for financial reporting by 2010.
13. The workplan also includes the establishment of a financial disclosure policy. Work on developing the policy started at the end of 2008. The policy will require staff with key roles in finance, investments, procurement and external resource management to provide, every year, a signed, confidential statement reporting their significant outside activities and interests. While Management has full confidence in the integrity of staff, it attaches the utmost importance to ensuring, and being able to demonstrate credibly, that IFAD has in place internal control measures and is in line with best practices of other international financial institutions, most United Nations organizations and other public organizations.
14. The forward programme includes a management (internal control) assertion letter to be produced in connection with the audit of the annual financial statements starting with the financial year ending December 2009. This is a short statement signed by Senior Management each year, asserting that the internal controls it has put in place over financial reporting are functioning and adequate. Since this practice will require changes in existing procedures and guidelines, the use of the assertion letter will be piloted for the next two years. Once this process matures, IFAD will prepare an attestation letter, which, unlike the assertion letter by Management, will be prepared by the external auditor. One of the main benefits of introducing formal internal control reporting through the issuance of an annual attestation letter is that it provides a strong assurance to stakeholders (for example, governing bodies, including the Audit Committee, and donors) of the proper discharge of fiduciary responsibilities by the stewards of the Fund.