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WFP ENTERPRISE RISK MANAGEMENT POLICY



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NOTE TO THE EXECUTIVE BOARD

This document is submitted for consideration to the Executive Board.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms C. Panlilio the Administrative Assistant, Meeting Servicing and Distribution Unit. (tel.: 066513-2645).



EXECUTIVE SUMMARY

Uncertainty is inherent in many of the activities undertaken by WFP. For this reason, many staff frequently manage risks and opportunities, but in a reactive way. The importance of risk management has been reinforced by the occurrence of large-scale crises in southern Africa, the Horn of Africa, Iraq and countries on the Indian Ocean. At EB.3/2005, the Board encouraged WFP to introduce risk management as a means to ensure that it can reach its aims in an uncertain and risky environment.

The purpose of this policy is to guide enterprise risk management in WFP, building on its previous and current work in risk management. More systematic and earlier management of issues that may affect achievement of WFP's objectives will improve its ability to achieve its mission. Risk management is not a stand-alone initiative: it will be integrated with WFP's major corporate processes such as work-plan preparation and the budget.

The aim of this policy is to embed a conscious, systematic and effective approach to managing risks and opportunities throughout WFP that adds value to decision-making and prioritization and is clearly linked to achieving objectives and results in order to develop a more resilient organization fit to meet future challenges.

The policy applies to all staff, but there is a specific obligation for executive staff and heads of business units at Headquarters and in the field to set the tone for effective risk management.

The policy envisages a risk management framework based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management Integrated Framework and contains a set of principles that express WFP's risk management philosophy. The policy stipulates that ownership of risk management in WFP rests with management and defines key roles and responsibilities for the Board, the Executive Director, the Audit Committee and the internal and external audit functions. Links are made with other governance and management processes. WFP will implement this policy in line with best practices.



DRAFT DECISION*



The Board approves “WFP Enterprise Risk Management Policy” (WFP/EB.2/2005/5-E/1) and requests the Executive Director to put in place mechanisms to implement the policy, taking into consideration the observations of the Board.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.



CONTEXT

1. Uncertainty is inherent in many of the activities undertaken by WFP. For this reason, many staff frequently manage risks and opportunities but in a reactive way. In recent years, many sectors of society, including the public sector, have focused on risk management as an important tool for organizations to meet their objectives while protecting the interests of their stakeholders.
2. The nature of hunger and its relation to crisis, whether chronic or acute, makes WFP's work more risk prone; WFP has to be ready to respond to sudden needs anywhere, at any time. In recent years, this has been achieved, but often at the cost of weakening ongoing operations. The importance of risk management has been driven home by the occurrence of large-scale crises in southern Africa, the Horn of Africa, Iraq and the Indian Ocean region. WFP's ongoing work on risk management has helped to identify several internal risks that will need to be managed, such as those relating to staff and skills, systems and plans, projects and programmes, resources, information and data, and external risks. WFP needs not only to be more aware of the risks it faces and their implications for human resources, logistics and financing but also to have mitigation strategies in place.
3. At its October 2003 session, the Board discussed the Strategic Plan (2004–2007) and encouraged WFP to introduce risk management as a means to ensure that the organization can reach its aims in an uncertain and risky environment; the Board looked forward to being involved in this process. At the same session, the Board discussed the document "Best Practices in Oversight Mechanisms" and reiterated its support for the introduction of risk management.

PURPOSE

4. The purpose of this policy is to guide risk management in WFP, building on its previous and current work in the area of risk management. More systematic and earlier management of issues that may affect achievement of objectives will improve WFP's ability to achieve its mission. Risk management is not a stand-alone initiative; it will be integrated with WFP's major corporate processes such as preparing work plans and budgeting.

DEFINITIONS¹

5. Important definitions include:
 - **Enterprise risk management:** A process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

¹ WFP has adopted these definitions from the 2004 Committee of Sponsoring Organisations of the Treadway Commission (COSO) document "Enterprise Risk Management Integrated Framework".



- **Event:** An incident or occurrence, from sources internal or external to an entity, that affects achievement of objectives. Events can have negative impact, positive impact or both. Events with negative impact represent risks. Events with positive impact may represent opportunities.
- **Risk:** The possibility that an event will occur and adversely affect the achievement of objectives.
- **Opportunity:** The possibility that an event will occur and positively affect the achievement of objectives.

AIM AND OBJECTIVES

6. The aim of this policy is to embed a systematic, effective and sustainable approach to managing risks and opportunities throughout WFP that adds value to decision-making and is clearly linked to achievement of objectives and results.
7. Key objectives of this policy are to:
 - provide better assurance to stakeholders that WFP's objectives will be met and that agreed results will be achieved;
 - support effective and efficient allocation and use of resources, innovation and change management;
 - provide a rigorous basis for confident decision-making and planning;
 - support proactive rather than reactive management by encouraging well planned and managed risk-taking;
 - provide a consistent risk management framework through which risks will be identified, analysed and addressed, and accountability and responsibility assigned; and
 - facilitate continuous improvement in performance and achieve necessary change in corporate culture.

PRINCIPLES OF POLICY

8. In implementing risk management, WFP will adhere to the following principles:
 - i) Risk management is an essential element in the framework for good corporate governance and an integral part of good management practice.
 - ii) By the nature of its mandate, WFP operates in high-risk environments, bearing in mind expected benefits and potential adverse consequences.
 - iii) Ownership of risk management rests with WFP management. In view of this, management will seek to:
 - a) manage proactively risks to its employees, financial and other resources, assets, programmes, projects, property, reputation and interests, both internal and external.
 - b) determine its tolerance for assuming risk on a case-by-case basis, as well as considering the aggregate level of risk assumed.
 - c) balance the cost of managing risks with the anticipated benefits that will be derived.



- d) seize and exploit opportunities to successfully achieve its objectives.
- e) take appropriate and timely measures, if risks materialize, to minimize and contain their consequences.
- f) ensure that risks and opportunities are managed systematically and proactively at the lowest level at which a manager has the authority and resources to take action.

APPLICATION

9. Whereas this policy applies to all staff, there is a specific obligation for the executive staff and heads of business units both at Headquarters and in the field to set the tone for effective risk management.

IMPLEMENTING THE POLICY

10. WFP's risk management framework is based on the Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management Integrated Framework².
11. Risk management can only be sustainable if it is fully integrated in corporate processes and functions via approval, review and control procedures. To achieve this, WFP will seek to develop the right culture to embed systematic risk management.
12. WFP will implement this policy as follows:
 - The Executive Director will be responsible for implementing this policy.
 - A detailed risk-management strategy setting out common terminology, a uniform process and structure, roles and responsibilities, and a communications and reporting approach will be developed and made available to all staff.
 - Management will monitor and periodically review WFP's risk profile, risk-management strategies and processes.
 - Risk tolerance levels will be set where appropriate by the Executive Board or the Executive Director and communicated through corporate policies and guidelines. In other cases, managers will set prudent tolerance levels within their areas of responsibility and authorities.

RESPONSIBILITIES

The Executive Board

13. The Board will provide guidance and direction on risk management in WFP:
 - when reviewing the Strategic Plan, the Board will guide the Secretariat on managing risks and opportunities;

² COSO is sponsored by five major financial professional associations in the United States of America: the American Accounting Association; the American Institute of Certified Public Accountants; the Financial Executives Institute; the Institute of Internal Auditors; and the National Association of Accountants (now the Institute of Management Accountants). Independent of each sponsoring organization, COSO published its "Enterprise Risk Management Integrated Framework" in September 2004.



- when considering individual policies, programmes and projects, the Board will guide the Secretariat on associated risks;
- when reviewing reports from management, the Audit Committee, the External Auditor or the Oversight Services Division, the Board will seek assurance that WFP has an effective risk-management framework in place; and
- when considering information or reports from external bodies such as United Nations oversight bodies — for example the Joint Inspection Unit, the Advisory Committee on Administrative and Budgetary Questions, the United Nations Development Group and the Economic and Social Council — the Board will provide suggestions to the Secretariat on effective risk management.

The Executive Director

14. To discharge responsibility for risk management, the Executive Director must know or be made aware of what the risks are, how the risk profile of the WFP is changing, the extent of the exposure or opportunity that results, how the risks are being managed and who is directly responsible and accountable for managing the risks identified. To achieve this, the Executive Director will establish risk management in WFP that:
- promotes the development of a culture that supports effective risk management and innovation and which encourages prudent risk-taking;
 - integrates risk management into major programs, corporate processes and functions such that it is embedded into the way WFP works;
 - ensures that risks are managed effectively across the whole organization and includes identifying, analysing, responding to, reviewing and reporting on risks;
 - assigns accountability to staff for managing risks within their area of responsibility, levels of authority, and/or competence; and
 - allows for systematic review of the effectiveness of risk management.

Audit Committee

15. The Audit Committee will provide oversight, and will assist and advise the Executive Director in fulfilling the responsibilities of risk management by gaining assurance that this policy works effectively and that risk is properly managed, in accordance with its Terms of Reference.

Internal Audit

16. The Office of Internal Audit will support WFP management by providing independent assurance on (i) the appropriateness of risk-management processes, both design and function, (ii) effectiveness and efficiency of risk responses and related control activities and (iii) completeness and accuracy of risk-management reporting, and by providing consultancy services to promote risk management.

External Audit

17. External audit will independently assess the effectiveness of risk management as part of its risk-based audit approach.



Links with other Governance Initiatives and Management Processes

18. Risk management will be clearly linked to other governance initiatives and management processes either in place or in the process of being put in place.

Risk Management and Results-based Management (RBM)

19. Risk management lends support to RBM in WFP. Both concepts have the overriding aim of achieving measurable results by meeting organizational objectives. An essential part of RBM is the identification and implementation of activities necessary to achieve planned results – output, outcome and impact. Risk management aids this process by helping management to identify, quantify, prioritize and decide how best to manage risks related to achieving those objectives.

Risk Management and the Strategic and Management Plans

20. Risk management will feed into the strategic planning process and major risks and opportunities will be incorporated into the WFP Strategic Plan. Corporate and business unit risk profiles will influence priority-setting for the Management Plan.

Risk Management and Internal Control

21. Internal control is an integral part of risk management and an essential management responsibility. Well-functioning systems and controls incorporated into a framework document encourage an organization's risk management efforts and facilitate the achievement of organizational goals.



ACRONYMS USED IN THE DOCUMENT

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| OSD | Inspector General and Oversight Services Division |
| OSDA | Office of Internal Audit |
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| RBM | results-based management |

