INTERNAL AUDIT DIVISION

REPORT 2015/077

Advisory engagement to assist the International Trade Centre in its efforts to develop a risk management framework

29 July 2015
Assignment No. VE2014/350/01

CONTENTS

Advisory engagement to assist the International Trade Centre in its efforts to develop a risk management framework

I.   BACKGROUND

1.   The Office of Internal Oversight Services (OIOS) conducted an advisory engagement to assist the International Trade Centre (ITC) in its efforts to develop a risk management framework.

2.   In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.

3.   Originally created in 1964, ITC is a joint technical cooperation agency of the United Nations and the World Trade Organization for business aspects of trade development. The objective of ITC is to foster sustainable growth and development in developing countries, especially Least Developed Countries and countries with economies in transition through trade and international business development.

4.   Enterprise Risk Management (ERM) is an organization-wide process used to manage risks and take opportunities related to the achievement of an organization's objectives. It provides a coherent system for risk identification and management by assessing risks, determining a response, and monitoring and reporting thereon. ITC has recognized the benefits of ERM, which include: helping the Organization to achieve its goals by understanding risks; contributing to more informed decision-making and control over risk taking; and helping ITC to take advantage of strategic opportunities.

5.   The Secretary-General's report A/64/640 of 29 January 2010 ("Towards an accountability system in the United Nations Secretariat") introduced the ERM and internal control framework. In May 2011, the United Nations Secretariat issued the ERM and internal control policy as well as the related methodology. These were aligned with the benchmarks on ERM implementation recommended by the Joint Inspection Unit in its report JIU/REP/2010/4 and provided guidance to offices and departments for implementing a risk management framework compatible with accountability practices.

II.   OBJECTIVE, SCOPE AND METHODOLOGY

6.   The engagement was included in the OIOS 2014 internal audit work plan for ITC following a request made by the Executive Director of ITC for OIOS to assist ITC in developing a risk management framework.

7.   The main objectives of this engagement were to:

(a)   Perform an ERM gap assessment using appropriate benchmarks and a maturity matrix; and

(b)   Identify opportunities for ITC to move to higher levels of ERM maturity.

8.   The work was carried out, with the assistance of an expert consultant, between January and May 2015. The engagement covered the period from January 2014 to May 2015.

9.   The methodology involved the following steps:

- Research and identification of policies and practices currently used for Enterprise Risk Management in the United Nations Secretariat and other United Nations entities;

- Development of benchmarks ("ERM benchmarks") to be used for the gap assessment based on the benchmarks recommended by JIU in its report JIU/REP/2010/4. This involved categorizing the recommended benchmarks into the following five categories in order to adapt them to ITC needs: (i) risk governance; (ii) integration and reporting; (iii) risk management process; (iv) tools and training; and (v) implementation and continuous improvement;

- Development of a maturity matrix ("ERM maturity matrix") to be used for the gap assessment. This was done using the guidelines recommended in the Institute of Internal Auditors practice guide on selecting, using and creating maturity models. It involved defining the levels of maturity (see Table 1 below) and key elements that need to be in place for each of the five benchmarks at each level of maturity;

Table 1: ERM maturity matrix: maturity levels and descriptions

Maturity level	Maturity level description
Level 0: **Not Existing**	No recognized need for risk management.
Level 1: **Initial**	Risks are managed in an ad-hoc and inconsistent manner. Risk management policies and procedures are undefined.
Level 2: **Defined Process**	Risk management is enterprise-wide and encompasses all risk types. Some or part of the policy and framework is formalized and in place.
Level 3: **Managed and Measurable**	Risk management is built into planning and decision-making. Risks are continually managed and monitored at the enterprise level and are aggregated across risk types and units.
Level 4: **Optimized**	Risk management is part of the culture throughout all levels of the organization. Risk management activities focus on value creation as well as value preservation. The policy and framework are regularly reviewed and continuously improved.

- Discussions with managers and staff of ITC, the United Nations Conference on Trade and Development, the United Nations High Commissioner for Refugees, and the United Nations Secretariat, including the Department of Economic and Social Affairs to identify best practices for the implementation of ERM;

- Review of existing risk management processes and related documentation at ITC;

- ERM gap assessment using the "ERM benchmarks" and the "ERM maturity matrix"; and

- Identification of opportunities for improving risk management processes in ITC.

10.   As aspects of ERM at ITC may be the subject of a future audit, OIOS participation in this exercise was solely in an advisory capacity. As such, the contents of this report shall not be construed as OIOS agreement or endorsement of ITC practices, or that OIOS takes any responsibility for the outcome or consequences arising from the implementation of the opportunities for improvement highlighted in this report. Further, it will be the responsibility of ITC to ensure alignment of its ERM processes with those of the United Nations Secretariat.

III. RESULTS OF THE ADVISORY ENGAGEMENT

11.   OIOS assessed the current level of maturity at ITC against each of the five benchmarks as follows:

ERM benchmarks	Current ITC ERM maturity level
Benchmark 1: Risk governance Full commitment and engagement of Senior Management to ERM. Adoption of a formal ERM policy including formally defined governance structure and clearly established roles and responsibilities for the implementation of ERM.	Level 1: (Initial), with some elements of Level 2: (Defined Process) already in place.
Benchmark 2: Integration and reporting Integration of risk management with results-based management, planning, programming, and operational and business processes; and establishment of reporting mechanisms.	Level 1: Initial
Benchmark 3: Risk management process Formal risk management process with coherent methodology and tools and clear guidelines for implementation.	Level 1: Initial
Benchmark 4: Tools and training Communication and training to create risk awareness, promote risk policy and build up general capacity and critical skills for implementation of ERM.	Level 1: Initial
Benchmark 5: Implementation and continuous improvement Design of a comprehensive risk management framework and implementation strategy including a time-bound action plan and clear roles and responsibilities to manage the process.	Level 1: Initial

12.   Annex 1 of the report provides a description of the key risk management processes and procedures currently in place at ITC, as well as opportunities for improvement that could enable ITC to reach higher levels of ERM maturity. ITC Senior Management commitment for the implementation of an ERM framework was relatively mature and consequently, Benchmark 1 was ranked as level 1 with some elements of level 2 in place. For the remaining four benchmarks, ITC practices were assessed as level 1. Implementation of the opportunities for improvement listed in Annex I could enable ITC to increase its maturity level for all the benchmarks to either level 2 or to level 3. It is for ITC to determine an appropriate maturity level and take the steps necessary to sustainably achieve that level.

13.   The following opportunities for improvement were highlighted as the most important for ITC to consider taking action on:

- Benchmark 1- Risk governance: ITC could consider developing and adopting a risk management policy, formally defining roles and responsibilities, promoting the importance of risk management internally, and making risk management an integral part of executive decision-making.

- Benchmark 2 - Integration and reporting: ITC could consider integrating risk management with strategic, operational and programmatic planning and decision-making activities, and making risk management accountability part of performance management. ITC could also consider establishing mechanisms to regularly monitor and escalate emerging risks and changes in risk levels as well as the aggregated ITC risk profile to Senior Management and stakeholders.

- Benchmark 3 - Risk management process: ITC could consider defining a structured process of steps to routinely identify, assess, evaluate, mitigate and monitor risks, and developing ERM methodologies and tools.

- Benchmark 4 - Tools and training: ITC could enhance communication to ensure awareness by staff and other stakeholders of enterprise-wide risks and provide training on risk management for its management and staff.

- Benchmark 5 - Implementation and continuous improvement: ITC could consider developing a formal implementation strategy for putting in place all elements mentioned above, as components of an overarching ITC risk management framework. Such a strategy would include a plan for implementation with milestones, an estimation of resources required, and roles and responsibilities for implementation and monitoring thereof. A business case could be developed to justify necessary resources.

IV.   ACKNOWLEDGEMENT

14.   OIOS wishes to express its appreciation to the Management and staff of ITC for the assistance and cooperation extended to OIOS staff and the expert consultant who carried out this engagement.

ENTERPRISE RISK MANAGEMENT GAP ASSESSMENT FOR THE INTERNATIONAL TRADE CENTRE

ERM benchmarks	Key ITC risk management processes and procedures in place	Current ITC ERM maturity level	Opportunities for improvement to reach a higher level of ERM maturity
Benchmark 1: Risk governance Full commitment and engagement of Senior Management to ERM. Adoption of a formal ERM policy. Formally defined appropriate governance structure and clearly established roles and responsibilities for implementation of ERM. (This incorporates the elements in Benchmark 2, 4 and part of 1 of the JIU report). The key items that need to be effectively in place for this benchmark include: a. Understanding and ownership of ERM by the Executive Director and Senior Management. b. Setting the tone at the top by promoting risk management in their daily use of language and actions. c. The ERM policy is formally adopted and shared. d. Periodic review and update of the risk management policy. e. Set up appropriate governance	ITC and its Executive Director are committed to implement a practical ERM framework proportionate to the size and needs of the Organization. The Executive Director and the Chief of Strategic Planning are familiar with ERM from previous experiences in other organizations. ITC showed its commitment to improving its risk management practices by requesting OIOS to undertake this advisory engagement. Currently, ITC does not have an explicit risk management policy. Risk assessments are being conducted at the project, section and division levels. However, risk owners are not systematically allocated and held accountable for managing, monitoring and updating assessed risks and treatment measures on a continuous basis. Some bigger projects have more formal quality control and oversight mechanisms, where the donor is on the steering committee together with executive management, and a quality assurance consultant is periodically monitoring the project. Currently, this does not include risk management but the risk	Level 1: (Initial), with some elements of Level 2: (Defined Process) already in place.	1. ITC could consider underlining Senior Management's commitment by actively communicating and promoting the importance of risk management and a transparent risk culture in its internal communications and practices. 2. ITC could consider making risk management updates a standing item on the Senior Management Committee meeting agenda and an integral part of executive decision-making. 3. ITC could consider making risk management duties part of Senior Management's terms of reference. 4. ITC could consider developing and adopting a risk management policy, setting out the management commitment, risk appetite, and operating principles and accountabilities

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ERM benchmarks	Key ITC risk management processes and procedures in place	Current ITC ERM maturity level	Opportunities for improvement to reach a higher level of ERM maturity
structures and determine roles and responsibilities.	management process could be used in the future to inform those oversight and decision-making mechanisms for correcting the course of a project during implementation. There is currently no formal risk oversight by executive management or the Board.		regarding risk management across the Organization. 5. ITC could consider formally defining roles and responsibilities for identifying, assessing, evaluating, treating and monitoring risks, including at the corporate level. This could include allocating to a Senior Manager the responsibility (not necessarily full time) to lead risk management efforts, and tasking the Senior Management Committee with risk management oversight.
Benchmark 2: Integration and reporting Integration of risk management with results-based management, planning, programming, and operational and business processes. Establishment of reporting mechanisms. (This incorporates the elements in benchmark 8 and part of 9 of the JIU report). The key items that need to be effectively in place for this benchmark include:	Strategic goals have been set, defining six programmatic focus areas, to which 16 programmes with underlying projects have been allocated. Risk management is currently not explicitly linked to the strategic goals. The current focus of risk management is at the project planning level and to some extent at the section and division work planning level. Identified risks are not monitored and reported on a continual basis. No formal risk	Level 1: Initial	1. ITC could consider integrating risk management requirements with strategic, operational and programmatic planning of the organization and building it into decision-making activities (such as for project approvals or new innovative initiatives) within all core activities and across business areas.

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ERM benchmarks	Key ITC risk management processes and procedures in place	Current ITC ERM maturity level	Opportunities for improvement to reach a higher level of ERM maturity

a. Risk management should not be a stand-alone compliance exercise.
 	
b. Integration with the major processes and results-based management provides purpose and relates risk back to the objectives and core activities.
 	
c. Risk management should not be an additional responsibility, but part of existing processes.
 	
d. It should be embedded into the performance management process to enhance accountability.
 	
e. Internal and external reporting mechanisms to establish monitoring and reporting of risk management at each level, reporting the risk profile of the organization and emerging critical risks and their management.
	reporting mechanisms exist regarding risk management. No early warning indicators have been defined. No mechanisms exist for project managers to escalate uncertainties.
	
	There is diversity across projects and project managers regarding the use, integration and effective management and monitoring of the project risk registers. Small projects generally only identify some risks as part of the project plan and do not further follow-up. Bigger projects, projects with specific donor requirements, or individual project managers use more advanced risk registers and use, update and monitor these regularly. However, they tend to use their own spreadsheets and methodologies for this, resulting in inconsistency and lack of sharing across projects.
	
	Some risks are considered at the strategic level either in the budget or in strategic planning, but currently, there is no full integration with strategic planning and decision-making. There is no integration with performance management to incentivize adequate risk management.
			2. ITC could consider making risk management accountability part of management's performance targets and evaluations.
			
			3. ITC could consider implementing monitoring and reporting mechanisms which allow:
			
			   a. Defining and monitoring risk indicators as early-warning signals for emerging risks;
			
			   b. Regular monitoring and escalating emerging risks, changes in existing risk levels and progress/effectiveness of treatment measures.
			
			   c. Periodic reporting to Senior Management and stakeholders of the risk profile, by

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ERM benchmarks	Key ITC risk management processes and procedures in place	Current ITC ERM maturity level	Opportunities for improvement to reach a higher level of ERM maturity
			aggregating risks across risk type and units.
Benchmark 3: Risk management process Formal risk management process with coherent methodology and tools and clear guidelines for implementation. (This incorporates the elements in Benchmark 7 of the JIU report). The key items that need to be effectively in place for this benchmark include: a. A good and common understanding of the concept of risk. b. A simple and pragmatic process for risk assessment (identification, analysis, evaluation) and treatment. c. A well planned and structured approach with clear goals identified at the outset of the assessment. d. A common list of areas/risk universe for the organization. e. An effective internal facilitator to	Risk assessments are being conducted at ITC at the project, section and division levels and often these are one-off exercises that remain in the planning document. Each project planning document requires a risk management plan at the project development stage, however, there is little guidance and quality control on the identification of risks. No risk universe or guidance on risk areas to consider exists. The focus is on downside risks that are already known, instead of identifying unplanned events that could have both negative and/or positive consequences. A recurrent view is that not always the most relevant risks are being identified. Risks are being identified without analysing and documenting the (root) causes, consequences and existing controls. No standard evaluation criteria/scoring scales have been developed. Currently, impact and likelihood is being scored High, Medium or	Level 1: Initial	1. ITC could consider defining a structured process of steps to routinely identify, assess, evaluate, mitigate and monitor risks, and developing ERM methodologies and tools by means of the following actions: a. Develop a common risk universe or guidance on risk areas to consider while identifying risks against objectives. Such a typology of risks can also be used for a classification in risk categories for reporting and aggregation purposes. b. Develop a standard risk register, separate from planning documents, to be used during the full project life cycle as well as at section, division and

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ERM benchmarks	Key ITC risk management processes and procedures in place	Current ITC ERM maturity level	Opportunities for improvement to reach a higher level of ERM maturity
control the process. f. Clear and adequate guidelines and instructions for implementation. g. Focus on critical/high risks. h. Engagement of senior managers and key officials in the process.	Low, without defining the scores. Risk reduction/mitigation measures are being defined, but not reviewed for their effectiveness, allocated to an action owner, or monitored whether they are implemented.		corporate level, to log and continually monitor risks and treatment plans. Such a tool would also enable better analysis of root causes and consequences. c. Define common assessment criteria/scoring scales for impact, likelihood and control effectiveness, to allow comparable measures of risk levels to be used for prioritizing risks for treatment.
Benchmark 4: Tools and training Tools, communication and training to create risk awareness, promote risk policy and build up general capacity and critical skills for the implementation of ERM. (This incorporates the elements in Benchmark 5 of the JIU report). The key items that need to be effectively in place for this benchmark include:	Risk appetite is currently implicit in management's decisions, and has not been made explicit and communicated to management and staff who take risks. Some training takes place on project design and the logical framework, which includes an element of risk identification, linked to defined outcomes and outputs and underlying assumptions. However, no specific training for risk management is being provided.	Level 1: Initial	1. ITC could consider enhancing risk communication to ensure awareness by staff and other stakeholders of enterprise-wide risks. 2. ITC could consider providing training on risk management for its management and staff to enable them to execute their risk management responsibilities and to

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ERM benchmarks	Key ITC risk management processes and procedures in place	Current ITC ERM maturity level	Opportunities for improvement to reach a higher level of ERM maturity
a. Develop organization-wide awareness of risk management. b. Ensure that ERM policy, strategy and processes are understood. c. Enhance senior management capacity and risk management skills in the organization. d. Build up general implementation capacity and risk management skills in the Organization. e. Regularly share and disseminate best practices and lessons learned across the Organization.	There is limited communication and coordination regarding risks across projects, sections and divisions.		understand how a risk-based approach helps them achieve objectives. 3. ITC could consider formally identifying lessons learned and best practices to be shared across the Organization.
Benchmark 5: Implementation and continuous improvement Design of a comprehensive risk management framework. Formal implementation strategy including a time-bound action plan and clear roles and responsibilities to manage the process. Provision of adequate resources to introduce ERM and sustain the process. Monitoring and evaluation of compliance with and effectiveness of risk management. (This	ITC is part of the United Nations Secretariat process for developing a risk management framework. The United Nations Secretariat has provided advice and guidance on developing an effective ERM framework, which could be leveraged by ITC. Currently, ITC does not have an explicit ITC risk management framework or integrated ERM process.	Level 1: Initial	1. ITC could consider developing a formal implementation strategy for putting in place all elements mentioned above, as components of an overarching ITC risk management framework, i.e. a common risk management process and methodology, supporting tools and training, roles and

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ERM benchmarks	Key ITC risk management processes and procedures in place	Current ITC ERM maturity level	Opportunities for improvement to reach a higher level of ERM maturity
incorporates the elements in Benchmarks 3, 6 and part of 1 and 9 of the JIU report). The key items that need to be effectively in place for this benchmark include: a. Reach a common understanding, consistent methodology and terminology. b. Harmonize and integrate individual practices into an overarching organization-wide risk management process. c. Periodic review and update of the risk management framework. d. Establish and communicate a documented formal strategy and plan for implementation. e. Allocation of both financial and human resources to support implementation. f. Monitor the progress of the overall ERM implementation plan. g. Assessment of overall	Although Senior Management is committed to improve its risk management capabilities by designing and implementing an ERM framework, a formal plan and corresponding resources have not been defined yet. No assessment of the effectiveness of risk management has taken place to date.		responsibilities for risk management, support and oversight, and monitoring and reporting mechanisms. This would include: a. A plan for implementation of ERM components with measurable milestones; b. An estimation of resources required; c. Roles and responsibilities for ERM implementation; d. Monitoring and follow-up activities and responsibilities for ERM implementation. 2. When exploring possible strategies for ERM implementation, a business case could be developed to analyse costs and benefits and justify necessary resources.

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ERM benchmarks	Key ITC risk management processes and procedures in place	Current ITC ERM maturity level	Opportunities for improvement to reach a higher level of ERM maturity
performance/effectiveness of risk management. h. Monitor compliance with risk management policy, framework and guidelines.			3. In the longer term, when the implementation is well underway, ITC could consider planning an evaluation or assessment of the performance and effectiveness of risk management as the implementation and improvement of the framework continues.

APPENDIX I

Management Response

MEMORANDUM

TO-A:	Mr. Gurpur Kumar Deputy Director Internal Audit Division OIOS	REF:	IAD:15-00466
THROUGH-VIA:		GENEVA-GENÈVE:	
FROM-DE:	Ms. Arancha González Laya Executive Director International Trade Centre (ITC)	DATE:	27 July 2015

SUBJECT-OBJET: **Draft report on advisory engagement to assist the International Trade Centre in its efforts to develop a risk management framework (Assignment No. VE2014/350/01)**

On behalf of ITC, I thank OIOS for this report that will assist the ITC to improve its risk management framework. This work has been useful in helping to understand better the current situation of risk management and provide a roadmap for how we can improve. We accept that the assessment that you make of ITC's current practices is reasonable. We in particular appreciate the work for the assistance it has given us in developing practical tools for better risk management at ITC.

Finally, I would like to re-confirm, as your report notes, my personal willingness, and that of my senior management team, to use this work as a platform for future improvement.

cc: Ms. Dorothy Ng'ambi Tembo, Deputy Executive Director, ITC
Mr. Gerry Lynch, Director, Division of Programme Support, ITC
Mr. Robert Whitehead, Chief, Strategic Planning, ITC
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS