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***Berlin Civil Society Center***  
*Senior Leaders Week*

*Risk Management*

PricewaterhouseCoopers

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# *Agenda*

Risk Management Fundamentals

Approach to risk management

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# *Risk Management Fundamentals*

Bad managers manage problems while good managers manage risk.....

*Unknown author*

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# ***Risk management fundamentals***

## ***What is risk - definitions of Risk, which one ??***

*The possibility that an event will occur and adversely affect the achievement of objectives, where an event is defined as an incident or occurrence, from sources internal or external to the entity, that could affect the implementation of strategy or achievement of objectives*

*COSO Enterprise Risk Management Framework*

*The combination of the probability of an event and its consequences, where consequences can range from positive to negative*

*ISO / IEC (2002) Guide 73, Risk Management Vocabulary*

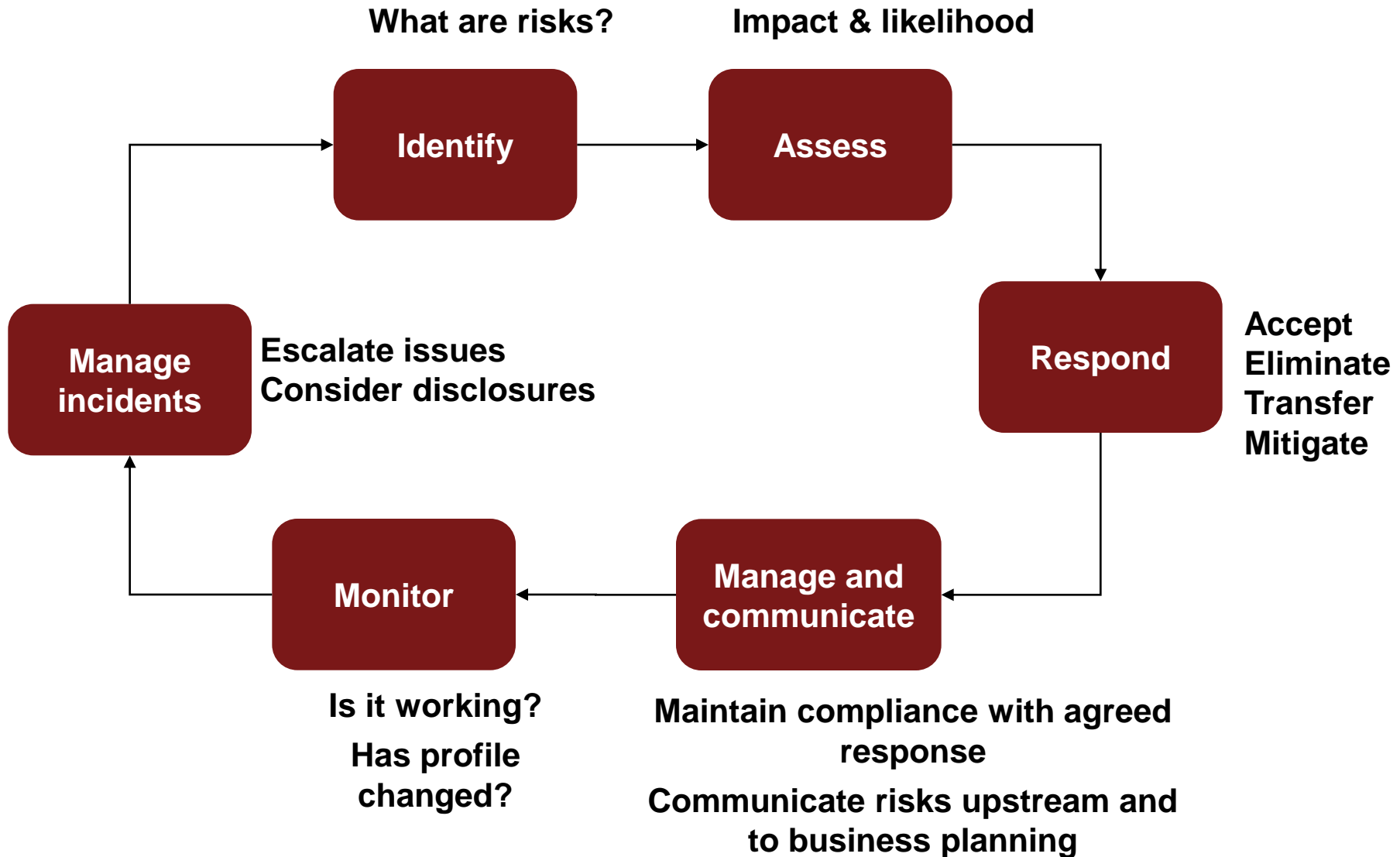
*The chance of something happening that will have an impact upon objectives*

*AS/NZS 4360:1999, Risk Management*

# *Risk Management Fundamentals*

Risk management is ...identification,  
prioritisation AND the implementation of  
mitigating actions

# *The Risk Management Process*



# ***Risk management process***

The assessment of risks is a management tool that assists to identify and dialogue on the key issues impacting the organisation/country portfolio/grants and agree the appropriate response actions.

**Key points to ponder**

What could go wrong?

What could cause it?

What needs to be done to prevent it?

Who shall do it?

When does it need to be done?

How shall we monitor progress?

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## ***Risk identification-the thought process***

- The need to focus on the strategic goals and objectives of the entire organisation
- Consider external and internal factors
- Consider the control and business environment
- The programs being implemented and the operational aspects of the organisation
- The brand/image/reputation of the organisation
- Risk is forward looking and while the past is important, forward thinking is critical

# ***Clear identification of causes/triggers is needed!***

What could go wrong?

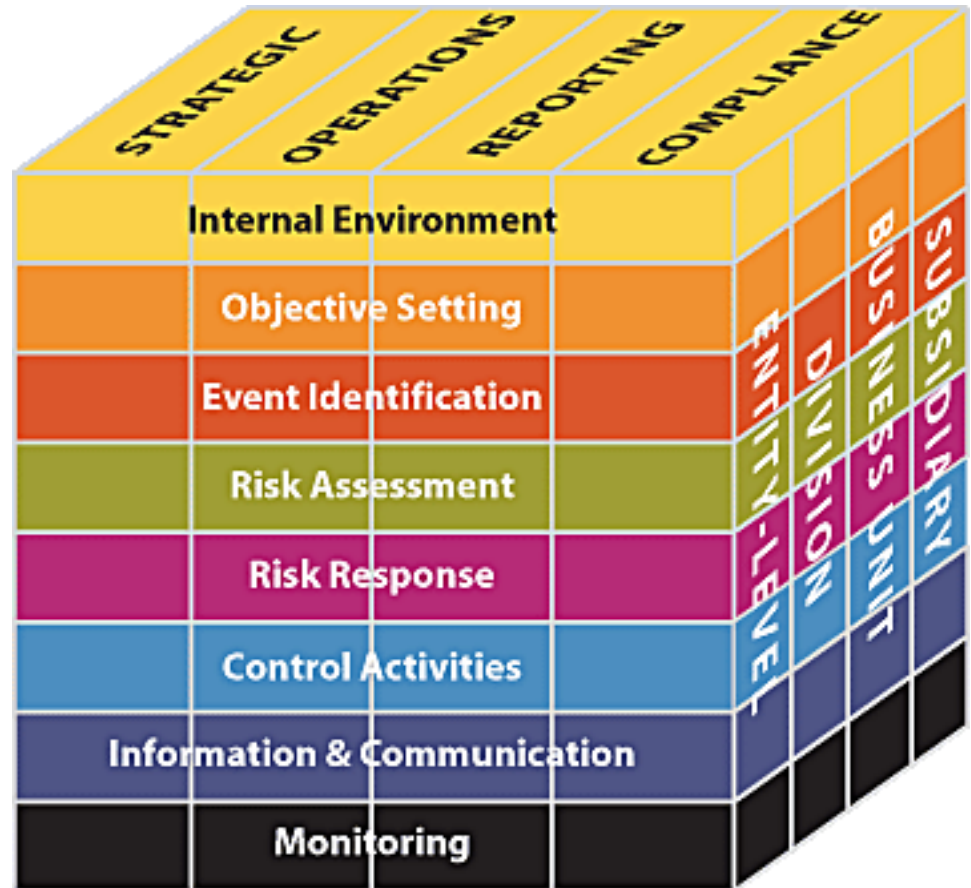
What could cause it?

Mismanagement of grant funds

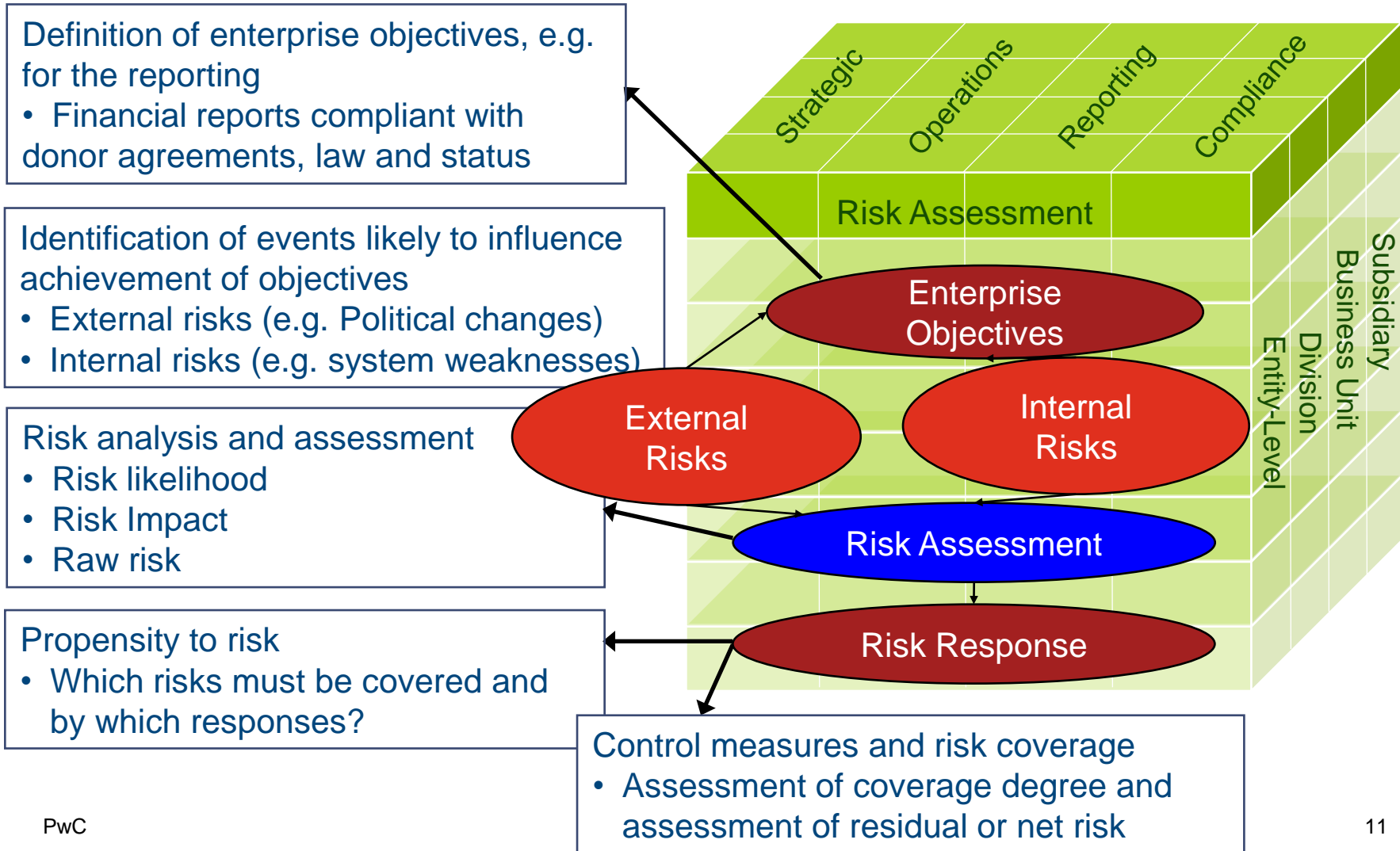
- Weak internal controls prevailing at recipient level
- Collusion by management of recipient entities
- Inadequate oversight over operational managers by senior management
- Inadequate oversight over recipients
- Weak management capacity at recipient level
- Weak internal audit function at recipient
- Weak corporate culture compromising ethics
- Lack of harmonisation at country level for all programs leading to duplication
- Standardised audit procedures
- Weak regulatory and investigative framework over procurement
- Pressure to put results on the table in a low absorption environment

# *COSO II Report “Enterprise Risk Management – Integrated Framework”*

Risk Assessment



# ***COSO II Report “Enterprise Risk Management – Integrated Framework”-Is it applicable to NGOs?***



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# *Risk assessment*



# ***Risk assessment-Assessing Impact***

High  
impact

4/5

Risks which may cause material financial, programmatic regulatory or reputational damage warranting immediate attention of stakeholders/senior management. Significant deviations from established policies and principles and/or generally accepted standards will normally be rated “high”.

Medium  
impact

3/2

Risks which, although less likely to lead to material financial, programmatic, regulatory or reputational damage, warrant timely management action using the existing framework to ensure a formal and effective system of controls exists in the organisation

Low  
impact

<1

Risks where resolution within the normal organisation management framework is considered desirable to improve efficiency or ensure that there has been best practice. Deviations from laid down detailed procedures would normally be graded “low” provided there is sufficient evidence of management action to put in place and monitor

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## *Risk assessment -Likelihood of occurrence*

5

Very high

4

High

3

Medium

2

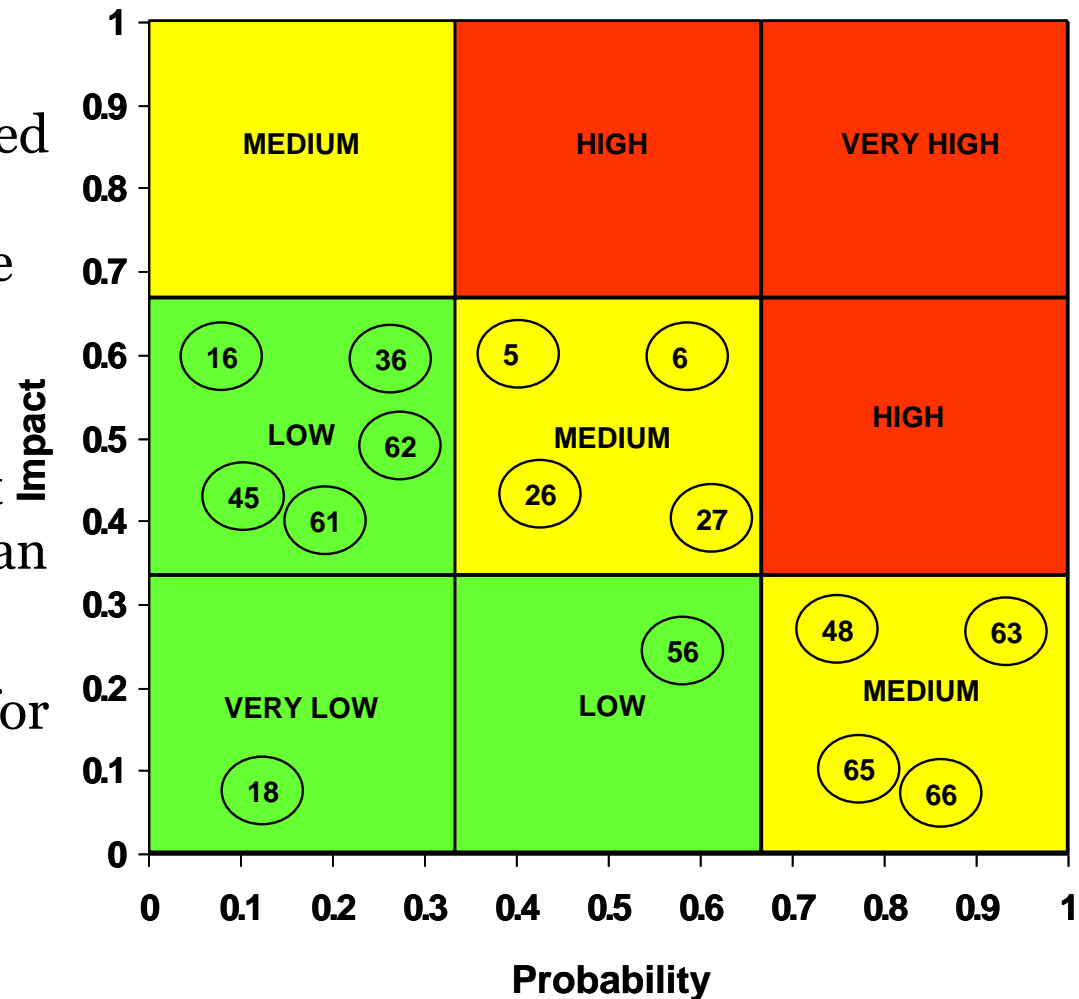
Low

1

Very low

# Sample Probability/Impact Matrix

- **Red** requires immediate management of the risk via controls to ensure it is mitigated and objectives delivered. The aim of the controls is to reduce the probability and impact to amber, or even better, green;
- **Yellow** requires management as risk could materialize with an impact; and
- **Green** should be considered for management after red and amber.

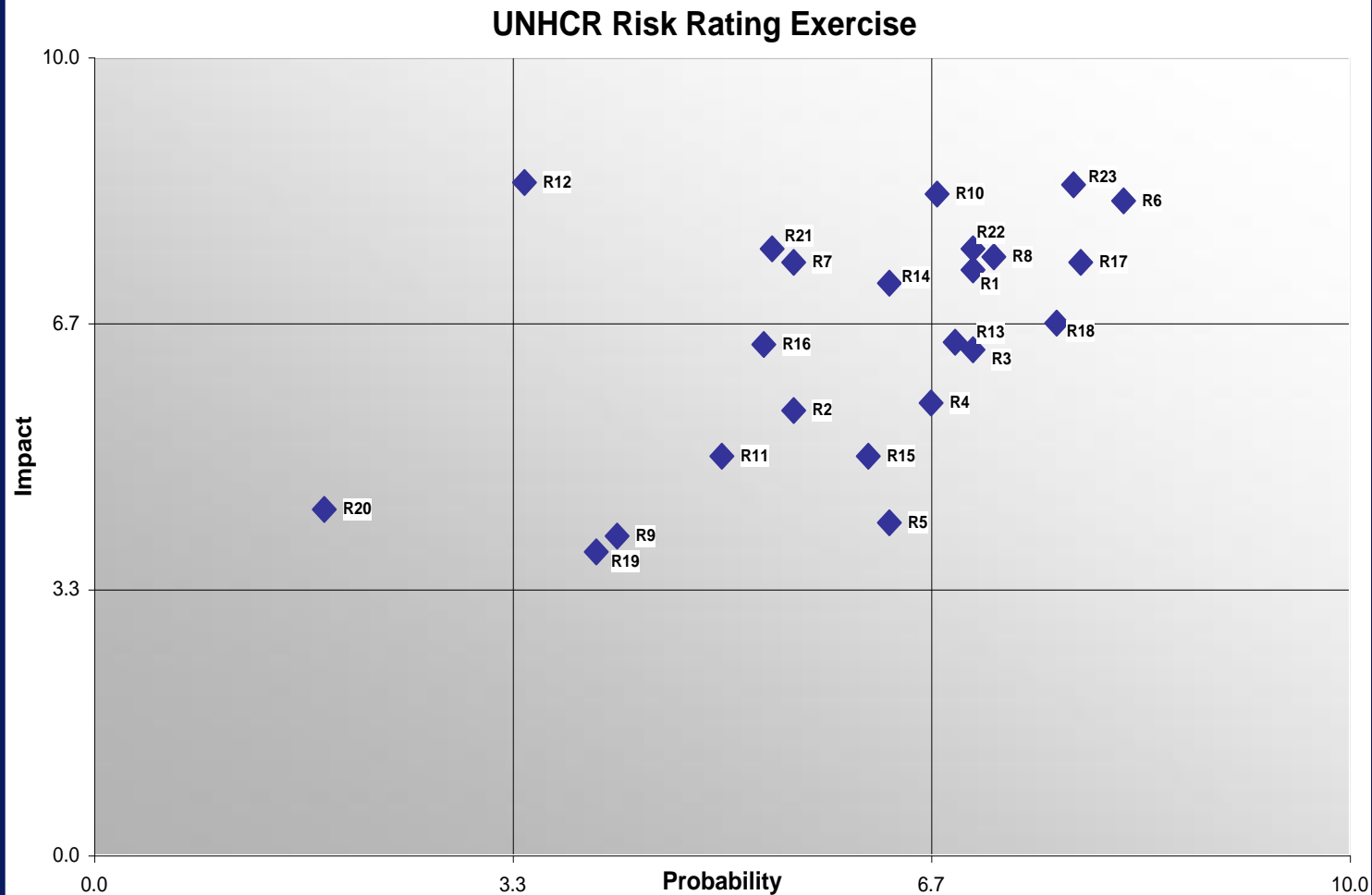


*The numbers are usually references to the detailed descriptions associated with each risk.*

# UNHCR Risk categories and rating example

## UNHCR Risk Categories

External	Socio-political
Organizational	Strategy
	Ethics and governance
	Culture
Operational	Operations
	Human Resources
	Information and Communication
	Technology
Financial	Fraud
	Financial Resources



## ***Risk identification/assessment example***

***Feed the Children is an International NGO domiciled in Berlin and operates in 56 countries in Africa and Asia***

***Recently, there had been prolonged drought in Somalia resulting in famine leading to 2000 deaths a day***

***Somalia is at war with a terrorist organisation Al Shabab fighting the transitional government. Two countries in the region have intervened sending 10,000 soldiers to fight Al Shabab***

***Al Shabab has been categorised as terrorist organisation by all Western Governments and there are sanctions targeted to the group***

***Due to the insecurity, there are no internally active international NGOs within Somalia. Any intervention has to be done through local NGOs normally with weak capacity***

## ***Risk identification/assessment example***

***In response to the famine, various organisations are working to provide food to the hungry. The estimated cost of the programme is \$100m. Feed the Children's annual budget is \$75m for the 56 countries got through fundraising in the rich western countries***

***Feed the Children is also running programs in Niger, and Chad countries where famine is rampant but international focus is on Somalia.***

***Feed the Children's target is to feed 10 million children in 2011. Feed the Children normally procures food from the region. However many regional government are grappling with public riots arising from high inflation and the depreciations of the local currency against the dollar***

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# *Questions*

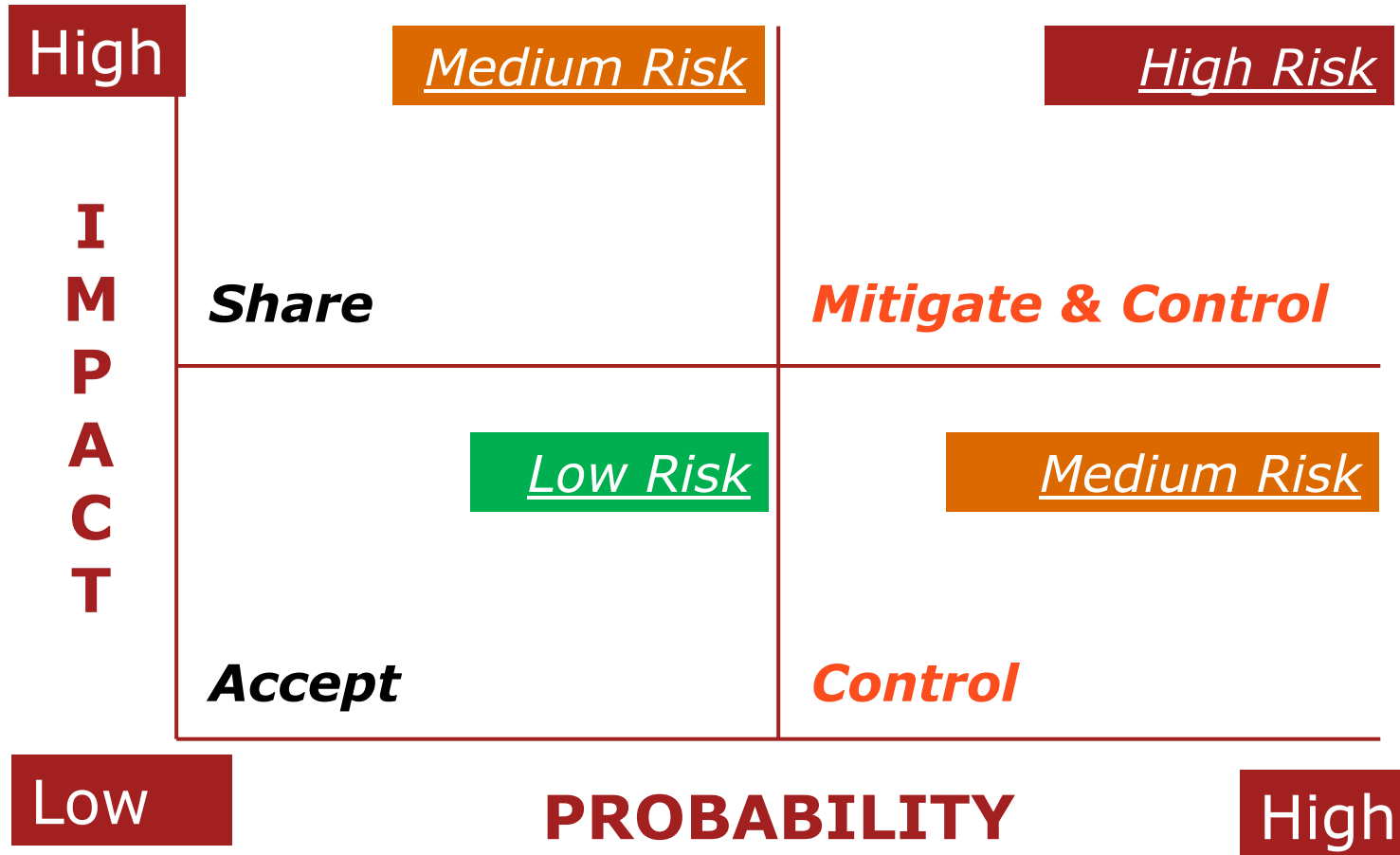
1. Identify the risks.
2. Asses the impact and likelihood of occurence.
3. What are the possible mitigating measures?

# *The foreseen strategies*

Once risks have been identified and assessed, all techniques to manage the risk fall into one or more of these four major categories



# *Impact Vs Probability-Management actions*

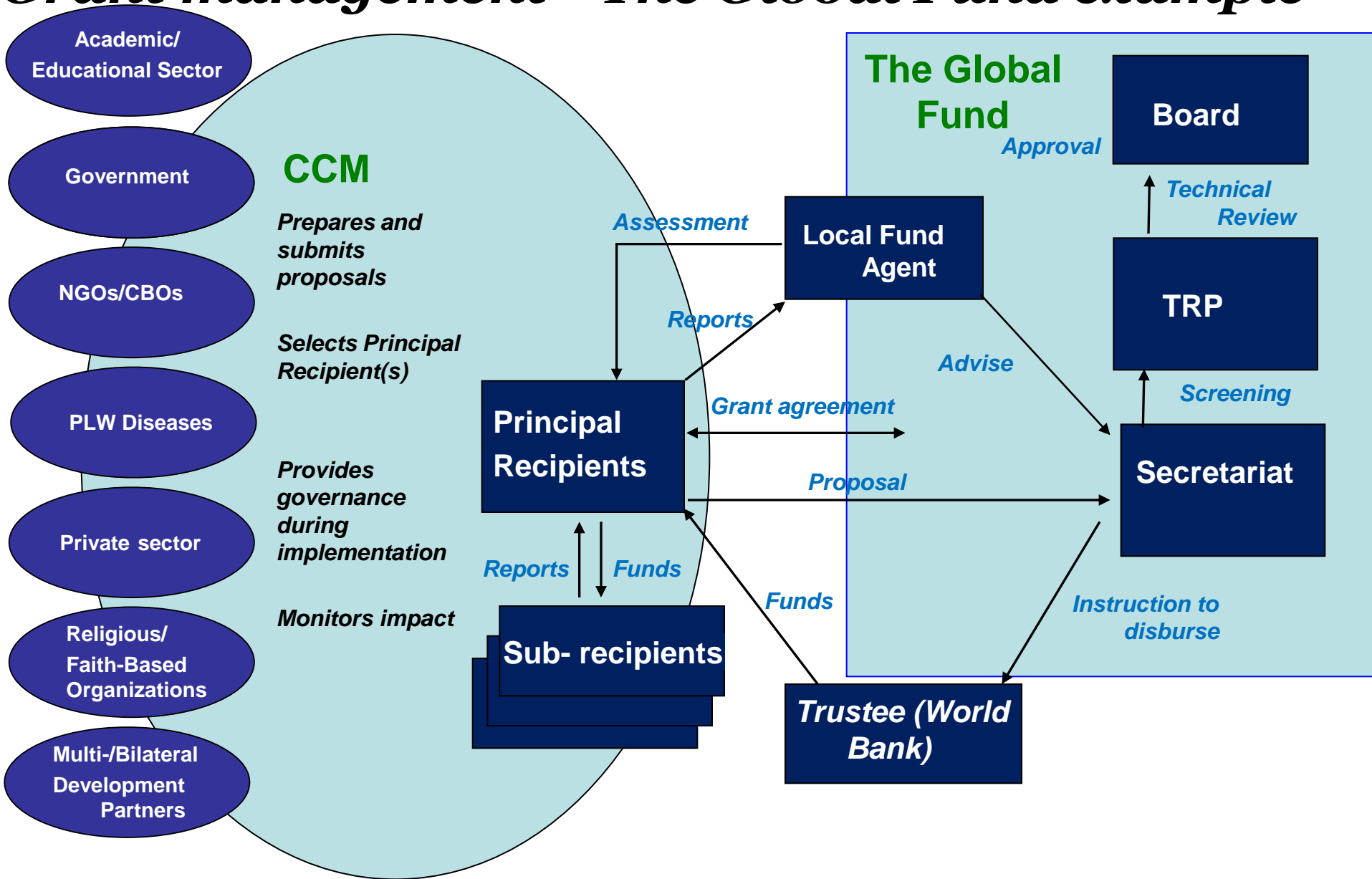


# *Approach to risk management*

Keeping it simple is the rule!

Making use of it is a **MUST!**

# Adapting principles of risk management to the Grant management – The Global Fund example



# ***Adapting principles of risk management to the Grant management –The Global Fund example***

## ***Intended to ...***

- create value
- be an integral part of organizational processes (Secretariat, CCM, PR, LFA)
- be part of decision making (Secretariat, CCM, PR, LFA)
- explicitly address uncertainty (Country / PR/SR)
- be systematic and structured
- be based on the best available information (Country, Partners, MoH, PR, SR)
- be tailored to country / grant situation
- take into account human factors
- be dynamic, iterative and responsive to change
- be susceptible to continuous improvement and enhancement

# ***Consideration: Contextual information***

## Country profile summary

<b>Risk</b>	<b>Rating</b>	<b>Comments</b>
Country reputation	<b>High</b>	Corruption Perception Index (CPI) ranks UTOPIA at 170 out of 178 countries with a score of 1.9. <a href="http://www.transparency.org/policy_research/surveys_indices/cpi/">http://www.transparency.org/policy_research/surveys_indices/cpi/</a>
Socio-cultural factors	<b>Medium</b>	Medium Human Development (UTOPIA) <a href="http://hdr.undp.org/en/statistics/">http://hdr.undp.org/en/statistics/</a>
Political environment	<b>Low</b>	The country has shown no signs of socio-political instability in the past few years.
Economy	<b>High</b>	High volatility of currency market, Inflation, Unemployment
Portfolio complexity	<b>Medium</b>	There are 8 grants handled by 5 Principal Recipients, handling up to 20 sub-recipients in one of those cases.
Country health budget	<b>High</b>	Proportion of donor funded health programs as opposed to nationally funded programs is unknown.

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## ***Consideration: Contextual information***

### Grant portfolio summary

- Principal Recipient
- Grants
- Status of grant (grant dates)
- No of SRs
- No of SSRs
- Grant amount
- Total amount for health products and pharmaceuticals
- Disbursed amounts
- Grant absorption rate
- Grant burn rate
- Latest performance rating

***Potential Risk areas as identified by pwc - this is **NOT** an exhaustive list and should only be used as a **guidance**.***

***Spending too much time assessing and managing unlikely risks can divert resources that could be used more profitably.***

### **Country Governance, Oversight and Regulatory Environment**

- G1 CCM structure and membership
- G2 CCM oversight
- G3 Government policy and regulation (procurement and financial)
- G4 Banking supervision & regulations
- G5 Drug regulatory authority

### **Decision making processes**

- D1 PR Governance
- D2 Legal status
- D2 PR Execution capacity

### **Partners**

- P1 National programmes
- P2 Health systems
- P3 Programmatic partners
- P4 Double funding
- P5 Legal agreements
- P6 Civil Society

### **Fraud and mismanagement**

- FR1 Fraud
- FR2 Ineligible or non –grant related expenses
- FR3 Procurement fraud / collusion

### **Finance**

- F1 Control environment
- F2 Cash and Bank
- F3 Treasury
- F4 Accounting records and completeness
- F5 Currency exchange rates
- F6 Foreign exchange transactions
- F7 Investments
- F8 Tax environment
- F9 Inter-grant borrowing
- F10 External Audit
- F11 Internal Audit
- F12 Insurance and safety of assets

### **PR Resources**

- PR1 Human Capital
- PR2 Financial
- PR3 Infrastructure

### **SR management**

- SR1 Selection
- SR2 Legal arrangements
- SR3 Capacity
- SR4 Financial Monitoring
- SR5 Programme monitoring

### **Programme management**

- H1 National disease strategy
- H2 One M&E framework
- H3 Non-compliance with PF
- H4 Duplication of activities across grants
- H5 Quality of services
- H6 Treatment protocol
- H7 Treatment adherence
- H8 M&E reporting
- H9 Data quality

### **Supply chain management**

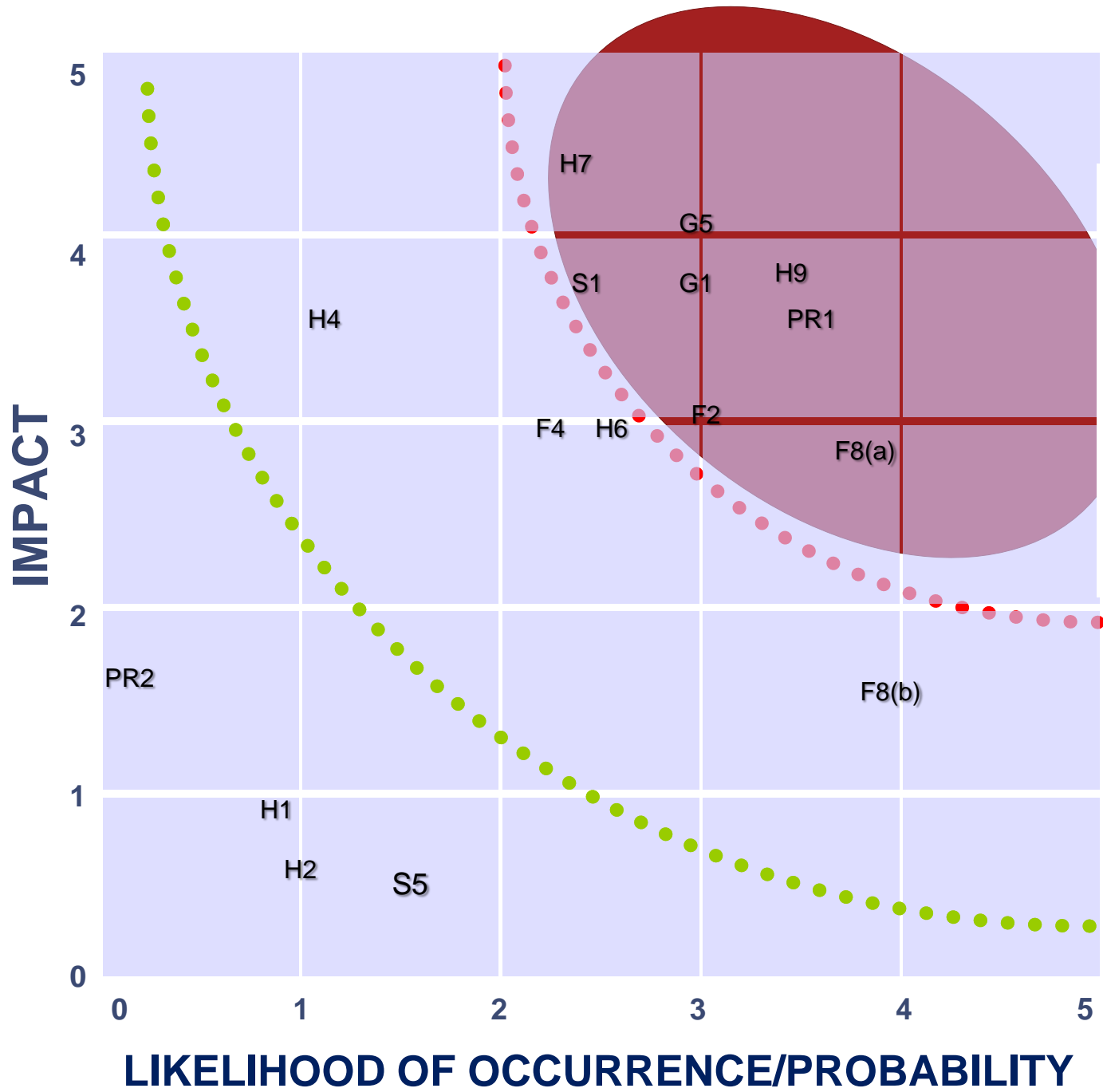
- S1 Value and volume of health products
- S2 Quantification
- S3 PR direct procurement and contracting
- S4 Quality Assurance
- S5 Receipt and storage
- S6 Distribution
- S7 Pilferage
- S8 Counterfeit drugs and substitution
- S9 Stockouts

### **Reputation**

- R1 PR
- R2 Programme
- R3 Risk management
- R4 Programme management experience

## ***Risk description (LFA perspective)***

<b>Risk Area</b>	<b>Fraud and mismanagement</b>		
<b>Ref</b>	<b>Risk description</b>	<b>Impact</b>	<b>Probability</b>
FR1	Collusion between PR staff and suppliers/SRs	High	High
FR2	Non compliance with laid down policies and procedures	High	High
FR3	Lack of effective internal audit function to provide checks and balances	High	High



## *Preparing the mitigation action plan –LFA perspective example*

Ref	Risk description	Risk Mitigating measures	Responsible party		Timeline	LFA oversight activities
FR1	Collusion of PR with suppliers/SRs	Establish internal audit function	PR1	CCM	Q3 2011	Assess adequacy of Internal audit function
		Develop internal audit review plan and methodology	PR1	CCM	Q3 2011	Assess adequacy of plan and methodology
		Amend disclosure requirements during tenders for suppliers/SRs	PR1	CCM	Q3 2011	Review revised tender regulations Review tender process prior to PR signing contracts with suppliers/SRs

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# *Who is responsible for risk management?*

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*“There was an important job to be done and Everyone was sure that Somebody would do it. Anybody could have done it, but Nobody did. Somebody got angry, because it is Everybody’s job but Nobody realised that Everybody wouldn’t do it. In the end, Everybody blamed Somebody when Nobody did what Anybody could have done”*

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# Making your operational units step up to the plate

## Focus on personal accountability

- *Clarify responsibility, authority and accountability-ensure your people have the authority to implement and take accountability of actions*
- *Encourage staff to question the allocation of responsibility*
- *Watch out for the blind spots*
- *Keep the door open*
- *Reward the right behaviour*

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## Making your operational units step up to the plate

### Hold your operational units accountable

- *Make your business units measure the maturity of their risk processes (ad hoc, Initial, Repeatable, managed, Excellence)*
- *Get the managers to sign on the dotted line to take responsibility of the risks they have assumed*
- *Create robust controls*

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# Making your operational units step up to the plate

## Lead from the front

- *Make your presence felt-Show the managers you are serious about risk management*
- *Look at the big picture- can the managers identify which processes can be simplified or safely eliminated?*
- *Capitalise on technology-encourage use of simplified new tools*
- *Keep things consistent across units*
- *Did down to the roots when there is a breakdown in a core process of breach of internal code of practice*

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# Making your operational units step up to the plate

## Re-focus your risk management function

- *Clarify the risk management function's role (they should be providing information, advice and assurance not control risks other managers are taking)*
- *Listen and learn in order to identify and interpret any changes in the external environment*
- *Assess and advice-develop risk framework, providing feedback to the effectiveness of controls*
- *Tell the truth-check if the units are doing what they claim are doing*

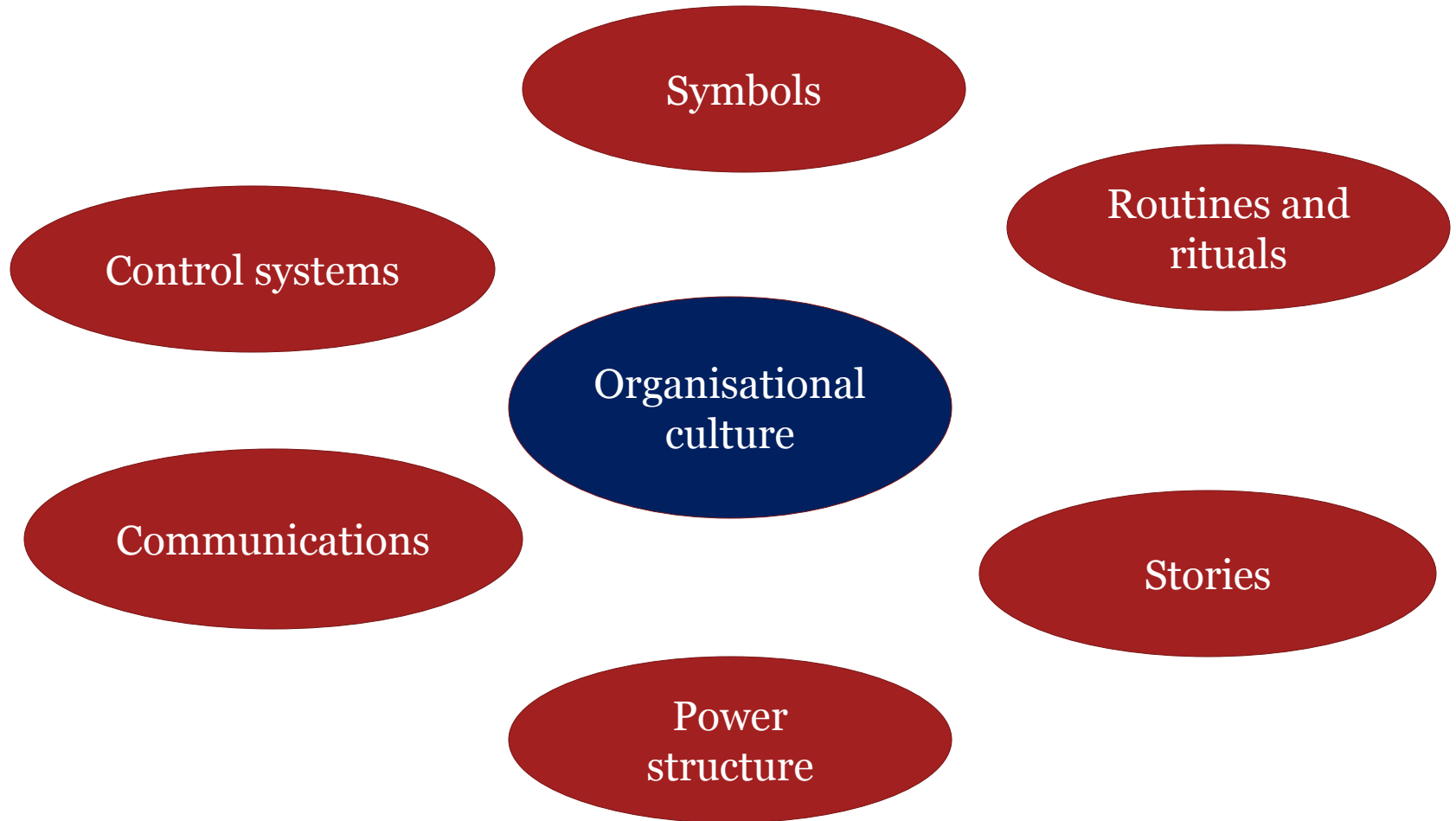
***Never forget the importance of the organisation's culture to risk management***

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# *Building a risk-aware culture for success*

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# *Creating the right organisational culture*



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## *Envisage your ideal organisational culture*

### *Key aspects of corporate culture that underpin effective risk management*

- *Leadership and strategy*
- *Risk management and infrastructure*
- *Accountability and reinforcement*
- *People and communications*
  - ✓ *Behaviour and outcomes*
  - ✓ *Knowledge, skills and abilities*
  - ✓ *Supporting infrastructure*

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## *Assess your existing culture*

- *Choose the method-data to be collected*
- *Analyse the evidence-e.g external attitudes to your organization*
- *Spot the differences-bear in mind that most organisations do not have a single culture*
- *Consider the hidden clues*

## *Plot your position*

- Evaluate where you stand or the various unity within the entity*

### **The four stages of competence**

	<b>Conscious</b>	<b>Unconscious</b>
<b>Competent</b>	<b>Smart Player</b>	<b>Instinctive expert</b>
<b>Incompetent</b>	<b>Anxious operator</b>	<b>Inadvertent amateur</b>

**Ask your stakeholders (employees, and external stakeholders what they think**

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## *Identify and prioritise the gaps*

- *Locate the holes-the list of problems exposed by the analysis*
- *Work out what structures, systems and processes will need to be changed to fix the problems*
- *Assess how the changes will affect the different stakeholders*
- *Read the hidden signs-Identify any non verbal features that conflict with the risk culture you want to create*
- *Define your criteria for success*
- *Be realistic*

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## ***Close the gaps***

- *Take the lead*
- *Get everyone involved*
- *Appoint some 'culture carriers'*
- *Provide training*
- *Combine the carrot and stick*
- *Track your progress*

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*Being smart about the risks you take*

*“The risk of failing to take the right risks is the biggest risk of all”*

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## ***Decide what sort of risks you want to take***

- *Know you self-Ensure you understand your business model*
- *Recognise that some risks are interdependent*
- *Establish a common risk language within the organisation*
- *Define your risk appetite*
- *Align your risk appetite with your strategic objectives*

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## ***Be selective***

- *Assess the impact of your risks*
- *Identify the risks that will give you a comparative advantage*
- *Concentrate on risks you can manage*
- *Measure your risk bearing capability-can your organisation withstand the impact of the risk occurrence?*
- *Make your risk appetite explicit*
- *Spread the risk you take over time*

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## ***Embed your attitude to risk in your culture***

- *Put effective systems and processes in place (robust risk information system)*
- *Learn from experience*
- *Break away from the herd and identify new opportunities*
- *Take a leaf from nature's book (think of risk management as an evolutionary process which requires constant learning and adaptation)*
- *Create an agile organisation (an organisation that is flexible, speedy and ready for "anything")*
- *Spread the word within the organisation*
- *Be proactive-take calculated risks*

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## ***Empower your people***

- *Communicate clearly (be explicit about your risk appetite and risk tolerance)*
- *Spell things out –be transparent*
- *Provide training*
- *Stick to your word*
- *Enforce the rules*
- *Create a learning culture*

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## ***Some considerations***

- *You cant eliminate every risk*
- *If you don't decide on the risks to take you will still be at risk*
- *Ask yourself how well you understand the risks your organisation is taking*
- *Are you focusing on trying to avoid risk or making risk work for you?*
- *Evaluate what you are doing to define your risk appetite and communicate throughout the organisation*
- *Remember that if you keep doing what you have always done, you will keep getting what you have always got*

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***If risks are improperly assessed and prioritized, time can be wasted in dealing with risk of losses that are not likely to occur.***

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