Risk Management Training

Handbook

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Bureau of Strategic Planning

Risk Management Handbook

Purpose and objective of risk management training

The purpose of risk management training is to raise basic awareness of risk management concepts and mechanisms, to enable participants to identify and manage risks in their own units and to strengthen project management through adequate forward planning of potential risks.

The half-day training module on risk management introduces the definition of risk and the purpose of risk management and discusses steps towards the effective management of risks. The course goes beyond the provision of generic tools and extends to re-visiting elements of organizational culture, decision making and situational awareness. Practice case studies and exercises are proposed at the end of the training session, and participants are requested to undertake a mock risk analysis using the methodology described in the module.

By the end of the training session, participants should be able to:

- Understand UNESCO's approach to risk management;
- Understand how risk management affects decision-making;
- Conduct a risk analysis by drawing up a risk profile and using a risk matrix;
- Identify risks/uncertainties to achieving a set of objectives and expected results;
- Prioritize these uncertainties; and
- Decide how to act on the uncertainties within the framework of project planning.

This handbook summarizing risk management methodology and the various concepts discussed during the training session accompanies the training module and is designed as a guidebook for future reference. It therefore follows the structure of the training module and covers a fairly extensive review of risk management concepts using examples to help develop a general understanding of the subject. It will help participants set up a risk profile and a risk management plan for their own units or divisions.

As a follow-up to the training session, BSP will offer advice on integrating risk management into workplans and their everyday activities. Risk management is intended to become an integral element of project management and a component of results-based management (RBM).

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Annex   Risks Identified by the College of ADGs (February 2008)

PART I

Risk Management definitions and basis concepts

(I) THE PURPOSE OF RISK MANAGEMENT

Why manage risks?

In this fast-paced world, changing environments and constant innovation (e.g. in science and technology) bring risks in the shape of threats but also opportunities. The huge increase in connections – e.g. travel and information technologies – involves a higher degree of interdependence, which means that stakeholder views become increasingly important. And because information travels faster an organization's reputation is more easily affected – for good or bad. Risk taking may be inherent and situational, or selfimposed through greater ambition: for instance, an enterprise may decide to take more risks to increase its opportunities, visibility and competitiveness. More than ever, high management standards that take into account existing contexts and risks are required in order to achieve quality and improve results.

Although risk management, both in its concept and methodology, was first developed in the private sector, in the international public and not-for profit sector the need to identify and manage risks is also increasingly called for. The public, Member States and stakeholders demand higher standards through clearer accountability: they are less tolerant of failure, and more skeptical about whether risks are being managed in the interests of end-users/beneficiaries. In addition, competition has grown among international organizations and NGOs as well as between UN agencies. Coupled with increasing public scrutiny, preserving reputation and trust have become essential, especially at a time of looming economic and financial crisis where every penny

counts, where funds decrease as competition for funding increases, and where public expectations rise. Demonstrating results, accountability and successes to benefiting countries, stakeholders and international partners has become increasingly important in maintaining an international organization's rank among the leading agencies, its ability to deliver expertise and added value, and its overall credibility in the international arena.

Every organization has to live with risk. Managing risks well is therefore a vital element of good governance and management, as illustrated in the figure below.

International public service values (e.g. codes of conduct)		
Vision and strategic direction (governing bodies, objectives, stakeholders, context)	Beneficiaries **Risk management** Policies and strategies People and skills Accountability Oversight and evaluation	Results and performance = **success**
Learning and change management		
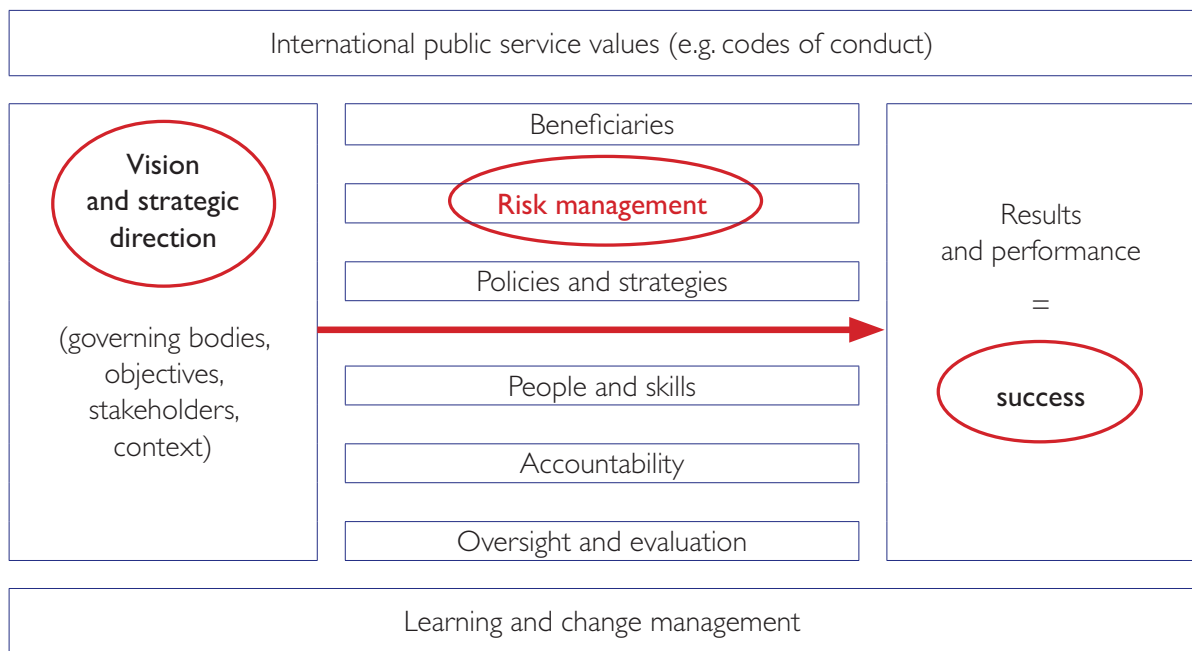
The concept of risk management was only recently introduced in the UN system. In 2005, the Independent Inquiry Committee into the UN Oil-for-Food Programme recommended the "Implementation of risk-based planning across the United Nations system".[1]

The following year, the *Review of Governance and Oversight within the United Nations, Funds, Programmes and Specialized Agencies*, reiterated this recommendation:

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1   Independent Inquiry Committee into the Management of the Oil-for-Food Programme, Vol. I: The Report of the Committee, September 2005.

Effective risk management is in an early stage within the five UN entities reviewed. Additionally, existing risk management practices are not yet integrated into governance and management processes. In fact, entities generally lack a robust enterprise risk management framework that effectively identifies and manages risks on an ongoing basis. The lack of such a framework also makes it difficult for each governing body to set the appropriate balance between risk and performance. (…)

UN entities often have high operational risks and these risks are growing due to the complexity and increased scope of the UN's mandates. Furthermore, these risks are not always apparent because the execution of the mandates involves multiple entities both internal and external to the UN. Accordingly, promoting a systematic risk-based approach to management decisions and risk mitigation is critical.[2]

Within the past few years several UN agencies (WFP, UNICEF, WHO, UNHCR, IAEA, UNDP, OCHA and the UN Secretariat) therefore started developing more systematic and consistent organization-wide approaches to risk management. The WFP, for instance, has had a corporate risk support function for three years and risk management is embedded in annual work-planning; WHO has integrated risk management with planning and performance; IAEA has developed a pilot divisional risk assessment and a draft policy on risk management; UNHCR's audits are risk-based; and UNDP has dedicated two full-time staff to corporate risk support.[3]

Applying risk management concepts to UNESCO

In UNESCO too, aiming higher is essential. The development community, including UNESCO, has committed, through the Paris Declaration on Aid Effectiveness and the 2005 World Summit Outcome document, to increase mutual accountability and results focus. This will require robust risk management and results-based management.

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2   United Nations, Comprehensive Review of Governance and Oversight within the United Nations, Funds, Programmes and Specialized Agencies, Vol. IV: Oversight - Current UN Practices, Gap Analysis, and Recommendations, June 2006.
3   http://content.undp.org/go/userguide/results-management---accountability/enterprise-risk-management/?lang=en (last consulted March 3, 2009).

UNESCO is undergoing a management culture change, shifting focus from activities to outcomes. However, outcomes do not respect organizational boundaries – working with partner organizations is key – and outcomes are less controllable as there are more factors which can affect them. The Organization can be successful only if risks are anticipated; carefully measured and adequately managed against set objectives. UNESCO's commitment to RBM and to managing for impact stems from this need for more effective management and constant adaptation to a changing world, and provides an entry point and basis for managing risks effectively. Turning uncertainty into opportunity is critical and links closely with UNESCO's change agenda.

Risk management is embedded in the 34 C/4 – Medium-Term Strategy, 2008-2013:

> Throughout the medium-term period, diverse risks may threaten the achievement of programme objectives. **Recognizing and managing risks** must therefore be key parameters for a deliberate **risk-based approach** to management, including the development of risk management policies. Special attention will be given to procurement which is an area particularly susceptible to risks, especially in the context of decentralization. In general, **effective knowledge management** will also help reduce risks and spawn synergies and innovations.

The 34 C/5 – Approved programme and budget for 2008-2009, further adds:

> **UNESCO's performance will be judged according to how well it delivers the Medium-Term Strategy (MTS).** It is therefore essential that early in the period of the MTS that all stakeholders have assurance of success in this regard. This evaluation will assess the **risks that might threaten the achievement of the mandate**. In particular, the evaluation will assess UNESCO's capacities in terms of: staffing, finance, management systems and processes, to meet the C/4 strategic objectives. It will identify **key risks** and gaps in capacities and recommend actions which need to be taken to fully achieve the C/4 strategic objectives.

In December 2008 a Risk Management Committee was set up including representatives from the central services, the five programme sectors and IIEP. It aims at contributing towards an integrated risk management framework in UNESCO, and instilling risk management awareness and culture change on an organization-wide basis.

(II) WHAT IS A RISK?

Definition

Risk is the expression of the likelihood and impact of an uncertain, sudden and extreme event that, if it occurs, has may impact positively (opportunity) or negatively (threat) on the achievement of a project or programme objective.

As applied to UNESCO, a risk refers to any event or issue that could occur and adversely impact the achievement of the Organization's political, strategic and operational objectives. Risk, then, is as much a potential **missed opportunity** as well as a potential **threat**.

Example:

Accepting extrabudgetary funds for a programme where UNESCO does not have – and cannot easily build – the capacity to deliver.

Possible consequences:

- Negative impact on the lives of beneficiaries in the country
- Damaged reputation with the government
- Loss of credibility with donors which in turn could negatively impact the funding of other UNESCO programmes in different sectors
- Loss of a programme area (decision of the donor to fund similar programmes of a sister UN agency or an NGO – which is interested in moving into a programme area traditionally controlled by UNESCO)

Exercise:

Approving a project that does not contribute to the expected result of the MLA to which it is linked. Consequently, resources are not concentrated on attaining UNESCO's results and outcomes.

What are the possible consequences/impact?

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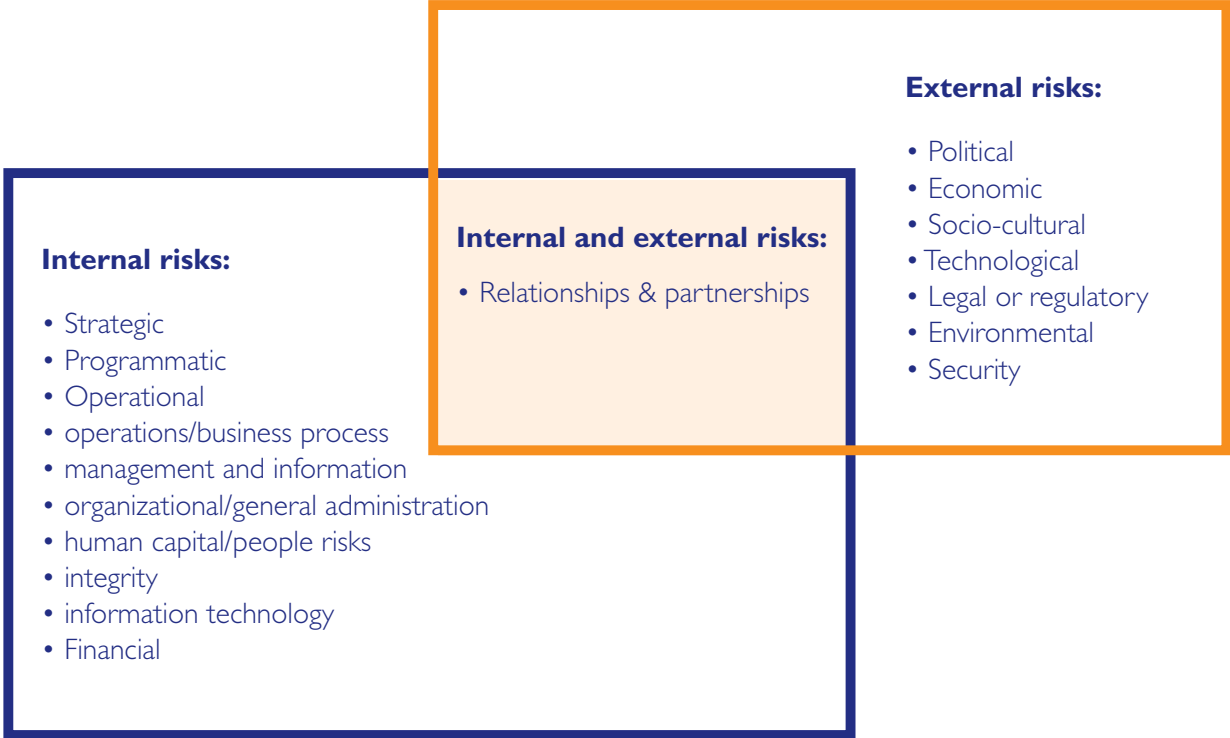
A risk can have consequences beyond failure to deliver on results. It may negatively impact on reputation, integrity, credibility and trust from donors and stakeholders. One of the values of a formal approach is in thinking through the potential consequences before making final decisions. This is a key part of the cultural change.

Risk categories

Several types and sources of risks – either internal or external to the activity – may affect a project. Some risks may be unpredictable and linked to large-scale structural causes beyond a specific activity (for instance, financial risks). Others may have existed for a long time or may be foreseen to occur in the future. Thus, to achieve a structured and manageable overview of all risks facing an organization, it helps to classify them in categories and subcategories. The following is one possible categorization system:

- Risks linked to the internal environment, e.g. operational risks in running a project or activity. These risks will largely be *within the sphere of influence* of the organization, and need to be proactively managed;
- Risks linked to the external environment, e.g. political risks associated with Member States' home agendas. These risks will largely be *outside the sphere of influence* of the organization, and may require robust contingency planning; and
- Risks linked to the interface between one or more organizations (internal and external risks), e.g. UN reform. Managing these risks require close cooperation with partner organizations.

Internal risks:

• Strategic
• Programmatic
• Operational
• operations/business process
• management and information
• organizational/general administration
• human capital/people risks
• integrity
• information technology
• Financial

Internal and external risks:

• Relationships & partnerships

External risks:

• Political
• Economic
• Socio-cultural
• Technological
• Legal or regulatory
• Environmental
• Security

The following table offers examples of potential risks for each category of the system above:

Risk category	Illustration / issues to consider
External (arising from the external environment, not wholly within UNESCO's control, but where action can be taken to mitigate the risk)	
Political	Change of government/policy in Member States, political instability
Economic	Decrease or zero-growth of UNESCO's budget (regular programme and extrabudgetary funds) Fluctuation of exchange rates Effect of global economy on UNESCO activities

Risk category	Illustration / issues to consider
Socio-cultural	Demographic change affects demand for services; stakeholder expectations change
Technological	Obsolescence of current systems
	Cost of procuring best technology available
	Ability to seize opportunity arising from technological development
Legal or regulatory	Regulation changes, laws/regulations which impose requirements
Environmental	Environmental / natural hazards
	Buildings / waste disposal / purchases need to comply with changing standards
Security	Loss / damage / theft of physical assets
	Staff security
Internal (arising from within the Organization)	
Strategic	Vague or unclear objectives for the Organization
	Scanning: Failure to identify threats and opportunities
	Positioning / visibility: Failure to position the organization in the international arena
	Reputation: Confidence and trust which stakeholders have in the organization and in continuing support
Programmatic	Unadapted, ill-conceived or overly ambitious sector programmes
	Programmes outside the scope of UNESCO or not within the framework set out in the C/4 and C/5 documents

| Risk category	Illustration / issues to consider
Operational	All risks relating to existing operations – both current delivery and building and maintaining capacity and capability
	Failure to deliver the service to the user within agreed / set terms
	Failure to deliver on time / budget / specification
Operations / business process	Inadequate project management
	Lack of forward planning
Management and information	Unsatisfactory communication among parties involved
	Lack of leadership from responsible officers
	Unclear distribution of staff responsibilities
Organizational / general administration	Heavy bureaucratic procedures and lack of flexibility leading to time delays
	Dividing up of common budget earmarked for one theme/field of activity
	between several teams / sectors reduces delivery possibilities and ability for effective follow-up
Human capital / people risks	HR (staff capacity / skills / recruitment)
	Ability to attract and retain qualified staff
	Loss of institutional memory if short-term staff are not retained or with the use of consultants
	Reputational risk due to questionable / discriminatory employment policies
Integrity	Risks relating to regularity and propriety / compliance with relevant requirements / ethical considerations
	Corruption and fraud

Risk category	Illustration / issues to consider
Information technology	Reliability of information used for project management / monitoring
	Risks linked to information (inadequate information preventing sound decision making, lack of privacy and data protection, unreliable or inadequate databases and IT technology)
Internal and External **(arising from both the external environment and the Organization itself)**	
Relationships and partnerships	Delivery partners (threats to commitment to relationship / clarity of roles)
	End users (satisfaction with delivery)
	Accountability (particularly to Governing Bodies)
Financial	Insufficient project funding, poor budget management
	Inadequate use of funds, failure to deliver activity within a set budgetframe

Causes, effects, uncertainty and objectives

Risks are expressed as a cause and effect relationship. For instance, if organizational risks are not managed well, there will likely be consequences for the objectives and performance of the organization, e.g. in terms of: reputation and trust, financial performance, operational performance, and staff (as illustrated on the right). Understanding the most important cause helps formulate the best possible actions to manage an uncertainty (i.e. treating the root cause instead of the symptom). Understanding the most important effect helps formulate the best possible contingency plan in case an uncertainty does happen with negative impact.

The Risk Landscape

Sources/causes of risk	→	Impact on performance

Sources/causes of risk

Internal environment
largely within sphere of influence

Organizational interfaces
partly within sphere of influence

External environment
largely outside sphere of influence

Impact on performance

Operational performance
e.g. target achievement

Reputation and trust
e.g. media attention
(positive or negative)

Individual performance
e.g. staff turnover

Financial performance
e.g. overspend or underspend

Risk is characterized by an uncertain event (or uncertainty) that may carry a potential impact on the organization. The key word in the definition of risk is uncertain event. The challenge is to identify a potential event which, if it happened, could trigger a set of undesirable consequences for the Organization. Clearly the term uncertain event needs to be interpreted broadly to cover many different situations but it needs to be sharp enough to allow the identification of the causes leading to the event, their effect or consequence (as illustrated in the cause-and-effect diagram below) and thus the measures that can be taken to manage the risk.

Causes → **Event** → **Consequences**
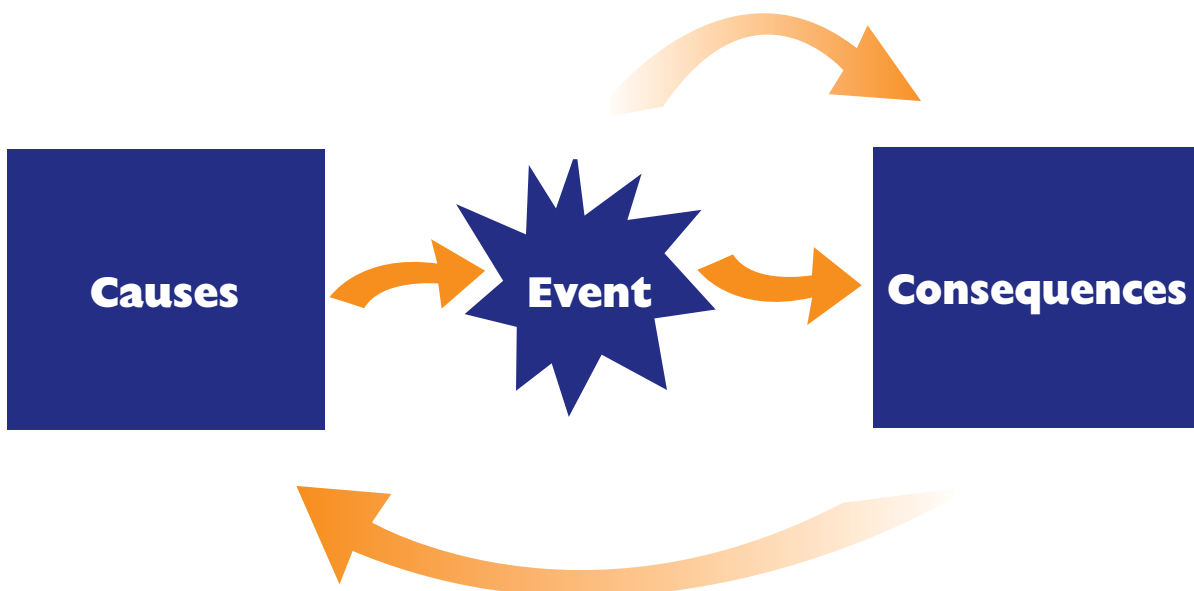
Formulating a risk may be a complex exercise which requires correctly differentiating between the causes, the event triggering the risk, and its consequences/impact. Furthermore, risks or uncertainties must be assessed and prioritized in relation to objectives (this can be done at any level of objective from personal objectives to organizational objectives).

It is important not to confuse risks/uncertainties with consequences or what happens if the risk materialized or from converse statement of the objective. To avoid inadequate risk formulation, a statement of risk should encompass the cause of the risk and its possible impact on the objective (= it should encompass cause and consequence).

Objective: To travel by train from A to B for a meeting at a certain time in the cheapest way possible.	
I get up late and miss the train	YES – This is an **uncertainty** (a threat), within your sphere of direct influence, it can be managed by making sure you allow plenty of time to get to the station.
Failure to get from A to B on time for the meeting	NO – This is simply the converse of the objective (it does not shed light on what can be done to help achieve the objective).
A colleague is traveling by car to B and I hitch a ride with her	YES – This is an **uncertainty** (an opportunity) that allows you to achieve your objective more efficiently.
Being late and missing the meeting	NO – This is a statement of the impact of the risk, not the risk itself. It does not provide insight into the cause.
Missing the train causes me to be late and miss the meeting	YES – This is an **uncertainty** (a threat) that can be controlled by allowing plenty of time to get to the station
Severe weather prevents the train from running and me from getting to the meeting	YES – This is an **uncertainty** (a threat) outside your sphere of direct influence, but for which you can have a contingency plan, e.g. attending the meeting through video or telephone conferencing.
There is no buffet on the train so I get hungry	NO – This does not impact on the achievement of the objective. (But it may be an uncertainty to achievement of another objective.)[4]

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4   Source: Adapted from "HM Treasury, UK, "The Orange Book: Management of Risk", October 2004 (2nd edition): http://www.hm-treasury.gov.uk/media/FE6/60/FE66035B-BCDC-D4B3-11057A7707D2521F.pdf

Note that when a risk is identified it may be relevant to more than one of the organization's objectives, its potential impact may vary in relation to different objectives, and the best way of addressing the risk may be different in relation to different objectives (although it is also possible that a single treatment may adequately address the risk in relation to more than one objective). Risk identification and formulation may therefore require different levels of analysis.

In any event, remember that if a risk is not stated sharply enough, it will be impossible to assess and control it, and to proceed with the risk management process. Clear formulation will help distinguish causes, effects and uncertainty, by using precise words.

Exercise

For each of the three contexts below, identify the cause, uncertain event and impact based on the following model:

"As a result of (definite cause), (an uncertain event/risk) may occur, which would lead to (an impact on objectives)"

Situation A

"The plan states a team of 10, but we only have 6 available, so we might not be able to complete the work in time…"[5]

Situation B

"Use of new/novel hardware, unexpected errors may occur which would lead to overspending"[6]

Situation C

"We have to outsource production, we may be able to learn new practices from our new partner, leading to increased productivity"[7]

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5   The definite staff shortage is the cause, giving rise to a risk that the team may be too small for the required scope. Not being able to complete the work in time is the impact of the risk.

6   New hardware is a definite fact – risk is the possibility of errors (may not happen – but if they did…). Actions would include more rigorous preliminary checks/ prototyping/ more experienced personnel… If we had chosen to define the new hardware as the risk – we would not have found the actions, as new hardware is part of the project (cf. developing countries). Nor is project overspending the risk.

7   Outsourcing production is the cause. The possibility of learning new practices from partners is the uncertainty – in this case an opportunity which should be weighed against the probability of potential negative impacts. Increased productivity would be the impact.

What risks for UNESCO?

Various levels of risk identification are relevant in relation to UNESCO objectives. These levels reach from the high-level risk associated with the attainment of the UNESCO objectives as stated in the C/4 and the C/5, down to the "grass root" operational level of the implementation of the MLA and specific projects and activities:

1   The first level relates to the high-level risk areas in the achievement of the strategic programme objectives specified in the C/4 and Major Programme objectives in the C/5. These are the "strategic" risks.
2   The second level concern both cross-cutting risks in support and operational processes (in particular in Finance, Procurement, IT, HQ facilities management) and risks associated with the operational delivery of project and programmes. These are the "operational" risks at the MLA level and project levels.
3   The third level relates to the programme-means analysis, reaching from a given objective down to decision on best/ acceptable risk level of alternative means to reach these objectives. This is the *"ex-ante"* risk assessment on the MLA and project levels.

Strategic risks that might prevent the attainment of the stated objectives of the C/4 should be formulated by senior management to each strategic programme objective and expected outcome. These risks can be reviewed and communicated in the C/3.

C/4 Strategic programme objective	Description of risk	Type of risk / category	Likelihood of risk	Impact of risk
I.I Strengthening political low high UNESCO's global lead and coordination role for EFA and providing support to national leadership in favour of EFA	Priority given by donor community to EFA decreases, leading to insufficient resources to attain the EFA objectives	political	low	high
	Inability to fulfill lead coordination function in EFA at international level will damage UNESCO's reputation	operational (reputation)	low	high

As for programmatic and/or operational risks in realizing the programme objectives through the MLAs, they should be formulated by risk owners and the responsible entities for MLAs and expected results. These risks can be reviewed and communicated in EX/4.

Key expected results	Specific operational risks	Likelihood of risk	Impact of risk
I.1 Strengthening UNESCO's global lead and coordination role for EFA and providing support to national leadership in favour of EFA			
MLA 2: Development of a global framework and networks for capacity development in planning and management of education systems			
Capacity requirements and constraints documented in educational planning management (EPM)	Project delivery risk in timely production of studies and publications	low	low

Note that failure to take into account UNESCO's global priorities induces a risk at all levels. For instance:

Global priority	Specific operational risks	Likelihood of risk	Impact of risk
Gender equality	Failure to take into account the gender equality perspective for instance by including women in projects addressing illiteracy, when they make up 80% of the illiterate population.	low	high

Other risks should be formulated by risk owners and the responsible entities for work plans and expected results. Note that whereas the previous matrixes relate to the ex-post risk identification of defined programs and MLAs, this third level relates to the programme means analysis ex ante, i.e. in the planning phase of activities, reaching from a given objective down to decision on best/acceptable risk level.

Because it focuses on the attainment of programme objectives, expected outcomes and results, risk management is an integral part of results-based management. Risks must be looked at not only as regards the attainment of a result for a particular programme but also along the results chain (illustrated on the right).

During programming, define the risks which might need to be taken into account to ensure that the attainment of the expected results indicated in activities/extrabudgetary projects will contribute to the attainment of the expected results of the MLA and in the same manner up to the highest level of the C/4 (i.e. expected outcomes)

Country level

Global level

| National priorities, national development plans | ← | Millenium Declaration, 2005 World Summit Outcome document, internationally agreed development goals, including MDGs |

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34 C/4
UNESCO mission
Overarching objectives
Strategic programme objectives
Expected outcomes

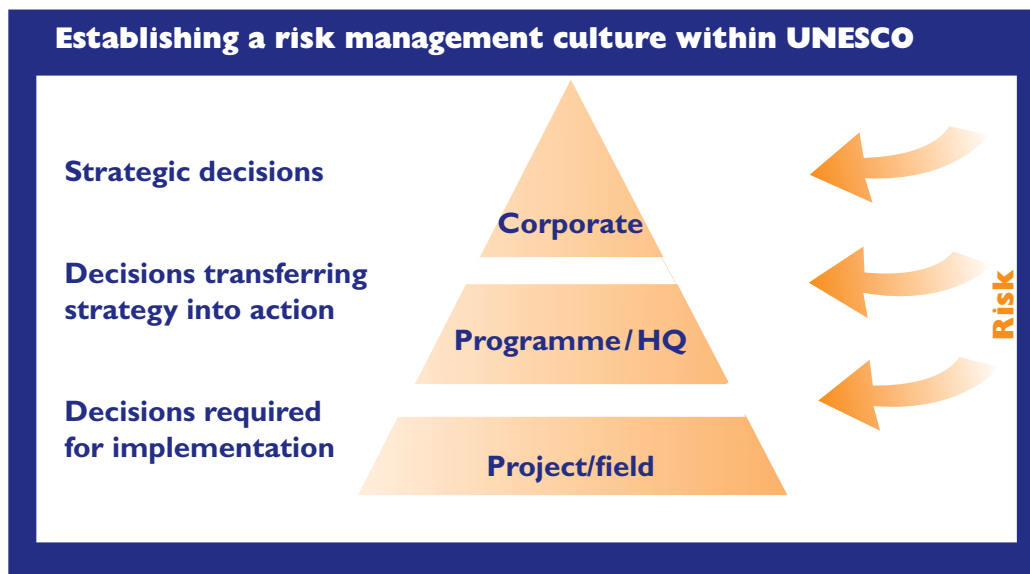| UNDAFs and other common country-level programming documents | → | **34 C/5** Expected results and related performance indicators and benchmarks (MLA) — Workplans Expected results of actions and activities with related performance indicators — Evaluation results to be taken into account both in MLAs and work plans | **35 C/5** ... | **36 C/5** ... |

As revised by the Executive board

(III) WHAT IS RISK MANAGEMENT?

Definition

Risk management is a systematic approach to managing risks throughout the whole organization by identifying, assessing, understanding, acting on and communicating risk issues.

Establishing a risk management culture within UNESCO

- Strategic decisions — Corporate
- Decisions transferring strategy into action — Programme/HQ
- Decisions required for implementation — Project/field

Risk

Working in achieving its goals in a rapidly changing world, UNESCO needs an integrated organization-wide approach to manage uncertainty. However, adopting such an organization-wide approach to risk management in UNESCO – that is, a continuous, pro-active and systematic process to managing risk – implies a significant change in UNESCO's management culture at all levels. Risk management requires a clear delineation of roles based on existing hierarchy, responsibilities and areas of work. It has to be understood as a collective responsibility – the anticipation and management of risk has to become everyone's concern. It presupposes the strengthening of existing analysis, management and communication capacities and calls for the need to set up and implement preventive, mitigation and reactive plans.

Systematic management of risk at all levels of the Organization and at each stage of programming will improve planning efficiency and service delivery, and will allow

better and more reliable decision-making. Risk management therefore forms an integral part of strategic planning and results-based management:

(1) It helps the management

Risk management will help senior management to plan strategically, allocate resources more wisely, and reform. It enables more responsible decision-making and helps to constrain threats to the organization. Monitoring the results of risk management will become a part of performance auditing ensuring a closer link between expected outcomes, results and evaluation. Existing management and reporting mechanisms will be used in order not to increase staff workload.

(2) It increases efficiency

To maximize its impact, an organization has to take risks. Managing risk enables UNESCO to take the lead in its fields of competence and achieve better results especially working in adverse or unreliable environments. Risk management facilitates decision-making and priority-setting and thus contributes to achieving the organization's goals more efficiently.

(3) It facilitates innovation

To be innovative implies taking risks. Risk management encourages staff to take risks wisely, which means it supports innovation while insuring prudent decisionmaking and maintaining stakeholder trust.

(4) It fosters a supportive work environment for self-reliance

Risk management serves as a tool for analyzing causes and consequences of difficult situations rationally and systematically. This enables staff to account for risk management decisions by explaining reasons and evidence on which they are based and thus increases confidence and self-reliance. It is a tool for proactive thinking, learning from experience and for improving teamwork. It leads to improved stewardship and accountability.

(5) It increases the credibility of the organization

Risk management improves results and gives assurance to member states and other stakeholders that goals will be met and thus improves the organization's credibility and reputation. Effective risk management enables us to avoid costly surprises both in terms of spending and credibility or reputation.

Implementing Risk Management

A robust process for managing organizational risk involves three steps:

Step I   Clarify your goals and critical stakeholders.

Step II Before deciding how to proceed with activities: identify, prioritize and act on uncertainties.

Step III Review and communicate uncertainties.

(I)   STEP I – CLARIFY YOUR GOALS AND CRITICAL STAKEHOLDERS

Managing uncertainty begins with clarity about what you want to achieve (expected outcomes and results) and parties involved (stakeholders).

First, clarify your unit's expected outcomes and results – each head of unit should ensure all staff understand this and know their role in the plans to achieve expected outcomes and results. Note that this presupposes awareness of existing decisions and activities, as well as of major forthcoming decisions.

Second, determine the critical stakeholders – who they are, how they may affect your objectives, and how to engage them. Engaging stakeholders enhances understanding of objectives and the associated uncertainties. Your stakeholders may include partner organizations, a host government, a non-governmental organization, another United Nations agency, a donor or a supplier. Other actors may also be stakeholders, for

example the media which may influence UNESCO's reputation. Note that a stakeholder may also be internal to UNESCO, for example a field office or a Headquarters bureau / office.

Some stakeholders are more important than others and may be critical to achieving your objectives – these are called critical stakeholders. For example, in a country where access to reviewing local projects is controlled by the host government, the government counterpart is the critical stakeholder. In a country where the "One-UN" concept is being piloted, other United Nations agencies may be the critical stakeholders.

(II)   STEP II – IDENTIFY, PRIORITIZE, ACT

Step II of the risk management process includes three phases: the identification of risks, their assessment and prioritization, and the type and level of response required to address them.

I	II	III
Risk Identification	**Risk Assessment**	**Risk Response**
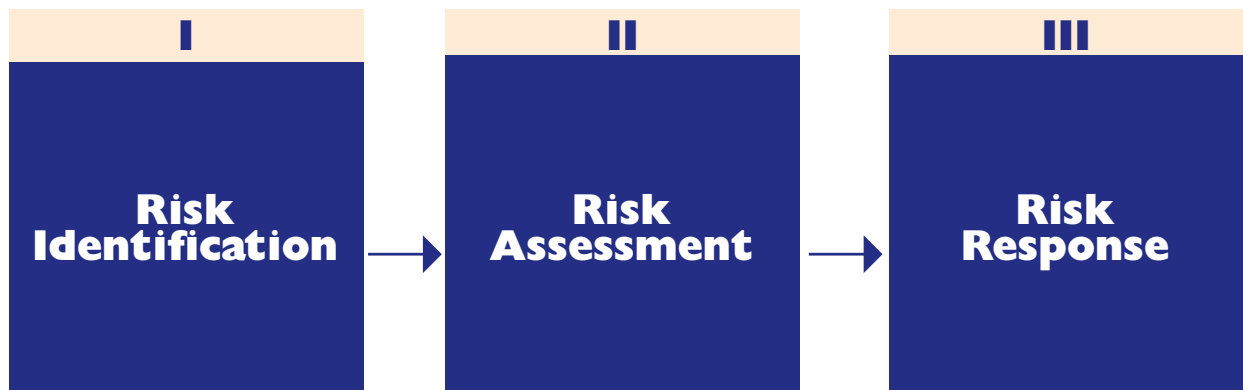
Identify risks

The aim of risk identification is to get an overview of all risks facing an organization. Risk identification can be performed either by a designated team, which can be external to the organization, or by a process of self-assessment situated on senior management level, including questionnaires and facilitated workshops. If risk identification is undertaken internally, different risk perceptions within the organization need to be addressed.

Scan the environment

First, capture a range of uncertainties by scanning the internal and external environment.

It is helpful to ask:

- What are the significant internal factors?
- What are the significant external factors?
- Is the context likely to change? How?

It is important to remember that risks are uncertainties that can represent not only a threat but also an opportunity.

Likewise when considering beneficiary or target groups for a given activity, also consider how other groups could be negatively affected.

Use a variety of techniques to analyze information about uncertainties. For example, seek out a fresh perspective by asking someone who is not involved, such as a colleague in another UNESCO unit, to challenge your assumptions.

Techniques to Help Identify Uncertainties

Some useful techniques to help identify uncertainties include:

- **Your own experience:** Consider the history of risks in your area of expertise and the plausibility that similar – or contradictory – risks may occur in the future. Ask: "What might happen for conventional wisdom ('the official view') not to come about?"

- **Asking yourself 'what-if' questions, for example:** What if a supplier goes bankrupt during a critical project? What if we can agree on more flexible funding arrangements with donors? What if there is a sudden change in the political situation restricting access to areas in the host country? What if we can work with a partner in an innovative and effective way?

- **Challenging and questioning assumptions:** Have we been too optimistic? Or too pessimistic? Is there any bias in our assumptions? Note that it is helpful to use a neutral/external person to surface any bias.

- **Thinking wider than given facts:** Brainstorm the not-so-obvious risks. Spend some time focusing on the exception, not on the norm.

- **Expert and specialist judgment:** Make sure you have consulted relevant experts – internal or external – if available.

- **Audit findings:** Look at audit reports (from either internal or external audits) for your unit/functional area.

- **Historic data and future trends:** Have you come across such risks before? How can they temporarily or permanently affect work programme and activities?

- **Critical path analysis:** Identify key milestones and consider risks that can throw you off course or those that are critical to help you achieve milestones.

- **Scenario planning:** A powerful way to imagine the unthinkable (especially orange uncertainties).

- **Root cause analysis:** Ask a series of why questions to get to the very root of what might make the risk occur. (This can be illustrated in a cause-and-effect diagram.)

- **One-to-one interviews:** Useful to surface information that is perceived as sensitive, and to engage new members of staff.

- **Anonymous questionnaires** – but an open and frank discussion of risks is best.

- **Team brainstorming:** Usually best done at regular meetings, retreats, etc.

- **Structured discussions involving a relatively small group of people:** Useful when looking at specific sources of risks, e.g. IT, working with specific partners, a specific external threat, etc. It is helpful to involve those who have particular knowledge of and/or evidence in the area being considered.

- **Workshops:** Multidisciplinary teams improve the chances of identifying new risks.

Capture both cause and effect

Third, capture both cause and effect: uncertainties should be as specific as possible in relation to an objective/expected result.

For example, the cause-and-effect relationship of "a colleague is traveling by car to B" (the cause) leading to "I hitch a ride with her to a meeting I have to attend" (the effect or consequence) is an uncertainty (in this case an opportunity) to "traveling by train from A to B for a meeting at a certain time in the cheapest way possible" (the objective).

Involve stakeholders

Work with your critical stakeholders, if applicable, to help identify uncertainties you both share (i.e. stakeholders with whom you share one or more objectives) and bring to light any differences in perception.

Determine risk ownership

All risks, once identified, should be assigned to an owner who has responsibility for ensuring that the risk is managed and monitored over time. The owner has to have sufficient authority to manage the risk sufficiently. He may not be the person who actually takes the action to address the risk. It can be useful to assign certain categories of risks as a package to one risk owner.

Horizon scanning

Many problems can be turned into opportunities when spotted early enough. That is why, when scanning an organization and its environments for risks, future risks should also be taken into account. Systematically identifying indicators of changes, and searching for potential future disruptive challenges, opportunities and threats, is an activity called horizon scanning. Therefore, foresight, strategic intelligence and anticipation should be encouraged among staff at all levels.

Factors to Consider when Identifying Uncertainties

- Financial management and reporting
  - Financial transactions (recording and reporting).
  - Budget management.
  - Project / programme advance funding management.

- Operations and programme management
  - Project/programme design and approval; implementation; and monitoring, reporting and evaluation (e.g. ability to adhere to time and budget constraints; supply chain/food pipeline).
  - Food procurement (e.g. quality, damage, theft, relocation).
  - Commodity management.
  - Transport and logistics (ocean, overland/inland, air, fleet management).
  - Other operational procurement.
  - Special Operations.

- **Support services**
  - Human resources management (e.g. skills, recruitment and retention, performance, morale, work load, living conditions).
  - Non-food procurement, excluding transport and logistics (e.g. quality, damage, theft, relocation).
  - Insurance.
  - Legal services.
  - Information and communications management (e.g. recording, accessibility, quality, adequacy for decision making, knowledge base, performance information, recording, reporting).
  - Security of staff.

- **Resource mobilization, external liaison and partnerships**
  - Fundraising/resource mobilization.
  - Partnerships (e.g. clarity of roles, commitment).
  - Public and media relations.

- **New programmes/projects/operations** – in countries where UNESCO is currently operating and setting up operations in a new country.

- **New/revised corporate requirements** (e.g. accounting for results; corporate prioritization and expectations; new/revised objectives, expected results and priorities; deadlines; coordination of requests and missions to the field).

- **Organizational changes and change initiatives** – initiatives for organizational change may threaten current capacity to perform and/or provide opportunity to enhance capacity.

- **Political/socio-political** – e.g. wider UN reform; change of government, terrorism.

- **Economic** – e.g. changes in the global or local economy; quality of local banking system; changes in market prices; currency fluctuations.

- **Sociocultural** – e.g. stakeholder expectations; media interest.

- **Technological** – e.g. new ICT technology.

- **Legal/regulatory** – e.g. UN regulations; local laws imposing new requirements on UNESCO activities.

- **Environmental** – e.g. movement of local population; climate change; spread of infectious diseases (such as HIV/AIDS, influenza pandemic); quality of infrastructure (such as schools).

- **Natural hazards** – e.g. earthquake; storm/flooding; drought; locust.

- **Partners** – e.g. capacity; clarity of roles; efficiency; resources

Existing internal control

Usually, when a risk is identified, control actions already in place to contain the risk can also be identified. Major risks will not have been ignored over the past, but maybe they were addressed unsystematically or by inadequate means. These control actions taken by the organization are called internal control. While identifying risks, it is important to take note of existing internal controls to identify the current risk management capacity of the organization. Internal controls must be tested and strengthened if need be.

To determine whether organizational risk is already being managed effectively or whether internal controls should be improved, best practice would be to undertake a **strategic gap analysis**:

(i) Assessment of current risk-management practices, where a first step would be development of a strategic risk profile;
(ii) Articulation of what effective risk management *should* look like through a set of principles and key roles and responsibilities. This would help foster a culture of well-managed risk-taking; and
(iii) Further action to improve risk management (if needed).

The first step in undertaking a strategic gap analysis is to determine the exposure – a combination of impact and likelihood of the organization to a particular risk. The next step will be to compare the inherent and the residual risk to identify the effectiveness of actual and/or planned risk control. Inherent risk can be defined as exposure when there is no control or control fails, while residual risk refers to exposure after action has been taken to control a risk, making the assumption that the action of control is effective. The residual risk therefore corresponds to the actual exposure of the organization.
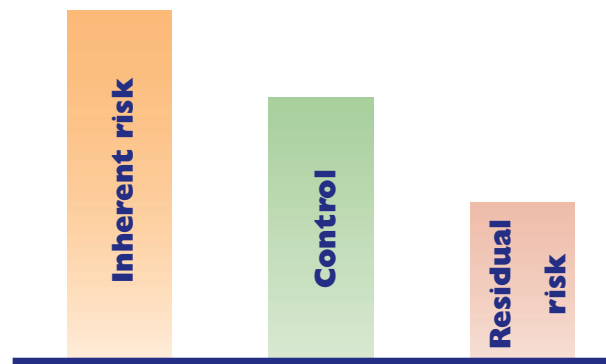
Bear in mind that:

- There are risks that cannot be controlled, e.g. natural disasters or terrorist attacks. In that case, the cost of making a contingency plan and its possible benefit have to be compared to the potential damage incurred from the impact of the risk happening.
- Dealing with an opportunity, the value of potential benefit has to be compared to the value of potential losses.

Example:

The following table presents an assessment of inherent and residual risks:

Objective:	Travel to New York for an important meeting.						
Risk	**Inherent assessment**		**Controls in place**	**Residual assessment**		**Further action planned**	**Risk owner**
	Impact	**Likelihood**		**Impact**	**Likelihood**		
Possible emergency mission to another destination prevents me from attending the NY meeting	high	high	Arrange flexibility with people in New York	high	low	Telephone conferencing facility to be installed as a contingency and/or Arrange for representation by a colleague	Myself

Prioritize risks

The next step will be to undertake a probabilistic risk assessment (PRA) – a method to systematically evaluate, rank and prioritize risk by generating a risk matrix.

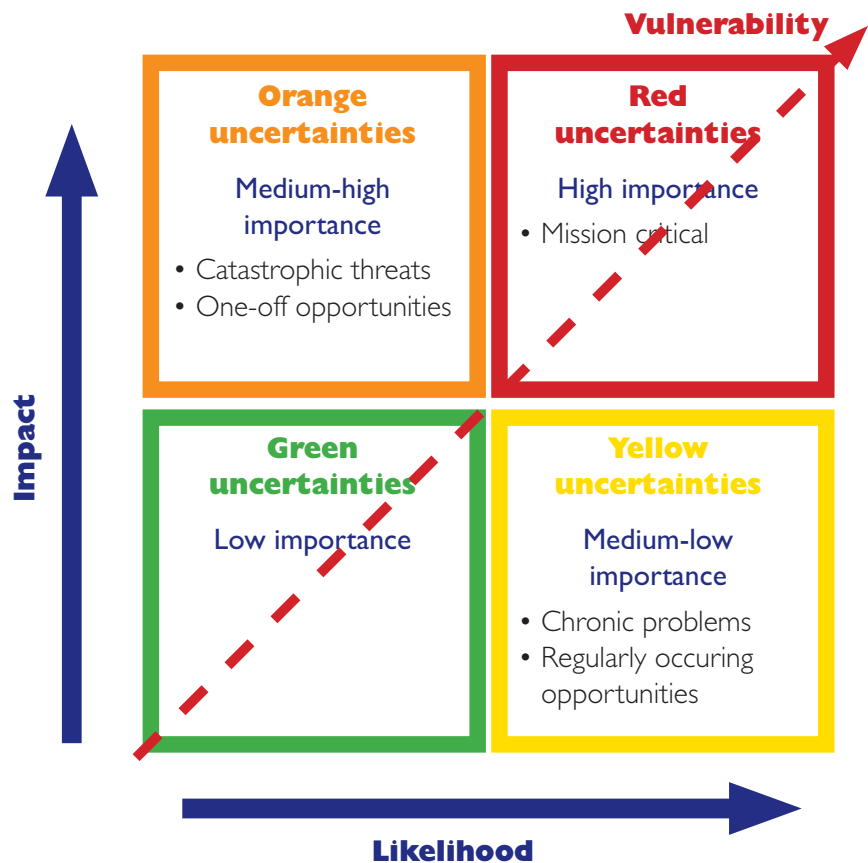Once risks have been identified they must be assessed against two criteria:

- their *likelihood* – a qualitative or quantitative description of probability – what is the likelihood of these risks/uncertainties occurring? And, if they do occur:
- their potential *impact* – the implications of a risk/uncertainty, either positive or negative – what are the possible consequences and what is the scale of the impact? (implications/consequences/effects on your expected outcomes and results)

Remember to take into account existing internal control actions when assessing the likelihood and impact of risks.

Additional factors (other than impact and likelihood), which are not easy to calculate but which can have an impact on ranking risk, are appearance and timing (surprise, progressive development etc.) as well as the degree of possible control.

Risk matrixes

The result of successful risk assessment is a conclusive risk matrix. A risk matrix is a systematic overview of the ranked risks facing an organization. Risk matrixes can be used to depict the organization's risk universe as a whole or for entity- or category-specific risks.

Vulnerability

Impact

Orange uncertainties

Medium-high importance
- Catastrophic threats
- One-off opportunities

Red uncertainties

High importance
- Mission critical

Green uncertainties

Low importance

Yellow uncertainties

Medium-low importance
- Chronic problems
- Regularly occuring opportunities

Likelihood

Vulnerability

Vulnerability is the combination of the impact that a risk may have on the achievement of objectives and the likelihood of it occurring. Risks can then be ranked according to vulnerability using the matrix on the left, so that the resulting risk matrix can be read as prioritizing the risks according to the vulnerability of the organization. High impact and low likelihood gives a higher vulnerability than high likelihood and low impact.

Priorities emerge and form the basis for making decisions regarding which actions and activities to pursue: the more important the risk, the greater the priority to manage it.

The table below presents examples of low and high impact risks.

Performance impacted	High impact (usually permanent)	Low impact
Reputation and trust	Sustained international or national media coverage (positive or negative). or Significant change of confidence (positive or negative) of critical stakeholders. or Employee charged or convicted of crime.	Single case or no media coverage. Minimal or no change in confidence of critical stakeholders.
Operational performance	Target missed/exceeded by more than set percentage. or Interruptions to essential operations / support activities last more than 1 day.	Target missed/exceeded by less than set percentage. Temporary interruptions to operations / support services (less than 1 day).
Financial performance	More than 20% of business unit, programme or project budget (overspend or underspend) or New investment in premises, equipment or staff, or re-assignment of resources.	Less than 20% of business unit, programme or project budget. Temporary re-assignment of resources
Individual performance (employees)	Fatalities or injuries/illness requiring hospitalization or Staff satisfaction, and ability to retain and attract qualified staff.	Injuries/illness not requiring medical attention Local/isolated staff issue.

Risk tolerance is the amount of risk an organization can withstand. The line of tolerability depends on impact and likelihood. It separates the low and medium risks an organization is willing to take from the medium and high risks it is not willing to take. Tolerance levels may be set out in relevant policies and procedures; if not, the head of unit makes the judgment.

Tolerability may be qualified by the value of assets lost or wasted in the event of an adverse impact, the stakeholder perception of an impact, the balance of the cost of control and the extent of exposure, and the balance of potential benefit to be gained or losses to be withstood.

It is also crucial to communicate with stakeholders about the way in which the organization is managing risk, and what is considered acceptable risk levels.
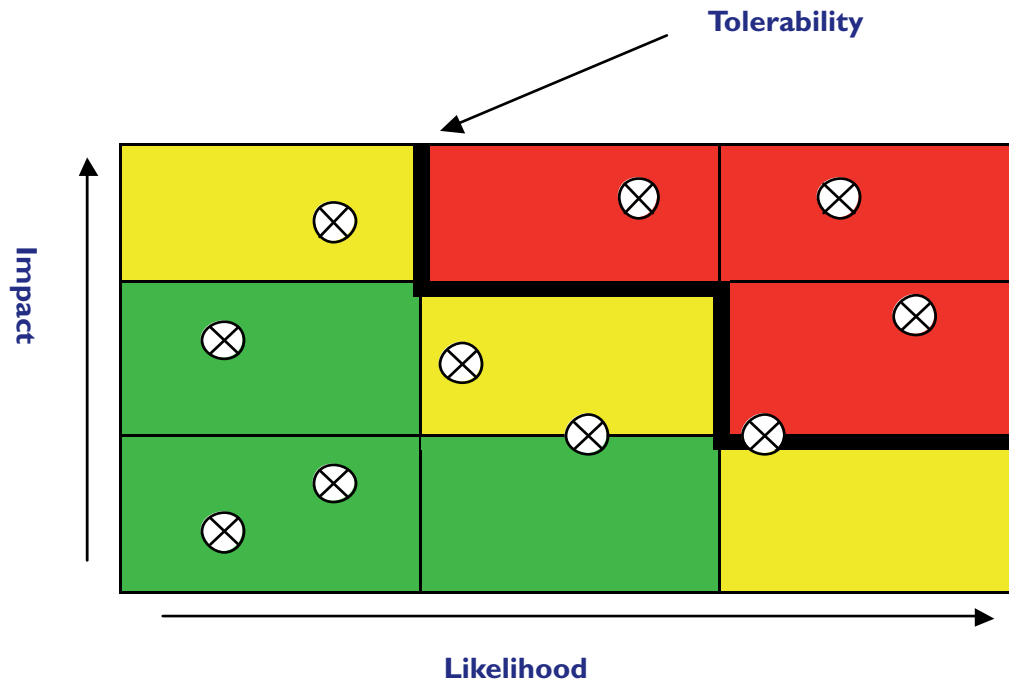
Example:

The following box illustrates the use of a risk matrix to prioritize risks relating to a multilateral agreement between UNESCO, UNEP and Country X:

Risks relating to UNESCO's signing of a multilateral agreement with UNEP for technical assistance to Country X

✴ **Risk 1:** New funding distribution mechanism may complicate distribution of funds: This risk is due to an event that will very likely occur (high likelihood) and that would have high impact on the achievement of a certain objective if it occurs. The organization is very vulnerable to that risk.

✴ **Risk 2:** Multiplication of stakeholders may lead to confusion as to distribution of responsibilities: This risk is due to an event that might occur (medium likelihood) and which would have high impact. The organization has high vulnerability to that risk.

✴ **Risk 3:** Additional reporting will be needed & staff may have less time to concentrate on delivery: This risk is due to an event that might occur (medium likelihood) but that would have low impact. The organization has medium vulnerability to this risk.

✴ **Risk 4:** Using partner's project management approach for quicker/facilitated delivery: This risk is due to an event that will probably occur (high likelihood) and which would have medium impact. The organization has medium vulnerability to this risk as well, but the vulnerability is lower as for risk 3.

		Low likelihood	Medium likelihood	High likelihood
Significant impact			★	★
Moderate impact			★	✶
Minor impact				

Risk profiles

Where the risk matrix is a good way to illustrate the abstract idea of a systematic prioritization of risk according to vulnerability, it can become confusing when put into practice. If the aim is to depict a larger range of risks or to give a systematic overview of ranked risks, it may more feasible to use a risk profile.

The risk profile is a documented and prioritized overall assessment of risks. It is used to identify risk priorities, to record decisions about addressing risk, to help assigning responsibilities and to facilitate monitoring and reviewing of risk management. A risk profile can be drawn for all risks facing an organization, for a certain group of risks, or for a certain project.

Example:

The following table illustrates the use of a risk profile to prioritize risks relating to the same multilateral agreement between UNESCO, UNEP and Country X as in the above example:

Description of risk	Category of risk	Likelihood of risk	Impact of risk	Vulnerability
New funding distribution mechanism may complicate distribution of funds	financial	high	high	high
Multiplication of stakeholders may lead to confusion as to distribution of responsibilities	internal / partnerships	medium	high	high
Additional reporting will be needed – staff may have less time to concentrate on delivery	delivery	medium	medium	medium
Using partner's project management approach for quicker/facilitated delivery	opportunity	high	medium	medium

Act on risks

The next step will be to act on the risks that have been identified and prioritized using the risk matrix. Brainstorm with your team, and if applicable with critical stakeholders, about what action needs to be taken to manage the most important uncertainties (especially red and orange):

	Orange uncertainties	Red uncertainties
Impact ↑	• contingency planning for threats • consider more resources	• immediate action • more resources • additional controls
	Green uncertainties • business as usual • release resources • consider releasing controls	**Yellow uncertainties** • monitor • existing resources normally enough

Likelihood →

- Use the matrix: red uncertainties are critical and require more resources, and strengthened controls. Orange ones often require contingency planning; more resources should be considered. Yellow ones should primarily be monitored. For green uncertainties, consider whether resources should be released and controls relaxed.
- It is helpful to judge the importance at three stages of action: (i) in case key existing actions/controls fail (initial importance); (ii) with all existing actions in place and effective (current importance); and (iii) including also any further action needed (future importance). The minimum required is to judge the current importance.
- Define what indicators of events or consequences to monitor, action thresholds, and the definition of roles and responsibilities. For larger strategic or programmatic risks this may mean a large-scale organizational development programme designed to remove the causes. It may mean anticipatory or preventative action to mitigate the consequences of an event, if it did occur. It may mean having reactive action plans ready to roll out. It may mean doing nothing, i.e. accepting the risk. In any case, the risks need to be understood, prioritized, monitored and managed.
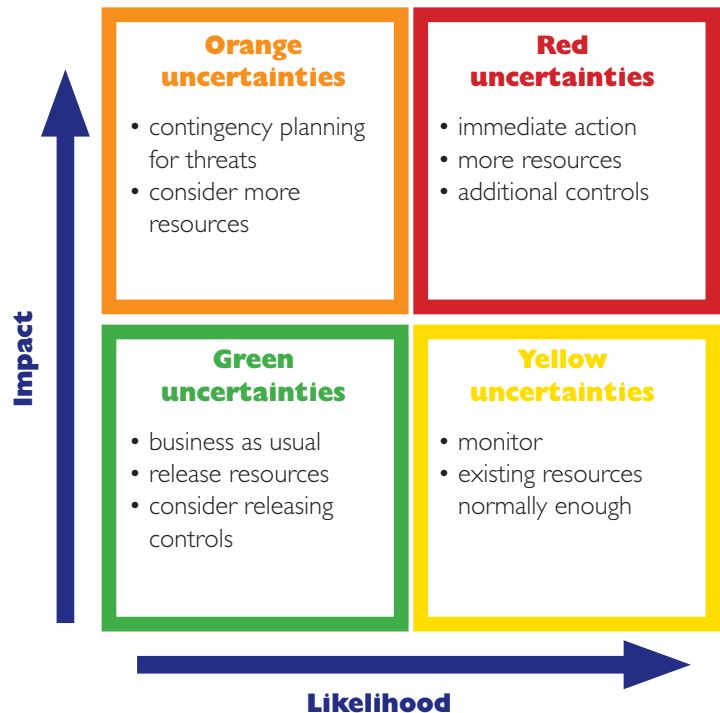
Then, decide how to proceed with actions and activities to achieve expected outcomes and results. Remember the rule of the 4 Ts:

- Tolerate: accept the risk by keeping activities unchanged. This option may be applied when exposure is tolerable, control is impossible or cost of control exceeds potential benefit. It may be supplemented by contingency planning for handling the potential impact.
- Treat: adjust (add or revise) relevant activities;
- Transfer: share the risk by involving stakeholders. Transferring risk works especially well for financial risks or risks to assets, e.g. by taking conventional insurance or paying a third party to take the risk. This option is not possible for reputational risks. The relationship with the third party needs to be carefully managed.
- Terminate: avoid or cancel the activities that give rise to the risk by terminating the activity that gives rise to the risk, especially when the cost/benefit relationship is in jeopardy.

In choosing which risk control action to adopt, bear in mind the two main objectives of risk management:

1. Loss avoidance: aiming to limit the frequency and extent of loss. In all cases it is necessary to show that losses can be dealt with, and how.
2. Preparedness: being in a position to restore or recover. For certain risks there is no alternative to this, for e.g. a deliberate attack on reputation can neither be, strictly speaking, avoided, nor transferred, the only form of protection is to be prepared to deal with the consequences.

Treating…

If you have chosen to *Treat* a risk – that is, to continue the activity that gives rise to the risk but to take action to constrain the risk to an acceptable level – control actions may include:

- Preventive controls

Limit the possibility of an undesirable outcome being realized (e.g. by separation of duty or limitation of action to authorized persons)

- Corrective controls

Correct undesirable outcomes that have been realized to achieve recovery against loss or damage (e.g. insurance, contingency plans)

- Directive controls

Controls to assure that a particular outcome is achieved, particularly

when it is crucial that the undesirable outcome is to be avoided (e.g. in health or security matters: making appropriate training and protective clothing mandatory for dangerous activities)

- Detective controls

Identifying occasions when undesirable outcomes have been realized.

These controls are only possible after risk occurred, therefore they are only possible where the loss is acceptable.

The following table provides an example of risk control actions that may be taken within the framework of a joint initiative between UNESCO and Country X to open a local museum on indigenous cultures with funding from a donor government (third party):

Description of risk	Type of risk / category	Likelihood of risk	Impact of risk	Vulnerability	Proposed control
Elections in donor country might delay or cancel funding	financial	high	high	high	Treat – preventive / corrective Identify other possible sources of funding, fundraising possibilities, potential funding partners (contingency planning).

Description of risk	Type of risk / category	Likelihood of risk	Impact of risk	Vulnerability	Proposed control
Ministry of Culture of receiving country might be under-resourced which will lead to failure of delivery	operational	medium	high	high	Treat – preventive Reporting calendar is recognized in agreement with Ministry of Culture, including expenditure vs expected outcomes.
Fatigue and burn out of individual staff members might lead to failure in timely delivery	operational / human capital	medium	low	low	Tolerate
Different perceptions and levels of acceptance among local populations of the new museum, hence no sense of ownership which would lead to failure in ensuring sustainability	operational integrity	medium	high	high	Treat – directive Develop awareness-raising initiatives and education material at the local level with the help of the relevant authorities, valuing cultural diversity and stressing the economic benefits of supporting the museum.

Risk appetite

Risk appetite is defined as the amount of risk that is judged to be tolerable and justifiable by senior management of an organization. Risk appetite should not be confused with risk tolerance: Risk tolerance is the amount of risk an organization can withstand. An organization's risk appetite has thus to be smaller than its risk tolerance. In UNESCO, criteria may differ in different spheres of the organization, e.g. low appetite for risk in security, higher in programme areas where innovation is key.

In the risk matrix, risk appetite can be expressed through the line of tolerability. It can be determined at different levels:

- Corporate risk appetite: The overall amount of risk judged appropriate for an organization to tolerate, agreed at board level. There may be several statements of risk appetite for several categories of risk.
- Delegated risk appetite: Taking the corporate risk appetite as a starting point, there may be cascading levels of risk appetite down the organization. What is a high level of risk at one level will be a lower level risk at the higher level of management.
- Project risk appetite (specific risk appetite for a specific project): To define a project risk appetite that may exceed the corporate risk appetite is especially important for speculative projects that imply taking high risks but also promise potential high reward, e.g. pilot projects, standard development projects.

There are also cases when it is advisable to define risk appetite for a specific project that is lower than the corporate risk appetite, e.g. for mission critical projects, where organizations need to be sure of their success.

Risk appetite is no constant value, it is informed by changing variables such as reported results of control-mechanisms that have succeeded or failed in the past, the changing value of assets potentially to be lost, perception of stakeholders, extent of possible control etc. It has to be readapted by management corresponding to reporting from the operational level and to changes in the external environment.

Ideally, resource allocation and project initiation should correspond to risk appetite: More resources should be given to control risks that surpass the appetite, or, if there are heavy controls on a lower level risk, the opportunity should be taken to free resources.

Escalation point

When a risk exceeds the agreed risk appetite – when the line of tolerability is crossed – for one level of management, the escalation point is reached. The risk can then be transferred to the next higher level of management, for which it constitutes a lower level risk. The higher level of management may act on the risk directly or adjust the risk appetite and let the lower level manage the risk.

Escalation point

Impact

Likelihood
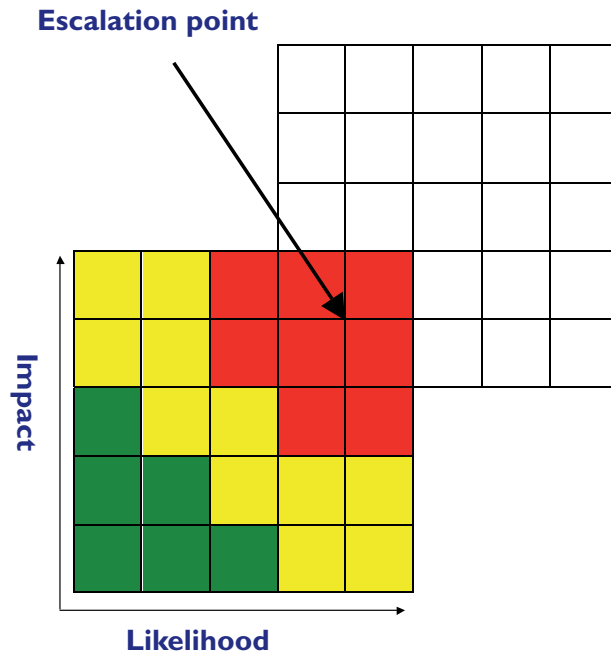
If you cannot decide which of the 4 Ts to apply to a particular risk, or judge that the risk is too important and beyond your responsibilities or level of management, it may mean that the risk should be escalated to a higher level of management. It is possible to set trigger points where escalation to the next management level is automatically initiated for the next level in the hierarchy (or other criteria) to take appropriate action, or agree to accept a higher level of risk.

The 5th T?

It is important to remember that risks may also lead to opportunities and may therefore have a beneficial and positive impact on the organization as a whole or on a particular programme or project. A 5th T – Take an opportunity – could therefore be added to the previous 4 (Tolerate, Treat, Transfer, Terminate). Do circumstances offer opportunities or can taking certain risks create opportunities? Note that this option should be considered whenever tolerating, transferring or treating a risk and is not an alternative to the other options.

Decide

Once all elements have been carefully weighed, make an informed decision on action to be taken, bearing in mind expected outcomes and results. Remember that

risk management is not a stand-alone process but is integral to effective strategic and operational decision-making. Risk management is embedded in results-based management.
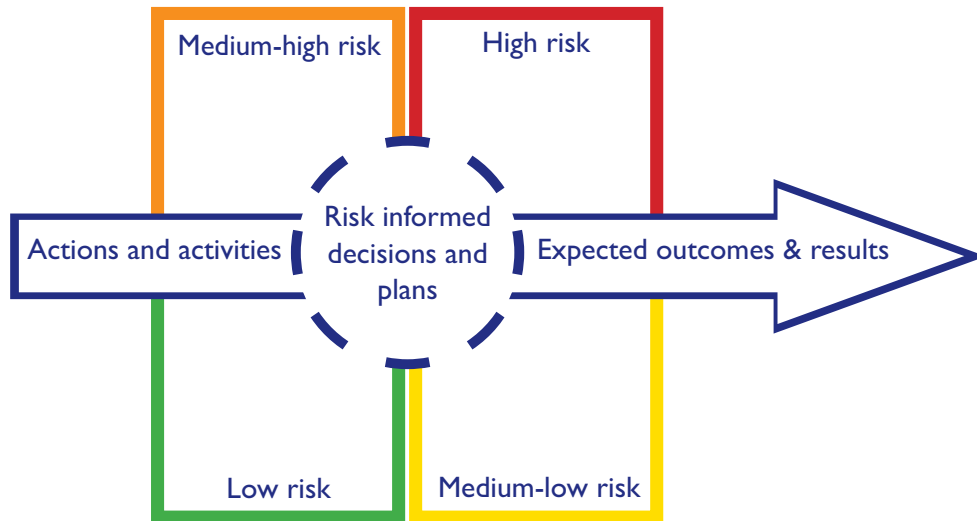
Note that after choosing a strategy for how to address a risk, a strategy for how to implement the chosen internal control should be developed. This strategy should include the following:

- Definition of objectives and expected outcomes, short- and long-term
- Definition of time- and budget-frames
- Definition of roles and responsibilities
- Definition of indicators to monitor the effectiveness of the action
- Evaluation and reporting structures

(III) STEP III – MONITOR, REVIEW AND COMMUNICATE ON RISKS

The last step of the risk management process involves monitoring, reviewing and communicating risks.

Monitoring and reviewing risks

Review and communicate risks, at least as often as performance is reviewed,[8] to see if:

* further action is needed;
* appropriate controls are in place;
* new uncertainties are emerging; and
* changes to UNESCO's strategic uncertainties require unit level action.

Best practice for reviews is to use existing management/staff meetings, not to create new mechanisms. Involve relevant focal points and experts to constructively challenge the unit's risk management.

The monitoring and review process for risk management has to take place on three levels:

* First, adequacy and effectiveness of internal control have to be monitored, evaluated and reported for every single internal control action. It is extremely important for the evolution of risk management in an organization to communicate and share lessons learned at this level.
* Second, the general risk profile of the organization and eventual changes in uncertainties have to be monitored to allow an early identification of upcoming risks early enough and to stop internal control on outdated risks. The monitoring process can, if need be, entail the redistribution of resources. Again it is crucial at this stage to communicate with partners, stakeholders, and the environment in general.

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8   Especially in the context of preparation/update of the workplans.

- Third, the progress of the implementation of risk management itself has to be monitored and fostered. The following questions can serve as a point of orientation:
- Is risk management well supported and promoted?
- Are people equipped to do risk management?
- Is there a clear risk strategy/policy?
- Are there arrangements for managing risk with partners?
- Do the organization's processes incorporate risk management?
- Does risk management contribute to outcomes/achievement of objectives?
- Are risks well handled?

In addition to existing work tools and documents (SISTER,[9] workplans, management assessment, etc.) there are different suitable monitoring and reporting techniques that can, separately or in combination, be applied at all levels:

- Risk self assessment (RSA)

- Stewardship reporting: Designated managers at various levels report upwards on the work they have done (compatible with RSA)

- Risk management assessment framework: Tool to evaluate the maturity of an organization's risk management

- Internal audits, specialist review and assurance teams: It is an important tool but not a substitute for management ownership of risk or the review and reporting duties of staff that have executive responsibilities

- Risk Management Committee: In December 2008, UNESCO set up a Risk Management Committee. It aims at focusing on risk management awareness, the culture change required within the Organization, and at discussing the major strategic risks facing the Organization. The Committee could also be used as a platform for risk owners to share their experience on past or perceived future risks and to support the setting up of an organization-wide risk management strategy.

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9   Use SISTER to summarize the risk analysis when progress against expected results is analyzed.

Communicating and reporting

Following a review, important developments – such as a change in importance from orange to red – should be communicated through reporting and escalation. Communicating risks to partners and stakeholders also allows the organization that risks are being managed on both sides. While communication and reporting are an ongoing process, reporting on specific risks should primarily be included in existing reporting and communication mechanisms, especially the EX/4 and C/3 reviews. An up-to-date version of the risk profile should be available, for example to help auditors.

On the discretion of the higher management of the Organization (ADGs, deputy ADGs/Directors), risks should also be reviewed in the context of other major processes and functions that have a bearing on the achievement of expected strategic outcomes/results, such as, monitoring and evaluation, project management, standing committees, requests for extrabudgetary funding, and proposals and reports to oversight bodies.

The matrix of the main strategic risks facing the Organization can also be reviewed throughout the planning process with the aim of reducing the number of high risk items. Organizations have to maintain a state of continuous alertness with regard to changing patterns in their operating environment (societal, political, legal, physical) once the risk profile has been mapped. This constant updating and sharing of what they know, of error reporting, at what they are doing is the essence of organizational situation awareness, which is key to decision making and risk management. There are two reasons for reviewing and reporting risks: measuring the effectiveness in the way the risks are being managed and gaining assurance that the process is working, and monitoring whether the risk profile is changing.
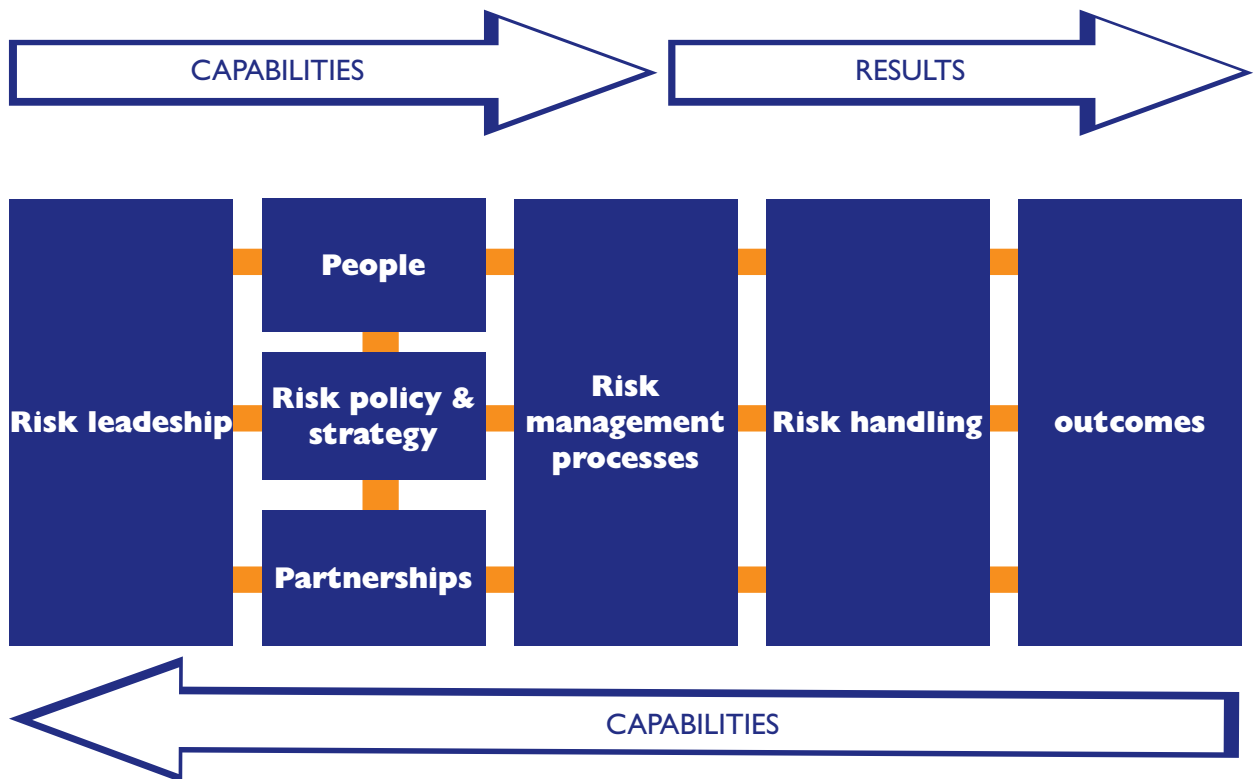
In all cases, ensure that reporting and communications are accurate, as complete as possible, and regularly updated to reflect reality to the best of your knowledge. Remember that risk

formulation and risk reporting are essential for the understanding of issues at stake. Are you getting the right message across? Are you highlighting risks according to their potential impact and prioritization? Have you provided all relevant information to give a clear view of the situation? Will this information be communicated widely enough and to all responsible or relevant parties?

Risk management and results-based management (RBM)

Risk management contributes to the successful achievement of expected outcomes and results. It is therefore an integral part of the results-based management cycle illustrated below.

CAPABILITIES

RESULTS

Risk leadeship	People	Risk management processes	Risk handling	outcomes
	Risk policy & strategy			
	Partnerships			

CAPABILITIES

The following diagram illustrates how risk management should be integrated with RBM, strategic work planning, programme monitoring and performance assessment within the context of UNESCO's management line:

Objectives and plans	Risk management	Performance review and reporting

Strategic Programme Objectives with expected outcomes (C/4)

Identify and prioritise

Strategic uncertainties (strategic risk profile)

Review and communicate

Reporting on achievement on strategic objectives and expected outcomes (currently C/3)

Escalation of uncertainties to ADGs and delegation of action from ADGs to directors, heads of office, and programme specialists

Main Lines of Action and expected results (C/5)

Identify and prioritise

Operational uncertainties (operational risk profiles)

Review and communicate

Reporting on achievement of MLAs and expected results (currently EX/4)

Activities, projects and expected results (workplans)

Identify and prioritise

Individual results (Performance Agreements)

Risk competencies

Individual performance appraisal

(IV)   QUIZZ – TEST YOUR KNOWLEDGE

(1)   Effective risk management provides absolute assurance that objectives will be met:

    a.   agree
    b.   disagree
    c.   no opinion

(2)   Key elements of risk formulation are:

    a.   root cause
    b.   potential consequence or impact
    c.   both root cause and potential consequence or impact

(3)   UNESCO's risk typology:

    a.   provides ideas on possible risks
    b.   helps to classify the risks by importance
    c.   is an exhaustive list of risks facing UNESCO

(4)   It is key for an adequate action plan to:

    a.   establish an elaboration date
    b.   define the successive actions and related deadlines c. always use the same template

(5)   Risks have to be reduced:

    a.   at all costs
    b.   on a cost/benefit basis
    c.   it depends on the nature of the risks

(6)   Accepting risk is:

    a.   management's responsibility
    b.   programme specialists' responsibility
    c.   both programme specialists' and management's responsibility

(7)   For effective risk management, main efforts should be dedicated to:

    a.   preparing reporting templates
    b.   categorizing the risks
    c.   taking actions to mitigate the risks

(8) Effective risk management:

    a.   is a guarantee that all the risks likely to affect my division will be identified
    b.   can sometimes lead to a reduction of control activities
    c.   is not necessary if the division comply with all the recommendations for results-based management

(9) Risk assessment allows to:

    a.   detect the critical risks that should be managed in priority
    b.   identify the most adequate risk responses c. both answers are correct

(10) Risks must be escalated to a higher level of management:

    a.   always
    b.   when a risk exceeds the agreed risk appetite
    c.   when the exact risk owner cannot be identified

(11) Monitoring risk management aims at:

    a.   verifying if the actions taken are effective
    b.   verifying if the risks are reported in the C/3
    c.   none of the answers is correct

(12) Structured risk management exercises contribute to:

    a.   the creation of a risk-free environment
    b.   improving decision making and the achievement of objectives c. determining all the risks that will materialize

PART III

Applying Risk Management to Your Division

(I) RISK MANAGEMENT IN UNESCO: WHO DOES WHAT?

Risk management adopts the existing division of responsibilities and hierarchy of the Organization:

The **DG** is accountable to Member States and the Executive Board for managing risks facing UNESCO.

Senior management and the College of ADGs provides management oversight and focuses on ensuring that the risk management objective is achieved in line with the strategy adopted and that the response is adequately controlled. It offers guidance on how to identify and prioritize strategic risks in relation to each Strategic Programme Objective and expected outcome. It also sets direction for managing risks escalated from below.

The Risk Management Committee acts as an information platform on best practice in handling or identifying risks and discusses possible actions to prevent or contain further strategic risks from affecting the Organization, in particular the major risks identified by the College of ADGs. Its overall objective is to encourage a culture change throughout the Organization by promoting risk management awareness. It also ensures coordination and evaluation of assurances to the College of ADGs.

It should be stressed that ADGs, the Risk Management Committee and senior managers also have an important role to play in encouraging effective communication with heads of field office and programme specialists to ensure effective escalation of the most important operational risks to the strategic level during the implementation of the work plans.

Heads of unit and programme specialists at Headquarters and in the field are responsible for managing risks within the scope of their authority (operational risks), and are accountable to the DG through their respective supervisors. Remember that operational risks should be identified against Main Lines of Action and expected results, and prioritized, by the "owners" or the entities responsible for meeting the expected results of MLAs. Line management responsibilities are typically: Risk identification; assessing the risks; addressing the risks and the control mechanism; and defining the review/reporting mechanisms. The risk owner will usually be in this category. More generally, both strategic and operational risks should then be acted on by senior managers and programme specialists by designing appropriate actions and activities through work-planning.

All other staff members take an active role in helping manage risks by undertaking practical risk assessments in their areas of expertise, activities and results.

Oversight functions are responsible for assessing the functioning of processes in place to manage risks.

BSP is responsible for risk management by ensuring that risk management is integrated into UNESCO planning and monitoring processes, delivering training and defining best practice in this field.

(II) MAJOR RISKS FACING UNESCO

In February 2008, the College of ADGs identified a number of major risks facing the Organization. Eight main risk factors were mentioned, which make up the risk typology of UNESCO:

- Resourcing UNESCO's programmes
- Governance
- Staffing
- Organizational design and accountability
- Corporate systems
- Financial management
- RBM, quality or programme delivery, and visibility
- Risks linked to delivering within the UN system

The full list of risks is presented in the Annex.

Sectors and divisions may be unequally affected by each of these categories of risks. It is therefore essential that each division identify and prioritize risks pertaining to its own activities and programmes.

The following section will help you set up and implement a risk management plan for your division/unit.

(III) EXERCISES: IDENTIFY, ASSESS AND PRIORITIZE RISKS IN YOUR DIVISION

I)   Choose a particular activity or project with which you are familiar. Identify and draw a list of risks that are already affecting or may affect this activity/project in the near future. Make sure you clearly state the cause and likely consequences of the risk, the risk category to which it belongs, and how it may affect the intended initial objective of the activity/project:

"As a result of (definite cause), (an uncertain event/risk) may occur, which would lead to (an impact on objectives)"

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(II) Then use the risk profile table below to assess these risks in terms of existing internal controls (if any), residual assessment (likelihood and impact), further control needed, risk ownership and anticipated future importance of these risks (Leave the last four columns on the right empty for now) :

Risk	Category of risk	Expected result (e.g. C/5)	Inherent assessment		Controls in place	Residual assessment		Further action planned	Target date	Owner	Future importance
			Impact	Likelihood		Impact	Likelihood				
				Importance:			Importance:				
				Importance:			Importance:				
				Importance:			Importance:				

(III)   Now prioritize risks using the risk matrix below:

Significant impact			
Moderate impact			
Minor impact			
	Low likelihood	**Medium likelihood**	**High likelihood**

(IV)   Brainstorm with your colleagues and decide which of the 4 Ts applies best to each risk. Remember to provide a timeframe for risk response. You will also need to determine whether any of these risks need to be escalated to a higher level of management.

Reminder: risk responses include:

- Tolerate: accept the risk by keeping activities unchanged. This option may be applied when exposure is tolerable, control is impossible or cost of control exceeds potential benefit. It may be supplemented by contingency planning.
- Treat: adjust (add or revise) relevant activities;
- Transfer: share the risk by involving stakeholders. Transferring risk works especially well for financial risks or risks to assets, e.g. by taking conventional insurance or paying a third party to take the risk. Not possible for reputational risks. The relationship with the third party needs to be carefully managed.
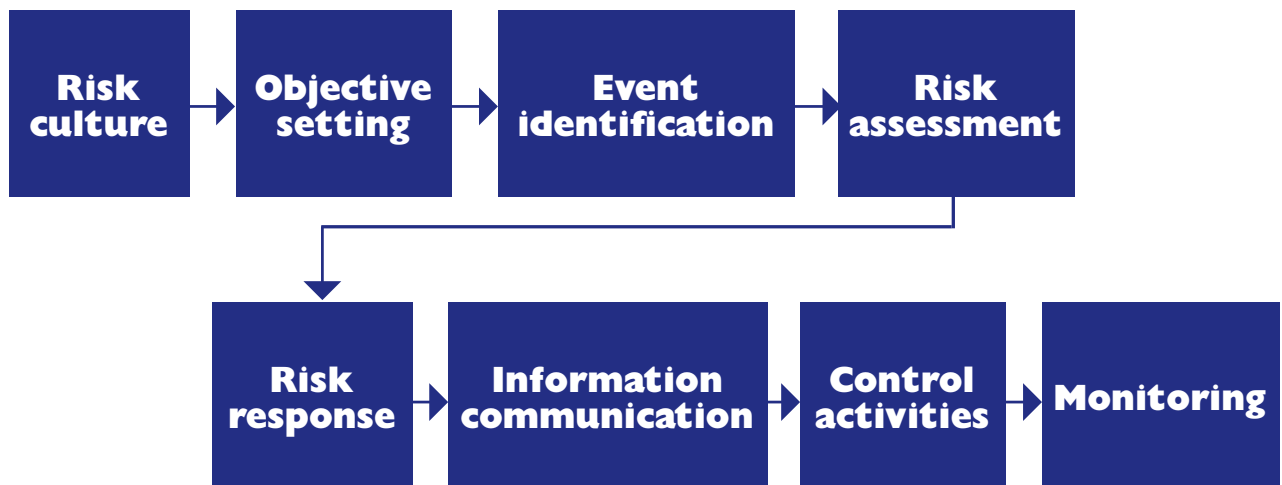
- Terminate: avoid or cancel the activities that give rise to the risk by terminating the activity that gives rise to the risk, especially when the cost/benefit relationship is in jeopardy.
- (5th T: Take an opportunity?)

Return to the risk profile (section II above) and complete the last four columns on the right.

(V) You will now need to communicate on these risks with your staff and colleagues and keep higher management informed. Then, for each risk, define an action plan including control activities, timeframe for action and staff responsibilities. Identify benchmarks for the future monitoring of each risk and the assessment of the effectiveness of risk control activities.

The diagram below illustrates the basic steps of risk management:

Remember to regularly review and report on risk control activities. Communication and coordination with higher levels of management as well as all staff involved should be constant throughout this process.

Risk culture → Objective setting → Event identification → Risk assessment → Risk response → Information communication → Control activities → Monitoring

Risks Identified by The College of ADGs (February 2008)

Risk family or field	Risk

Resourcing UNESCO's programmes	• Uncertainty about future levels of regular budget funding, coupled with a broadening range of responsibilities, may mean that a failure to diversify sources of financial and other resources will compromise UNESCO's ability to deliver on expectations.
	
	• The imperative of securing increasing levels of extrabudgetary funding may lead to:
	
	  a. A decrease in the predictability of funding and increased "short- termism" in UNESCO's programme development and implementation
	
	  b. An increase in de-facto "tied" funding and therefore a reduction in UNESCO's control over its programme implementation and ability to implement its mandate
	
	• A failure to spend all funds within the allotted timeframe may impact on our ability to attract future funds
	
	• A lack of responsive systems and processes may inhibit our ability to attract partners and put in place operational partnerships
	
	• A significant gap between expected results and available resources may lead to tensions in programme planning, a failure to deliver and ultimately a loss of credibility

Risk family or field	Risk
Governance	• A tendency on the part of the Secretariat to present issues in a positive light and to make overly-optimistic commitments may lead to misunderstandings, and impact on the level of confidence that the Member States have in the Secretariat • Lack of confidence in the Secretariat by the Member States may lead to overly intrusive governance processes and micro-management on the part of the governance structures, which in turn may consume significant organizational energy and resources • Tensions between the planning cycles (6 years MTS and 2 year Programme and Budget, as well as discrepancies with respect to other parts of the UN system, country level programmes and national cycles) may lead to a significant burden of programming planning, monitoring and reporting and divert attention and human resources from programme delivery
Staffing	• Lack of definition of our requirements in terms of staff profile and competencies may inhibit our ability to attract appropriate staff, to deploy staff appropriately and to support staff appropriately • An unwillingness to develop or implement flexible and creative approaches to staff movement may inhibit UNESCO's ability to respond to short term or shifting demands • A failure to implement UNESCO's rotation policy may lead to a breakdown in UNESCO's attempts to foster staff mobility • Lack of succession plan may leave us with a significant gap in terms of competent senior staff, given the anticipated retirement of professional staff over the coming biennium

Risk family or field	Risk

Organizational design and accountability	• The current architecture, mechanisms and support structures governing decentralization may impact on our ability:
	
	  a. to deliver effectively at the country level
	
	  b. to be an active participant in UNCTs
	
	• The complexity of UNESCO's structure and a lack of incentive to work across organizational boundaries may create duplication of effort or gaps in programmes, and may inhibit our ability to work intersectorally
	
	• Unresolved tension between a historical culture of micromanagement and control, a desire to delegate authority, and the diffuse nature of accountabilities within UNESCO, may challenge the assurance of stewardship of resources, and lead to a stagnation in decision-making
	
	• An imbalance in influence and decision-making processes between Central Services and the Programme Sectors may impact on programme delivery and quality
	
	• An imbalance between a focus on process/control as opposed to programme delivery and quality may impinge on the financial and human resources dedicated to programme delivery

Corporate systems	• Corporate information systems and network applications that are not fit for purpose, as well as lack of connectivity in the field, may
	
	  a. Increase the challenges in implementing programme activities
	
	  b. Consume considerable resources, with limited tangible organizational benefits

Financial management	• An inability to identify all relevant cost components and to track funding appropriately may lead to poor financial management, particularly of extrabudgetary projects • Lapses in procurement procedures may result in negative publicity and loss of organizational credibility • Qualified accounts by the external auditor may result in lack of confidence by the Member States • A failure to meet IPSAS accounting standards by 2010 may result in a qualified audit

Risk family or field	Risk

RBM, quality or programme delivery, and visibility	• The breadth of UNESCO's mandate poses special challenges, complicated by an inability to articulate well and focus on priorities, and may lead to
	
	   a. difficulty in projecting concise and consistent messages regarding UNESCO's "added value"
	
	   b. Difficulty in achieving quality programme results across the road spectrum, leading to a loss of credibility and a loss of UNESCO's strategic position and role in the multilateral system
	
	• Inability to articulate to achieve, and to report on quality results may lead to a loss of confidence in UNESCO's ability to deliver, a loss of visibility and eventually a reduction in funding
	
	• Lack of anticipation may make it difficult to plan and prepare for exit from and termination of projects and programmes

Risks linked to delivering within the UN system	• Inability to fulfill commitments and effectively participate in UN reform processes, particularly at the country level, may lead to a potential loss of lead roles in our recognized areas of competence, a loss of credibility and relevance and a negative impact on the resource base, both regular and extrabudgetary • Increased investments in security may lead to an intolerable financial burden, and disruption to programmes • Violence targeted at the UN may lead to direct threats to the safety of UNESCO staff
Other risks	• The impending change in Director General may lead to a lack of focus of the senior management team, a lack of momentum, and a reduction in willingness to take risks and to tackle significant organizational issues • Africa: A failure to meet the 34 C/4 global programme priority for Africa may harm UNESCO's credibility among Member States • Gender: A lack of gender awareness and training may lead to insufficient gender consideration in programming

Bureau of Strategic Planning
http://www.unesco.org/bsp

Establishing a risk management culture within UNESCO

Strategic decisions

Decisions transferring
strategy into action

Decisions required
for implementation

Corporate

Programme/HQ

Project/field