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COUNCIL
102nd session
Agenda item 3

C 102/3(b)
8 May 2009
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STRATEGY AND PLANNING

(b) Risk management

Report of the fourth session of the Council Risk Review, Management and Reporting Working Group

Note by the Secretary-General

SUMMARY	
Executive summary:	This document reports on the outcome of the fourth session of the Council Risk Review, Management and Reporting Working Group (CWGRM 4), held on 30 April and 1 May 2009
Strategic direction:	4
High-level action:	4.4.1
Planned output:	4.4.1.1
Action to be taken:	Paragraph 9
Related documents:	C 100/D; C 100/3(b); C/ES.24/D, C 98/D; C 97/D

General

1   The Council Risk Review, Management and Reporting Working Group (hereinafter referred to as "the Working Group") met on 30 April and 1 May 2009 under the chairmanship of the Council Vice-Chairman, Mr. D. Ntuli (South Africa).

2   The meeting was attended by representatives from the following Member Governments:

ARGENTINA	MARSHALL ISLANDS
BAHAMAS	NETHERLANDS
BELGIUM	PANAMA
BRAZIL	SOUTH AFRICA
CYPRUS	THAILAND
FRANCE	UNITED KINGDOM
GERMANY	UNITED STATES
IRAN (ISLAMIC REPUBLIC OF)	

3   In accordance with paragraph 12 of the Guidelines on the organization and method of work of the Council (Circular letter No.2601), regarding, *inter alia*, the reports of the Council's working groups, this document is submitted "in Summary-of-Decisions format to keep such reports as short as possible".

Adoption of the agenda (agenda item 1)

4   The Working Group approved its Provisional Agenda (CWGRM 4/1).

Outcome of the Secretariat's risk management exercise 2009 (agenda item 2)

5   The Working Group noted the information set out in document CWGRM 4/2, as well as that provided orally by the Secretariat, setting out a first risk management Context Document, as required by the Risk Management Framework (RMF), and decided to forward the Context Document to the 102nd session of the Council for approval (attached at annex 1) and onward transmission to the twenty-sixth session of the Assembly, for endorsement.

6   The Working Group also noted the information set out in document CWGRM 4/2/1, as well as that provided orally by the Secretariat, setting out the outcome of the Secretariat's first iteration of the risk management process. In particular, the Working Group:

     .1   welcomed the report of the risk management exercise and expressed appreciation to the Secretariat for the comprehensive nature and high quality of the work carried out;

     .2   noted the lessons learned by the Secretariat on the application of the risk management process as established in the RMF, in particular those lessons indicating areas for possible enhancement of the guidance contained in the RMF – specifically, on risk analysis scoring, completeness of information on the risk environment, and application of the concept of risk tolerance – but decided that, while the matter should be kept under review, at this stage no changes should be made to the RMF;

     .3   noted other operational issues identified by the Secretariat from the application of the risk management process, in particular the need for the integration of risk management with objective-setting and the need to allocate resources to deliver training; facilitate risk assessment and central coordination; and develop a database to capture and report on the outcomes of the process;

     .4   invited the Secretary-General to make adequate provision of resources to support the delivery of future iterations of the risk management process, particularly with regard to the aforementioned operational issues; and

     .5   decided, based on the outputs of the risk management exercise, to draw the Council's attention to the following risks to the Organization:

          .1   the Secretariat's reliance on a small number of key staff in certain critical areas of its operations – in this regard, the Secretary-General should keep the Council informed of any particular risks that may arise and of his strategy for dealing with them;

.2   the need to ensure that the Organization has in place a robust ICT infrastructure and information systems with the capability of responding to changing requirements by both internal and external users – in this regard, and in the absence of unlimited funding, a holistic approach was recommended, with a coherent package of costed options being presented to the Council for consideration; and

.3   potential reductions in publishing revenues resulting from factors including global economic downturn, which may, in turn, impact on IMO's ability to resource the delivery of the Integrated Technical Co-operation Programme.

Consideration of any modifications to and future application of the Risk Management Framework (agenda item 3)

7   In the light of its decisions under agenda item 2 and the outcome of the 100th session of the Council, the Working Group agreed to recommend to the Council that, before any substantive changes are made to the RMF, the Secretariat should undertake a second iteration of the risk management process, the scope of which should cover the Strategic Directions and High-level Actions falling under the Secretary-General's responsibility as well as the Secretariat's related key objectives for the 2010-2011 biennium.

Any other business (agenda item 4)

8   Recalling its revised terms of reference (appendix 2 of the annex to document C 100/3(b)) and, in particular, paragraph 2.5 thereof, the Working Group decided to re-establish its correspondence group, subject to endorsement by the Council, with the terms of reference set out at annex 2.

Action requested of the Council

9   The Council is invited to consider the outcome of the fourth session of the Council Risk Review, Management and Reporting Working Group and, in particular, to:

.1   approve the risk management Context Document at annex 1 and forward it to the twenty-sixth session of the Assembly, for endorsement (paragraph 5);

.2   note the Working Group's consideration of the report on the Secretariat's risk management exercise 2009 and, in this regard, invite the Secretary-General to make adequate provision of resources to support the delivery of future iterations of the risk management process (paragraphs 6.1 to 6.4);

.3   note the risks to the Organization highlighted by the Working Group, following its consideration of the aforementioned Secretariat report, and endorse the Working Group's associated recommendations (paragraph 6.5);

.4   endorse the Working Group's recommendation that, before any substantive changes are made to the RMF, the Secretariat should undertake a second iteration of the risk management process, the scope of which should cover the Strategic Directions and High-level Actions falling under the Secretary-General's responsibility as well as the Secretariat's related key objectives for the 2010-2011;

.5   endorse the re-establishment of the Working Group's correspondence group, with terms of reference as proposed at annex 2; and

.6   approve the report in general.

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ANNEX 1

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CONTEXT DOCUMENT REQUIRED BY

THE RISK MANAGEMENT FRAMEWORK

OF THE

INTERNATIONAL MARITIME ORGANIZATION

CONTENTS

1 INTRODUCTION

1.1 Purpose of this document

At its 100th session in June 2008, the Council approved the Organization's Risk Management Framework containing risk management definitions, the Organization's risk management policy, and a risk management process to be followed in identifying, managing and reporting on the risks to the Organization.

The Council further agreed that this Risk Management Framework should, in the first instance, be applied in 2009 to the strategic directions and high-level actions[1] under the responsibility of the Secretary-General as well as the Secretariat's related objectives for the year.

This context document, therefore, seeks to set out:

- the objectives of risk management; and

- the scope and focus of the 2009 iteration of the risk management process.

1.2 Structure of this document

This document is structured as follows:

- **Section 2 – Objectives of risk management and the risk management policy**. This section briefly sets out the objectives of risk management, linking this directly to the Organization's approved risk management policy and to the trends, developments and challenges identified in its Strategic Plan; and

- **Section 3 – Scope and focus of the risk management process.** This section establishes the scope of the 2009 iteration of the risk management process, and identifies key factors to consider during the process.

2 OBJECTIVES OF RISK MANAGEMENT AND THE ORGANIZATION'S RISK MANAGEMENT POLICY

2.1 Introduction

This section briefly sets out the objectives of risk management, linking this directly to the Organization's approved risk management policy and to the trends, developments and challenges identified in its Strategic Plan.

2.2 Objectives of risk management

The Organization's risk management policy, attached as Appendix 1 to this document, establishes that:

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[1] Strategic directions are derived from the Organization's Strategic Plan (resolution A.989(25)) and high-level actions from the High-level Action Plan of the Organization and priorities for the 2008-2009 biennium (resolution A.990(25)).

> *"The objective of the Organization's risk management policy is to minimize and/or prevent adverse consequences emanating from foreseeable risks to the achievement of its aims and objectives."*

This statement identifies three key aspects of risk management, which should be considered when applying the risk management process:

- **minimize and/or prevent** – the Organization recognizes that not all risks are avoidable, nor, even where such risks are avoidable, is it always in the Organization's best interests to do so. Effective and coherent risk management across an organization is a matter of professional judgement and it is frequently the case that a mitigation approach for one risk may increase a risk elsewhere, either directly or through a consequent lack of adequate resources for its own mitigation. Similarly, each mitigation is likely to have a cost and it is necessary, in each case, to determine that the benefit, through the reduction in risk, outweighs the cost of the mitigation. Risk events and their associated risks and mitigations cannot be seen in isolation, either of the resources required for mitigation or of each other, and the Organization does not have an infinite pool of resources – the price of an increase in control is often a reduction in efficiency – and a delicate balance must be struck. It is, therefore, not the Organization's goal to eliminate risk, but to minimize and/or prevent its effects, noting also that paragraph 4 of the risk management policy, in addressing methodology, notes that:

  > *"The Organization is committed to reducing risk to a level that is as low as reasonably practicable ..."*

- **foreseeable risks** – not all risk events can be foreseen and, for those that can, the risk associated with them cannot always be accurately predicted. However, the Organization seeks, through the establishment of a methodical approach to the identification and documentation of risk events, and through a more formalized horizon-scanning exercise to be conducted on a regular basis, to increase the Organization's institutional capability to foresee risk and, through the repeated experience of this process, to refine its skills in assessing the likelihood and impact of risk. The introduction of a formalized risk management process is a first step in building risk assessments into all of the Organization's work, and the Organization's ability in this regard will increase with each iteration of the risk management process; and

- **achievement of aims and objectives** – a risk is only relevant in the context of an objective on which it impacts and, for the Organization, the objectives are those set out in its Strategic Plan and High-level Action Plan. The degree to which the Strategic Plan and the High-level Action Plan fall within the scope of this first iteration of the risk management process is established in more detail in the next Section of this document; however, it is an important principle that a risk which does not impact on achieving an objective of the Organization is not a risk to the Organization.

2.3   Connection to the Strategic Plan

The Organization's Strategic Plan and the related High-level Action Plan form a comprehensive view of its long-term plans and short-term objectives, and it is the achievement of these

objectives which provide the context for the risk management process. Risk management in the Organization must, therefore, be constantly and explicitly linked to the Strategic Plan and the High-level Action Plan in two ways:

- **explicit link between risks and objectives** – as noted above, risks are only relevant in the context of their ability to impact on the achievement of objectives. Since the Strategic Plan and the High-level Action Plan define the Organization's objectives, all risk events and risks identified during the risk management process must be explicitly linked to one or more strategic directions and/or planned outputs[2]. The scope of this process is discussed further in Section 3; and

- **provision of context for 'horizon-scanning'** – it is a necessary part of any risk event identification exercise to consider not only short-term and immediate areas of risk, but also to look forward and identify the potential for future risk events arising from developments in the Organization's work and its relationship with its stakeholders. Such a long-sighted view has already been taken in developing the Strategic Plan and, in particular, through the identification of the trends, developments and challenges facing the Organization. The relevant section of the Strategic Plan is attached as Appendix 2 to this document and this provides essential background for any consideration of future risk events undertaken as a part of this risk management process.

3 SCOPE AND FOCUS OF THE RISK MANAGEMENT PROCESS

3.1 Introduction

This section establishes the scope of the 2009 iteration of the risk management process, and identifies key factors to consider during the process.

3.2 Scope of this risk management process

For the purposes of this first iteration of the risk management process established in the Risk Management Framework, the Council has defined the scope as covering the strategic directions and high-level actions under the Secretary-General's responsibility, as well as the Secretariat's related objectives for 2009[3].

To integrate it more closely with the Organization's existing management processes, the scope of this exercise will, therefore, be the risk events impacting on the delivery of the Secretariat's Divisional objectives for 2009.

These naturally include the high-level actions and planned outputs, which are the direct responsibility of the Secretary-General, as well as the key support and delivery activities of the Secretariat, which may be outside those defined in the High-level Action Plan but which are a necessary part of delivering the strategic directions set out in the Strategic Plan.

All Divisional objectives have been cross-referenced directly to the Strategic Plan, providing the necessary linkage identified in Section 2.

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[2]   Planned outputs are derived from the High-level Action Plan (resolution A.990(25)).
[3]   Paragraph 3(b).2(i) of document C 100/D.

3.3   Key factors to consider

Risk management is an iterative process and, in general, an important consideration when embarking on a particular iteration is the output of previous risk management iterations, key risks identified and necessary areas of focus. Because this is the first iteration of the process for the Organization, this context is not available.

However, when conducting the 2009 iteration of the risk management process, Secretariat staff should be conscious of the risks inherent in the trends, developments and challenges identified in the Strategic Plan and attached as Appendix 1, and also of the key features of the broader risk environment in which the Organization is presently operating. While some of those features may have a deeper impact on the Organization's regulatory functions, the following particularly affect the operations of the Secretariat:

- **current financial climate** – the global financial climate presents challenges to all organizations, both public and private. The impact is potentially both broad and deep, from the increased risk around the management and secure investment of the Organization's financial deposits, to the effective and timely resourcing of those parts of the Organization's work funded outside of the regular budget. Delivery of all objectives requires appropriate resourcing, and the risks raised by the current global financial situation cannot be ignored in any consideration of risk to the Organization;

- **safety and security** – a statement issued recently by the UN Chief Executives Board for Coordination (CEB) highlights the fact that, across the world, UN personnel face violence and threats from armed conflict, terrorism, kidnapping, banditry, harassment and intimidation. As a result, the CEB recognized that the safety and security of UN system staff is an integral part of the activities undertaken by the UN system, should be included in the earliest planning stages and should be strengthened and enhanced. While the threat level at the Organization's Headquarters is permanently assessed in coordination with the host Government authorities, day-to-day operations may be affected by external threats and incidents (whether or not they may be aimed at the UN system or its component bodies) and by the consequential need to introduce heightened measures, at short or no notice, to ensure the safety and security of staff and delegates as well as business continuity. Similarly, staff travel and the implementation of activities (for example, technical co-operation training events) may be severely affected by safety and security considerations, with consequential negative impact on programme delivery and the need for appropriate security training for staff, experts and consultants;

- **the impact of climate change** – an ongoing priority for the Organization's work to find technical and operational solutions that will ensure the reduction or limitation of greenhouse gas emissions from international shipping, climate change is an area with a high public profile where there is a need to act, and be seen to act, in a timely and effective manner for the benefit of all of the Organization's stakeholders. Through the Organization's regulatory process, its impact is already being felt by the shipping industry and climate change certainly has the potential to be felt directly by the Organization's day-to-day operations – particularly in terms of their effect on the local environment and its relationship with staff and delegate health and well-being, but also, for example, because of ongoing efforts, within the Organization, to comply with the objective of carbon neutrality throughout the United Nations system and, in the longer-term, because of the risks to its Headquarters building of rising sea levels; and

- **energy position** – there is a steadily increasing global demand for energy, which has in the recent past led to sudden rises in the price of the main energy sources - oil and gas – which are subject to considerable volatility. The increased risk of reduced or managed production and supply levels and consequent potential for significant increases in energy costs, highlight the global reliance on cheap energy to maintain the baseline operating costs for industry and the public sector and thereby current standards of living. As a corollary to the increasing global demand for energy and the limited supply, there is increased urgency in the search for alternative sources of energy – which will, in turn, have an effect on the work of IMO, from environmental concerns, through trading patterns, to ship design and technology. Last but not least, the operations of the Organization itself are directly impacted by increases in energy costs.

APPENDIX 1

EXTRACT FROM THE ORGANIZATION'S RISK MANAGEMENT FRAMEWORK

RISK MANAGEMENT POLICY

(C 100/3(b), annex appendix 1, Part B, paragraphs 1 to 7)

APPENDIX 2

EXTRACT FROM THE ORGANIZATION'S STRATEGIC PLAN

TRENDS, DEVELOPMENTS AND CHALLENGES

(Resolution A.989(25), annex, paragraphs 2.1 to 2.9)

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ANNEX 2

TERMS OF REFERENCE FOR THE CORRESPONDENCE GROUP

Background

The Risk Management Framework (RMF) defines risk management as the process of identifying, assessing, communicating and mitigating risks impacting on the Organization's ability to meet its objectives. The RMF also identifies three high-level risk event categories for the Organization, namely: organizational status and effectiveness (i.e. those risk events that directly impact on the achievement of the Organization's aims and objectives as defined in the Strategic Plan); financial; and operational.

At its previous sessions, the Working Group has recognized that the RMF, as might be expected from its roots as a corporate governance tool, most directly addresses the financial and operational aspects of risk management, but may also be applied to the management of risks impacting on organizational status and effectiveness (see, in particular, documents C/ES.24/3(b) and C 100/3(b)). Accordingly, the Working Group recommended – and the Council agreed, in formally approving the RMF in June 2008 – that the first iteration of the risk management process should be limited in scope, addressing only the strategic directions and high-level actions falling under the Secretary-General's responsibility as well as the Secretariat's related key objectives for 2009.

The Working Group was also of the view that the lessons learned from this implementation would provide valuable input when considering expanding the application of the RMF and, consequently, concluded that the Council might consider, once this process is 'bedded in', whether it would wish to apply the Framework more broadly to the other elements of the Organization's Strategic and High-level Action Plans (see paragraph 20 of the annex to C 100/3(b)).

With that in mind, the Council revised the Working Group's terms of reference to include the following task (paragraph 2.5 of appendix 2 of the annex to C 100/3(b)):

> "consider, during the 2010-2011 biennium, the desirability of applying the Risk Management Framework across all the elements of the Organization's Strategic Plan and High-level Action Plan, and the mechanism by which this might be achieved."

Terms of reference

In order to enable the Working Group to have an informed discussion and advise the Council on these matters within the timeframe provided, the correspondence group[1] will consider, taking into

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[1] Contact details of the coordinator of the correspondence group:

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account earlier discussions in the Working Group and the draft Guidelines on the application of the Strategic Plan and High-level Action Plan:

.1   whether it is desirable to expand the application of the RMF to other elements of the Strategic Plan and High-level Action Plan;

.2   consider the expected costs and benefits, if any, of doing so;

.3   if deemed desirable, how this might be achieved for some or all of the elements;

.4   submit a report to the next session of the Working Group (CWGRM 5).

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