

Teagasc Risk Management Maturity Report 30 November 2012

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1. INTRODUCTION

1.1 Background to the Review

Teagasc, the Agriculture and Food Development Authority, is the national body responsible for providing integrated research, advisory and training services to the agriculture and food industry and rural communities in Ireland. Teagasc is required under the 2009 “Code of Practice for the Governance of State Bodies” to carry out an external review of the effectiveness of its risk management framework on a periodic basis. This is the first such review.

Over the past four years the risk profile of Teagasc has changed considerably. Teagasc is now operating in an environment characterised by reduced funding and limitations on resources (through the moratorium on recruitment). At the same time the required activity level of the Organisation has been maintained.

In this context, the importance of having a well developed risk management function is heightened, as such a function assists management and the Authority in providing transparency over major organisational threats (and opportunities), prioritising the risks that require urgent attention and ensuring that risks, along with their associated controls and actions are adequately managed over time.

A risk management function with numerous levels, such as that used by Teagasc, assists in enforcing accountability and responsibility across a number of levels in the Organisation. Such delegation of responsibility assists in creating a strong risk and control culture.

Teagasc engaged the support of Mazars to independently assess the risk management function within Teagasc and MTL. The results of the review within MTL are covered under a separate document.

The approach adopted in completing this assignment involved:

1. Desk based review of Teagasc risk policies, risk registers and other documents pertinent to the review
2. Identification of maturity themes which would be used to support the assessment. These themes were identified based on consideration of Teagasc priorities as per the tender document and common risk management themes included in guidance documents such as the Code of Practice for the Governance of State Bodies (2009), ISO 31000, the 2003 Working Group Report on the Accountability of Secretaries General and Accounting Officers, Department of Finance Guidelines, NWA 31000:2010 and BS31100:2011.
3. Meetings with Teagasc management and staff involved in various aspects of risk management across the organisation
4. Assessment of risk maturity levels across each of the assessment themes based on the outputs of the desk based review and meetings with relevant management and staff

The approach is further outlined in sections 1.2 - 1.5 below



1.2 Desk Based Review of Documentation

A large number of documents were issued and reviewed by Mazars in support of the assessment. The desk based review of documentation supported Mazars in gaining insight into the practical operation of risk management in Teagasc. Initial observations on maturity were identified and these observations were discussed as part of the management and staff meetings to support the maturity assessment.

The Risk Management Maturity Continuum and the six themes identified to support the assessment are presented as figures 1 and 2 on the following pages. The features of each theme in terms of maturity levels is provided in figure 3.

1.3 Identification of Risk Maturity Themes

In evaluating the effectiveness of the Teagasc risk management frameworks, the Mazars Risk Management Maturity Continuum (“RMMC”) formed the cornerstone of our methodology.

The RMMC describes an improvement path from an ad-hoc, immature Risk Management function to a mature, disciplined function focused on continuous improvement. The model consists of a continuum of five risk management maturity levels, which allows the reviewer to rate the state, or maturity as Initial, Repeatable, Defined, Managed or Optimizing.

To support the RMMC and the detailed assessment of risk maturity, we identified 6 assessment themes. In doing so we considered the priorities outlined in the tender document, and the requirements included in risk management guidance documents.

Figure 1: Overview of the Risk Management Maturity Continuum

The continuum and attributes below were used to support the assessment. Each of the six themes was examined through desk based review and meetings with relevant management and staff to rate the state, of maturity as Initial, Repeatable, Defined, Managed or Optimizing.

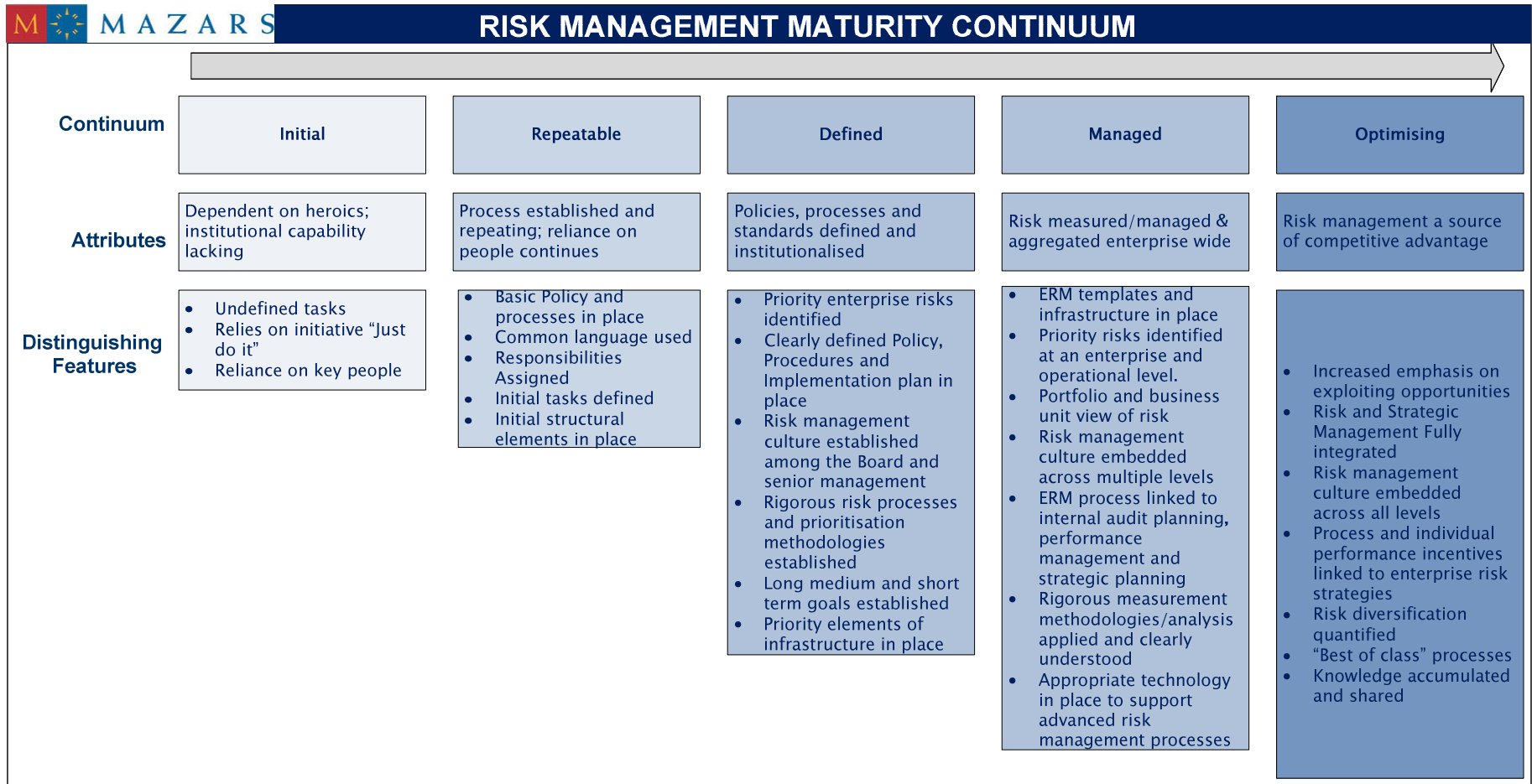


Figure 2: Overview of Risk Maturity Themes used to support the assessment

The six themes below were used to support the assessment. Each of the six themes was examined and rated in terms of a maturity level of Initial, Repeatable, Defined, Managed or Optimizing. They are further described in terms of features of maturity in figure 3.



Figure 3: Features of Maturity by Theme

Theme	Key characteristics
Culture	<p>Risk culture reflects the degree to which the principles of risk management are embedded across the organisation. Features of a mature risk culture include;</p> <ol style="list-style-type: none"> 1. Management and staff involved in risk management have a common understanding of the necessity of risk management and the benefits arising 2. Management and staff have been trained on the principles of risk management and the application of standards 3. Management and staff consistently understand and embrace both formal and informal risk management processes and understand the relationship between these processes 4. Risk management competencies are included in job descriptions and appraisals measure the degree to which risk management responsibilities have been met 5. Managers feel a sense of responsibility towards the risks and related mitigating controls relating to their areas 6. Managers provide assurance on the effectiveness of their risk identification and ongoing management of risks 7. A culture of risk escalation exists 8. Risk and risk management is part of the regular process for each department and is regularly discussed at meetings 9. Terminology used in relation to risk management is consistent
Strategy and Policy	<p>Risk strategy and policy reflect the degree to which the longer term direction and scope of risk management are established and the adequacy of the documented policy. Features of maturity include:</p> <ol style="list-style-type: none"> 1. A risk management strategy exists which defines the short, medium and long term objectives for risk management and the strategy and is approved by the Authority and other appropriate groups 2. The risk management strategy is supported by a risk management policy which appears complete 3. The risk management policy is appropriately approved and reviewed 4. The risk management policy sets out the risk appetite of the organisation and tolerance levels for acceptable and unacceptable risk 5. The risk management policy defines the framework, structures, responsibilities, processes, methodology and systems and tools used to manage risk 6. The risk management policy is readily available to staff



Theme	Key characteristics
Structures	<p>Risk structures are used to support risk management processes. They include the individuals and groups responsible for co-ordinating managing and monitoring the risk management processes. Features of a maturity include:</p> <ol style="list-style-type: none"> 1. Risk management structures have been defined at all levels 2. Risk management structures are aligned to structures already in place 3. Meeting frequency and level of involvement from each structure has been defined and appears to be appropriate 4. Responsibilities for each structure have been defined and terms of reference / job descriptions updated appropriately 5. The framework includes appropriately skilled resources across the operational aspects of risk management as well as overseeing the adequacy of the function 6. Ownership of risks has been clearly defined, assigned and acknowledged and risks have been allocated to specific job titles
Processes	<p>Risk management processes are well defined in order to identify, assess, treat, monitor and update the risk register and risk management processes integrate with other business processes. Features of maturity include;</p> <ol style="list-style-type: none"> 1. Risk management processes allow for the portfolio view and management of risks including monitoring of any changes 2. The risk framework supports integration with other functions and processes such as business planning, strategy and internal audit 3. Processes have been defined to identify and update the risk register and these have been followed at each level 4. Risk identification includes consideration of internal and external risk drivers and risk events are logged to support linkage with risk management processes 5. Risk registers are completed to similar standard across the organisation and across levels 6. The application of the risk management methodology results in the inclusion of an appropriate number and range of risks on the risk registers 7. A process exists to ensure that new risks are identified and reported in a timely manner 8. The risk register is updated in a meaningful manner on an ongoing basis 9. Guidance provided to support the risk management process is consistent and effective 10. The linkage between risk registers is clearly defined and works well in practice



Theme	Key characteristics
Methodology	<p>Risk management methodology refers to the adequacy of tools, templates and techniques used to support the risk management processes including whether methodologies are consistently applied across the organisation. It spans across risk identification, assessment, management, review and reporting. Features of maturity include;</p> <ol style="list-style-type: none"> 1. A defined risk management methodology is in place and appears appropriate to support the processes of risk identification, assessment, management, review and reporting 2. The risk management methodology is consistently followed 3. Risk identification is approached in a methodical way to ensure all significant activities within the organisation and associated risks have been defined 4. Identified risks are mitigated in a timely fashion, based on the level of associated impact and likelihood, in relation to the risk appetite 5. The management of identified risks involves consideration of the appropriate response i.e. tolerate, treat, terminate, transfer 6. Risk reporting takes place at different levels within the organisation to reflect the need for different information from the risk management process
Risk Management Systems	<p>Risk systems refers to the IT systems in place to support risk management processes and methodologies. Features of maturity include;</p> <ol style="list-style-type: none"> 1. Appropriate IT systems are leveraged to enable and support risk management 2. Systems are easy to use, and promote greater risk management effectiveness 3. Systems are consistently used by risk owners 4. Management information is available to support oversight of changes to risk registers over time

2. RISK MANAGEMENT MATURITY OF TEAGASC

2.1 Risk Management Maturity – Introduction

Overall we found that the formal risk management framework within Teagasc operates effectively given the risk profile of the organisation, the length of time that formal risk management has been in place and the resources available to support and manage the processes.

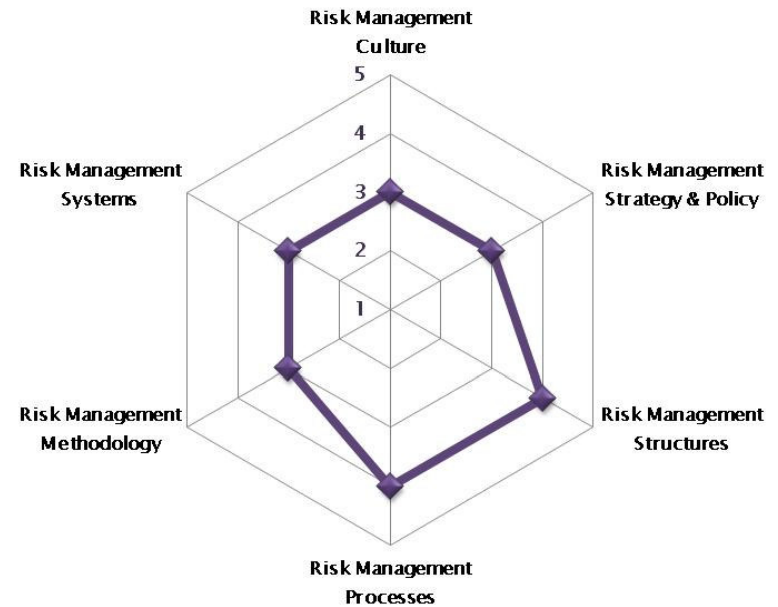
We found that Teagasc compares favourably to other organisations of a similar scale and profile in terms of the maturity and effectiveness of its risk management framework.

Through the course of the review we identified elements of good practice and areas for improvement and these are reported on in detail in section 2.2. A summary diagram of risk maturity by each theme is presented in Figure 3. Recommendations for improvement to a higher level of maturity are defined in section 2.3. Please note that the review was not an audit and we have not reported in detail against each attribute of good practice identified in this document. Rather we have attempted to report the priority matters which should be brought to management and the Authorities attention.

The Teagasc risk management processes integrate with the Business Planning Process. Teagasc currently has 55 business plans over three levels. Level one is the Teagasc business plan; level 2 comprises of 7 high-level programme plans; and level 3 are component plans at the department or business unit level. At each level, there is a corresponding risk register. Throughout our analysis we have referred to level 1, 2 and 3 in this context.

Figure 4: Summary Maturity Level by Risk Themes

The below picture depicts the current state assessment of risk management maturity within Teagasc



Key	
1	Initial
2	Repeatable
3	Defined
4	Managed
5	Optimising

2.2 Risk Management Maturity – Observations by Theme

The following table provides an overview of the detailed findings relating to Risk Management Culture

Risk Management Culture	
Observations	Maturity Level
<p>Based on meetings carried out and desk based review performed;</p> <ul style="list-style-type: none"> • There appears to be a strong awareness and common understanding of the formal risk management framework in operation within Teagasc. Importantly there was consensus a strong culture of risk escalation appears to exist at all levels of the Organisation with issues and emerging risks being escalated through reporting lines on a day to day basis. • There was a common view that the risk culture was driven from the top with Director and senior management showing significant commitment to risk management. Many pointed out the importance of the role of the Business Planning Officer in co-ordinating, guiding and driving the formal risk management processes and embedding the risk culture. • There appear to be a varying levels of buy in to risk management below the level of senior management. Some individuals felt that the risk processes added value while others indicated that risk management was viewed as a chore that interfered with ongoing responsibilities. Many agreed that the level of buy in was dependent on the attitude of the relevant Level 2 Managers. • Although risks management training was provided to management and staff a number of years ago, many expressed a view that additional training would be required to refresh the principles, benefits, and methodologies that should be applied. Many acknowledged that they had forgotten the principles that should be applied when identifying and documenting risks and their associated actions. • We understand that risk management is not discussed as an agenda item at all management and staff meetings. As such there is potential to enhance risk culture through discussion of risk events and issues at management and staff meetings. There was consensus among individuals interviewed that such an approach would assist in reinforcing the role of risk management in day to day matters. • We understand that formal risk management competencies are not included in all job descriptions and that appraisals do not always formally consider risk however individuals expressed differing views as to such clarity would add value. 	<p>Defined (3)</p>

2.2 Risk Management Maturity – Observations by Theme

The following table provides an overview of the detailed findings relating to Risk Management Strategy and Policy

Risk Management Strategy and Policy	
Observations	Maturity Level
<p>Based on meetings carried out and desk based review performed;</p> <ul style="list-style-type: none"> • A risk management policy is in place which includes useful guidance the risk management responsibilities, methodologies and templates in place • We noted that a Risk Appetite Statement has not been defined. Such a statement is a requirement from the Code of Practice for the Governance of State Bodies. We note that individuals expressed a view that, informally, risk appetite was clearly understood with the Organisation having a low appetite for risk. • Early warning indicators and risk triggers have not yet been defined. Whilst these are not necessarily required, they represent a further stage of maturity for a risk management framework. • There may be some room to further document risk processes and, specifically how risk management processes integrate with the business planning process. Although business planning processes are referenced it is not clear to the reader how business planning is intended to inform the risk identification process and vice – versa. • Based on interviews carried out not all staff are aware of where the risk policy and guidance documents are stored. It was noted that the policy document contains some very useful guidance on the process to be followed and as such promoting awareness of the policy could be beneficial. 	<p>Defined (3)</p>

2.2 Risk Management Maturity – Observations by Theme

The following table provides an overview of the detailed findings relating to Risk Management Structures

Risk Management Structures	
Observations	Maturity Level
<p>Based on meetings carried out and desk based review performed;</p> <ul style="list-style-type: none"> • Risk management structures have been defined in the Risk Policy for the Authority, Chief Risk Officer, Risk Management Committee, Senior Management Team, Internal Audit and other key individuals and groups. • The responsibilities of the Audit Committee have not been explicitly defined. • In general individuals are very clear on responsibilities for risk management • Whilst the responsibilities as defined may have been sufficiently detailed to initiate risk management within the Organisation, additional detail may be required in order for the framework to operate effectively. Specifically more detailed responsibilities for the Level 2 managers could be defined in terms of their responsibility for distilling the principles of risk management to level 3 divisions and their detailed responsibility for reviewing and approving the level 3 registers. • It may be useful if the responsibilities of the Internal Audit function be extended to performing a substantive review of risk registers during audits of particular areas. To assist in embedding the culture of risk and as a form of training, the Internal Audit function could include advice regarding additions / changes to the register as part of fieldwork. Importantly the gaps on the register need not drive audit findings, rather the advice could be a value add service provided by the audit unit. 	Managed (4)

The following table provides an overview of the detailed findings relating to Risk Management Processes

Risk Management Processes	
Observations	Maturity Level
<p>Based on meetings carried out and desk based review performed;</p> <ul style="list-style-type: none"> • It appears that risk processes allow for portfolio view of the risks facing the organisation through the hierarchy of the three levels of risk registers. The consensus among individuals interviewed was that the linkage between the registers is relatively informal but works quite well in practice. • It appears that risk management is linked to other operational processes such as business planning and internal audit. A number of individuals expressed a need to further define this link to business planning through defining the order in which each document should be completed. Based on interviews we understand that some complete the two documents concurrently whilst some complete one before the other • There were varying responses to the question of how well the risk processes were operating in practice. There was consensus that level 1 processes were operating very effectively with risk management being used as a driver for management and Board discussions. There was mixed feedback in relation to the level 2 processes whilst the majority (but not all) of individuals at level 3 expressed a degree of “risk fatigue”. • Based on independent review of the level 2 and 3 risk registers, a high level of repetition of risks year on year was noted in some areas. Whilst risks can remain relevant for a number of years, it appears that there a need to increase the focus on identifying new risks and monitoring the change in risk registers year on year. Some individuals highlighted a tendency to update the previous years register without thoroughly thinking through changes • It was evident that whilst some individuals at level 2 and 3 involve their teams in the periodic update of the register, others update it with minimal discussion with their team. Good practice indicates that multiple staff should be involved in the process however we recognise the constraints on resources in terms of time available to support such initiatives. • It was felt that in many areas there was a very low level of challenge by level 2 managers in respect of level 3 registers. 	<p>Managed (4)</p>

2.2 Risk Management Maturity – Observations by Theme

The following table provides an overview of the detailed findings relating to Risk Management Methodology

Risk Management Methodology	
Observations	Maturity Level
<p>Based on meetings carried out and desk based review performed;</p> <ul style="list-style-type: none"> We noted that not all registers have been completed to a consistent standard, for example in terms of the phrasing of certain risks and the completion of the exposures column. In addition some individuals highlighted that items included the actions column were controls and not new actions. The following methodology issues were noted in respect of the level 1 register <ul style="list-style-type: none"> The level 1 register does not allocate owners to individuals risks or actions. Whilst it is understandable that the Director essentially owns all the risks, increased clarity on responsibility for implementing actions is required to support effective tracking of their implementation Actions are not ranked in terms of their importance – some organisations find such ranking useful at Corporate level It was felt that improvements could be made to the formality of tracking the implementation of recommendations. From a process perspective actions are followed up with sufficient frequency. The following methodology issues were noted in respect of the level 2 and 3 registers <ul style="list-style-type: none"> Controls and risk owners are not included (although action owners are required) The registers are not always fully completed In many cases items within the actions column were actually controls Risks are not formally prioritised with consideration of likelihood and impact There appears be relatively few IT risks identified even through these risks should be owned by the business and not by the IT department Methodologies for linking actions in risk registers to business plans differed by area. Within one area, actions on the register are routinely reflected in the business plan which represents good practice. 	Defined (3)

2.2 Risk Management Maturity – Observations by Theme

The following table provides an overview of the detailed findings relating to Risk Management Systems

Risk Management Systems	
Observations	Maturity Level
<p>Based on meetings carried out and desk based review performed;</p> <ul style="list-style-type: none"> • Risk registers are developed in Microsoft Word or Excel with the majority in Microsoft Word. • There is an absence of meaningful reporting to support analysis of changes to risk registers over time. For example many organisations use dashboards which indicate; <ul style="list-style-type: none"> • # new risks • # changes to risks • Changes to priorities • Material risk events during the period <p>Without such information it is difficult for management to challenge whether registers have been meaningfully challenged or simply copied from prior periods.</p> <ul style="list-style-type: none"> • In the context of the constraints on resources it may be useful to introduce such reporting for the level 2 registers. Overtime and if resource availability allows this reporting could be extended to the level 3 registers 	Defined (3)

2.3 Risk Management Maturity – Recommendations by Theme

Risk Culture

1. Risk culture is inevitably driven from the top and in order to enhance risk maturity, level 2 management must take responsibility for driving the process, highlighting the necessity of the framework to staff and communicating the benefits arising from the process on an ongoing basis.
2. Formal risk management occurs twice annually with the completion of the risk registers. Teagasc should consider enhancing risk management culture through considering risk management at other times of the year. This does not necessarily require additional work, it is more a matter of ensuring the terminology is used throughout the year so that staff do not consider it a one off process. This can be achieved through including a discussion of risk events as a standing agenda item at management and staff meetings. Review of these events and actions on a six monthly basis would also assist in informing the update of the risk registers.
3. Consider introducing risk management competencies in the job descriptions and appraisals of relevant personnel, particularly level 2 managers.
4. Level 2 managers should be provided with practical training on the principles of risk management, benefits arising, examples of risks in each area, risk phraseology, the identification of actions, the manner in which risks should be prioritised, effective linkage with business planning and the manner in which level 3 registers should be reviewed.

Risk Policy and Strategy

1. The Authority should define a risk appetite statement, and, if required consider defining associated risk triggers and early warning indicators.
2. Increase awareness of the location of the risk policy. This increased awareness could assist in reducing the workload for level 2 managers
3. Document the links with business planning processes in greater detail, and, specifically how risk management processes integrate with the business planning process.

2.3 Risk Management Maturity – Recommendations by Theme

Risk Structures

1. The specific responsibilities of the Audit Committee should be defined in the risk policy. Consider expanding the role of the of the Internal Audit function to include the provision of advice to each audit area regarding additions / changes to the risk register.
2. Increase clarity on responsibilities for the Level 2 managers in terms of their responsibility for distilling the principles of risk management to level 3 divisions and detailed responsibility for reviewing and approving the level 3 registers.

Risk Processes

1. Consider further defining the link to business planning through defining the order in which the business plan and risk register should be completed and defining exactly how the two process integrate.
2. The process to place increased emphasis on the role of the level 2 managers in reviewing level 2 registers. Where possible this to include provision of feedback and advice to level 3 personnel with respect to completion of the risk register. Level 2 managers should promote active discussion of potential risks prior to finalising the registers.

2.3 Risk Management Maturity – Recommendations by Theme

Risk Methodology

1. All registers should be completed to a consistent standard whereby the phrasing of risks, links to business planning and completion of all columns in the registers is consistent
2. Consider the following methodology improvements for the level 1 register;
 - Allocate owners to individuals risks and actions. Whilst it is understandable that the Director essentially owns all the risks, increased clarity on responsibility for implementing actions is required to support effective tracking of their implementation
 - Rank actions in terms of their importance. This improvement would also be useful at level 2 and 3 however at this point the administration requirement associated with driving this change is likely to be prohibitive
 - Further consider whether any improvements could be made to the formality of tracking the implementation of recommendations.
3. Consider the following methodology improvements for the level 2 and 3 registers;
 - Consider including controls and risk owners, particularly at level 2
 - Consider introducing a requirement to report on progress of actions at level 3
 - Consider increased use of risk categories
 - Ensure the actions column only includes new actions that have not yet been implemented.
 - Consider prioritising risk on the basis of likelihood and impact, particularly at level 2
 - Place increased focus on the identification of IT risks within business areas

Risk Systems

- Consider introducing formal risk reporting for level 2 registers by the level 2 managers and, over time, roll the reporting out to level 3 registers. Such reports should cover;
- # new risks
 - # changes to risks
 - Changes to priorities
 - Material risk events during the period



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Mazars
Harcourt Building, Block 3
Harcourt Road
Dublin 2
t +353 1 4494400

mazars.ie

