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**For decision**

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### United Nations Children's Fund

Executive Board

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### **Update on the development of an overarching system for enterprise risk management**

#### *Summary*

In accordance with its decision 2023/13, the Executive Board will receive an update on the development of an overarching system for enterprise risk management (ERM), including an update on progress on the recommendations from the internal audit of ERM and the Chief Risk Officer's initial assessment of the UNICEF risk management system.

Elements of a draft decision for consideration by the Executive Board are provided in section V.

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\* E/ICEF/2024/1.



## I. Overview

1. Today's volatile world is facing increasingly severe (geo)political divides, conflict, natural disasters due to climate change and economic uncertainty. It is essential that UNICEF risk management guidance and practices keep in line with the size and pace of risk exposures and enable the organization to take the right amount of the right type of risks to maximize results for children.

2. Risk management is a forward-looking management activity that requires systematically identifying and understanding what might happen (potential future events), and proactively managing the potential effects of these uncertainties on an organization's objectives, whether positive or negative. Every organization needs to take risks to achieve its objectives and, to fulfil its mandate, UNICEF is required to work in risky environments. The purpose of risk management is to enable necessary risk-taking; it is not about avoiding or eliminating all risks at all costs. Robust enterprise-wide risk management helps UNICEF to continuously assess what might happen, manage expectations, reduce vulnerabilities and secure success. It enables a proactive and resilient organization to safely face the risks posed by the current environment and confidently take the risks required to achieve its objectives.

3. UNICEF has been investing in risk management for a long time, with a risk management policy and strategy in place and through a digital tool to support recording risks and related mitigation measures at all levels of the organization. However, a number of recent audits and internal stocktaking exercises have highlighted the need to further strengthen enterprise risk management (ERM) as a true enabler for delivery in an uncertain and volatile environment. This requires a more overarching portfolio view of risks at different levels of the organization, and a more coordinated approach integrated in programmatic and strategic planning and decision-making. To acknowledge the strategic and cross-cutting nature of ERM, and as part of its comprehensive response to the different internal and audit recommendations, UNICEF has now established a new position of Chief Risk Officer in the Office of the Executive Director (with the ERM secretariat no longer positioned within the finance function as was previously the case).

4. This report provides an update on the development of an overarching system for ERM and the initial assessment of the risk management system by the Chief Risk Officer, including an update on progress made against the various internal and audit recommendations. Based on a revamped risk management vision, strategy and implementation plan, an evolved ERM framework will be launched in early 2024. The Chief Risk Officer will drive the ERM agenda, working closely with risk owners and other risk-related functions across UNICEF, and will be a clear overarching point of contact on risk for internal and external stakeholders. The office of the Chief Risk Officer will identify systemic and emerging top risks that require an organization-wide response, provide clarity on risk appetite (i.e. the willingness to accept being exposed to certain risks) and facilitate reporting to governance bodies, as required. The office will support and champion good risk management practices and instil a culture of risk awareness in UNICEF country and regional offices and at headquarters divisions. It will also facilitate sharing lessons across the organization and shaping United Nations inter-agency and donor collaboration on shared risks.

## II. Introduction to risk management

5. Over the past decade, the scale, range and complexity of UNICEF programmes and operations have increased significantly. UNICEF income has doubled to over \$8 billion, with a commensurate increase in staffing, and programme scope and ambition have expanded to accelerate progress towards achievement of the

Sustainable Development Goals. Moreover, the organization has to work in more complex and unpredictable operating contexts as a result of the relentless surge in emergencies and humanitarian needs. Today's volatile world is facing increasingly severe (geo)political divides, conflict, natural disasters due to climate change and economic uncertainty. It is essential that UNICEF risk management guidance and practices keep in line with the size and pace of risk exposures and enable the organization to take the right amount of the right type of risks to maximize results for children.

6. Risk management is a forward-looking management activity that requires systematically identifying and understanding what might happen (potential events), and proactively managing the potential effects of these uncertainties on an organization's objectives, whether positive or negative. As a dynamic and iterative process, it is fundamentally different from compliance with static rules, and requires ongoing monitoring and re-evaluation as the nature and level of risks evolve due to changing (or better understood) risk factors and mitigation measures taking effect (or falling short). While also distinct from oversight and assurance (a backward-looking review and validation activity), the risk management process benefits from inputs from audits and reviews on the effectiveness of existing risk mitigation measures when evaluating whether they can be relied upon to effectively manage future risks.

7. A risk-mature organization therefore becomes more forward-looking and less ad hoc in responding to issues as and when they occur. Risk management should be applied as an active management tool, with risks being anticipated as an integral part of strategy development, planning and decision-making. It should not be applied as an administrative reporting tool, with risks being an afterthought when decisions have been taken already or only being reported for accountability purposes. When proactive risk management is strong in the core business, less reliance is needed on additional monitoring, oversight and assurance mechanisms to find and remediate issues retrospectively.

8. Every organization needs to take risks to achieve its objectives and, to fulfil its mandate, UNICEF is required to work in risky environments. The purpose of risk management is to enable necessary risk-taking; it is not about avoiding or eliminating all risks at all costs. It involves taking risks consciously, based on informed decisions and prioritizing the key risks that are most important to address with limited resources. Risk management aims to optimize potential outcomes, thereby balancing risks versus rewards and the costs of mitigation versus the potential benefits. Some objectives can only be achieved by taking calculated and carefully managed risks, and sometimes the greatest risk is inaction. Some risks can be turned into opportunities when recognized and acted upon early on. Robust enterprise-wide risk management helps UNICEF to continuously assess what might happen, manage expectations, reduce vulnerabilities and secure success. It enables a proactive and resilient organization to safely face the risks posed by the current environment and confidently take the risks required to achieve its objectives.

9. By identifying potential future risks before they have materialized – UNICEF can decide whether such risks are within its risk appetite (and therefore deemed acceptable and/or manageable should they indeed arise), or whether additional mitigation actions are needed to reduce the likelihood of occurrence and/or mitigate the potential impact (and therefore provide adequate support and resources to do so). This also helps to clarify accountabilities in advance, creates time for well-considered decision-making as opposed to crisis management, and will help UNICEF and its implementing partners to manage their work more proactively and successfully. It is important that everybody in the organization feels encouraged to share potential future risks transparently, recognizes and accepts that success will not always be

achieved, and that processes are in place to learn from both positive and negative results.

### III. Current state of risk management and progress made

10. UNICEF has been investing in risk management for a long time, with a risk management policy and strategy and a digital tool to support recording risks and related mitigation measures at all levels of the organization. There have also been significant investments in specific risk areas such as implementing partner management, due diligence for private sector partnerships, risk management for humanitarian cash programming, and different risk management approaches in the various programmes. However, a number of recent audits and internal stocktaking exercises have highlighted the need to further strengthen ERM as a true enabler for delivery in an uncertain and volatile environment. This requires a more overarching portfolio view of risks at different levels of the organization, and a more coordinated approach integrated in programmatic and strategic planning and decision-making. To acknowledge the strategic and cross-cutting nature of ERM, and as part of its comprehensive response to the different internal and audit recommendations, UNICEF has now established a new position of Chief Risk Officer in the Office of the Executive Director (with the ERM secretariat no longer positioned within the finance function as was previously the case).

11. In May 2022, an internal global risk management workshop was held with participation by over 70 staff from country and regional offices and headquarters divisions. The workshop highlighted the need for strong leadership support from senior management, a clear vision and a senior-level Chief Risk Officer to drive the ERM agenda, and more simplified and integrated risk management processes and tools with a view to empowering risk owners in country offices to continue to make smart risk judgments. An evolved enterprise risk management framework (“ERM 2.0”) would need to focus on prioritizing a few key risks at all levels of the organization. These needs have been further corroborated by a 2022 internal audit on ERM<sup>1</sup>, which concluded that significant improvement was needed. The internal audit report also acknowledged that effective implementation of ERM is a matter of continuous improvement and is widely recognized to be a long and challenging process – and that many issues identified by the audit are not uncommon to other organizations. Another set of similar ERM related external audit findings was issued in the report of the Board of Auditors on the financial statements for 2022.<sup>2</sup> and a recommendation to UNICEF on engaging the governing body on ERM was made to UNICEF in the 2020 Joint Inspection Unit review of ERM across 28 United Nations system organizations.<sup>3</sup>

12. The Joint Inspection Unit report also included a recommendation to all participating agencies, including UNICEF, that they provide a report to governing bodies on the outcomes of a comprehensive review of the organization’s implementation of ERM against Joint Inspection Unit benchmarks 1 to 9, as defined in its report. These benchmarks define best practice building blocks for successful implementation of ERM in United Nations organizations and can guide a multi-year implementation and continuous improvement plan. The following paragraphs provide

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<sup>1</sup> UNICEF Office of Internal Audit and Investigations, Internal Audit of Enterprise Risk Management, Report 2022/10, New York, 2022.

<sup>2</sup> United Nations, United Nations Children’s Fund Financial report and audited financial statements for the year ended 31 December 2022 and Report of the Board of Auditors, A/78/5/Add.3, New York, 2023.

<sup>3</sup> Kamioka K. and E. A. Cronin, Enterprise risk management: approaches and uses in United Nations system organizations, Report of the Joint Inspection Unit, JIU/REP/2020/5, United Nations, Geneva, 2020.

an update on the development of an overarching system for ERM and the initial assessment of the risk management system by the Chief Risk Officer, including an update on progress made against the various recommendations from the internal and external audits and the May 2022 risk management workshop, while referring to the corresponding Joint Inspection Unit benchmarks in the footnotes.

13. *Enterprise risk management strategy and policy framework.*<sup>4</sup> UNICEF adopted an ERM policy and strategy in 2020 that the 2022 internal audit and the workshop recommended to be revised. The existing framework, including its guidance documents, reporting and escalation procedures, and the taxonomy of risk categories, were perceived as being overly complex and compliance-oriented rather than being an active management tool. Revision of the policy and strategy is now under way, in line with the new vision and the planned launch of an evolved ERM framework in 2024, which will clarify the integration between existing programmatic and operational risk management mechanisms and the overarching ERM approach. The upcoming midterm review of the UNICEF Strategic Plan, 2022–2025 will also provide an opportunity to clearly centre the new framework around results for children linked with the Strategic Plan and to redefine a limited number of key risks and risk categories to be assessed and reported upon.

14. Furthermore, both the internal audit and report of the Board of Auditors have noted that currently UNICEF does not have a formally endorsed risk appetite statement. While a draft has been developed, a recommendation made at the internal workshop was that broader consultation is necessary to create a more practical definition of risk appetite (including a further clarification of the “no-regrets” approach in emergencies<sup>5</sup>) that can then be endorsed at the corporate level to inform country-level decision-making. The Chief Risk Officer continues to discuss risk appetite during engagements with country and regional offices, as well as with donors. The no-regrets approach and risk appetite in humanitarian action will be more explicitly detailed in the next version of the emergency procedures. A broader consultation will take place as part of a planned top-down risk assessment exercise with senior management to define the top risks that require a corporate-level response and discussion in the Senior Management Risk Committee. This will inform an updated organizational risk appetite statement over the longer term. However, the value of such an exercise is very much in the process leading up to creating the statement, which brings different perspectives together and generates insightful conversations. Risk appetite should therefore continue to be discussed and consulted upon beyond endorsement of an overall statement as an integral part of active risk management.

15. *Organizational structure and governance.*<sup>6</sup> The past positioning by UNICEF of the ERM secretariat within the finance function and the focus on populating a global risk database by UNICEF had contributed to ERM being perceived as an operational and compliance-based activity. The internal audit found that roles and responsibilities

<sup>4</sup> Corresponds to Joint Inspection Unit (JIU) benchmark 1. Adoption of a systematic and organization-wide risk management policy and/or framework linked to the organization’s strategic plan; and benchmark 9. Periodic and structured review of effectiveness of ERM implementation for continuous improvement. See: Kamioka K. and E. A. Cronin, Enterprise risk management, JIU/REP/2020/5.

<sup>5</sup> Under the “no-regrets approach”, UNICEF errs on the side of deploying more capacity and mobilizing more resources in support of a response, even if this proves to have been unnecessary after the fact.

<sup>6</sup> Corresponds to JIU benchmark 2. Formally defined internal organizational structure for ERM with assigned roles and responsibilities; and benchmark 4. Legislative/governing body engaged with ERM at the appropriate levels. See: Kamioka K. and E. A. Cronin, Enterprise risk management, JIU/REP/2020/5.

for ERM had not been adequately defined at the country, regional and headquarters levels, and the necessary resources, both financial and capability-related, had not been committed. The establishment of the Chief Risk Officer position in the Office of the Executive Director now ensures the functional objectivity and authority required to achieve the strategic and cross-cutting objectives of enterprise risk management. As part of the revision of the risk policy and framework, the roles and responsibilities for risk management, including those of other functions across the “lines of defence”<sup>7</sup>, are being further defined, as well as broader risk management capacity needs across UNICEF and the optimal engagement model between the office of the Chief Risk Officer and risk management focal points at regional and country level.

16. Furthermore, following the planned top-down risk assessment exercise with senior management to define the top risks that require a corporate-level response, agreed top risks will be assigned to specific risk owners who will be responsible for overseeing changes in the level of risk and effectiveness of mitigation measures, and for driving substantive discussions in the Senior Management Risk Committee on the nature of those risks and risk appetite. The Board of Auditors also found that there was no definition of the Executive Board’s responsibilities regarding risk oversight. The Joint Inspection Unit is currently undertaking a review of how the Executive Boards of UNICEF, the United Nations Development Programme/the United Nations Population Fund/the United Nations Office for Project Services and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) execute their governance and oversight functions, which may provide further recommendations in this area.

17. *Risk culture and capabilities.*<sup>8</sup> To establish a risk-intelligent culture, the internal audit recommended that executive management actively promote the benefits of ERM and set the tone, direction and expectations required to embed consistent behaviours and attitudes towards risk at every level of the organization. With the Chief Risk Officer now in the Office of the Executive Director, the tone at the top and commitment by executive management has been strengthened. Risk management was also a key theme coming out of the 2023 Global Leadership Meeting, highlighting the need for more clarity on risk appetite to guide decisions on complex issues. The Executive Director subsequently shared highlights of the discussion with all staff during a townhall meeting.

18. The Board of Auditors had found that, in 2022, no meetings of the Senior Management Risk Committee had been conducted. The risk committee has now been reoriented and reconstituted with broader cross-disciplinary participation of senior management and chaired by a Deputy Executive Director on a rotational basis. While the initial focus of meetings in 2023 was on aligning around a new vision and road map for risk management, in 2024 the committee will increasingly focus on having the risk owners of top organizational risks drive substantive discussions on the nature of those risks and risk appetite. The risk committee will promote and oversee responsible risk-taking and sound risk management practices to enable outcomes for

<sup>7</sup> The best practice Three Lines or Three Lines of Defence model separates roles and responsibilities across first line functions to understand, monitor and actively manage risks as part of the delivery of products or services, second line functions to provide specialist risk management advice and appropriate checks and balances, and a third line audit function to provide independent assurance on the effectiveness of risk management by the first and second lines. The Institute of Internal Auditors, The IIA’s Three Lines Model, an update of the Three Lines of Defense, Lake Mary, FL., July 2020.

<sup>8</sup> Corresponds to JIU benchmark 3. Risk culture is fostered by the “tone at the top” with full commitment from all organizational levels; and benchmark 8. Communication and training plans to create risk awareness, promote risk policy, and establish risk capabilities for the implementation of ERM. Kamioka K. and E. A. Cronin, Enterprise risk management, JIU/REP/2020/5.

children and ensure that critical risks are considered by executive management, the Global Management Team and the Regional Management Teams, as required.

19. Based on the Chief Risk Officer's observations, the broader risk culture in UNICEF has aspects of both risk aversion (being too compliance focused), and also, at the other end of the spectrum, of bold risk-taking (in the interest of children with "no regrets"). Beyond strengthening the tools and processes for risk management, an important focus of the evolved ERM framework will therefore be to transform the risk culture towards one of calculated risk-taking and transparently managing expectations without fear of repercussions. The Chief Risk Officer has been sharing this message in various engagements with staff and is exploring how to further leverage existing workplace culture initiatives. Communication and training material on risk management will also seek to promote this cultural change over the course of 2024. The Chief Risk Officer has started to engage with the central learning team at the UNICEF Global Shared Services Centre on risk-related learning modules as part of different learning paths, and is engaged in the development of a new programme planning and results management training to include risk management components.

20. The Chief Risk Officer is actively driving risk awareness through regular meetings with senior leadership and various risk-related functions. He has been visiting various locations and country and regional offices and presented the new approach to risk during regional meetings with Deputy Representatives of Programmes and Operations of each country office. The Chief Risk Officer has also visited the UNICEF Supply Division in Denmark and the Global Shared Services Centre in Budapest to discuss supply and operational risk management. He travelled to some high-risk locations, such as Afghanistan and South Sudan, to support risk management. A broader engagement with the UNICEF Afghanistan Country Office is under way to support its risk management capabilities, including the structuring of the risk team and its engagement with partners on shared risks. The Venezuela Country Office has been supported through the provision of a dedicated risk analysis. All these touchpoints have served to promote risk awareness and helped in establishing risk capabilities by supporting risk analysis in different country typologies and sharing best practices in how to structure risk teams, run local risk committee meetings, etc. The launch of the evolved ERM framework in 2024 will include a communication campaign to propagate the new vision and risk philosophy, and a robust network and community of practice for risk practitioners will be set up across the organization.

21. *Tools, processes, and integration.*<sup>9</sup> The Chief Risk Officer observed that many effective informal and ad hoc risk management practices, as well as more formal risk management practices, already exist (as demonstrated through the credible results achieved through UNICEF country programmes despite the risky environments in which they operate). However, these practices are often siloed and fragmented across various risk areas and business owners (e.g. there are separate initiatives around managing implementing partnership risks; safeguarding; environmental and social standards; business continuity; emergency procedures, etc.) and lessons learned and approaches used are not always shared across country and regional offices.

22. The existing bottom-up risk register and reporting tool does not effectively bring all risk management efforts together in a holistic way. The software tool used is unwieldy and not user-friendly, and the approach taken is mostly transactional and compliance and reporting focused. The internal audit recommended that UNICEF

<sup>9</sup> Corresponds to JIU benchmark 5. Integration of risk management with key strategic and operational business processes; benchmark 6. Established systematic, coherent and dynamic risk management processes; and benchmark 7. Effective use of information technology systems and tools for ERM. Kamioka K. and E. A. Cronin, Enterprise risk management, JIU/REP/2020/5.

should consider alternative approaches to collating risk data from every level of the organization in one comprehensive risk database, such as a “top” risk register created through engagement with senior management. This would free up capacity at country and regional levels to streamline existing operational and programmatic risk management tools and activities within the broader ERM framework and help to embed a more positive risk culture at every level of the organization. The Chief Risk Officer has been actively exploring how to enhance the functionality and user experience of the existing digital tool, as well as the use of alternative options. With the launch of the evolved ERM framework, simplified tools and procedures will be piloted, with a focus on prioritizing a few key risks rather than attempting to record all risks comprehensively and making risk analysis serve as a core input into planning and decision-making that generates insightful conversations rather than functioning as a parallel administrative activity.

23. There have recently been several workshops on how to harmonize and streamline related risk approaches and requirements regarding safeguarding; protection from sexual exploitation and abuse; environmental and social safeguards; and accountability to affected populations, which all represent approaches to manage the risks of harm that UNICEF programmes may pose externally to beneficiaries and to the environment. Potential synergies are being explored, such as the development of a common framework and tool for grievance mechanisms. A mapping of all existing programmatic and operational risk management tools has been initiated to drive integration, interoperability and simplification. The Chief Risk Officer is actively exploring with the Division of Data, Analytics, Planning and Monitoring how to better integrate risk management in the country programme cycle processes and tools, and how to integrate a risk lens into the new Global Effectiveness Review on the organization’s performance against its strategic goals.

24. Furthermore, to complement the bottom-up risk register, a top-down risk assessment exercise will be undertaken in 2024 with senior management to define the top risks requiring a corporate-level response and discussion in the Senior Management Risk Committee. Finally, with a view to ensuring that the risk lens is integrated in core business decisions, the Chief Risk Officer has joined various risk-related internal governance bodies, such as the Innovative Financing Committee, the Insurance Survey Board and the Digital Transformation Board.

25. *Risk sharing and collaboration.*<sup>10</sup> The Chief Risk Officer participates regularly in the United Nations Risk Management Forum of the High-level Committee on Management to discuss shared risk areas and exchange risk management practices. Several UNICEF country offices also directly engage other United Nations organizations in country on risk, including through inter-agency risk management coordination committees where they exist (e.g. Afghanistan and Somalia). Inter-agency cooperation will continue to be a point of attention in risk discussions, and discussion of top risks in the Senior Management Risk Committee will also include a focus on which of those risks, or aspects of them, are shared with other United Nations agencies and how cooperation and knowledge exchange can be strengthened across the United Nations system. Broader conversations are also happening as part of the Risk Sharing Platform,<sup>11</sup> where signatories to the Grand Bargain seek to improve the way in which organizations share risk, with the ultimate goal of better supporting affected populations.

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<sup>10</sup> Corresponds to JIU benchmark 10. Inter-agency cooperation and coordination for systematic knowledge sharing and management of common and/or United Nations system-wide risks. Kamioka K. and E. A. Cronin, Enterprise risk management, JIU/REP/2020/5.

<sup>11</sup> See Inter-Agency Standing Committee, Risk Sharing Framework, <https://interagencystandingcommittee.org/grand-bargain-official-website/risk-sharing-framework-0>.

## IV. The way forward

26. Based on a revamped risk management vision, strategy and implementation plan, an evolved ERM framework will be launched in early 2024. Strengthening risk management is widely seen as a long-term journey of continuous improvement and change management, and usually refers to so-called “maturity models”<sup>12</sup> that guide an incremental evolution in risk management maturity over several phases. In line with this view, the implementation plan will span multiple years and include carefully sequenced activities that build on each other and fit the organization’s current maturity phase. The comprehensive plan will coherently address the recommendations from the various internal and audit recommendations over multiple years, rather than aiming to implement them in a piecemeal fashion.

27. The revamped ERM framework will begin with a revision of the key risk policies and procedures and a communication campaign to propagate the new vision and risk philosophy, as well as with setting up a robust network and community of practice for risk practitioners across UNICEF. A priority will be to pilot simplified tools for bottom-up risk reporting, while in parallel a separate top-down risk assessment exercise with senior management will identify and define top risks that require a corporate-level response and discussion in the Senior Management Risk Committee. This will also include further consultations on risk appetite to be captured in an updated organizational risk appetite statement over the longer-term.

28. The Chief Risk Officer will drive the ERM agenda, working closely with risk owners and other risk-related functions across UNICEF, and will be a clear overarching point of contact on risk for internal and external stakeholders. The office of the Chief Risk Officer will identify systemic and emerging top risks that require an organization-wide response, provide clarity on risk appetite (i.e. the willingness to accept being exposed to certain risks) and facilitate reporting to governance bodies, as required. The office will support and champion good risk management practices and instil a culture of risk awareness in country and regional offices and at headquarters divisions. It will also facilitate sharing lessons across the organization and shaping inter-agency and donor collaboration on shared risks. Finally, the office of the Chief Risk Officer will support risk escalation and decision-making throughout UNICEF, including facilitation of the Senior Management Risk Committee, and will broker alignment on key risks across the three lines of defence.

## V. Draft decision

### *The Executive Board*

*Takes note* of the progress made by UNICEF on the development of an overarching system for enterprise risk management and welcomes continuous improvement based on a new vision, strategy and comprehensive multi-year implementation plan.

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<sup>12</sup> See, for example, the reference maturity model for risk management developed by the United Nations System Chief Executive Boards for Coordination Cross-Functional Task Force on Risk Management and endorsed by the High-level Committee on Management in April 2019, available at <https://unsceb.org/rmtf>.