Memorandum Circular
No. 27
Series of 2014

Subject: Enhanced Department of Social Welfare and Development (DSWD) Risk Management (RM) Framework

I. RATIONALE

The operations of the Department have grown in huge proportions so that its organizational profile today has tremendously changed in the last nine (9) years. To cite a few, its budget has exponentially increased from PhP2.2Billion in 2005 to PhP83.1Billion in 2014, and its total manpower complement had swelled from 4,383 in 2005 to 22,166\(^1\) in 2014.

In a context of an expanding mandate, unprecedented high levels of operational targets, and of heightened public expectations from the sheer magnitude of resources entrusted to its disposition, the DSWD management recognizes the emerging complexity of the risks that it is facing from its day-to-day operations, up to the medium- and long-term basis.

In 2007, Executive Order (EO) No. 605 "Institutionalizing the Structure, Mechanisms, and Standards to Implement the Government Quality Management Program, amending for the Purpose of Administrative Order No. 161, S. 2006" was issued. Precisely, it is the intent of that executive fiat, to promote and enhance public sector performance and, therefore, consistently deliver a high quality and effective service to the citizenry. This reform recognizes the quality processes of the International Organization for Standardization (ISO) 9000 series, or the Quality Management System (QMS), which calls for the development of "loss prevention and mitigation plans (including emergency plans) for identified risks." In short, this initiative espouses an operational strategy founded on a good risk identification or risk assessment.

In 2010, the Department further brought the government’s poverty alleviation program to the next level through an effective targeting system and a holistic community development strategy. Fleshed-out in a three-legged poverty reduction approach, or its "Tatulsol" convergence framework consisting of: conditional cash transfer or Pantawid Pamilyang Pilipino Program; community-driven development or KALAHICIDSS-National Community Driven Development Program (KC-NCDDP); and Sustainable Livelihood Program (SLP), both the public and private sectors contribute towards improving the plight of the poor, vulnerable and the disadvantaged Filipino individuals, families and communities.

Corollary to this, the Department had likewise embarked on pursuing the Performance Governance System (PGS), which strives to instill a culture of excellence and curb corruption in the public sector. Hinged on the balanced scorecard technology, the Department has so far covered two (2) levels of maturity, i.e., initiation and compliance, of the four (4) stages of PGS with guidance of industry experts.

\(^1\) As of 30 September 2014, consisting of 10,759 regular/casual/contractual employees, and 11,407 MOA workers.
However, the Department’s strategy itself had set the management of the vulnerabilities and risks of its clientele sectors as one of its top objectives. Hence, risk management is at the core of its strategy. This Circular is therefore intended to complement the initial momentum, and its prescribed processes provide the safeguards and diligence in the attainment of its program outputs and outcomes, in accordance with generally accepted international standards, i.e., the ISO 31000:2009: Risk Management - Principles and Guidelines.

It is important that risk is managed in order that its negative impact in the achievement of the Department objectives is minimized and the ability to realize potential opportunities is maximized. Thus, risk management is an integral component of good governance.

II. BACKGROUND

In February 2010, the Integrity Development Review (IDR) report of a team of assessors from various government agencies – led by the Office of the Ombudsman – was released, which documented certain corruption vulnerabilities and process risks that must be addressed by the Department. In the pursuit of the ongoing social welfare and reform agenda, the Department took advantage of an available technical facility from the Australian Agency for International Development (AusAID) and engaged the latter in a two-year project entitled “Strengthening the Internal Audit/Internal Control of the Department of Social Welfare and Development (DSWD).”

The project had initially deployed consultants from Cowater International, Incorporated, for a period of ten (10) months, i.e., from September 2011 to June 2012, and one of the outputs of the project was the Baseline Assessment Report (BAR). This report documented and consolidated the risks identified in the focused group discussions held, and the review of operational reports and related literatures covering all the Offices, Bureaus, and Services (OBS) at the Central Office, and three (3) selected Field Offices (FOs); i.e., one each from the Luzon, Visayas, and Mindanao island clusters.

The Executive Committee (EXECOM) carried the BAR, and so with the four (4) major recommendations contained therein in February 2012 but on a caveat that “we shall reform as we perform”, as follows –

1. Establish a formal Risk Assessment System to help strengthen the internal control system of the organization. The development of the risk assessment system, which will cover the identification, analysis, and evaluation of risks in the organization, will require much of the organization undergo the basic training program on Understanding the Organization’s Internal Control System and the institutionalization of the risk assessment processes in the Department.

2. Strengthen the Internal Audit Service (IAS) capability to deliver internal audit services in the following areas:

   - Organization: Request the Department of Budget and Management (DBM) for the immediate approval of the full DSWD- Internal Audit Service (IAS) staffing.
   - Capability: Design and develop an IAS Capability Development Program which will cover a 3-year implementation period to cover internal audit skills training, specialized audit training and selected management courses.
• Quality Assurance: Develop a Quality Assurance Program for the Internal Audit Service of the Department that will address the issues related to Internal Audit practices, standards, and performance management system.

3. Review of the Department’s Existing Policy and System on the Validation of PDAF Projects. The involvement of the IAS requires a lot of manpower despite of it being an understaffed Service. The focus should be on the strengthening of the monitoring system of the PDAF implementing units in the DSWD Central Office and Field Offices.

4. Develop and implement a strong Information and Communication Program on the Department’s Internal Control System. This would establish and maintain a high level of organizational and staff awareness and understanding of the policies, actions and responsibilities on Internal Control and Internal Audit.

Given the foregoing four (4) propositions, this issuance became imperative.

Moreover, in the last two (2) quarters of 2013, the Risk Management (RM) framework of the DSWD was initially discussed with the Central and Field offices. The discussion was done in four (4) separate batches to accommodate the concerns and inputs of offices within the DSWD on RM. The discussion-sessions aimed to provide a venue for the offices to understand and appreciate the risk management framework of the department and provided critical inputs in refining the department-wide risk management framework.

III. OBJECTIVES

This Circular aims to institutionalize a risk management framework in DSWD and, more particularly, operationalize the following processes as part of the Department’s work standards, as follows:

1. Each OBS and Field Office to conduct identification, analysis, and evaluation of risks based on an established operational context (internal and external), and for the Department to prescribe what constitutes a tolerable risk through a pre-defined risk criteria;

2. The risk owners/accountable official(s) and office(s) to formulate risk treatment options for the identified high impact risks, and for the Department to prioritize the implementation of mission-critical risk treatment plans; and

3. Establish risk management structures within the Department that will continually determine the suitability, adequacy and effectiveness of risk treatment options, and observe, check and supervise the implementation of risk treatment plans in order to achieve the set risk management objectives.

IV. LEGAL BASIS

This Memorandum Circular is based on the following legal issuances:
A. National Issuances


2. DBM Circular Letter 2008-08 dated 23 October 2008 – the National Guidelines on Internal Control Systems (NGICS), It is “a benchmark towards designing, installing, implementing and monitoring internal controls in the public service.” It enumerates the five (5) interrelated components of internal control, which includes risk assessment.

3. Section 124 of Presidential Decree 1445, as amended, which states that “it shall be the direct responsibility of the agency head to install, implement, and monitor a sound system of internal control”.

B. DSWD Executive Issuance


V. SCOPE AND COVERAGE

This Memorandum Circular (MC) shall be observed by all the offices, bureaus, and services at the Central Office and by the Field Offices. Moreover, the agencies attached to the Department are also encouraged to set-up their own risk management processes in their respective operations in accordance with this MC.

VI. DEFINITION OF TERMS\(^2\)

1. Accountability – Holding people answerable to someone for doing specific things, according to specific plans and timetable to accomplish tangible performance results. The concerned official and/or employee shall perform their official duties with reasonable skills and diligence.

2. Communication and consultation – continual and iterative processes that an organization conducts to provide, share or obtain information and to engage in dialogue with stakeholders regarding the management of risk.


4. Establishing the context – defining the external and internal parameters to be taken into account when managing risks, and setting the scope and risk criteria for the risk management policy.

5. Event – occurrence or change of a particular set of circumstances.

\(^2\) Based on ISO 31000:2009: Risk Management – Principles and Guidelines
6. External context – external environment in which the organization seeks to achieve its objectives.

7. Internal context – internal environment in which the organization seeks to achieve its objectives.


9. Level of risk – magnitude of a risk or combination of risks, expressed in terms of consequences and their likelihood.

10. Monitoring – continual checking, supervising, critically observing or determining the status in order to identify change from the performance level required or expected.

11. Review – an activity undertaken to determine the suitability, adequacy and effectiveness of the subject matter to achieve established objectives.

12. Risk – an uncertain event or condition that, if it occurs, has effect on organizational and program/project objectives.


14. Risk analysis – process to comprehend the nature of risk and to determine the level of risk.

15. Risk appetite – organization’s approach to assess and eventually pursue, retain, take or turn away from risk.

16. Risk criteria – terms of reference against which the significance of a risk is evaluated.

17. Risk evaluation – process of comparing the results of risk analysis with risk criteria to determine whether the risk and/or its magnitude is acceptable or tolerable.


19. Risk management – focuses on identifying and assessing the risks to the organization and managing those risks to minimize the impact on the organization’s program/project; it is therefore a coordinated set of activities to direct and control an organization with regard to risk. There is no risk-free organization because there are an infinite number of events that can have a negative effect on the organization’s program/project. Risk management is not about eliminating risk but about identifying, assessing and managing risk.

20. Risk management policy – statement of the overall intentions and direction of an organization related to risk management.

21. Risk management process – systematic application of management policies, procedures and practices to the activities of communicating, consulting, establishing the context, and identifying, evaluating, treating, monitoring and reviewing risk.
22. Risk owner – person or entity with the accountability and authority to manage a risk.


24. Risk source – element which alone or in combination has the intrinsic potential to give risk.

25. Risk treatment – process to modify risk.

26. Stakeholder – refers to a person or organization that can affect, be affected by, or perceives themselves to be affected by a decision or activity. They are those who are contributing to the pursuance of and/or benefiting from the organizational goals and objectives in a given period.

VII. THE DSWD RISK MANAGEMENT (RM) FRAMEWORK

A. Purpose and Outcome

The outlining of this framework intends to articulate the approach, responsibilities and arrangements related to the overall management of risks of the Department as one organizational unit.

As an outcome, this Circular shall ensure that the management of risks ultimately becomes an integral part of the planning and other management processes of the Department and not be construed as an additional burden that the OBS’ shall contend with in the regular conduct of its operations. This shall, then, contribute to improving the management decision-making processes which shall lead to:

1. The achievement of organizational objectives; and

2. Protection of value by minimizing the downsides of risks, and protecting people, systems and processes.

B. Conceptual Framework

The Risk Management Framework fundamentally rests on the commitment of all internal stakeholders to implement and comply with all the established risk management processes and arrangement on a consistent basis.

The components of the framework feed into each other in an iterative manner, and ensure that all risk information processed in the system are effectively captured and are used as the bases for decision-making and in the establishment of accountability vis-à-vis the conduct of the risk management processes, including the effective and efficient management of the identified risks.
A separate risk management manual/User's Guide, compliant with ISO 31000:2009, shall prescribe the details of the following:

1. **Mandate and Commitment**
   a. Risk management policy;
   b. Risk management objectives of the stated objectives and strategies of DSWD;
   c. Risk management performance indicators;
   d. Assignment of accountabilities and responsibilities within DSWD;
   e. Parameters in the allocation of resources for risk management;
   f. Communication plan to all stakeholders;
   g. Legal and regulatory compliance framework; and
   h. Continual improvement plan.

2. **Design of Framework for Managing Risk**
   a. Establishing DSWD Operating Context

   This undertaking is aimed at understanding internal and external environment which the risk management activity takes place in. It involves understanding

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3 Presentation of Kevin W. Knight, AM, to the DBM in Tagaytay City, October 2011; ISO 31000:2009
the objectives that the risk management process is supposed to address and the internal and external factors that must be taken into account in the other phases. It involves understanding the internal and external context of the organization, the context that the risk management process itself is operating in and the criteria that should be pursued to evaluate risk.

The context should be defined both internal and external of DSWD.

**External Context**

1. Socio-cultural, political, legal, regulatory, financial, technological, economic, natural and competitive environment;
2. Key drivers and trends in the social services and protection sector; and
3. Relationship with, and perceptions and values of, external stakeholders; and

**Internal Context**

1. Organizational structure, culture, functions, and responsibilities;
2. Policies, objectives, and strategies;
3. Financial and property resources;
4. Information systems; and
5. Relationship with, and perceptions and values of, internal stakeholders.

b. Defining the Risk Criteria

The risk criteria shall be consistent with the Department’s risk management policy. At the minimum, the following factors shall be included in the risk criteria:

i. Nature and types of causes and consequences that can occur and how they will be measured;
ii. How likelihood will be defined;
iii. The timeframe of the likelihood and/or consequences;
iv. How the level of risk is to be determined; and
v. Level at which a risk becomes acceptable or tolerable.

c. Establishing the DSWD risk management policy
d. Defining accountability in all levels
e. Integration into organizational processes – risk management should be embedded in the DSWD’s processes in an effective and efficient manner
f. Resources
g. Establishing and monitoring internal and external communication and reporting mechanism
h. Implementing Risk Management

a. Implementing the framework for managing risk; and
b. Implementing the risk management process

i. Monitoring and Review of the Framework
j. Continual Improvement of the Framework
C. Risk Management Process

The risk management process shall be an integral part of the Department, as one organizational unit, and the individual OBS and FO’s planning function and other management processes. DSWD should consider that this is a systematic application of management policies, procedures and practices to the activities of communicating, consulting, establishing the context, and identifying, analyzing, evaluating, treating, monitoring and reviewing risk.

Figure 2. Risk Management Process:

A separate Risk Management Manual/User's Guide, compliant with ISO 31000:2009, shall prescribe the details of the following:

1. **Communication and Consultation.** This must take place with both the DSWD internal and external stakeholders in all stages of the risk management process, and address issues relating to the risk itself and its causes.

   Effective internal and external communication and feedback mechanism must be established and regularized to ensure that those accountable in implementing the risk management process and other stakeholders understand the issues and

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*Presentation of Kevin W. Knight, AM, to the DBM in Tagaytay City, October 2011; ISO 31000:2009*
concerns relevant to a decision point at hand, and the surrounding considerations for the risk treatment options suggested.

Communication and consultation with all stakeholders (internal and external) should be ongoing throughout the risk management process. Communication plans should be developed early on in the process in order to ensure that all stakeholders understand what risks have been identified, the reasons for decisions made and why actions must be undertaken.

2. Risk Assessment

Risk assessment includes both the identification of potential risk and the evaluation of the potential impact of the risk. A risk treatment plan is designed to eliminate or minimize the impact of the risk events—occurrences that have a negative impact on the organization’s programs or projects. Further, risk assessment is the process of risk identification, analysis and evaluation.

a. Risk Identification

This is the process of identifying risks. The aim is to be comprehensive including as many risks as practical detailing their causes and potential consequences.

The DSWD OBS shall generate a comprehensive list of risks based on the identified events that might create, enhance, prevent, degrade, accelerate, or delay the achievement of objectives. It is important that the list shall be exhaustive because a risk not identified during this process will no longer be included in the risk analysis phase.

The sources and causes of the risks, including the areas of impact and their potential consequences must be included in the risk documentation.

Risk identification tools and techniques, per ISO 31010:2009 – including flowcharting, must be appropriately applied as may suited by the set objectives, competencies, and the nature of the risk itself. Officials and staff with sufficient institutional memory and familiarity of the operations should be involved in identifying risks.

b. Risk Analysis

This is a process of developing and understanding the risks. This process categorizes a risk for evaluation and treatment including: likelihood, consequences, causes and sources.

c. Risk Evaluation

This is the process of evaluating the risks for probability of occurrence and the severity or the potential loss to the organization. Not all risks are equal. Some risk events are more likely to happen than others and the cost of a risk event can vary greatly. Level of risk should be compared against the DSWD risk criteria to arrive at the need for treatment. Having criteria to determine high impact risks can help narrow the focus on a few critical risks that require treatment/mitigation. Only a few potential risk events meet these criteria.
3. Risk Treatment or Mitigation

After the risk has been identified, analyzed and evaluated, the office develops a risk treatment/mitigation plan, which is a plan to reduce the impact of an unexpected event. The office treats/mitigates risks in the following categories:

<table>
<thead>
<tr>
<th>Categories</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tolerate (Accept/Retain)</td>
<td>The exposure may be tolerable without any further action being taken. Even if it is not tolerable, the ability to do anything about some risks may be limited, or the cost of taking any action may be disproportionate to the potential benefit gained.</td>
</tr>
<tr>
<td>Treat (Control/Reduce)</td>
<td>By far, the greater number of risks will be addressed in this way. The purpose of treatment is that while continuing within the organization with the activity giving rise to the risk, action (control) is taken to constrain the risk to an acceptable level.</td>
</tr>
<tr>
<td>Transfer (Insurance/Contract)</td>
<td>For some risks, the best response may be to transfer them. This might be done by conventional insurance or it might be done by paying a third party to take the risk in another way. This option is particularly good for treating financial risks or risks to assets.</td>
</tr>
<tr>
<td>Terminate (Avoid/Eliminate)</td>
<td>Some risks will only be treatable, or containable to acceptable levels, by terminating the project/activity. It should be noted that the option of termination of project/activities may be severely limited.</td>
</tr>
</tbody>
</table>
The risk treatment plan captures the risk treatment approach for each identified risk event and the actions the office will take to reduce or eliminate the risk. This treatment plan balances the resources infusion against the benefit for the organization. The office often develops an alternative method for accomplishing organizational goals when a risk event has been identified that may frustrate the accomplishment of those goals. This alternative is called a contingency plan.

4. Monitoring and Review

This process is a continual part of the overall risk management process. Progress against plans should be monitored and courses of action should be reviewed for effectiveness and adjusted if they are not effective. Communication and consultation with all stakeholders (internal and external) should be ongoing throughout the risk management process. Communication plans should be developed early on in the process in order to ensure that all stakeholders understand what risks have been identified, the reasons for decisions made and why actions must be undertaken.

Recording the risk management process - the sources and causes of the risks, including the areas of impact and their potential consequences as well as the application of appropriate controls to manage risks must be included in the risk documentation. As an activity, the OBSUs, including the FOs and Attached Agencies, shall complete this process from the month of July until November of each year.

VI. Institutional Arrangements

The optimum value accruing from the implementation of a risk assessment system largely depends on the general readiness of all internal stakeholders in terms of skills and resources in managing risks, and coupled by a comprehensive and clear accountability and responsibility framework. Hence, it is imperative that the Department shall embark into an intensive capacity building program on risk management, upon the approval of this Circular.

In order to achieve the full intents and purposes of this memorandum circular (MC), the following roles and responsibilities are hereby designated to the following OBS:

1. The Office of the Strategy Management (OSM) shall act as the overall lead office in overseeing the treatment planning and the management of risks by the OBS and FOs. In the conduct of this process, and as a matter of transition, the OSM may seek the technical assistance of the Internal Audit Service (IAS) while the customized DSWD Risk Management User's Guide has not yet been fully operationalized. Subsequently, the OSM shall propose and program funds for the continuing capacity building/re-tooling of the OBS and FOs on risk management;

2. The Capacity Building Bureau (CBB) shall assist in the development of capacity and capability building program on risk management for the Department, to include needs assessment, review of learning development design in accordance with the set standards and actual management and facilitation of capability building activities;

3. The Technical Assistance Unit (TAU) shall assist in the generation of resources that will finance the capacity and capability building program on RM required under this MC.
4. The Policy Development and Planning Bureau (PDPB) shall ensure that risk management is an integral part of the department's planning processes;

5. The Research, Monitoring and Evaluation Office (RMEO) shall ensure that the individual OBS and FO risk treatment plan is linked with the DSWD results framework;

6. The Social Marketing Service (SMS) shall develop and assist the OSM in developing and implementing a risk management communication plan;

7. The Financial Management Service (FMS) shall ensure that targets embodied in the Major Final Output and/or program/project/activity of individual OBS and FO are included in the annual work and financial plan (WFP);

8. The Offices, Bureaus and Services, including the Field Offices, National Project Management Offices of the Special Projects and Attached Agencies: Council for the Welfare of Children (CWCC), Inter-Country Adoption Board (ICAB), National Council on Disability Affairs (NCD), National Youth Commission (NYC) and Juvenile Justice and Welfare Council (JJWC), shall actively participate in the capacity and capability building processes and shall be accountable in the assessment, i.e., risk identification, analysis, and evaluation; preparation of treatment plans and the implementation of the corresponding risk treatments in their respective offices and areas of operations.

For the Field Office, the Office of the Director, through the Management and Audit Analyst (MAA), shall exercise overall oversight in the pursuance of the risk treatment plans. However, the MAA shall focus only on overseeing risk treatment plans of the FO's operations and support services, which are significant to the overall strategy of the Department, while the rest of the plans shall be covered by the Divisions of the FOs. The Program Offices are likewise expected to prepare their risk treatment plans. The PGS Focal Persons and MAA shall collaborate in the facilitation of the assessment of risks and formulation of the treatment plan. The MAA will prepare the monitoring report in coordination with the designated PGS Focal Person/Planning Officer.

As may be directed by a competent authority and as defined at the customized DSWD Risk Management User's Guide, the OBS and FOs shall submit regular monitoring reports to the lead oversight or the OSM, in order to facilitate the effective tracking of compliance with the requirements of the risk management framework, including the evaluation of the efficacy of the individual risk treatment plans in the attainment of risk management objectives.

9. The Internal Audit Service (IAS) shall conduct objective assessment of the risk management processes.

VII. Monitoring and Evaluation

Through the leadership of the OSM, the results of the regular monitoring and review of the framework, shall be reported to the Management Committee (MANCOM) and Executive Committee (EXECOM) for purposes of continual improvement.
A. Monitoring

As may be prescribed by the OSM or the customized DSWD Risk Management User’s Guide, regular monitoring reports must be submitted by the OBS including the Field Offices, the National Project Management Offices of the Special Projects and Attached Agencies, which shall include the following minimum information:

1. Risk register – a complete profile of the enumerated risks identified in the management and operational processes and activities at a given period of time, including the updates or modifications thereon;
2. Risk treatment plans – a set of prioritized risk management interventions and mechanisms designed to effectively and efficiently address mission-critical risks based on set risk management objectives, including its progress and status of accomplishment; and
3. Evaluation of risk management process – any recommendations for the continual improvement of the framework based on the office implementation experiences.

B. Evaluation

1. On its own, or as determined by the Risk Management User’s Guide, the OSM shall submit regular evaluation reports to the MANCOM and EXECOM on the outputs and the outcomes of the Department-wide initiatives in the management of risks vis-à-vis the enterprise risk management objectives.

2. Taking particular focus on strategic risks, or those significantly related to the DSWD thrusts and directions and its commitments in the Performance Governance System-Balanced Scorecard (PGS-BSC), a report on the accomplishment of Department-level targets must be submitted based on the measures and success indicators set for decision-making purposes.

3. A separate objective assessment of the risk management processes may be conducted by the IAS with the assistance of subject-matter experts, if necessary. Using a work-back approach and/or other appropriate methodologies, the IAS shall make an independent assessment of the accomplishment of risk management objectives with respect to the implementation of the risk management processes, including the application of inputs, i.e., organization, staff, capacity building, financial resources, managerial policies, etc., and as guided by the risk management policy established by top management.

VIII. Effectivity

This Memorandum Circular shall take effect immediately.

Issued this 29th day of December, 2014.

Certified Copy:

MYRNA H. REYES
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DSWD Secretary