Memorandum Circular
No._____ 11
Series of 2012

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

I. RATIONALE:

In 2007, Executive Order (EO) No. 605, was issued "Institutionalizing the Structure, Mechanisms, and Standards to Implement the Government Quality Management Program, Amending for the Purpose Administrative Order No. 161, S. 2006." 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, 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.

The operations of the Department have grown in huge proportions so that its organizational profile today has tremendously changed compared to 10 years ago. To cite a few, its budget has exponentially increased from Php2.2Billion in 2005 to Php48.7 in 2012, and its total organizational complement had ballooned from 4,383 personnel in 2005 to 10,229[1] in 2012.

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 its medium- and long-term goals and objectives.

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 "*Tatsulo*" convergence framework consisting of: conditional cash transfer or Pantawid Pamilyang Pilipino Program; community-driven development or KALAHI-CIDSS; and, sustainable livelihood or Self-Employment Assistance-Kaunlaran (SEA-K), 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 in the public sector. Hinged on the balanced scorecard technology,

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[1] As of 30 April 2012, consisting of 2,575 regular/casual/contractual employees, and 7,654 MOA workers.

the Department has so far covered two levels of maturity, *i.e.*, initiation and compliance, of the four-level program with guidance of industry experts.

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 assessment and 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.

II. BACKGROUND:

In February 2010, the Integrity Development Review 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 Department of Social Welfare and Development."

The project had initially deployed consultants from Cowater International, Incorporated, for a period of 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, Services and Units (**OBSUs**) at the Central Office, and three (3) selected Field Offices, *i.e.*, one each from the Luzon, Visayas, and Mindanao island clusters.

The Executive Committee carried the BAR, and so with the four (4) major recommendations contained therein last February 2012 but on a caveat that "we shall reform as we perform." One of these four (4) propositions was to "**[E]stablish a formal Risk Assessment System to help strengthen the internal control system of the organization**," hence, the need for this issuance.

III. OBJECTIVES:

This Circular aims to institutionalize a risk assessment and management framework in DSWD and, more particularly, operationalize the following processes as part of the Department's work standards, *viz.*:

1. Each OBSU or an inter-OBSU structure, including the FOs, to conduct risk 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 framework 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 BASES

This Memorandum Circular is based on the following legal issuances:

1. EO - No. 605, Series of 2007, "Institutionalizing the Structure, Mechanisms, and Standards to Implement the Government Quality Management Program, Amending for the Purpose Administrative Order No. 161, S. 2006, which mandated all government offices to "[D]evelop an institutional infrastructure that shall provide certification with international accreditation," *i.e.*, conformity with ISO standards;

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

3. Section 124 of Presidential Decree 1445, as amended, which states that "[i]t shall be the direct responsibility of the agency head to install, implement, and monitor a sound system of internal control."

V. SCOPE AND COVERAGE

This Memorandum Circular (**MC**) shall be observed by all the offices, bureaus, and services at the Central Office and, likewise, by the Field Offices.

Moreover, the agencies attached to the Department are also encouraged to setup their own risk assessment and 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.[3]

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[2] Based on ISO 31000:2009: Risk Management – Principles and Guidelines
[3] Performance and Accountability: Central Pillars of Democracy, Francisco S. Tantuico, Jr., Fiscal Administration Foundation, Inc., 1994

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

3. Consequence – outcome of an event affecting objectives

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

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

6. External context – external environment in which the organization seeks to achieve its objectives

7. External stakeholders – are persons, organizations and other service groups that are outside a specific public service sector but may have an interest on and can influence the effective performance of the sectoral goals of an agency concerned

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

9. Internal stakeholders – are the individuals and groups that are affected by agency's operation within a particular public service sector

10. Likelihood – chance of something happening

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

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

13. Residual risk – risk remaining after the risk treatment

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

15. Risk – effect of an uncertainty on objectives

16. Risk assessment – overall process of risk identification, risk analysis, and risk evaluation

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

18. Risk attitude – organization's approach to assess and eventually pursue, retain, take or turn away from risk

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

20. 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

21. Risk identification – process of finding, recognizing, and describing risks

22. Risk management – coordinated activities to direct and control an organization with regard to risk

23. Risk management framework – set of components that provide the foundations and organizational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization

24. Risk management plan – scheme within the risk management framework specifying the approach, the management components and resources to be applied to the management of risk.

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

26. 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

27. Risk, owner – person or entity with the accountability and authority to manage a risk

28. Risk profile – description of any set of risks

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

30. Risk treatment – process to modify risk

31. Stakeholder – person or organization that can affect, be affected by, or perceives themselves to be affected by a decision or activity

VII. THE DSWD RISK ASSESSMENT and MANAGEMENT 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. 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. "Value" here means the productivity of people, and the confidentiality, integrity and availability of the Department's systems and procedures in the delivery of various social protection services.

B. Conceptual Framework

The Risk Assessment and Management Framework fundamentally rest 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.

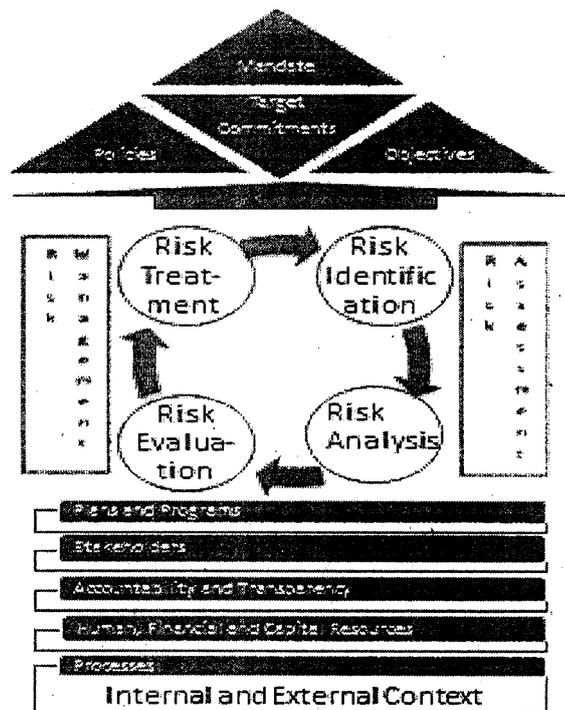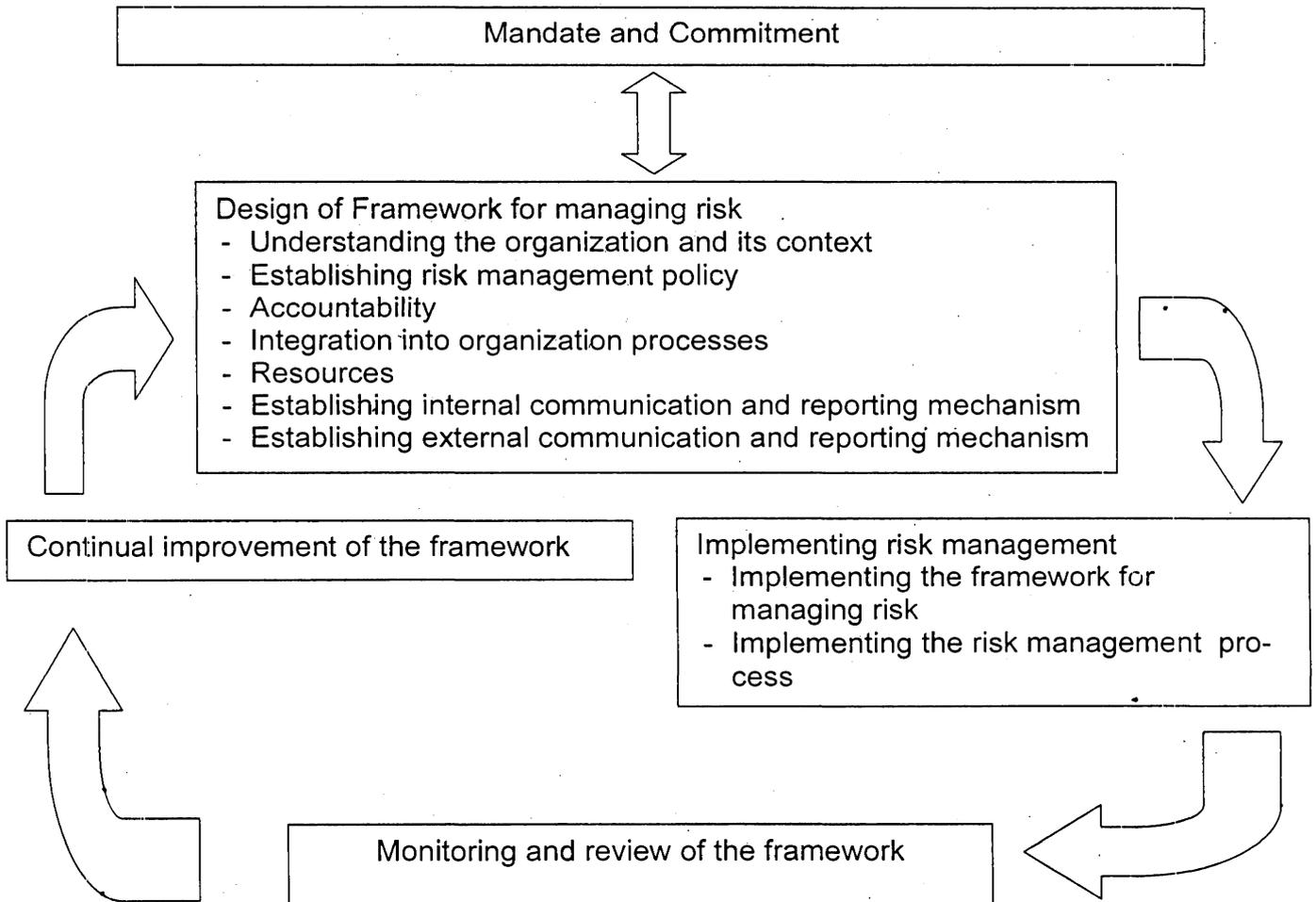Figure 1. Risk Assessment and Management Framework:

Figure 2. Risk Management Process Overview[4]:

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│                    Mandate and Commitment                         │
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┌─────────────────────────────────────────────────────────────────┐
│ Design of Framework for managing risk                             │
│ - Understanding the organization and its context                  │
│ - Establishing risk management policy                             │
│ - Accountability                                                  │
│ - Integration into organization processes                        │
│ - Resources                                                       │
│ - Establishing internal communication and reporting mechanism     │
│ - Establishing external communication and reporting mechanism     │
└─────────────────────────────────────────────────────────────────┘

┌──────────────────────────────────┐  ┌────────────────────────────┐
│ Continual improvement of the     │  │ Implementing risk management│
│ framework                        │  │ - Implementing the framework│
└──────────────────────────────────┘  │   for managing risk         │
                                       │ - Implementing the risk     │
                                       │   management process        │
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        │       Monitoring and review of the framework     │
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A separate risk assessment and management manual, compliant with ISO 31000:2009, shall prescribe the details of the following:

1. Mandate and commitment – these shall be expressed within the Department through the issuances of the following declarations and action plans:

   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. DSWD operating context

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[4] Presentation of Kevin W. Knight, AM, to the DBM in Tagaytay City, October 2011; ISO 31000:2009

    i. 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

    ii. 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. Establishing the DSWD risk management policy

c. Accountability

d. Integration into organizational processes – risk management should be imbedded in the DSWD's practices and processes in an effective and efficient manner, e.g., risk management as a standard component in the pre-program implementation phase, etc..

e. Resources

f. Establishing internal communication and reporting mechanism

g. Establishing external communication and reporting mechanism

3. Implementing risk management

a. Implementing the framework for managing risk; and

b. Implementing the risk management process, to include – among others, operational guidelines*. should include project control and safeguard mechanisms for project monitoring.

4. Monitoring and review of the framework

5. Continual improvement of the framework

C. Risk Assessment and Management Process

The risk management process shall be an integral part of the Department's planning function and other management processes, as one operating agency, through the individual OBSUs and the FOs.

Figure 3. Risk Assessment and Management Process in Detail[5]:
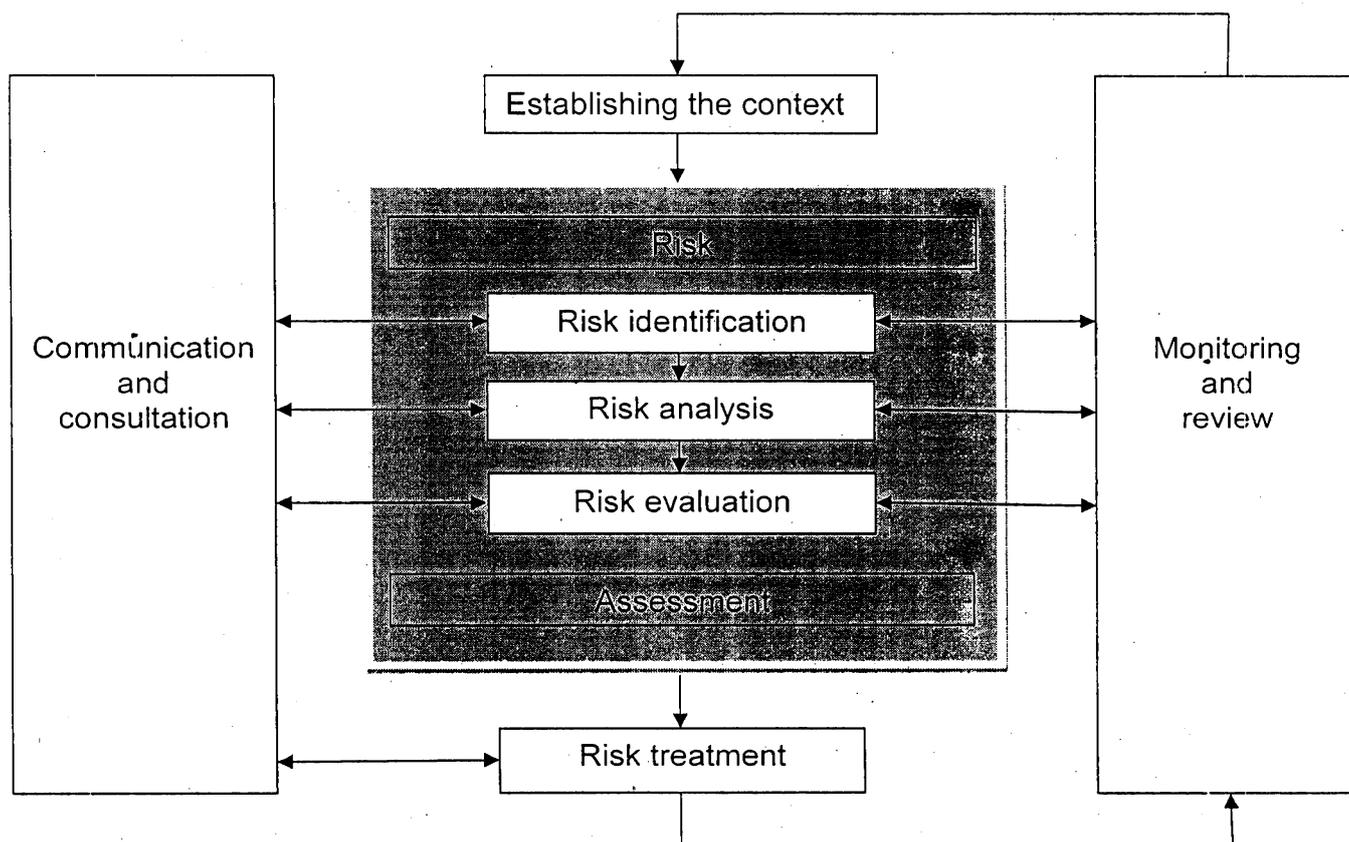
A separate risk assessment and management manual[6], compliant with ISO 31000:2009, shall prescribe the details of the following:

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 to ensure that those accountable in implementing the risk management process and other stakeholders understand the issues and concerns relevant to a decision point at hand, and the surrounding considerations for the risk treatment options suggested.

2. Establishing the context

   a. Establishing the external context and its different components

   b. Establishing the internal context and its different components

   c. Establishing the context of the risk management process

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[5] Presentation of Kevin W. Knight, AM, to the DBM in Tagaytay City, October 2011; ISO 31000:2009
[6] The Risk Assessment and Management Manual is one of the deliverables of the Phase II of the AusAID-funded project entitled "Strengthening of Internal Control and Internal Audit in the Department of Social Welfare and Development," which will run for 12 months starting from the second semester of 2012.

d. 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.

3. Risk assessment

a. Risk identification – the DSWD OBSUs, including the FOs, 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.

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

c. Risk evaluation

4. Risk treatment, controls and safeguards

5. Monitoring and review

6. 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, shall complete this process from the month of July until November of each year.

VIII. 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 assessment and 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 assigned to the following OBSUs and/or FOs:

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 CO-OBSUs. However, upon the institution of the Management Division (**MD**) at the Central Office, the OSM shall only focus on overseeing the risk treatment plans of the operations and support services, which it shall consider significant to the overall strategy of the Department, while the rest shall be covered by the MD.

    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) or tap expert consultants until the customized manual shall have become fully operationalized;

2. The Capacity Building Bureau (CBB), in coordination with the IAS, shall be the lead in the provision of capacity and capability building program in risk assessment and management for the whole Department;

3. The Technical Assistance Unit (TAU) shall spearhead the generation of resources that will finance the capacity and capability building program required under this MC in 2012. Subsequently, the CBB shall program funds for the continuing education of the OBSUs, including the FOs, in risk assessment and management; and

4. The OBSUs, including the FOs and the National Project Management Offices (NPMO) of the Special Projects, shall actively participate in the capacity and capability building processes and shall be accountable in the assessment, *i.e.,* risk identification, analysis, and evaluation, and the implementation of the corresponding treatments in their respective offices and areas of operations.

    The Office of the Director, through the Management and Audit Analyst (MAA), shall exercise overall oversight in the pursuance of the risk treatment plans at the FOs. However, the MAA shall only focus 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 Management Services Division of the FOs.

    As may be directed by a competent authority, as defined at the customized risk assessment and management manual, likewise 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 assessment and management framework, including the evaluation of the

efficacy of the individual risk treatment plans in the attainment of risk management objectives.

IX. Monitoring and Evaluation

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

A. Monitoring

At least on a semestral basis, or as may be prescribed by the OSM or the customized risk assessment and management manual, regular monitoring reports must be submitted by the OBS's, including the Field Offices and the National Project Management Offices of the Special Projects, 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 as 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 assessment and management process – any recommendations for the continual improvement of the framework based on the office implementation experiences, and in determining the effectiveness of the risk treatment plans in maintaining residual risk to acceptable levels.

B. Evaluation

1. On its own, or as determined by the customized manual, 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 at 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 to ensure availability of required competencies and

experience. 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.
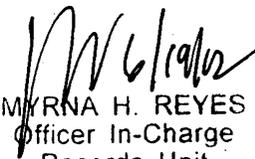
X. Effectivity

This Memorandum Circular shall take effect immediately.

Issued this __14th__ day of __JUNE__, 2012.

CORAZON JULIANO-SOLIMAN
DSWD Secretary

Certified Copy:

MYRNA H. REYES
Officer In-Charge
Records Unit

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