**PEMPAL – TCOP – Working Group on the Evolving Role of the Treasury Function - Risk management and Treasury Operations**

***Video Conference, 13 December 2016***

On 13 December, 27 participants from 8 countries took part in a two hour videoconference on the subject of risk management in the Treasury. TCOP Program Coordinator, Elena Nikulina, and TCOP advisors Ion Chicu and Mark Silins also participated. The VC was centred around a presentation by The Treasury of the Russian Federation, followed by questions from participants. This is the third event convened for this working group, including a VC convened in November 2015, and a plenary meeting in Moldova in June 2016. Risk management was one of a number of topics identified by participants for future discussion during earlier events.

Mr. Alexei Solodov, Head of Department of Internal Control (Audit) and Performance Evaluation of the Federal Treasury of Russia delivered a thought provoking presentation, which is briefly summarized below.

 

The presentation:

* Made a clear distinction between internal control, which is the processes and activities which provide the controls, and internal audit, which is a function which supports management by reviewing the internal controls;
* Identified five aspects of control which are the core focus for the Treasury: functional, administrative, procurement, ICT and financial controls;
* Indicated that the Treasury has established a risk classification system which it applies to processes and from which it generates management and monitoring reports;
* Demonstrated how the risk classification is determined: risk prone activities are highlighted, then the specific areas of risk are identified, and finally, the risk activities or events are given a classification; and
* Highlighted the nature of the classification system, which is firstly to determine the impact on the Treasury should the risk eventuate, and secondly, the probability of the risk event occurring. This then provides the classification, which in turn leads to the development of the risk mitigation strategies.

The full presentation is available here (link).

A summary of some of the key questions and answers is provided below:

* **How do you determine the criteria for selecting which risks to monitor or mitigate?** – Russia undertakes a comprehensive review of all processes and activities. Everything is assessed for risks and all risks are allocated a classification.
* **How do you collect information from the district treasury offices?** – In fact these offices complete a self-assessment process. This self-assessment is subject to review and therefore it is in the interest of each district office to ensure the self-assessment is thorough.
* **Are the results of the risk assessments publicized?**– not as yet, as it is currently very much still being formulated and in the pilot stage. However, the leadership is provided some reporting information and they are fully engaged with the benefits of the methodology;
* **How does the treasury system identify risks?** Certain transactions are identified for additional review and checking. Some transactions will be highlighted due to amounts, but also things such as duplicate payments are also captured.
* **Would it be possible to identify the risks earlier than when payments are entered into the system?** There is an opportunity to identify risks early. Treasury has employed some specialists and these experts are involved in field visits to determine that projects, etc. are on track and that the deliverables are being met.
* **Does the system interact with other systems?** No specific interfaces are currently in place, however, Treasury has access to a variety of other systems and it undertakes checks on these systems as and when required.

At the conclusion of the Q+A segment, Mark Silins was invited to comment.

Firstly, he thanked Mr. Solodov for his excellent presentation and also extended his thanks to participants for their thoughtful questions and active engagement. Mark highlighted a number of key points raised during the VC:

* The Russian Treasury has developed a Risk Orientation Model which helps it target its review and monitoring activities to the areas of greatest risk. This is a useful approach worthy of further consideration and discussion;
* The presentation by Russia highlighted an important point regarding government’s appetite for risk. In general many governments are unprepared to accept even low risk. Russia’s very thorough approach seeks to eliminate all risks as far as possible.
* It would be useful for the group to also examine the issue of costs and benefits. For example, is it cost effective for government to seek to mitigate all risks even those where the losses will be very low and the cost of mitigating or eliminating the risks high?
* One element which would also be worth exploring is the concept of risk management and transparency. Some countries now publish everything (Georgia), and this presents a different aspect for risk management. If public officials know that everything they do will be subject to public scrutiny, risks maybe mitigated simply because of the probability that the activities will be fully scrutinized by members of the public, interest groups relating to the activity, or the media; and
* Two areas of risk which may warrant further discussion in today’s environment are physical risks, for example security of the treasury environment, from robbery, or other attacks, and cyber risks. How secure is the Treasury system? Can it be hacked?

Ion Chicu brought the VC to a close by inviting each country to propose further topics for future events. Events can either be via VC, such as for today, and there is also the possibility of a further face-to-face meeting of the working group in 2017. This topic may in fact be the focus for an event scheduled in June 2017.