TECHNICAL ASSISTANCE REPORT

SOLOMON ISLANDS
Central Bank Risk Management

August 2024

Prepared By

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Authoring Department:

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GLOSSARY

BARC	Board Audit and Risk Committee
BCM	Business Continuity Management
CBPD	Currency Banking and Payments Department
CBSI	Central Bank of Solomon Islands
DR	Disaster Recovery
ERM/F	Enterprise Risk Management/Framework
ERSD	Economic Research and Statistics Department
FAD	Financial Accounts Department
FMECD	Financial Markets and Exchange Control Department
FSRD	Financial Supervision and Regulations Department
HRCSD	Human Resourcesand Corporate Services Department
IAU	Internal Audit Unit
ICTD	Information and Communication Technology Department
IMF	International Monetary Fund
MCM	Monetary and Capital Markets Department
NFIU	National Financial Inclusion Unit
ORM	Operational Risk Management
RAS	Risk Appetite Statement
RMC	Risk Management Committee
RMCCD	Risk Management and Corporate Communications Department
RMP	Risk Management Policy
RMU	Risk Management Unit
SIFIU	Solomon Islands Financial Intelligence Unit
SRA	Strategic Risk Assessment
TA	Technical Assistance
ToR	Terms of Reference

PREFACE

At the request of the Central Bank of Solomon Islands (CBSI), a Monetary and Capital Markets (MCM) Department mission provided technical assistance (TA) on central bank risk management to the CBSI on August 7–11, 2023. The mission was conducted by Paul Woods (MCM Short-term Expert, Central Bank of Ireland) and Chris Aylmer (MCM Short-term Expert, formerly with the Reserve Bank of Australia), and backstopped at headquarters by Ashraf Khan (MCM, Central Bank Operations Division).

The purpose of the mission was to continue to assist the CBSI in establishing an Enterprise Risk Management (ERM) Framework. The onsite mission represented a follow-up to an earlier virtual mission completed in October 2021 that made a number of recommendations for the CBSI to implement in order to strengthen its risk governance, ensure a structured and cohesive risk management framework, and to support leadership and staff across the CBSI to cultivate a supporting risk culture. The objective of the onsite mission was to complete an independent review of the progress made by CBSI to date in the implementation of these recommendations. Additionally, the TA mission team sought to engage broadly with senior stakeholders across the CBSI to: further its diagnostic of the governance and operation of risk management; identify areas where further progress can be made; and provide guidance based on best practice internationally. Lastly, the TA mission provided specific guidance on the approach to enhancing the governance, operations and incident response capabilities for business continuity management.

The TA mission was conducted by means of a desktop review of CBSI documentation, with the documents reviewed listed in Appendix I. The desktop review was followed by meetings with CBSI officers onsite during August 7–11, 2023. These meetings included engagement with Dr. Luke Forau (Governor), Mr. Raynold Moveni (Deputy Governor), along with two non-executive Board members, Ms. Helen Beck and Mr. David Quan. A list of the CBSI officers that participated in the meetings is provided in Appendix II, while a list of the meetings that took place in support of the onsite component of the TA mission are provided in Appendix III.

The mission wishes to thank the leadership and staff of the CBSI for its ongoing support, constructive engagement, and hospitality throughout the mission.

EXECUTIVE SUMMARY

The CBSI has sought IMF assistance in the development of its enterprise-wide risk management framework. The work builds on findings from a 2020 IMF Safeguards Assessment of the Central Bank of Solomon Islands (CBSI), which identified a need to strengthen risk management practices. Technical assistance (TA) was initially provided in August 2021 in the form of a virtual risk management diagnostic exercise which made a series of specific recommendations based on best practice internationally. The objective of the onsite mission was to review the progress by CBSI in implementing these recommendations, to provide practical guidance, and to support CBSI in enhancing its approach to business continuity management (BCM).

Progress is evident in implementing specific recommendations. The most notable of these has been the establishment of the Risk Management Committee (RMC) and the amendment of the terms of reference of the Board Audit and Risk Committee (BARC) to include oversight for risk management. The combined effect of these, once effectively operationalized, will be to improve risk governance. Additionally, an incident register has been created and work is underway to promote incident reporting.

However, the progress on the broader risk management recommendations has been slower. This is particularly evident in relation to the development of the Risk Appetite Statement (RAS), the need to develop an Integrated Risk Report (IRR), the broader embedding of the Three Lines of Defence Model, and in incorporating a top-down approach to risk identification. These recommendations will need to be prioritized in the period ahead, and are necessary in order to support effective oversight by the RMC, the BARC and the Board.

The onsite mission validated the original recommendations. Following the onsite engagements with non-executives, executives and staff of CBSI, along with the detailed desktop review of documentation, the mission team's assessment is that the original recommendations and priorities to strengthen risk management remain relevant. Nonetheless, a number of further recommendations have been made, as listed in Table 1 below, that should be treated as supplemental, and which are designed to support and guide the CBSI with its continued implementation of the original recommendations.

Table 1. Key Recommendations

	Recommendation	Completion	Priority
Risk Governance			
R-A.	**The Board Audit & Risk Committee (BARC) should re-weight its agenda.** This is to ensure ongoing and proportionate oversight of risk management items, including monitoring the progress in implementing and embedding the remaining recommendations to enhance the risk management framework. This can be achieved by ensuring sufficient agenda time at each meeting is allocated to risk oversight, and that the BARC have been provided with a comprehensive IRR (as set out below).	Q2-2024	High
R-B.	**RMU should develop an integrated risk report (IRR).** This IRR should be presented to the CBSI RMU and BARC on a quarterly basis, refining and progressively integrating the reporting on risks across material risk categories. This recommendation aligns with a prior recommendation from the original risk management diagnostic TA. It is being restated as it remains a high priority.	Q2-2024	High
R-C.	**RMU should focus on the development of the Risk Appetite Statement (RAS).** The focus should be on engagement with departments to identify and align on suitable risk appetite inputs and thresholds. This recommendation aligns with a prior recommendation from the original risk management diagnostic TA. It is being restated as it remains a high priority.	Q4-2024	High
R-D.	**Due to capacity constraints, reduce the frequency of meetings of the RMC.** Given the administration overhead associated with RMU acting as secretariat for RMC meetings, and the adverse impact this is having on its capacity to advance the implementation of the other recommendations, the frequency of RMC meetings should be reduced from monthly to every two months.	Q4-2024	Low
Embedding the Three Lines of Defence Model			
R-E.	**Strengthen the tone from the top.** There is a requirement for regular communication initiatives to promote the importance of adherence to the risk management framework, to clarify the important First Line responsibility of staff and to cultivate a culture of 'all staff are risk managers.'	Q4-2024	Medium
R-F.	**Provide enhanced risk insights.** RMU to complete its quality assurance and use the information contained in incident reports to generate risk insights (as part of the integrated risk report) for the RMC and BARC.	Q4-2024	Medium
Business Continuity Management/Critical Incident Management			
R-G.	**Further enhance the governance of BCM.** Incorporate periodic oversight of BCM, as one specialized category of risk, into the ongoing agendas for the RMC and BARC.	Q4-2024	High
R-H.	**Facilitate a structured response.** Establish a critical Incident Management Team (IMT), and a supportive BCM framework, to support a standard and structured CBSI-wide response approach to business continuity incidents.	Q4-2024	Medium
R-I.	**Improve the BCM process.** There is a need for CBSI to develop a Business Impact Assessment (BIA) template, which can be used to provide a standardized approach to documenting and prioritizing critical business processes, the associated critical dependencies, and to outline the alternate processes to be used in the event of a critical incident.	Q2-2025	Medium

Effective Business Continuity Management (BCM) relies on implementing a structured framework and supporting processes. While some components that could be incorporated into a BCM framework are in place, other important components are missing, such as having a formalized critical Incident Management Team (IMT) in place, with roles and responsibilities clearly defined, and the use of standardized Business Impact Assessments (BIAs), to identify and prioritize critical processes. Given capacity constraints within the RMU, consideration of additional resourcing to put BCM on a more structured footing may be warranted.

The recommendations take account of the relative scale of CBSI. Implementing the recommendations will ensure that the CBSI's approach to risk governance, and the risk management framework, embeds risk management practices and processes as an important responsibility of all management and staff, thereby reinforcing First Line responsibilities. This is particularly important in addressing constraints arising due to scale.

The positive impact of implementing the recommendations will increase with time. During the onsite engagements, risk management trends and developments impacting central banks internationally were considered, and highlighted that the vectors of risk exposure are broadening and in some areas deepening. These developments, coupled with consideration of the pipeline of major projects for CBSI, highlight the criticality of continuing to advance and embed a coherent enterprise risk management framework.

Notwithstanding the work to be done, it was evident that the CBSI is taking positive steps to cultivate its risk culture. The Governor and Board members were clearly cognizant of the need and benefit of developing a structured and coherent approach to risk management. The Governor indicated a desire for good risk management to become second nature for staff across CBSI. The mission team also observed a broader desire and understanding across management of the need to advance the implementation of the remaining recommendations.

I. INTRODUCTION

1. The CBSI is seeking to enhance its Enterprise Risk Management (ERM) framework, practices and processes and to cultivate a supporting risk management culture. Under the *CBSI Act* the Board is responsible for, *inter alia*, "assessing risk and formulating contingency plans for the ongoing operations and security of the central bank." A Risk Management Unit (RMU) was established in 2020 and around the same time, the CBSI requested an IMF mission to provide technical assistance on central bank risk management. This was provided during the period August–September 2021 and the final technical assistance (TA) report entitled *Solomon Islands—Central Bank Risk Management* was provided to the CBSI in September 2022.

2. The report focused on the approach to enhance risk management practices at the CBSI. This included recommendations to improve risk governance and on enhancing specific components of the CBSI ERM framework, and guidance on how to cultivate a supporting risk management culture. The report concluded that there would be merit in undertaking a follow-up TA mission to examine the progress that the CBSI has been able to make in implementing the recommendations and to provide supporting guidance as needed.

3. Technical assistance (TA) mission objectives and approach: the terms for a follow-up TA mission were approved in early 2023, with two interrelated objectives. The first objective was to review the implementation of the recommendations as set out in the first TA report, to identify areas where further progress could be made and to provide supporting guidance as required. The second objective was to provide specific guidance on business continuity management, a specialist category of risk management that CBSI had identified as requiring attention. The approach agreed was for the mission team to complete a desktop review of relevant documentation and to engage with non-executive, executive and staff members to better understand the current CBSI risk management practices and to ascertain progress made relative to the prior TA report recommendations. It was also agreed that the follow-on mission would provide practical advice, guidance and recommendations on how CBSI could further mature its risk management practices.

II. IMPLEMENTATION OF THE RECOMMENDATIONS

4. The previous TA report set out a structured approach for the phased strengthening of risk governance, supported by the implementation of key foundational elements of a risk management framework. It was envisaged that the high priority items related to establishing a Risk Management Committee (RMC) and developing integrated risk reporting would take three to six months, while the preparation of the Risk Appetite Statement (RAS) and associated thresholds would take longer, with a timeline set of six to 12 months.

5. Recommendations and assessment of progress: the recommendations from the previous TA mission on central bank risk management are reproduced in Table 2 below, along with an assessment of the progress made by the CBSI in implementing each.

Table 2. Recommendations from the Previous Report

Number	Recommendation	Progress	Priority
Risk Governance			
1.	Establish a Risk Management Committee with appropriate terms of reference (ToR).	**Completed**	High
2.	Clearly define the risk management roles and responsibilities.	**Completed**	High
3.	Adopt the Three Lines Model of risk management.	**Partial**	Not assigned
4.	Include risk oversight within the terms of reference (ToR) for the Board Audit Committee.	**Completed**	Not assigned
5.	Include risk management as a recurring item on the Executive and Board agendas.	**Partial**	Not assigned
6.	Ensure a member of each department is assigned responsibility for co-ordinating the risk management process.	**Partial**	High
7.	Develop a standard risk report for the senior executive and the Board. This recommendation was deemed to be high priority.	**Incomplete**	High
8.	Management to ensure accurate and timely reporting of risk reporting templates.	**Completed**	High
9.	Ensure adequate resourcing of Risk Management Unit (RMU).	**Partial**	Not assigned
10.	Board Audit Committee to undertake an effectiveness review of its risk oversight.	**Incomplete**	Not assigned
Risk Framework			
11.	Formally articulate the CBSI's risk appetite in a Risk Appetite Statement (RAS).	**Incomplete**	High
12.	Engage departmental risk experts to define appropriate risk thresholds (tolerances). Given this represents an input to the recommendation above, it was also deemed to be high priority.	**Incomplete**	High
13.	Establish the methodology for risk identification (bottom up and top down) and risk assessment to be endorsed by the RMC.	**Incomplete (for top-down risks)**	High
14.	Align leadership on the frequency of the Strategic Risk Assessment (SRA).	**Incomplete**	Not assigned
15.	RMC to ensure senior management alignment on risk materiality.	**Partial**	High
16.	Cultivate risk leadership at all levels	**Partial**	Not assigned
17.	Calibrate integrated risk reporting to reflect the structure of the RAS.	**Incomplete**	High
18.	Formalise the governance and procedures for incident management.	**Completed**	Not assigned
19.	Provide the Board, leadership and staff with ongoing risk seminars and training.	**Incomplete**	Not assigned
Business Continuity Management			
20.	Formalise the governance and procedures for business continuity management (BCM).	**Incomplete**	Not assigned
21.	Create a critical Incident Management Team (IMT).	**Incomplete**	Not assigned
Other			
22.	Engage with peers and IORWG on risk management.	**Partial**	Not assigned

6. **The CBSI has fully implemented a number of the recommendations. These include high priority recommendations such as:**

- CBSI Board approval of the terms of reference (ToR) of the RMC (R1). The approval occurred in August 2022 and the Committee, which currently meets monthly and is chaired by the Deputy Governor, convened for the first time in October 2022. Given the RMC remains a relatively new committee, it will remain important to periodically review its effectiveness and to incorporate learnings as they arise.

- The role and responsibilities of the RMC are clearly defined in the RMC's ToR (R2), which is aligned to the expectation of the guidance from the earlier TA mission. It was also evident that the composition of the RMC includes broad representation from functional areas across the CBSI. More broadly, the roles and responsibilities are listed in the draft Risk Management Policy, which clearly outlines the responsibility of all staff to manage risk.

- The ToR of the Board Audit Committee have been amended to include risk oversight and the committee has now become the Board Audit and Risk Committee (R4).

- The recommendations to formalise the governance and procedures for incident management (R18) and to ensure accurate and timely reporting have been completed (R8). All departments are now reporting their incidents weekly to a standardised format. This process improvement is being progressively embedded, with more than 150 incidents reported over the past calendar year, and with summary information circulated to senior executives on a weekly basis. A report is prepared for the RMC each month.

7. **Some high priority recommendations have not been sufficiently advanced.** The most important of these is the development of a Risk Appetite Statement (RAS) (R11). The RAS represents a critical component of an ERMF, as in its absence the Executive and Board will remain unclear as to the levels of risk exposure the organization should be working within, thereby complicating their ability to discharge effective oversight. The work on the RAS will require broad-based engagement by RMU with departmental stakeholders across the CBSI, to draft defined appetite statements for each category of risk, and to propose these along with the appropriate thresholds and metrics to be used (R12), for consideration and refinement by the Executive and Board. The delay in progressing the RAS has had a consequential knock-on impact on developing the Integrated Risk Report (IRR) (R17). The use of an IRR simplifies senior level oversight by providing a clear and regular summary of the risk profile relative to the risk appetite, allowing the Executive and Board to quickly triangulate and focus on any risk exposures requiring prioritized mitigation. The review by the BARC of risk oversight will also be meaningful once it is receiving the right information (R10).

8. **Other important recommendations remain partially completed.** The adoption of the Three Lines Model remains a work-in-progress (R3). While the model is covered within the draft

Risk Management Policy (RMP), significant and ongoing training of management and staff will be required in order to practically embed it. This is particularly important in the context of ensuring departments are aware and acting upon their First Line risk management responsibilities. It is also important to ensure clarity and delineation between the roles of RMU (Second Line) and the Internal Audit Unit (IAU, representing the Third Line). While some risk issues are discussed by the Executive and the Board, particularly relating to specific initiatives,[1] oversight of risk is not a recurring item on their agendas (R5). Although risk liaisons (champions) have been identified in most departments, some have yet to nominate their risk liaison (R6). The RMU has three positions, a manager and two analysts, one of whom undertakes middle office duties. With the manager on study leave for circa a year, the work of RMU has been left to the two analysts, leaving the RMU capacity constrained (R9). As CBSI is a relatively small central bank, with a total complement of circa 150 staff, it was evident that there is reasonable alignment on risk materiality (R15). However, the governance and communication approach to ensure ongoing alignment could be better structured and would better support cultivating risk leadership across the broader management team (R16). While RMU has been in contact with some central bank peers, there is an opportunity for broader international engagement (R22).

9.   **The focus on risk identification and assessment has been on the bottom-up approach.** The CBSI has naturally focused on developing its bottom-up approach to completing risk identification and assessment, applied at a departmental level. As the ERMF matures, with further momentum and a structured and coherent approach to risk governance, senior leadership will increasingly seek an 'all of central bank' view of the priority risks. This is usually achieved by developing a top-down perspective on risks (R13) and undertaking a strategic risk assessment (SRA) (R14), which can then be calibrated to the bottom-up risk insights.

10.   **Some generic training on risk management has been completed.** A number of staff across the CBSI (around 10) have completed risk management training (R19) in Fiji, with these staff providing positive feedback on the benefits accrued. It remains important to continue to build the foundational knowledge on risk management more broadly. This will help ensure staff use a common language of risk management, and also to support management and staff in contributing to risk seminars at an Executive and Board level.

11.   **The approach to Business Continuity Management is immature.** Some of the foundational elements of a BCM framework have not been implemented (R20). While BCM remained 'front of mind' during the pandemic, with a taskforce established by the Board, it remains important for CBSI to adopt a more structured and formal approach to this specialized category of risk, and to integrate the oversight of BCM with the RMC and BARC. Although ITCD are in the process of developing business process maps, and documenting recovery

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[1] For instance, oversight of the risks relating to the move of CBSI to a new office building.

scenarios, there is a broader need to formalize a critical Incident Management Team (R21), to ensure a standardized and coherent response to any incidents.

12.   The onsite mission further validated the recommendations from the original report. These recommendations were prioritized to assist CBSI in developing an ERMF, whereby the framework components self-reinforce each other, as illustrated in Figure 1.

Figure 1. Enterprise Risk Framework
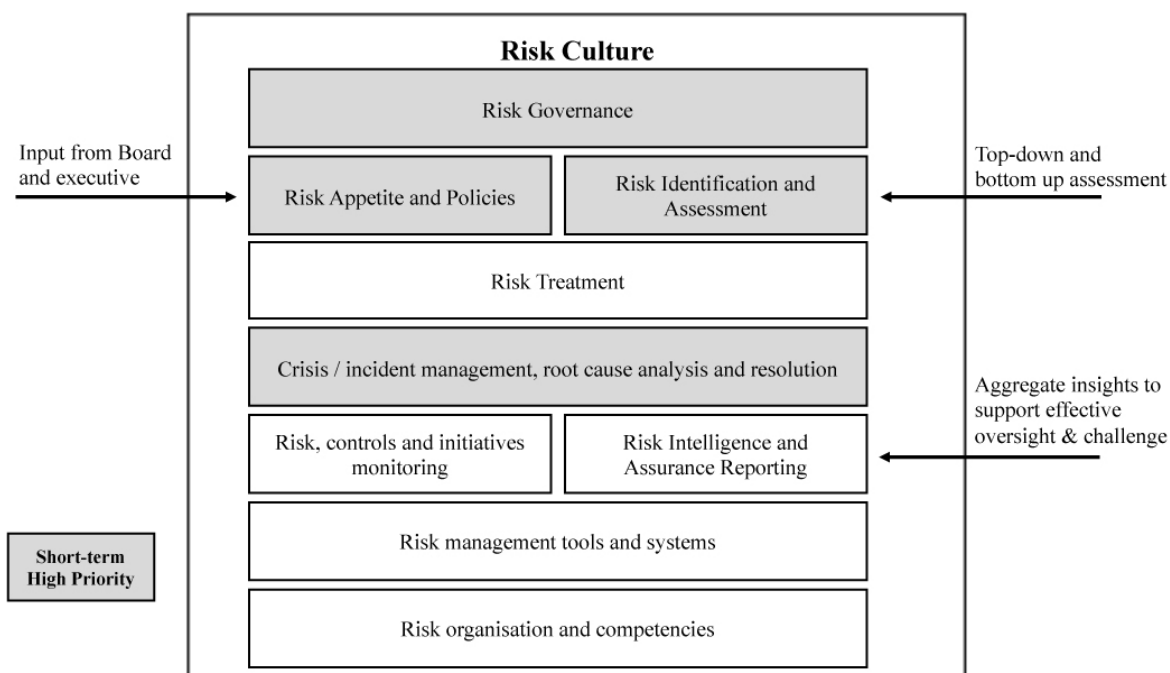
Source: TA report on Central Bank Risk Management (August 2022).

13.   As the risks confronting central banks broaden and become more complex, it is increasingly important that the CBSI continues to implement the recommendations. It was observed from the onsite meetings that risks have been materializing into incidents over the past year, including due to heavy reliance on manual processes, increased IT security threats (including email phishing), and risks related to third-party suppliers of information. This included incidents that have adversely impacted the CBSI operations, and that resulted in financial loss. Additionally, atypical power disruptions also compromised the CBSI's ability to complete some standard system back-up procedures in a timely manner. In addition to these business-as-usual risks, the CBSI has a number of major projects underway, requiring careful management of the associated change-related risks. These projects include: implementation of a new national payments system, covering clearing, real-time gross settlement, electronic funds transfer and subsequently international funds transfer; relocation of CBSI operations to a temporary premises while the main office is refitted; and follow-up actions associated with a recent AML/CTF national assessment. The remainder of the report provides guidance on the prioritization of actions along with advisory support to enhance the business continuity framework.
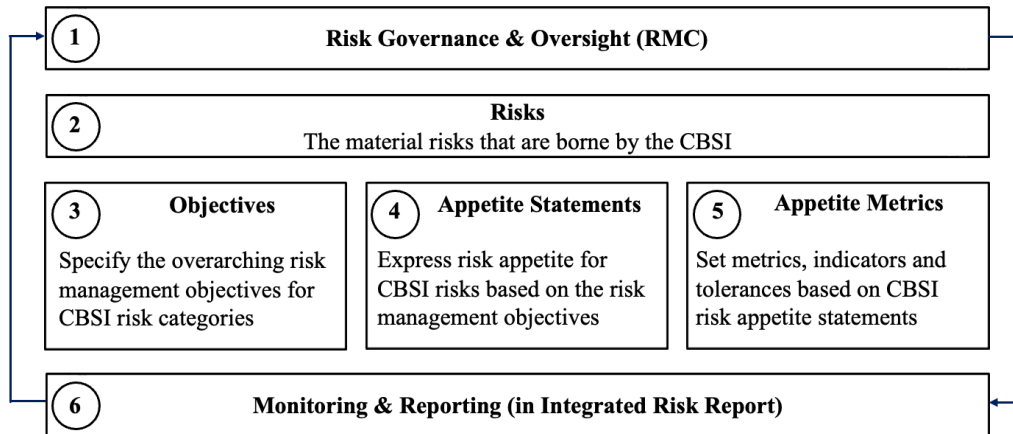
III. RISK GOVERNANCE

A. Observations

14. There have been some improvements in risk governance. The RMC has been established, with the inaugural meeting held in October 2022, and with responsibility for executive level oversight of risk management. Additionally, the terms of reference (ToR) of the BARC were amended, and now formally set out its accountability in supporting the CBSI board with non-executive risk oversight across the CBSI. However, in order for both these executive and non-executive committees to become effective in discharging their duties, they will need to be provided with the appropriate integrated risk reports and associated insights that will facilitate constructive challenge, guidance and well-informed decision making, including in relation to prioritization, resourcing and investment. It is only through these governance committees having access to broad-based risk intelligence that they can effectively discharge their risk management responsibilities (RMC) and risk oversight accountabilities (BARC) and thereby cultivate an appropriate risk culture across the CBSI. The BARC may periodically request the Deputy Governor, or other members of the RMC, to attend and present on risk-related matters, in order to achieve a level of assurance that specific risk issues are being managed effectively. The CBSI also queried whether the RMU should remain within RMCCD, or be integrated into the IAU. The guidance is for RMU to remain a standalone unit, such that independence is maintained between the role and resources of the Second Line risk function and internal audit.

15. Developing the Risk Appetite Statement should remain a high priority. In setting a risk appetite, it is important to recognize that no central bank is able to discharge its mandate without being exposed to certain risks. Therefore, the RAS is required to formally state the risk tolerance limits and thresholds, and the associated metrics that will be used to monitor each material category of risk. This will require RMU to engage with departments to coordinate and align on these thresholds and metrics. Then the executive and Board will need to review and input into the RAS prior to its finalization. However, it is important to commence progressing the RAS as soon as possible, and putting in place an annual governance review process, such that it is iteratively refined and enhanced each year. This process is illustrated in Figure 2. For some categories, such as financial risk, it will be relatively straightforward to define the risk appetite and associated tolerances and metrics, given central banks have been heavily focused on financial risk management. It can be more challenging to define risk appetites for strategic and non-financial categories of risk. Here it can be useful to consider whether the risk appetite should be to align or to fully adhere to specific control standards, for example for information security (NIST) or business continuity management (ISO 22301).

Figure 2. The Risk Appetite Process

1	**Risk Governance & Oversight (RMC)**
2	**Risks** The material risks that are borne by the CBSI

3 Objectives	**4** Appetite Statements	**5** Appetite Metrics
Specify the overarching risk management objectives for CBSI risk categories	Express risk appetite for CBSI risks based on the risk management objectives	Set metrics, indicators and tolerances based on CBSI risk appetite statements

6	**Monitoring & Reporting (in Integrated Risk Report)**

Source: Mission team.

B. Recommendations

16.   **The agenda for RMC and BARC should ensure sufficient time for effective oversight of risk.** The initial focus of oversight should be on ensuring adequate progress is being made in developing the RAS (R-A & R-C). As the ERM framework matures, more time should be spent discussing risk insights and prioritization.

17.   **An Integrated Risk Report (IRR) should be developed by RMU.** As the work on the RAS gets underway, the RMU should in parallel develop the structure for an IRR that mirrors the RAS (R-B). The objective of the IRR is to provide a clear and objective quarterly update on profile of each category of risk relative to the approved risk appetite for that category.

18.   **The frequency of RMC meetings should be reduced from monthly to every two months (R-D).** The RMU currently provides secretarial support to the RMC. In order to free some resource capacity within RMU to advance further maturing the components of the ERMF, it is recommended that the frequency of the RMC meetings be reduced. However, the RMC should also agree on a threshold for escalating specific risks or incidents by written procedure, such that material issues can be still addressed in a timely manner during intervals between formal RMC meetings.
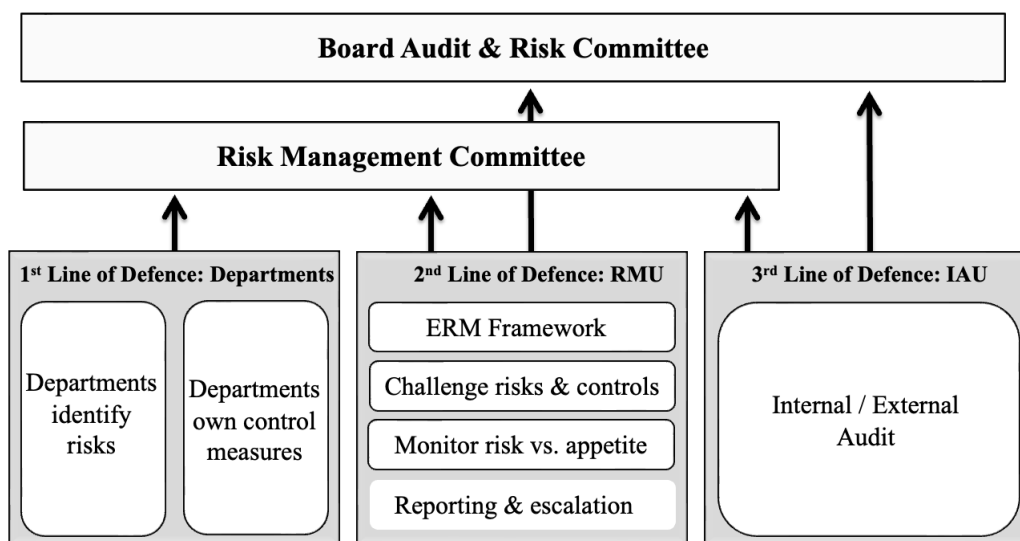
IV.   THE THREE LINES MODEL AND RISK CULTURE

A.   Observations

19.   **The Three Lines Model is a key enabler to effective risk management.** The Model will enable the CBSI to ensure broad-based risk management, despite limited resources, as it promotes risk ownership and consequently efficiency in risk mitigation by mobilizing effective risk management at departmental level (First Line). The Three Lines Model will help cultivate a healthy risk culture, as when effectively embedded, it ensures the components within the ERMF are self-reinforcing. These include ensuring a well communicated risk management framework, a

standard language to ensure consistent analytical rigour in assessing risks and incidents, strengthening risk information sharing across the CBSI, and importantly a clear approach for how managers should role model the desired risk management behaviours and standard. In the context of risk management, no program, project or process is too complex for the risks not to be understood.

Figure 3. The Three Lines Model

Board Audit & Risk Committee
Risk Management Committee

1st Line of Defence: Departments	2nd Line of Defence: RMU	3rd Line of Defence: IAU
Departments identify risks / Departments own control measures	ERM Framework / Challenge risks & controls / Monitor risk vs. appetite / Reporting & escalation	Internal / External Audit

Source: Mission team.

20.   The CBSI has taken initial steps to cultivate its risk culture. It is evident that senior leadership is bought in on the need to embed good risk management practice across the organization. This included the aspiration communicated by the Governor to the mission team, on the need for effective risk management to become a second nature part of the role of all staff. Here, some progress is already evident in the work on departmental incident reporting, which will help ensure the CBSI is learning from incidents. As the processes for collating risk information are effectively embedded, the RMU will be able to invest time to extract key trends and risk insights, to provide the RMC and BARC with a more strategic perspective of risk across the organization.

B.   Recommendations

21.   There should be regular communications to promote a culture of "all staff are risk managers." There is a need to ensure recurring tone from the top, formally communicating the importance of risk management (R-E). At the same time it is desirable, where appropriate, for staff generating risk information to have some visibility over how that information is being used. Staff raising issues should also be acknowledged where possible. This promotes a healthy risk management culture and ensures that it is more likely that staff will offer ongoing suggestions for improvement.

22.   The RMU will play an important role in translating risk intelligence into actionable risk insights. This would build on the information that is already being provided by departments and would be incorporated as key insights within the Integrated Risk Report (IRR). Such risk insights will help the RMC and BARC in providing guidance and input on prioritization (R-F).

V.   BUSINESS CONTINUITY/CRITICAL INCIDENT MANAGEMENT

A.   Observations

23.   The approach to business continuity management remains immature. There is a need for the RMC and the BARC to have oversight of business continuity arrangements. It is important to recognize that BCM represents one specialized category of risk. The risk appetite for business continuity should also be defined, which could include sub-statements relating to the acceptable recovery time for business processes deemed to be critical (such as within four hours), or higher level thresholds, such as the disaster recovery time (DR) for information technology. It is also important to have a standardized approach to critical incident management. As such, the mission team would recommend formalizing an Incident Management Team (IMT). Regular updates on BCM 'response readiness' should be provided in the IRR.

24.   A structural review of BCM is required. The ITCD currently provide important support for BCM, through their work on DR. However, it was observed that the Three Lines Model has not been applied to BCM. This would require the RMU, in its Second Line role, to coordinate BCM, and broader and consistent participation from departments. Given capacity constraints within RMU, this would require additional resourcing in order to ensure this work was completed effectively and without detracting from the broader risk management workload.

25.   The approach to BCM requires a structured framework. The key elements of an effective business continuity framework are shown in Figure 4 below. They are:

- *Identification* of critical processes as part of a Business Impact Analysis (BIA).

- Risk *assessment* to evaluate the likelihood and potential impact of reasonably foreseeable internal and external threats which could result in a business disruption.

- Risk *management* which is driven by the BIA and risk assessment where the business continuity plans are developed (including the formation of an Incident Management Team) and documented.

- *Training*, *exercises* and *testing*.

- *Monitoring*, *updating* and *reporting*.

The framework approach to structuring BCM is illustrated in Figure 4.

Figure 4. Business Continuity Management Framework
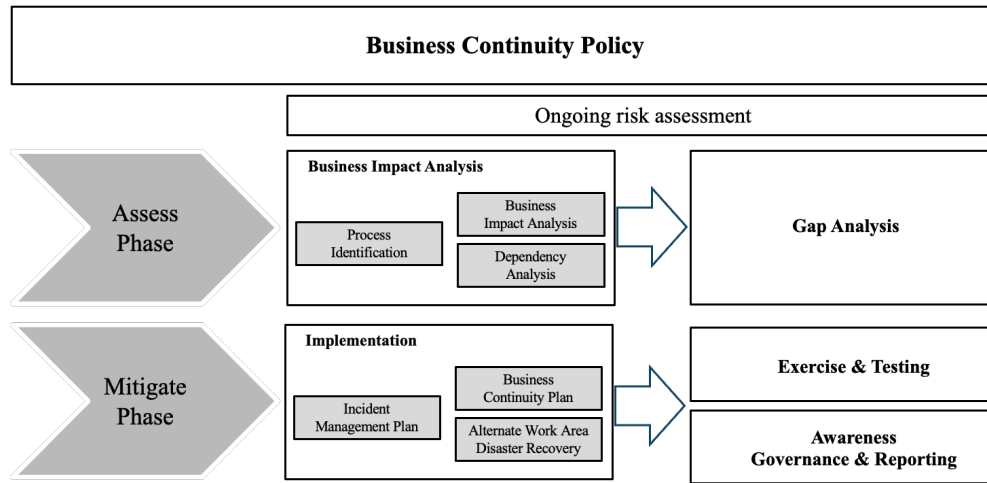
Source: Mission team.

B. Recommendations

26.   There is a need to ensure oversight of BCM by RMC and BARC. Business continuity represents one specialized category of risk. However, the co-ordination required to ensure an effective response readiness across the CBSI is considerable. It is important therefore that both the RMC and BARC are periodically maintaining oversight and seeking assurance that the approach to BCM is appropriate (R-G).

27.   Develop a CBSI-wide approach to BCM (R-H). The approach would be reflected in a Business Continuity Management Policy. Importantly, a co-ordination capacity would have to be built that did not have a negative impact on other risk management initiatives.

28.   Undertake a Business Impact Analysis. An effective BIA offers many benefits, including the ability to determine what business processes exist, the criticality of each process as it relates to achieving the CBSI's operational and strategic priorities, what resources each process requires to function effectively, including dependencies on third parties, and the impact to CBSI, should the process become unavailable. With this information, CBSI can better identify interdependencies, develop appropriate recovery plans and make informed decisions (R-I).

VI.   OTHER OBSERVATIONS

29.   There is an opportunity for departmental management teams to periodically present on their risks to the RMC. Given the importance of embedding the Three Lines Model, particularly in the context of limited resources, every opportunity should be leveraged to reinforce risk ownership and the culture of all staff having risk management as part of their role. This culture can be reinforced by the RMC inviting departments to present on their risk profile, including the priorities for risk mitigation and learnings from recent incidents. This ensures that management and staff across departments get broader exposure to the work of the RMC, which

also reinforces tone from the top. The mission team observed that staff interviewed during the onsite engagements were positively disposed to presenting at the RMC.

30. **There is an opportunity to promote integrated assurance.** The mission team observed buy-in on the need to enhance risk management and control efficacy, across engagements with departments (First Line), the RMU (Second Line) and IAU (Third Line). As the approach to risk management matures further, there will be greater opportunity to strengthen the integration of the work across each line. For instance, this could include the risk appetite and risk profiles being leveraged as one input into the yearly audit plan, or for risk intelligence from departments being reviewed which may highlight processes that are under or over controlled, thereby facilitating an opportunity to reallocate resources. Additionally, at governance committee level, audit findings for specific departments could be raised at the RMC, providing the Third Line control perspective, in addition to the risk perspective.

31. **Risk management tooling.** During the TA mission, the staff within RMU queried potential opportunities to leverage risk management software tools to assist them. The mission team advised that given the further work required to mature and stabilize the risk information datasets, it would be appropriate to use tooling that enables agility, such as spreadsheets or Microsoft Power BI, rather than an off-the-shelf decicated risk product, which would require a stable risk operating and data model, and considerable time to parameterize.

VII. Concluding Remarks

32. **The CBSI is on a journey to enhance and embed enterprise risk management practices.** Following the previous technical assistance, positive steps have been taken to enhance risk governance, and this improved oversight should be further embedded. The CBSI are also on a path to implementing and improving the broader components of their ERMF. While progress has been made, further work is required, particularly with regard to implementing the Risk Appetite Statement and Integrated Risk Reporting, as both will significantly reinforce the governance enhancements. This report recommends that the RAS and IRR are treated as the next risk management priorities, and that an annual governance cycle be used to refine and improve each further. Progressing the RAS will require the engagement of departments, senior leadership and the Board. This is a key step to transition from operational risk to enterprise-wide risk management. Once these components are implemented, work is recommended on developing the top-down approach for identifying strategic risks and to refine the IRR to provide insights on risks that traverse across departments. In parallel it is recommended that the CBSI put in place regular communications (tone from the top) to staff on the importance of risk management.

33. **Follow-up TA.** There would be merit in following-up to monitor the progress in the implementation of the recommendations, via a quarterly virtual review, followed by a more comprehensive on-site review after a period of one year.

APPENDIX I. DOCUMENTS REVIEWED OR CONSULTED BY THE MISSION

In addition to the artefacts made available to the Mission for its previous report the following documents were reviewed or consulted by the mission team.

#	Document Title	Date of Issue	Description
1	Risk Management Committee Terms of Reference	August 2022	This is the Board approved Terms of Reference for the Risk Management Committee.
2	Board Audit Committee Terms of Reference	2022	This is the Board approved Terms of Reference for the Board Audit Committee. It had been amended to include oversight of CBSI's risk management practices.
3	Risk Management Policy (Draft)	2023	A draft of the CBSI Risk Management Policy.
4	CBSI Draft Business Continuity Plan (Version 2.0)	2023	This BCM plan outlines roles and responsibilities of staff for continuity, along with detailing a variety of business continuity scenarios and proposed responses.
5	Incident Risk Register Report for 2022	2023	The report, which was presented to the RMC, reviews the 155 incidents that occurred during 2022.
6	Weekly Risk Incident Report for week ending 28/7/23	July 2023	The incident report summary for the week ended 28 July 2023.
7	Incident report risk register template	2022	The incident reporting template as used by departments across the CBSI.

The mission team met with the following staff and Board members of the CBSI.

CBSI Board Members
Helen Beck, Non-executive Director, Member of the Board Audit Committee.
David Quan, Non-executive Director.

Senior Leadership
Dr. Luke Forau, Governor.
Raynold Moveni, Deputy Governor.

Management
Marlon B. Houkarawa, Management Advisor, Operations.
Sonia Marahare, Chief Manager, Risk Management & Corporate Communications Department (RMCCD).
Lynne Suti, Analyst, Risk Management Unit, RMCCD.
Hubert Vahia, Middle Office, RMCCD.
Oliver Karoa, Manager, Internal Audit Unit (IAU).
Enoch Ilisia, Manager, Currency, Banking and Payments Department (CBPD).
Ali Homelo, Chief Manager, Financial Markets and Exchange Control Department (FMECD).
Charlie Sivu, Manager, Financial Markets, FMECD.
Ronsley Pana, Manager, Exchange Control, FMECD.
Edward Manedika, Chief Manager, Information and Communication Technology Department (ICTD).
Badley Teddy, Manager, Information Technology, ICTD.
Glen Buka, Chief Information Security Officer, ICTD.
Emmanuel Gela, Chief Manager, Finance & Accounts Department (FAD).
Simon Ramoifai, Manager, FAD.
John B. Houanihau, Chief Manager, Human Resources & Corporate Services Department (HRCSD).
Michael Erekali, Manager, Corporate Services, HRCSD.
Jenny I. Aiapu, Manager, Human Resources, HRCSD.
Rose Sulu, Manager, Training, HRCSD.
Jimmy Sendersley, Director, Solomon Islands Financial Intelligence Unit (SIFIU).
Jimmy Vaja, Manager, Intelligence, SIFIU.
Tom Ha'aute, Manager, SIFIU.
Linda Folia, Manager, National Financial Inclusion Unit (NFIU).
Samuel Warunima, Chief Manager, Financial Supervision and Regulations Department (FSRD).
Mary M. Loea, Acting Manager, FSRD.
Denson Deni, Manager, FSRD.
Louisa K. Baragamu, Chief Manager, Economic Research & Statistics Department (ERSD).
Katie Longe'au, Manager, Monetary Policy, ERSD.

APPENDIX III. SCHEDULE OF MEETINGS

#	Session	Date	Duration (hours)
1	Meeting with Risk Management Unit and Advisor (Operations)	7 August 2023	1
2	Meeting with Governor and Deputy Governor	7 August 2023	1
3	Meeting with Deputy Governor and Head of the Internal Audit Unit	7 August 2023	1
4	Meeting with CBPD staff	7 August 2023	0.75
5	Meeting with FMECD staff	7 August 2023	0.75
6	Meeting with ICTD staff	8 August 2023	0.75
7	Meeting with FAD staff	8 August 2023	0.75
8	Meeting with HRCSD staff	8 August 2023	0.75
9	Meeting with SIFIU staff	8 August 2023	0.75
10	Meeting with NFIU staff	8 August 2023	0.75
11	Meeting with FSRD staff	8 August 2023	0.75
12	Meeting with ERSD staff	8 August 2023	0.75
13	Meeting with NPSD staff	8 August 2023	0.75
14	Meeting with RMU staff and Advisor (Operations)	9 August 2023	1
15	Meeting with non-executive member of the BAC	9 August 2023	1
16	Meeting with non-executive member of the CBSI Board	10 August 2023	1
17	Closing session with the Management Committee	10 August 2023	2
18	Closing meeting with RMU staff	10 August 2023	1
19	Closing meeting with Advisor (Operations)	11 August 2023	1