

The Risk Appetite

Meeting of IRM North West Group – 29 March 2007

The meeting was stimulated by recent guidance issued by HM Treasury on how organisations in central Government can refine their approach to setting and communicating their risk appetite. The notes below tell you where to find the guidance. We increased our catchment by holding the meeting jointly with the regional AIRMIC organisation and also inviting ALARM members in the North West. As for many previous meetings we held this one at the Highways Agency offices in central Manchester and, as ever are grateful to Ray Butler for facilitating this.

We had a last minute crisis when our Treasury speaker had to be elsewhere and could not provide an alternative. We felt the show should go on and so Andy Garlick volunteered to do the best he could to provide an overview and an independent perspective in place of the Treasury insider knowledge.

Andy broadened the remit to include some of the other useful publications central Government has produced on risk management over recent years at least to the extent that they impinge on the "risk appetite". He highlighted the very useful assessment-based approach to determining your risk appetite and gave an overview of the many case studies which are available.

Jenny Rayner followed this with a very interactive session on applying your risk appetite. It emerged that the audience had a broad range of experience in using different types of risk matrices to express their appetites. However there was general agreement that risk matrices provided a good means to define the boundary between risks which are tolerable and those which require urgent action to make them so.

Jenny said she found the staged approach of inherent risk, residual risk and target risk very useful. Identifying the critical controls that take you from inherent risk to residual risk helps to direct audit activities, and tracking the execution of the actions which are intended to take you on to target risk provides a health check for risk management. The other important tool is a 'freedom to act' hierarchy using multiple risk appetites which allows you to delegate – subject to suitable monitoring!

We enjoyed a vigorous discussion on several topics and Ray Butler talked about his Board had been given food for thought by the documents. One area where we had to agree to differ was whether the Treasury guidance could have been made more prescriptive. The tax-paying element thought joined up government would be promoted by a more consistent approach – not the same as a common risk appetite; but those in the know thought Government was too diverse for this to be appropriate.

As always we are very grateful to the speakers for making time to come and talk to us, and to the Highways Agency for making room for us. It was a very enjoyable afternoon.

Notes

The treasury guidance can be found at www.hm-treasury.gov.uk by going to 'Financial Management' and then 'Governance in Government'. If this fails the full URLs are:

Directors' Guide

www.hm-treasury.gov.uk/media/A61/E0/pu026_thinking_about_your_risk_final_vers1a_.pdf

Practitioners Guide

www.hm-treasury.gov.uk/media/A61/F1/pu134_risk_practitioners_guide_final_pdf_P1_vers2a.pdf

Good Practice Examples

www.hm-treasury.gov.uk/media/A61/FE/pu135_risk_appetite_good_practice_examples_final_p1_vers3a.pdf

You can also find other useful Government risk material on the Treasury under the Risk Portal which can be reached from 'Public Spending & Services' and then 'Risk'. A further source is the volume Risk: Good Practice in Government at

www.nationalschool.gov.uk/downloads/MIRC/Risk%20Management%20-%20HMT%20Good%20Practice%20Guide.pdf

Finally the two presentations can be found with these notes on the IRM site.