Risk management – measuring the benefits

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Rachel Kift

Presentation will cover:

- Our interest in risk management
- The emerging findings from our risk management work across government

The NAO strategy:
What are we trying to achieve?

To apply the unique perspective of public audit to help Parliament and Government drive lasting improvement in public services

NAO’s strategic themes

- Improving financial management
- A more informed government
- More cost-effective delivery

Why are we focusing on risk management?

- SIC work identified weaknesses in risk management across government departments - concern that too much emphasis is placed on the process
- We want to encourage improvements in the way that risk management is used to drive improvement in service delivery and VFM

Risk management work: what we did

- Developed a “toolkit” which was applied by our auditors to government departments and delivery bodies
- Compared approaches to risk management across Government
- Commissioned a piece of work to identify good practice in both public & private sectors
- Considered impact of ongoing changes in the Government sector

Section 1: Does the organisation's leadership promote a risk culture?

1.1. How does the core Department drive and encourage a culture of risk management amongst its own staff and that of its delivery bodies?

1.2. What is the organisation's risk appetite? Is this clearly defined and articulated?

1.3. What barriers to effective risk management does the organisation perceive exist? What is our view of these barriers?

Section 2: Is risk management at the organisation delivering value for money?

2.1. How does the leadership team obtain assurance that the risks to the organisation are identified and effectively managed?

2.2. Are risks properly costed and benefits measured so that control measures taken to drive improvements in outcomes can be assessed for cost effectiveness?

2.3. Are lessons learned to improve risk management?

Section 3: Does risk management contribute to improved outcomes?

Intended to capture examples of where:

(a) a risk has been identified, a mitigating control has been implemented and a successful outcome has ultimately been achieved, all of which can be directed attributable to risk management; and

(b) a risk was either identified and not effectively mitigated, or the risk was never identified.

Our emerging findings

- Improvements in processes BUT…
- Costing and evaluative aspects of risk management are still underdeveloped AND…
- Broadly same actions required to strengthen risk management as recommended in our 2004 report, *‘Managing risks to improve public services’*

Our emerging findings

Emerging findings focus on the effectiveness of risk management in **six** areas:

1. Leadership & engagement
2. Tolerance to risk
3. Ownership & accountability
4. Good quality information
5. Costing of risk & mitigations
6. Learning lessons

Leadership & engagement

- Leadership and ownership of risk management in Government Departments is inconsistent
- Consideration and discussion of risk is a standard agenda item for meetings but discussions do not always focus on those significant issues which could pose the biggest risk to departments

Tolerance to risk

- Some departments do not recognise the importance or benefits of setting risk tolerances
- Many believe that, given the size of the organisation and the diversity of its operations, tolerance to risk is too difficult to define
- A few departments and agencies have set risk tolerances for different areas of their business and are using these to manage their business BUT
- This approach is not common across government and we did not find many good practice examples where clarity about risk tolerances has been used effectively to improve outcomes

Ownership & accountability

- There is often a lack of clarity over the ownership of, and accountability for risks
- Whilst Department officials hold regular discussions with delivery partners, there is a lack of clear guidance in some Departments on when risks should be escalated

Good quality information

- In many cases, the risk information reported to the Board is not fully integrated with performance and financial information
- Many discussions around risk are focused on the content of the risk register and the “RAG” (red, amber, green) assessment rather than a focused discussion on the actions required to mitigate the key risks

Costing of risks and mitigations

- Guidance on how to assess and evaluate risks in terms of their likelihood and impact BUT
- Little evidence of the costing of risk and mitigations to evaluate and inform decision-making as part of normal business
- Some examples in the management of major projects of costing both of risks BUT
- Most Departments express the view that the costing of risk is either not practical or is too difficult given the nature of their business operations

Learning lessons

- Most departments are very good at capturing and sharing lessons by way of newsletters or staff bulletins BUT
- There is little evidence that these lessons are learnt and used actively as part of a drive towards continuous improvement

Impact of change…

- Enhanced Departmental Boards
- The Major Projects Authority
- Long-term sustainable cost reduction
- Accountability
- Transparency
- Others…?

Any questions?