

MANAGEMENT BOARD

Internal audit of risk management: response

Paper from the Head of the Office of the Chief Executive

Purpose of Paper

1. This paper proposes a management response to the internal audit report (July 2009) on risk management and updates the Board on progress in developing an action plan in response to the audit.

Action for the Board

2. The Board is asked:
 - to agree the management response to the internal audit report (at Annex A) for submission to the Audit Committee in October 2009; and
 - to note the progress in developing the action plan.

Internal Audit Report (July 2009)

3. The internal audit report acknowledges the “step-change” in the progress made since the last risk management audit in 2007, moving from “risk aware” to “risk defined”, status but also highlights several areas that require further action if risk management is to become fully effective. Annex A sets out a proposed response for the Board’s approval.
4. It is proposed that the majority of the report’s findings be accepted, apart from the suggestion that “*the risk management agenda should be delegated to the House of Commons Administration Estimate Audit Committee*” (ref Annex 1 pg 14).” **Does the Board agree that responsibility for the risk agenda should lie with the Board, and not with the Audit Committee?**
5. To some extent, the report’s critique of the governance of risk management reflects the lack of clarity about governance in the House more generally. **Does the Board wish to state in the response that it will escalate to the Commission risks that the Board cannot manage?**
6. Central to the report’s findings is the recommendation that the Board revisit its risk management policy and strategy to ensure it remains appropriate (para 22 pg 8 IA). The report suggests “*that the House has reached a critical decision point with regard to the future focus of risk management and whether it should continue to strive to reach a level of risk maturity that may not be achievable or even desirable, within the existing culture and the level of engagement with risk management*” (para 21 pg 8 IA).
7. The House’s existing risk management policy and strategy (underpinned by the Treasury Orange Book (October 2004)) was agreed by the MB in March 2008 and has been the key driver behind the organisation’s

undertaking to achieve “risk enabled” status. The Board’s initial response, in July 2009, to the suggestion that it should consider lowering the organisation’s risk management aspiration from “risk enabled” to “risk managed” was that the House service should continue to aim to achieve a “risk enabled” status of risk management.

8. The IA Review states that “a fully risk enabled organisation would proactively and effectively manage uncertainty and maximise the benefits from risk management”. Our current status of “risk defined” puts the House at a level at which the majority of risks have been identified and assessed and regular reviews and responses to risks are in place, but not all. A fully risk enabled organisation would be more sophisticated in its risk management processes; all key risks and responses to those risks would be identified and in place, with managers pro-actively taking responsibility for managing them.
9. The CRMT strongly support the Board’s initial view that we should continue to aim for “risk-enabled” status but believe we should approach this in stages. This would be in accordance with the maturity assessment criteria (IIA-UK) used by IA in their review and also the OGC Successful Delivery Toolkit methodology for implementing risk management. We propose that the Board should aim to achieve “risk managed” status by March 2011, and then, subject to review and assessment by the Board at that point, “risk enabled” status by 2012. **Does the Board agree?**
10. Moving to “risk managed” status will require a change in management culture and a strong push from Directors General to promote the message that risk management is the responsibility of all managers and not just those nominated as risk champions. The report suggests that there “*is a need for a senior individual with authority to give leadership and direction to both the work of the CRMT and nominated managers in Directorates*” (para 25). Since risk management moved to the OCE in January 2008, the person responsible for directing the work of the CRMT has been the Head of the OCE. **The Board is asked to consider whether, in line with the IA report, a risk champion should be identified at Board level or whether the Head of the OCE should be tasked to promote risk management more actively.**
11. The CRMT will change their focus, from facilitating the risk management process to engaging with senior managers to help them actively manage the risks that “fall out” of their day to day work; and challenging the way significant risks are being managed.
12. Other areas that the CRMT will look at are:
 - standardising the risk registers and scoring methodology including the escalation process of key risks to the Board; how we define the House’s risk appetite in terms of the scoring system used for inherent and residual risks; and

- improving the communication of risk: re-launching the risk manuals, making better use of the intranet.

13. The CRMT are currently working in liaison with Internal Audit to formulate a detailed and comprehensive action plan, to be managed — as recommended — as a formal project. This will be circulated to the Board for agreement by correspondence before submission to the Audit Committee in October.

ANNEX A

INTERNAL AUDIT REVIEW – MANAGEMENT RESPONSE SEPT 2009

REF	IA Review – July 2009	MANAGEMENT BOARD RESPONSE
1. Is the House's vision for risk management right?		
Para 19	Revisit the House of Commons risk management policy to establish if it correctly identifies the House's end vision for risk management and whether it is achievable	Action completed The Board believes that the House Service should continue to aim to achieve a "risk-enabled" status of risk management but should approach this in stages. The aim is to achieve "risk-managed" status by March 2011, and then, subject to review and assessment by the Board at that point, "risk-enabled" status by 2012.
2. Leadership and Direction of risk management		
Para 25	Para 25 A need for a senior individual with authority to give leadership and direction to both the work of the CRMT and nominated managers in directorates, in the implementation of systematic and effective risk mgmt	Since risk management moved to the OCE in January 2008, the person responsible for directing the work of the CRMT has been the Head of the OCE (see para 10).
3. People, knowledge, skills and support		
Para 27	IA found that departmental risk co-ordinator's primary focus was on	The CRMT, with the support of

	the completion of their respective risk registers and not necessarily on the improvement of the management of risks. .There were real problems in engaging Directors and Managers in risk management.	the Director Generals will take a more pro-active approach to assist departmental managers in managing their key business risks; and in particular will focus on “challenging” managers on how they manage their risks.
4. Risk Management Policy		
Para 34 Annex 1 Pg 14	Implementation of the House risk mgmt policy and the realisation of the potential benefits should be treated as a corporate key project and should be project managed. There is a need for an end date for when the appropriate level of risk mgmt will have been achieved. Promote the House’s risk mgmt policy in an integrated fashion with other mgmt re-modelling initiatives	Accepted- The process of moving to “risk managed” status by March 2011 will be managed using project methodology. Accepted - risk management should be seen as a core management responsibility and that will be made clear to managers in the re-modelling initiatives.
5. Governance		
Annex 1 Pg 14	Establish appropriate governance for risk mgmt in the House – should the risk mgmt agenda be delegated to House of Commons Administration Estimate Audit Committee – acting as a risk committee? This has been done in other organisations on a “task and finish” basis.	Not accepted – the Board believes that responsibility for risk management should lie with the Board, and not with the Audit Committee. The Board would welcome the Audit Committee’s view on the most appropriate role for the Audit Committee in the risk management process. (See para

		4). The Board accepts that wider questions of governance in the House need to be addressed. It intends to escalate to the Commission risks that the Board cannot manage. (See para 5).
6. Risk identification		
Annex 1 Pg 15	Standard Risk Register developed and then compliance enforced Improve information links between RFT and other Groups (that sit outside of the corporate and departmental risk management process) for example: RMG, BRRG BI Cameral Swine flu pandemic mgmt and planning grp or the Corporate Gateway Review Team to ensure that risk registers are updated, if appropriate, and that a complete risk profile is built for the organisation	Accepted: The CRMT will develop a standard risk register and the Board will ensure it is used across the House Service.
Pg 12	Departments identify operational risks – Depts are not able to confirm what mechanisms are in place to ensure that all principal risks a re recorded in their risk registers – no evidence of systematic identification of risk such as CSRA approach. No evidence of the categorisation of risks except in PICT	Accepted The CRMT has established regular contact with project and programme teams and with the BRRG and Pandemic Planning Group. has already started. Accepted –This will be covered in detail in the action plan
7. Risk Assessment		
Annex 1 Pg 16	Establish mechanisms to improve the consistency in the scoring of cross cutting risks such as IT risks Risk Scores should be regularly challenged by the RFT	Accepted – the CRMT will review the consistency in the scoring of cross-cutting risks with the aim to

	Target risk scores defined for all risks on the risk register	standardised the scoring methodology including ensuring target risk levels have been agreed for all risks on the risk registers.
Annex 1 Pg 17	<p>The quality of mitigations set out in the risk registers should be improved as this is how departments demonstrate that they are effectively managing their risks. This should identify all of the significant methods</p> <p>The effectiveness of mitigations/controls in actually managing the inherent risk should be reviewed, evidenced and measured as part of a strong scrutiny process which is linked to wider performance mgmt arrangements.</p>	Accepted –The Board acknowledges that there are weaknesses in the process of updating and recording mitigation information. The CRMT has been tasked with looking at ways to improve this, linking in with the information required under the balanced scorecard.
8. Risk Remedial Action Plans		
Annex 1 Pg 17	<p>Performance indicators should be developed and reported on for planned mitigations</p> <p>Action plans should be developed with dates and those responsible, with a commitment that the action will lessen the risk proportionately.</p>	<p>Accepted -The CRMT has been tasked with looking at ways to improve this, linking in with the information required under the balanced scorecard.</p> <p>Accepted – Managers who report critical risks will be required to show timed action plans for reducing the risk to the target level.</p>
Pg 9 Para 27	Risk Co-ordinators focused on the completion of risk register and not on the improvement of the mgmt of risk. Real problems in engaging Directors and Managers.	Accepted – The CRMT will change their focus, from facilitating the risk management

	<p>RMF can take a more pro-active approach amongst the risk community and look to focus their attention more on challenging and supporting the fundamentals of risk mgmt, than on the process. To do this they should look for practical examples of benefits realisation.</p>	<p>process to engaging with senior managers to help them actively manage the risks that “fall out” of their day to day work; and challenging the way significant risks are being managed.</p>
9. Risk Review and Reporting		
Annex 1 Pg 18	<p>Further development of the Balanced Score Card to fully integrate risk, performance and assurance reporting for the Board.</p> <p>Clear criteria for when departments must escalate risks to the Management Board</p>	<p>Accepted- The Office of the Chief Executive is currently working on integrating risk, performance and assurance reporting under the balanced scorecard.</p> <p>Accepted - The CRMT is currently reviewing the criteria for escalation of risks to the Management Board and will communicate these to Departments.</p>
10. Risk Training and Communication		
Annex 1 Pg 14	<p>Develop training programme to raise awareness of risk management standards and the House’s approach (developing a risk aware organisation) and to ensure that staff understand their roles. IA pg 141 Risk Co-ordinators – need to be seen as an integrated part of their whole job and for this they need the skills, tools and professional support and advice to do so on a par with the</p>	<p>Accepted - risk management is already included in some training programmes. Stand alone risk management courses to be considered with the assistance of external training providers.</p>

	<p>support provided by other professions – pg 10 Development of House standards and practical guidance that supports the risk mgmt policy. Improve accessibility to guidance</p>	<p>Accepted – the House risk management documents will be re-vamped and communicated to staff.</p>
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