

## **MANAGEMENT BOARD**

### **Risk Management Update 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 on the system of risk management (May 2011).

#### **Action for the Board**

2. The Board is asked:
  - to note the findings of the Internal Audit report (see Annex A)
  - agree the draft management action plan submitted in response to the internal audit report (Appendix A to the annex), for submission to the July meeting of the Audit Committee.
  - to take a view on the questions raised in paragraphs 8 and 10, on the overall aim of the risk project and the mandate of the CRMT.
  - to agree that the ongoing work will be governed by a programme board (see para 11).

#### **Consultation**

3. This paper has been circulated for initial comment to the Board risk champion (John Borley) and to the members of the Risk Project Board. The risk champion has indicated his support for the approaches outlined in the draft management action plan and the steps outlined in paragraphs 11-14. The Project Board also support the paper.

#### **Background**

4. The internal audit review of the system of risk management was agreed as part of the annual audit plan by the Audit Committee in January 2010. Professional Standards also require the Head of Internal Audit to assess the relative risk maturity of the organisation, so as to both report this to the Accounting Officer and to help in the planning of audit coverage.

#### **Internal Audit Report (May 2011)**

5. The report, attached at Annex A, acknowledges that good progress has been made since the last risk management audit in July 2009. The overall risk maturity assessment indicates that the risk management process within the House has advanced and developed since the last review and continues on an upward trajectory (paragraph 2.1). Although the body of the report makes this progress clear, the overall assurance opinions have

not changed since 2009. The report gives “partial” assurance on the operating effectiveness of the system and controls in place and “moderate” assurance on the adequacy of the design of the system.<sup>1</sup> The auditor bases this level of assurance principally on the fact that the new system of risk management was only introduced in January 2011 (paragraph 2.2).

6. The internal audit report also includes the results of a self-assessment exercise undertaken by the Corporate Risk Management team in April 2011. The team used the HM Treasury’s five-stage “Risk Management assessment framework”<sup>2</sup>, which is regarded as an indicator of best practice in the UK public sector, to evaluate progress and current status of seven key areas within the risk management process. The results are shown in paragraph 3.3 (p.7) of the report. They are broadly in line with Internal Audit’s assessment: progress has been made in leadership, policy and process areas, but there are still areas for improvement, particularly in how risks are handled and improved outcomes delivered. The Board may wish to note comparisons with the wider public sector. A report due out soon by the National Audit Office on *Risk Management – Emerging findings* (May 2011) indicates that many public sector organisations are also struggling with the same key areas and that very few, if any, organisations have achieved the ultimate level of risk maturity as outlined in the framework.
7. Central to the Internal Audit report’s findings is the Board’s decision in October 2009 to move the organisation’s risk management aspiration to a “risk managed” status by March 2011 and “risk enabled” by March 2012. The report highlights the fact that both these levels require a more sophisticated risk management process than the one introduced in January 2011, and in particular notes that “risk enabled” may not be either desirable or achievable for the House Service. The Report therefore recommends that the Board re-consider this overall aim, move away from the aspiration of becoming “risk enabled” and concentrate instead on “maximising the benefits of the existing system of risk management until it starts diminishing its returns“ (para 3.6). The report emphasises the importance of adapting the system of risk management to the needs of the organisations, so that “risk is managed in the particular organisation, in its particular circumstances, in a way which effectively supports the delivery of its objectives” (para 3.5).

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<sup>1</sup> “Partial” is the equivalent of the “limited” assurance given in 2009 (IA have amended their nomenclature since then).

<sup>2</sup> Risk Management assessment framework : a tool for departments, HM Treasury, July 2009

8. In light of this recommendation **the Board may wish to consider again what it wants from the system of risk management, including revisiting its previous decision to move to a “risk enabled” status by 2012. Is this the most appropriate level of risk maturity for the House of Commons Service to aim for, taking into account its current circumstances, culture and environment?**
9. The report also recommends that the Board consider to what extent the risk management process should inter-relate with other corporate business processes and how strong a mandate the corporate risk management team should have in directing management behaviour, bearing in mind that the overall aim is to ensure that the organisation strives for an effective risk management system that is appropriate to the House of Commons and adds value to the business. In this context, the Board should be aware that a strong push will be needed from DGs to promote the message that risk management is the responsibility of all managers and not just those nominated as risk champions. The Board may, for instance, wish to consider mandating the CRMT to challenge managers if they are not taking appropriate responsibility in this area, as well as to escalate issues of non-compliance or slippage.
10. **The Board is invited to confirm CRMT’s mandate in relation to the wider business.**

### **Next Steps**

11. The CRMT will continue to work, in liaison with Internal Audit, on formulating a more detailed and comprehensive action plan based upon the draft management action plan. This action plan will continue to be underpinned by a project management methodology (as recommended by the report) to ensure appropriate milestones have been assessed and identified and to assist in delivery. This work will be governed by a programme board, membership based on the current risk management project board.
12. The focus of the plan will be on promoting the messages within the Risk Management Handbook, particularly the “single platform risk management framework”, to ensure that the focus of the organisation is on those significant issues which could pose the biggest risk, and ensure consistency of approach in implementing risk management across the House. On a practical basis this will include:
  - Ensuring that Departments use the standard risk registers and scoring methodology by October 2011;
  - Ensure risk management is a standard agenda item across departments’ management meetings;
  - Ensure departments focus on the internal controls required to mitigate the key risks including providing more evidence on the costing of risk and mitigations and ensure that any evaluation informs decision-making as part of normal business;

- Ensure departments are holding regular discussion with delivery partners;
- CRMT working with departments to help them find practical ways to overcome any difficulties;
- Ensure regular reviews are in place to ensure that lessons are learned and used as part of continuous improvement.

13. Another important task for the next phase of the programme will be to establish more robust information about the progress of embedding risk management, in a way that is sufficiently detailed to be of use to Internal Audit and also adds to the overall levels of assurance on offer to the House. The CRMT therefore is keen to establish an effective *and simple* method of evaluating how well departments and directorates are doing in embedding the processes and procedures included in the new approach to risk management. This could include a 'package', or set of activities (documents/self assessment workshops) to be handed over to departmental risk managers and which will help them to score and/or self assess their areas of responsibility and the utility of the procedures with which they are beginning to work.

14. CRMT will convene work with the House-wide risk forum to discuss how we, as an organisation, can identify what parts of the organisation are lagging behind in terms of embedding the risk management processes.

Matthew Hamlyn  
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ANNEX A - System of Risk Management draft Audit Report

[s.36(2)(b) and s.36(2)(c)]