

# *The Scottish Federation for Coarse Angling*

The national governing body of the sport of coarse angling in Scotland

SFCAP 001  
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## **CORPORATE GOVERNANCE AND RISK MANAGEMENT**



## AMENDMENT RECORD

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**CORPORATE GOVERNANCE AND RISK MANAGEMENT:**

## Chapter

- 1 Corporate Governance Principles
- 2 The Corporate Governance Risk Management Process
- 3 Risk and Performance Management
- 4 The Statement on Internal Control
- 5 Risk Management Assessment Framework Tool

## **PREFACE**

This Scottish Federation for Coarse Angling Publication (SFCAP) provides guidance on Corporate Governance and Risk Management within Coarse Angling in Scotland. Corporate Governance covers the way the Federation is directed and controlled as a whole to achieve its objectives. The Corporate Governance structure, risk management, and audit and assurance processes discussed in this SFCAP provide a strategic framework to allow the Executive Committee to adopt a risk-based approach to internal control through the consideration of significant risks to the achievement of its objectives. It also provides Sport Scotland and the membership with the necessary formal assurance of compliance with statutory requirements and effectiveness of internal control systems and procedures.

This SFCAP is maintained by the Executive Committee. General enquiries concerning this publication are to be addressed to the Chairman:

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## CHAPTER 1

### CORPORATE GOVERNANCE PRINCIPLES

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#### CORPORATE GOVERNANCE AND RISK MANAGEMENT POLICY STATEMENT

1. This Chapter provides a statement of the Federation's policy on Corporate Governance and Risk Management and a summary of the roles and responsibilities of key individuals.

2. The management of risk may be a new concept to the Federation but: we are already doing it every day, at many levels and in a wide variety of contexts. However, we could benefit from a more coherent and systematic approach to risk management. In particular, we need to draw together our assessment and management of risk at the higher levels within the Federation and relate risk more directly to the achievement of our objectives.

3. By identifying, understanding, and controlling risks that may prevent or enhance the achievement of our objectives, we will be better able to achieve the vision set out in our 5 year plan and beyond, while also making the best use of the resources provided by both Sport Scotland and our membership.

4. The SFCA's system of internal control will be based on an ongoing process that identifies the risks (and opportunities) to the achievement of policies, aims and objectives, evaluates the nature and extent of those risks and manages them efficiently, effectively and economically. The SFCA is committed to a risk management approach to Corporate Governance, where risk is defined as:

*"A future uncertain event that could adversely influence the achievement of Federation and statutory obligations."*

5. The Federation's Performance Management System will provide a strategic framework for the consideration of risks with the Balanced Scorecard offering a starting point for the identification, evaluation, control and reporting of risk against a balanced assessment of its objectives. Risks exist because the future is uncertain. Risks can therefore be more or less probable and have a greater or lesser potential impact on objectives. Uncertainty also creates opportunities, and risk management should be as much about identifying opportunities as controlling and mitigating risks.

## **PURPOSE**

6. The purpose of the Federation's Corporate Governance policy is to assist the executive to anticipate risks, exploit opportunities and implement control and mitigation activities as a means of optimising performance and delivering continuous improvement. This also encompasses:

- protecting our people;
- harnessing our resources to manage more effectively the risk to the achievement of objectives;
- managing those physical and other risks that have the potential to damage our assets, our people or members of the public, or effect the environment; and
- assessing and managing risks associated with working with children and vulnerable adults and other public and private organisations.

## **PRINCIPLES**

7. Federation Corporate Governance policy draws on existing best practice from organisations from the public and private sector where risk management is already an intrinsic part of the conduct of business. The policy will be reviewed annually to ensure its continued application and relevance. Key principles are:

- risks should be identified and evaluated in the context of their potential impact on the achievement of objectives;
- risks should be managed at the level at which staff have the authority, responsibility and resources to take action;
- the identification and evaluation of risk should become an integral part of performance management;
- all key decisions should be supported by a risk assessment and risk management plan;
- the risk management policies developed by Sport Scotland, and other policy setting bodies, should be aligned with Federation Corporate Governance and risk management policy and guidance;
- internal audit and other assurance activities should be guided by an assessment of risk to objectives.

## **ROLES AND RESPONSIBILITIES**

8. Outline roles and responsibilities in respect of risk and assurance are:

8.1 the Chairman is responsible for maintaining a sound system of internal control that supports the achievement of the Federation's policies, aims and objectives;

8.2 the Executive Committee has overall responsibility for risk identification and management within the Federation;

8.3 Sport Scotland will be invited to provide the Chairman with advice on the effective operation of risk management and internal control systems, including audit arrangements. It will also agree the work of Internal Audit and, where appropriate, other sources of assurance, focusing resources on

priority risk areas;

8.4 the Executive Committee, where appropriate, receive regular reports from Project Leaders/Officer Bearers on the risks they face, and provide advice to the Chairman on how the risks could be managed;

8.5 Project Leaders/Officer Bearers, advised by the Executive Committee, identify and evaluate the risks to the achievement of their objectives and develop a system of risk management and internal control which allows them to fulfil their Corporate Governance responsibilities;

8.6 the Secretary is responsible for maintaining the Federation Risk Register which is considered regularly by the Executive Committee in the context of the development of the Strategic Plan.

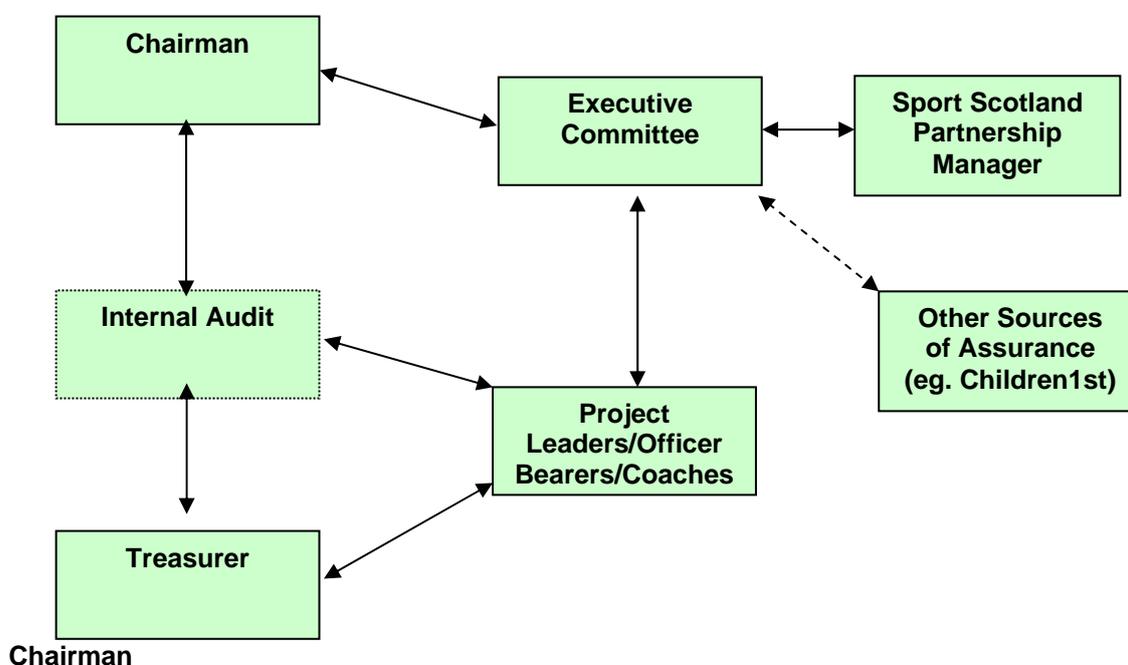
## RISK MANAGEMENT ROLES AND RESPONSIBILITIES

10. The identification of risk is important not only to ensure that resources are allocated to best effect, but also to ensure that responsibility for management action is held at the most appropriate level. Risks should be managed at the level at which staff have the authority, responsibility and resources to take action. The high-level risk management structure for the Federation (Figure 1 below) supports this. Roles and responsibilities in respect of audit and assurance have been formalised to take account of new responsibilities.

## HIGH LEVEL RISK AND ASSURANCE STRUCTURE

11. The following diagram illustrates the high level risk and assurance structure.

**FIGURE 1 – HIGHER LEVEL RISK AND ASSURANCE STRUCTURE**



12. The Chairman has personal responsibility for maintaining a sound system of internal control that supports the achievement of the Federation's policies, aims and objectives. These responsibilities are delegated, through the Executive Committee to Project Leaders/Officer Bearers.

## Executive Committee

13. Specifically the Executive Committee, is responsible for:

- **the role of the Federation:** providing strategic direction, vision and values;
- **objectives and targets:** establishing the key priorities and defence capabilities necessary to deliver the Federation's strategy;
- **resource allocation:** setting budgets for Project Leaders/Officer Bearers linked to the outputs required of them, and adjusting the federation programme, so that resources are allocated in-line with overall priorities and tasks; and
- **performance and risk management:** managing corporate financial and non-financial performance in-year, including risks to the achievement of objectives and targets.

14. The Executive Committee also:

14.1 establishes the Federation's risk management objectives/policy;

14.2 approves the Federation's risk management framework, including the reporting mechanisms (linked to performance management), and roles and responsibilities in respect of risk management and assurance;

14.3 communicates the importance of an effective risk management process;

14.4 owns the Federation's Risk Register;

14.5 reviews and approves controls and strategies for dealing with significant risks;

14.6 periodically reviews the effectiveness of the system of internal control including:

- the nature and extent of the risks facing the Federation;
- the extent and categories of risk which it regards as acceptable for the Federation to bear;
- the Federation's ability to reduce the incidence and impact on the business of risks that do materialise; and,
- the costs of operating particular controls relative to the benefit obtained in managing the related risks;

14.7 provides the Chairman with advice on the implications of its assessment of effectiveness of internal control and, if appropriate, on the action that has been taken or is planned to address issues arising from it; and

14.8 confirms the roles and responsibilities, and annually conducts a complete review to constructively challenge the adequacy of internal controls and risk management assurance processes within the Federation.

15. Whilst the Chairman and the Executive Committee should retain overall responsibility for risk management within the Federation, they need to be supported in this role through the delegation of responsibilities. In particular, they look to specific individuals below Committee level such as Project

Leaders/Officer Bearers and coaches to own and manage the particular risks to the achievement of their own objectives. Terms of Reference for the Executive Committee are at Annex A.

### **Project Leaders/Officer Bearers**

16. In accordance with their roles Project Leaders/Office Bearers are responsible for maintaining a sound system of internal control and providing assurance on the health of management systems within their area of responsibilities. In particular, they are responsible for the systematic identification, assessment and management of the risks to delivery of their outputs and key targets. The Federation's Corporate Governance regime is intended to promote a culture of active management of risk rather than simply its avoidance, with the aim of maximising on opportunities to improve delivery of outputs. They are also to be aware of how their activities can put at risk delivery of others' objectives and vice versa. Project Leaders/Officer Bearers are required to submit a report annually to the Chairman confirming that effective systems to manage risk are in place and are working. They should periodically review the effectiveness of their system of internal control including:

- the nature and extent of the risks facing their area or responsibility;
- the extent and categories of risk which they regard as acceptable to bear;
- their ability to reduce the incidence and impact on the business of risks that do materialise; and
- the costs of operating particular controls relative to the benefit obtained in managing the related risks.

To clarify their precise role and purpose Project Leaders/Office Bearers should be guided by a charter statement that determines their objectives, responsibilities, accountability and code of ethics, and should be provided with suitable levels of training to meet their defined role. Terms of Reference for Project leaders/Officer Bearers are at Annex B.

### **Coaches**

17. The Federation will only sanction the use of fully trained and licensed coaches in any of its sponsored activities. Federation appointed or licensed coaches are responsible for assessing all of the risks associated with the activities that they are conducting and where the risks cannot be sufficiently mitigated cancel the activity. All coaches are to conduct a full risk assessment prior to any coaching activity taking place and produce a written Activity Risk Assessment in the format at Annex C. This risk assessment is to be reviewed immediately prior to the commencement of any activity and during the activity if there are any incidents or the conditions required it.

### **Other Sources of Assurance**

18. Sport Scotland will call for certain annual reports and through regular contact with the Federation will provide external assurance that the Federation is meeting its objectives as a Scottish Governing Body (SGB). From time to time the Executive Committee may constitute an Assurance Team to review either all of the Federation's internal procedures or specific areas. An example of a good practice Assurance Team charter is at Annex D. Internally, it is important that the Executive Committee remains focussed on meeting the needs of the members as well as promoting the sport and protecting its future. In a volunteer organisation it is vital that the executive Committee remains efficient, effective and objective. To ensure that this happens the AGM is to appoint a Non Executive Committee Member to oversee and challenge the work of the Executive Committee to provide the membership with this internal assurance. Terms of Reference for Non Executive Committee Members are at Annex E.

## **TERMS AND DEFINITIONS**

9. Corporate Governance and Risk language can be interpreted in a number of ways and can cause misunderstandings and wasted time arguing over terminology. The glossary at Annex F to this Chapter should be used by all to promote a common language.

## CHAPTER 1 ANNEX A

## TERMS OF REFERENCE FOR THE EXECUTIVE COMMITTEE

## CONTENTS

## Para

- 1 Purpose
- 4 Membership
- 10 Responsibilities
- 12 Other Matters

**Purpose**

1. The Executive Committee has a remit to review and constructively challenge the adequacy of internal controls and risk management assurance processes within the Federation.
2. The Executive Committee will review the financial accounts on an annual basis prior to submission to Sport Scotland and publication to the wider membership.
3. The Executive Committee will report annually to Sport Scotland on its work and will provide the Sport Scotland Partnership Manager with the assurance necessary for him to sign an annual statement on Internal Control.

**Membership**

4. The Executive Committee comprises the following:

Chairman  
 Vice Chairman  
 Secretary  
 Treasurer  
 Policy Officer  
 Coaching & Development Officer  
 International Team Manager  
 A Non-Executive Committee Member (either another Office Bearer or member seconded to the Committee)

5. (Office Holders attend on a personal basis and it is not therefore appropriate for representatives to attend when they are unavailable).
6. Sport Scotland Partnership Manager is not normally formally invited but may attend in order to provide external audit/assurance. Other officials may attend for specific items as appropriate.

**Responsibilities**

10. The Executive Committee will consider and advise upon the adequacy of risk identification and its management and the effectiveness of strategic internal control and assurance systems through reviewing (*inter alia*) reports produced by:

- the Treasurer;
- the Policy Officer;
- the Coaching & Development Officer;
- the International Team Manager;

11. The Executive Committee will additionally review:

- the strategic plan of activity and results of internal audit linked to the management of risk;
- the adequacy of management response to issues identified by audit activity;
- matters relating to corporate governance requirements for the Federation;
- the Federation's annual financial statements and related matters;
- the strategic plan and results of external audit provided by Sport Scotland (or others if applicable), including any significant difficulties or disputes with management encountered during the course of the external audit.

**Other matters**

12. From time to time the Non-Executive members of the Executive Committee will meet with the Chairman and Vice Chairman (separately or together) in private.

13. Minutes of Executive Committee meetings will be available to Non Executive Committee members of the Federation on request.

14. The Executive Committee will annually review its own operations, terms of reference and its business planner.

## CHAPTER 1 ANNEX B

### TERMS OF REFERENCE FOR PROJECT LEADERS/OFFICE BEARERS

#### CONTENTS

##### Para

- 1 Purpose
- 4 Membership
- 7 Responsibilities
- 9 Frequency of meetings

#### **Purpose**

1. Project Leaders/Office Bearers are appointed to specific tasks and roles by the Chairman as authorised by the Executive Committee and have a remit to review and constructively challenge the adequacy of internal controls and risk management assurance processes relevant to that specific task.
2. Project Leaders/Office Bearers will review their financial accounts on an annual basis prior to submission to the Executive Committee.
3. Project Leaders/Office Bearers will report annually to the Executive Committee and the membership at the AGM on their work and will provide the Chairman with the assurance necessary for him to sign his annual Statement on Internal Control (SIC).

#### **Membership**

4. Project Leaders/Office Bearers will be appointed by the Executive Committee. The Executive Committee will provide direction on the number and membership of each project team and the number of office bearers based on requirements to support the strategic plan.
5. Where required the Executive Committee will provide a secretarial function

#### **Responsibilities**

6. The Project Leaders/Office Bearers will agree with the Executive Committee the priority risk areas to be covered as part of the Federation's annual internal audit programme, and any subsequent changes required to audit plans. The Executive Committee will also provide the Project Leaders/Office Bearers with advice on the effectiveness of risk management and internal control systems within the Federation

#### **Frequency of meetings**

7. Project Leaders/Officer Bearers will be called to provide update briefing to the Executive Committee at least bi-annually.







## CHAPTER 1 ANNEX D

## STATEMENT OF RESPONSIBILITIES OF AN ASSURANCE TEAM

## CONTENTS

## Para

- 1 Role and Scope of Work
- 3 Authority
- 4 Independence
- 5 Accountability
- 6 Responsibility
- 7 Code of Ethics

**Role and Scope of Work**

1. The mission of the Assurance Team (AT) is to provide assurance services complementary to those provided by the Federation's Internal Audit/Assurance providers. The AT is an independent and objective assurance service designed to support the continued improvement of the operation of the Federation in line with Sport Scotland requirements for SGBs. It contributes to the Federation's systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control, and governance processes.
2. The scope of the work of the AT will include examination of systems designed to ensure:
  - a. Compliance with legal requirements, departmental policies, standards and procedures.
  - b. Resources are acquired economically, used efficiently, and adequately protected.
  - c. Programmes, plans, and objectives are achieved.
  - d. Quality and continuous improvement are fostered in the Federation's control processes.
  - e. Significant legislative or regulatory issues impacting on the Federation are recognised and addressed appropriately.
  - f. Opportunities for improving management control, income generation, and the Federation image are identified during audits. They will be communicated to the appropriate level of management.

**Authority**

3. The AT staff are authorised to:
  - a. Have reasonable access to all functions, records, property, and personnel in respect of their work.
  - b. Have full and free access to the Federation's Executive Committee.

**Independence**

4. The AT should be sufficiently independent of the activities that it reviews to enable it to perform its duties in a manner which facilitates impartial and effective judgement and recommendations.

**Accountability**

5. AT staff, in the discharge of their duties, shall be ultimately accountable to the Sport Scotland Partnership Manager, but shall be functionally accountable to the Chairman and as such will be required to:
  - a. Provide an annual report in support of the Federation's Statement on Internal Control.
  - b. Provide a regular report of progress on the annual Assurance programme.
  - c. Provide ad hoc reports as requested by the Chariman.

## **Responsibility**

6. The AT staff are to:
  - a. Develop a flexible annual assurance plan taking cognisance of the voluntary nature of the Federation, using appropriate risk based methodology, including any risk or control concerns identified by the Chairman. The plan should be submitted to the Chairman and Sport Scotland Partnership Manager for review and approval, and the AT is to provide regular reports on progress.
  - b. Implement the annual assurance plan, as approved, including as appropriate any special tasks or projects requested by the Chairman and or Sport Scotland Partnership Manager.
  - c. Develop sufficient knowledge, skills, and experience to meet the requirement of this Charter.
  - d. Evaluate changes in business processes and their effect on assurance as requested.
  - e. Assist, when appropriate to do so, and in full consultation with the DFAU, in the investigation of significant suspected fraudulent activities within the Federation and notify the Chairman and the Sport Scotland Partnership Manager of the results.
  - f. Consider the scope of work of the Federation's Assurance processes, as appropriate, for the purpose of providing optimal audit coverage within the Federation.

## **Code of Ethics**

7. The AT shall:
  - a. Exercise integrity, objectivity, competence and confidentiality in the performance of their duties and responsibilities.
  - b. Not knowingly engage in acts or activities which are discreditable to the Federation.
  - c. Not accept anything of value from an employee, client or business associate, which would impair or be presumed to impair their professional judgement.
  - d. Undertake only those services which they can reasonably expect to complete with professional competence.
  - e. Be prudent in the use of information acquired in the course of their duties. They shall not use confidential information for any personal gain nor in any manner which would be contrary to law or detrimental to the welfare of the Federation.
  - f. When reporting the results of their work, reveal all material facts known to them which, if not revealed, could either distort reports of operations under review or conceal unlawful practices.
  - g. Strive for improvement in the proficiency, effectiveness and quality of their service.

[Original Signed]  
Chairman SFCA

November 2008

## CHAPTER 1 ANNEX E

## TERMS OF REFERENCE FOR NON-EXECUTIVE COMMITTEE MEMBERS

## CONTENTS

## Para

- 1 General
- 4 Specific TORs for a non-executive committee member

**General**

1. Independent board members can provide a vital source of advice and support. Non-executive directors on management boards and audit committees, bring with them valuable skills, objectivity and other attributes. External members can ensure effectiveness and efficiency by participating, as equal members of the committee, in the Executive Committee level direction of the organisation, widening the horizons within which the Executive Committee determines strategy, both by applying the benefits of their wider general experience, and by bringing into discussions any background of specialist skill, knowledge and experience which is relevant.

2. Non-executive committee members can help by:

- participating in the formulation of strategic options and helping to set the "big picture" strategy;
- assisting the Executive Committee in defining policies;
- adding value to decision making by interrogating and challenging decisions;
- bringing knowledge and experience from the commercial world in the validation of major investment decisions;
- ensuring that the Executive Committee remains in touch with membership requirements;
- acting as a sounding board to balance the Executive Committee's enthusiasm;
- when specifically requested by the Chair, acting as an interface with outside stakeholders.

3. The role of the non-executive committee member can be summarised in the box below:

**Role of the non-executive committee member**

**Strategy:** Non-executive committee members should constructively challenge and contribute to the development of strategy.

**Performance:** Non-executive committee members should scrutinise the performance of management in meeting agreed goals and objectives and monitor reporting of performance.

**Risk:** Non-executive committee members should satisfy themselves that financial information is accurate and that financial controls and systems of internal control are robust and defensible.

**Specific TORs for a non-executive committee members**

4. As a non-executive member appointed to [*name of committee*] you must:

- act as a member of the committee in accordance with its terms of reference bringing your skills and knowledge to bear on strategy, performance and risk management
- in advance of each meeting, prepare fully and familiarise yourself with all papers to enable full consideration of the issues facing the committee at that meeting [*in return the Secretariat undertakes to ensure that papers are sufficient, accurate, clear and timely*];
- devote the necessary time to the affairs of the committee
- question intelligently, debate constructively, challenge rigorously and decide dispassionately;
- listen sensitively to the views of others, inside and outside the committee;

- gain the trust and respect of other committee members;
- support executives in their leadership of the business while monitoring their conduct;
- seek continually to develop and refresh your knowledge, skills and understanding of the SFCA to ensure that your contribution to the committee remains informed and relevant;
- uphold the highest ethical standards of integrity and probity; and
- promote the highest standards of corporate governance.

## CHAPTER 1 ANNEX F

## CORPORATE GOVERNANCE TERMS AND DEFINITIONS

## CONTENTS

Para

## 1 GLOSSARY OF TERMS

## GLOSSARY OF TERMS

1. A common knowledge and understanding of the risk language is a requirement of a successful risk management system.

2. Although no international standard exists for all corporate governance and risk management terms and definitions, the joint Australian/New Zealand Standard (AS/NZS) 4360, published in 1999, is a widely accepted international standard, which following a recent quinquennial review has been re-published as AS/NZS 4360:2004. There is also the *ISO/IEC Guide 73 Risk Management – Vocabulary – Guidelines for use in standards* jointly published by the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC). Within the UK, there is *A Risk Management Standard*, which, drawing on the terminology in ISO/IEC Guide 73, was jointly published in 2002 by The Institute of Risk Management (IRM), The Association of Insurance and Risk Managers (AIRMIC) and The National Forum for Risk Management in the Public Sector (ALARM). The terms and definitions provided in this glossary have been extracted from the following authoritative sources:

- HM Treasury (January 2001) *Management of Risk - A Strategic Overview*. (Orange Book);
- NAO Report by the Comptroller and Auditor General *Supporting innovation: Managing Risk in Government Departments*, HC 864 Session (17 August 2000);
- The Cadbury Report (1992) *Report of the Committee on the Financial Aspects of Corporate Governance*, London, Gee; and
- An international guide to best business practice – AS/NZS 4360:1999 Risk Management Standard, Standards Australia International Ltd

Adequate Control	Adequate control is present if management has planned and organised in a manner which provides reasonable assurance that the organisation's objectives and goals will be achieved efficiently and economically.
Assurance	That which may be derived from an objective examination of evidence for the purpose of providing an independent assessment of risk management, control or governance processes for the organisation. For example, internal audit is a process by which an organisation gains assurance.
Audit	Generic term for any formal examination that assesses and reports upon the adequacy and effectiveness of a process and its ability to meet required outcomes and objectives.
Audit Plan	The management plan for an individual audit assignment, detailing scope, audit team, areas to be reviewed, key dates and milestones, costs, resources and control processes.

Audit Programme	The whole group of audit assignments for a given period. In the case of DIA this is an annual programme formally approved by the Defence Audit Committee.
Balanced Scorecard	At the highest conceptual level, a Balanced Scorecard is a <u>framework</u> that helps organisations <u>translate strategy</u> into <u>operational objectives</u> that drive both <u>behaviour</u> and performance. It is a balanced set of measures used by an organisation to track the key drivers of its current and future performance.
Compliance	Refers to the ability to reasonably ensure conformity and adherence to organisation policies, plans, procedures, laws, regulations, and contracts.
Containment	The risk management strategy that attempts to limit the negative consequences of a risk event. The strategy may include internal controls and/or contingency planning.
Control	Any action taken by management to enhance the likelihood that established objectives and goals will be achieved.
Contingency Plan	Arrangements in place to minimise the impact of something going wrong or the unexpected happening, in order to maintain the delivery of programmes.
Corporate Governance	The system by which organisations are directed and controlled.
Control and Risk Self Assessment (CRSA) and Control Self Assessment (CSA)	A technique by which each level of the organisation identifies and evaluates the risks associated with its activities to inform a strategic view.
European Foundation for Quality Management (EFQM) Excellence Model	An assessment tool to identify organisational strengths and weaknesses as an aid to directing resource and management effort.
Exposure	The range of outcomes arising from the combination of the impact of an event and the probability of the event actually happening.
Gross Risk	The impact and severity of a risk prior to the application of any form of control; e.g. the risk of a building catching fire without recognising the existence of fire suppression systems.
Hazard	A source of potential harm, or a situation with a potential to cause loss. Also an obstacle to the achievement of an objective.
Impact	The effect or result of a particular event happening
Inherent Risk	The risk found in the environment and in human activities that is part of existence.
Internal Audit	An internal independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Control	<p>The process through which an organisation derives reasonable assurance regarding the achievement of the following primary objectives:</p> <ul style="list-style-type: none"> <li>• The reliability and integrity of information</li> <li>• Compliance with policies, plans, procedures, laws, regulations and contracts</li> <li>• The safeguarding of assets</li> <li>• The economical and efficient use of resources</li> <li>• The accomplishment of established objectives and goals for operations or programmes</li> </ul>
Key Risk Indicators	Key data, indicators and other management information which can alert senior management to changing risks and their potential impact so that action to mitigate them can be taken.
Likelihood	A qualitative description of the probability or frequency of an event occurring.
Net Risk	The impact and likelihood of a risk after the application of any form of control; e.g. the risk of a building catching fire recognising the existence of fire suppression systems.
Opportunity Risk	The risk of missing chances to improve on achievement of objectives or delivery of services.
Probability	The likelihood of a specific event or outcome occurring measured as the ratio of specific events or outcomes to the total number of possible events or outcomes [Probability is expressed as a number between 0 and 1, with 0 indicating an event or outcome is impossible and 1 indicating an event or outcome is certain].
Residual Risk	The remaining level of risk after risk control measures have been implemented.
Risk	Risk is a future uncertain event that could adversely influence the achievement of Departmental objectives and statutory obligations. It is measured in terms of impact and likelihood.
Risk Acceptance	An informed decision to accept the consequences and the likelihood of a particular risk.
Risk Analysis	The process by which risks are measured and prioritised.
Risk Appetite	Risk appetite is the amount of risk an organisation is prepared to be exposed to before it judges action to be necessary.
Risk Assessment	The overall process of risk analysis and risk evaluation.
Risk Evaluation	The process used to determine risk management priorities by comparing the level of risk against predetermined standards, target risk levels or other criteria.
Risk Frameworks	The procedures and processes used for reaching decisions on the

	risks which departments are responsible for. These should be unique to each department and form a comprehensive overview of how a department approaches the specific types of risks which it might face in ensuring the achievement of its objectives and delivering services to the public.
Risk Identification	The process for finding and specifying the key risks which face a department in terms of achievement of its objectives.
Risk Management	The culture, processes and structures that are directed towards the effective management of potential opportunities and threats.
Risk Management Champion	The person responsible for 'championing' the implementation and improvement of the risk management within the Department, TLB, Agency or NDPB.
Risk Management Process	The systematic application of management policies, procedures and practices to the task of identifying, assessing, treating, monitoring and communicating risk.
Risk Manager/Controller	The person with delegated responsibility for the management of an individual risk or group of risks. The risk owner may delegate responsibility for the management of risk to individual line managers. In certain areas there may be a need to delegate the management of certain types of risk (e.g. scientific) to a particular technical expert.
Risk Owner	The person with the overall responsibility, accountability and authority for the management and control of an individual risk or group of risks.
Risk Profile	An overview of the key risks facing a department, usually presented in high/medium/low impact and likelihood of the risks maturing.
Risk Reduction	A selective application of appropriate techniques and management principles to reduce either the likelihood of an occurrence or its consequences, or both.
Risk Sharing	A risk management technique for distributing the possible consequences of risk among several parties. Insurance and other contracts are examples.
Risk Termination	Some risks will only be treatable by terminating the activity. The option of termination may be severely limited in government when compared to private sector.
Risk Toleration	The ability to do anything about some risks may be limited, or the cost of taking action disproportionate to the potential benefit. In these cases the response may be toleration.
Risk Transfer	The shifting of responsibility or burden of loss to another party through legislation, contract, insurance or other means. This may also occur through Public Private Partnership (PPP) or Customer Supplier Agreement (CSA) re-negotiation activity. Partial transfers are known as risk sharing.

Risk Treatment	The actions taken to treat a risk. The purpose is not necessarily to obviate the risk, but more likely to contain the risk to an acceptable level.
Stakeholders	Those people and/or organisations who may affect, be affected by, or perceive themselves to be affected by a decision or activity.
Threat	The potential existence of a negative event of sufficient magnitude to imperil the achievement of one or more of the organisation's objectives. Often used in place of Risk.
Uncertainty	A condition where the outcome can only be estimated.



## CHAPTER 2

### THE CORPORATE GOVERNANCE RISK MANAGEMENT PROCESS

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#### INTRODUCTION

1. This Chapter provides Executive Committee Members, Project Leaders/Officer Bearers, Coaches and non-executive Committee Members with guidance on how to implement the Federation's policy on Corporate Governance and 'business' risk management. Corporate Governance does not represent a new initiative. The guidance is intended to capture what is probably already being done, but within a more consistent framework. The guidance is intended to be a 'live' document, so any feedback comments or questions are vital in ensuring a continuous improvement in our approach to best practice risk management. The information in this guidance draws on current best practices within the public sector.

2. Key mandatory elements of the Federation's risk management process are:

- linking of risk to objectives through the Balanced Scorecard;
- a 'business' risk language;

- measurement of risk by impact and likelihood net of existing controls. Common high level measures of likelihood and impact allow risks to be assembled centrally and considered against Balanced Scorecard objectives; and
- documentation and maintenance of a risk profile.

3. Optional elements for customising the risk management process to suit the 'business' area are:

- techniques for identifying and prioritising risks;
- risk impact and likelihood measurement methods (e.g. qualitative ranking and quantitative methods) as long as they are compatible with and based on corporate definitions of impact and likelihood;
- control assessment techniques; and
- internal Federation reporting requirements.

## **RISK**

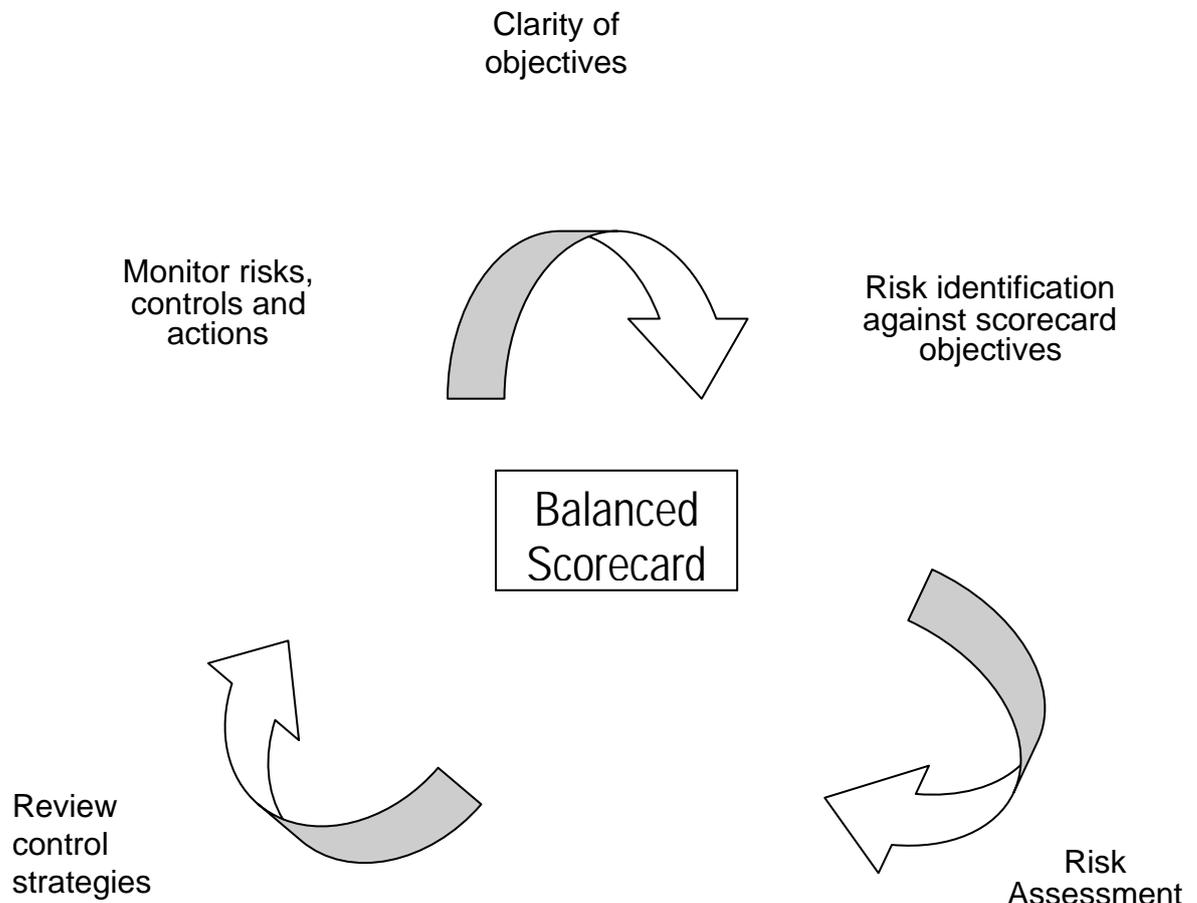
4. Risk can be the chance of something going wrong or of the Federation missing an opportunity to gain a benefit. It is also important that the Federation meets its corporate objectives and statutory requirements. Risks to objectives should be managed within existing business processes and in a consistent way throughout the Federation.

5. Risks are inherent in all of the Federation's activities not only in the governance of coarse angling in Scotland but also in our enabling services, processes, resource management, and developing our people and organisation for the future. We therefore need to take a wide-ranging approach to risk management across all areas of the Federation's business. However, risk can only be managed effectively if its nature is understood. Therefore, as a first step, we need to be aware that uncertain events occur due to a number of factors, for example:

- the random nature of events, such as natural events and disasters, accidents, chance and coincidence;
- imperfect or incomplete knowledge; such as the lack of reliable or complete data and information; imperfect understanding of underlying processes that cause an initial hazard or event; imprecision in measurement or observation that will always involve some errors;
- human behaviour;
- resources and time constraints; and
- lack of control or weaknesses in control. There will always be factors outside our control.

## **THE RISK MANAGEMENT PROCESS**

6. There is not a specific agreed standard for risk management in any organisation, and this guidance does not mandate the use of a particular standard. For the Federation, the risk management process is a continuous cycle of identifying, assessing managing and reporting risks, while also reviewing the control strategies in place to deal with them in order to achieve corporate objectives. Two key aspects of the risk management process (Figure 1) are correctly identifying the risks to the achievement of our objectives, and ensuring that control strategies are in place to manage them. The Federation's Strategic Plan provides the strategic framework for the consideration of risks. The Balanced Scorecard objectives provide the starting point for the identification, evaluation, control and reporting of corporate risks to management boards across the Federation and to inform subordinate assessments of risk. The activities in Figure 1 are described briefly in the following sections of this Chapter. Further information is available from the Treasury's "Orange Book" and the OGC's risk management guide.

**FIGURE 1 - THE RISK MANAGEMENT PROCESS**

### CLARITY & ALIGNMENT OF BUSINESS OBJECTIVES

7. For corporate risks to be reliably identified the Federation's management objectives must be defined, clarified and fully understood. The alignment of objectives to the Balanced Scorecard is fundamental to tracking performance and risk. It also provides a mechanism for reporting corporate risk. Lower level risks should be identified, assessed and reported against individual Executive Committee, Project leader/Office Bearer or Coaches objectives. The executive Committee will be responsible for consolidating risk against the Balanced Scorecard objectives.

### RISK IDENTIFICATION

8. In order to manage risk, an organisation needs to know what risks it faces, and to evaluate them. Identifying risks is the first step in building the organisation's risk profile. There is no single right way to document an organisation's risk profile, but documentation is critical to effective management of risk. The purpose of the risk identification process is to produce a list (register) of risks that, if not effectively managed, may adversely effect the achievement of objectives. The list should include opportunity risks where appropriate. The format for the Federation's Risk Register is issued annually as part of the SFCA Business Plan.

9. Risks can only be assessed and prioritised in relation to objectives. When a risk is identified it may be relevant to more than one of the organisation's objectives, its potential impact may vary in relation to different objectives, and the best way of addressing the risk may be different in relation to different objectives (although it is also possible that a single treatment may adequately address the risk in relation to more than one objective). In stating risks, care should be taken to avoid stating impacts which may

arise as being the risks themselves, and to avoid stating risks which do not impact on objectives; equally care should be taken to avoid defining risks with statements which are simply the converse of the objectives. A statement of a risk should encompass the cause of the impact, and the impact to the objective that might arise, as exemplified in the table below.

<b>Objective – to travel from A to B for a meeting at a certain time</b>	
Failure to get from A to B on time for the meeting	X this is simply the converse of the objective
Being late and missing the meeting	X This is a statement of the impact of the risk, not the risk itself
There is no buffet on the train so I get hungry	X this does not impact on achievement of the objective
Missing the train causes me to be late and miss the meeting	✓ This is a risk which can be controlled by making sure I allow plenty of time to get to the station
Severe weather prevents the train from running and me from getting to the meeting	✓ This is a risk which I cannot control, but against which I can make a contingency plan

10. Typically a large organisation will find that it identifies a large number of risks in total – perhaps several hundred. These risks will not all be independent of each other; rather they will typically form natural groupings. For instance, there may be a number of risks that can be grouped together as “financial risks” and further risks that can be grouped together as “Human Resource risks”. These groupings of risks will incorporate related risks at strategic, programme and operational levels. It is important not to confuse a grouping of risks with the risks themselves. Within the Federation risks are to be identified at a level where a specific impact can be identified and a specific action or actions to address the risk can be identified. All risks, once identified, should be assigned to an owner. A risk owner, in line with their accountability for managing the risk, should have sufficient authority to commit resources to addressing the risk; in order to provide assurance through the separate of duties and responsibilities, the risk owner may not be the person who actually takes the action to address the risk. This will inevitably create problems within a small volunteer organisation like the SFCA and where separation is proving impossible the Chairman will provide direction.

11. The holistic nature of the balanced scorecard dictates that risks may impact upon more than one objective. Where this is the case, appropriate mapping techniques should be used. It is important that particular attention is paid to those risks that arise from dependencies upon other organisations – both internal or external. These should be documented in Customer Supplier Agreements (CSAs) and Management Plans as appropriate. Particular consideration should be given to arrangements for ownership should the risk mature.

12. There are many methods for identifying risk, information on which can be found in OGC’s *Management of Risk: Guidance for Practitioners* (The Stationery Office, 2002). Two of the most commonly used approaches are workshops and interviews. Workshops provide an ideal opportunity to gather a cross section of experienced staff and stakeholders together to identify and assess risks. Interviews with key staff and stakeholders are useful to provide more detailed risk information. When forming workshops or working groups the individual with the lead should consult with the Executive committee before confirm membership and inviting attendance, this is particularly important when involving individuals from external organisations or agencies.

13. Horizon scanning is increasingly recognised as a vital component of strategy formulation and policy making, as well as being crucial to effective management of emerging problems, and there is increasing horizon-scanning activity across government as a result. However, there can be considerable variation between organisations in their approach to horizon scanning because of different organisational needs. A summary of horizon scanning issues, provided by the Civil Contingencies Secretariat of the Cabinet Office is at Annex A this is provided for reference only and as a reminder of the need to look beyond the 5 year Strategic Plan and also at external threats (UK and European Environmental legislation impacts on introductions of coarse fish and access to waters would be one example).

14. HM Treasury guidance offers a summary (Table 1) of the most common categories or groupings of risk with examples of the nature of the source and effect issues. The Table is not necessarily comprehensive and its use is not mandated; but it will be used as a tool to ensure that the Federation has comprehensively considered the range of potential risks which may arise. Users should also be aware that activities to manage risk in one area could create or increase risk in another.

**TABLE 1 – CATEGORIES OF RISK**

<b>CATEGORY OF RISK</b>	<b>Examples / explanation</b>
<b>1. External (arising from the external environment, not wholly within the organisation's control, but where action can be taken to mitigate the risk)</b>	
<i>[This analysis is based on the "PESTLE" model – see the Strategy Survival Guide at <a href="http://www.strategy.gov.uk">www.strategy.gov.uk</a>]</i>	
1.1 Political	Change of government, cross cutting policy decisions (E.g. – the Euro); machinery of government changes
1.2 Economic	Ability to attract and retain staff in the labour market; exchange rates affect costs of international transactions; effect of global economy on UK economy
1.3 Socio cultural	Demographic change affects demand for services; stakeholder expectations change
1.4 Technological	Obsolescence of current systems; cost of procuring best technology available
1.5 Legal	EU requirements
1.6 Environmental	Buildings need to comply with changing standards; disposal of rubbish and surplus equipment needs to comply with changing standards
<b>2. Operational (relating to existing operations – both current delivery and building and maintaining capacity and capability)</b>	
2.1 Delivery	
2.1.1 Service / product failure	Fail to deliver the service to the user within agreed / set terms
2.1.2 Project delivery	Fail to deliver on time / budget / specification
2.1.3 Capacity and capability	
2.1.4 Resources	Financial (insufficient funding, poor budget management, fraud) HR (staff capacity / skills / recruitment and retention) Information (adequacy for decision making; protection of privacy) Physical assets (loss / damage / theft)
2.1.5 Relationships	Delivery partners (threats to commitment to relationship / clarity of roles) Customers / Service users (satisfaction with delivery) Accountability (particularly to Parliament)
2.1.6 Operations	Overall capacity and capability to deliver
2.1.7 Reputation	Confidence and trust which stakeholders have in the organisation
2.2 Risk management performance and capability	
2.2.1 Governance	Regularity and propriety / compliance with relevant requirements / ethical considerations

2.2.2 Scanning	Failure to identify threats and opportunities
2.2.3 Resilience	Capacity of systems / accommodation / IT to withstand adverse impacts and crises (including war and terrorist attack). Disaster recovery / contingency planning
2.2.4 Security	Of physical assets and of information
<b>3. Change (risks created by decisions to pursue new endeavours beyond current capability)</b>	
3.1 PSA targets	New PSA targets challenge the organisation's capacity to deliver / ability to equip the organisation to deliver
3.2 Change programmes	Programmes for organisational or cultural change threaten current capacity to deliver as well as providing opportunity to enhance capacity
3.3 New projects	Making optimal investment decisions / prioritising between projects which are competing for resources
3.4 New policies	Policy decisions create expectations where the organisation has uncertainty about delivery

### **RISK ASSESSMENT**

15. The purpose of risk assessment is to prioritise and measure the identified risks in terms of the likelihood of them happening and the associated impact against objectives. Risk assessment can be qualitative or quantitative, if data is available. Risk assessment or evaluation is described in two distinct processes: Prioritisation and Measurement.

#### **PRIORITISATION**

16. The purpose of prioritisation is to reduce the number of risks identified to a manageable number (e.g. up to 10) of key/significant risks. These risks should then be measured in terms of likelihood and impact. One of the most favoured ways to prioritise a list of risks is by determining the relative importance of the objective to which the risk is linked.

#### **MEASUREMENT**

17. It may be adequate, in some cases, for Project leaders/Office Bearer to simply prioritise risks and deal with them. For the Executive Committee, it is important that risks are measured, assembled and compared against their balanced scorecard objectives. Two mandatory elements of risk measurement are the measurement of risk in terms of likelihood and impact.

#### **Gross and Net Risk**

18. It is essential that risks are assessed in their current control regime (net risk) e.g. the risk of a fire in a building should be viewed as risk with current fire prevention systems in place. The identification of gross risks to the achievement of objectives is an essential starting point although best practice indicates that it is difficult conceptually and practically to measure gross risk (risk without any controls applied). Furthermore, it is not possible to identify what, if any, additional controls are required without identifying all the controls already in place to mitigate the risk and assessing their collective cost-effectiveness in relation to those risks. Good control is about achieving a cost-effective level of assurance.

19. Within the Federation we should therefore assess *net* risk by undertaking the following processes:

- identify all controls that currently exist to mitigate the gross risk;
- assess the cost-effectiveness of those controls in relation to the risk (and any other risks they help manage);

- make a final assessment of the strength of existing controls in managing the risk and discount this from the gross risk. This leaves net (or residual) risk. Where the existing control is disproportionately strong in relation to the risk then there is over-control; and
- the Federation is then in a position to consider options to manage the risk (treat, tolerate etc). This should include review of whether there are potential controls that would be just as effective as existing controls but would be less costly to operate. Where the design of additional controls is necessary the cost should be balanced with the benefits they can achieve in terms of improved business performance and reduced risk.

### Impact and Likelihood Assessment

20. A categorization of high / medium / low in respect of both impact and likelihood may be sufficient, and should be the minimum level of categorisation – this results in a “3x3” risk matrix. A more detailed analytical scale may be appropriate, especially if clear quantitative evaluation can be applied to the particular risk - “5x5” matrices are often used, with impact on a scale of “insignificant / minor / moderate/ major/ catastrophic” and likelihood on a scale of “rare / unlikely / possible / likely / almost certain”. The Federation will determine the level of analysis required dependant on the level that the risk is being considered at. The impact severity scale should reflect the impact a risk has on the achievement of balanced scorecard (and ‘business’ area) objectives. Where information is available an assessment of the financial impact should be included. For reporting to Sport Scotland and other external agencies, the Federation definitions for likelihood and impact measurement detailed in Tables 2 and 3 below should be used.

**TABLE 2 – CORPORATE DEFINITIONS FOR LIKELIHOOD ASSESSMENT:**

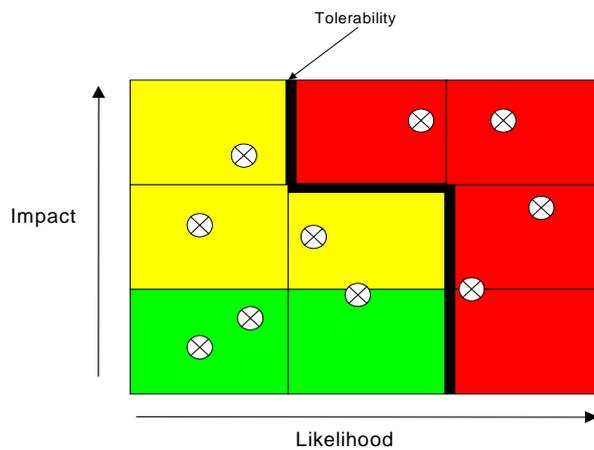
Risk Likelihood	Corporate Definition
High	<b>Probable</b> – Can realistically attribute an estimate to the event arising within the current FY or within a one year time period.
Medium	<b>Possible</b> – Can realistically attribute an estimate to the event arising within a 4 year time period.
Low	<b>Remote</b> – Can realistically conclude that the event may occur within 4–10 years.

**TABLE 3 – CORPORATE DEFINITIONS FOR IMPACT ASSESSMENT**

Risk Impact	Corporate Definition
High	Either – has the potential to cause a balanced scorecard objective to fail. Or – has a large short term or longer-term impact on the overall aims defined in the Federation’s Strategic Plan.
Medium	Either – has the potential to impact significantly on a balanced scorecard objective. Or – has a medium term impact on the overall aims defined in the Federation’s Strategic Plan.
Low	Either – has the potential to materially effect a balanced scorecard objective. Or – has a minor short-term impact on the overall aims defined in the Federation’s Strategic Plan.

21. Once likelihood and impact have been assessed, it may be helpful to present the information pictorially on grids. There are many ways of presenting risk information and different methods should be used to suit particular circumstances. When the assessment is compared to the amount of risk an organisation is prepared to be exposed to before it judges action to be necessary (i.e. its risk appetite), a “traffic light” approach is facilitated (see Figure 2) whereby those which are green do not require action, those which are amber should be monitored and managed down to green if possible, and those which are red require immediate action. It is not the absolute value of an assessed risk which is important; rather it is whether or not the residual risk is regarded as *tolerable*, or how far the exposure is away from tolerability which is important.

**Figure 2 – Simple risk/tolerability matrix** (Source: Treasury “Orange Book”, May 2004)



22. At the level of a specific risk it is likely that a level of exposure which is acceptable can be defined in terms of both tolerable impact if a risk is realised, and tolerable frequency of impact of a realised risk. It is against this that the residual risk has to be compared to decide whether or not further action is required. Tolerability may be informed by the value of assets lost or wasted in the event of an adverse impact, stakeholder perception of an impact, the balance of the cost of control and the extent of exposure, and the balance of potential benefit to be gained or losses to be withstood.

23. Thinking about risk frequently focuses on residual risk (i.e. the risk after control has been applied which, assuming control is effective, will be the actual exposure of the organisation). Residual risk, of course, will often have to be re-assessed if control is adjusted, and assessment of the expected residual risk is necessary for the evaluation of proposed control actions. However care should also be taken to capture information about the *inherent* risk. If this is not done the Federation will not know what its exposure will be if control should fail. Knowledge about the inherent risk also allows better consideration of whether there is over-control in place – if the inherent risk is within the risk appetite, resources may not need to be expended on controlling that risk. This need to have knowledge about both inherent and residual risk means that the assessment of risk is a stage in the risk management process which cannot be separated from addressing risk; the extent to which the risk needs to be addressed is informed by the inherent risk whereas the adequacy of the means chosen to address the risk can only be considered when the residual risk has been assessed.

24. Risk assessment is to be documented in a way which records the stages of the process (an example is an Annex B). Documenting risk assessment creates a *risk profile* for the Federation which:

- facilitates identification of risk priorities (in particular to identify the most significant risk issues, with which the Executive Committee should concern themselves),
- captures the reasons for decisions made about what is and is not tolerable exposure,
- facilitates recording of the way in which it is decided to address risk,
- allows all those concerned with risk management to see the overall risk profile and how their areas of particular responsibility fit into it, and
- facilitates review and monitoring of risks.

25. Once risks have been assessed, the risk priorities for the Federation will emerge. The less acceptable the exposure in respect of a risk, the higher the priority which should be given to addressing it. The highest priority risks (the key risks) will be given regular attention at the Executive Committee level, and should consequently be considered regularly by the Chairman. The specific risk priorities will change over time as specific risks are addressed and prioritisation consequently changes.

## REVIEWING CONTROL RESPONSES AND DEVELOPING NEW STRATEGIES AND ACTION

### Risk Control Options

26. The purpose of controlling risks is to constrain them to a tolerable level (i.e. within the risk appetite). There are a number of potential strategies for controlling or responding to risk, typically known as: Transfer, Tolerate, Treat, Terminate and Take the Opportunity (see Table 4).

27. In many areas, it is unlikely that the Federation will be able to completely transfer or terminate its risks through partnerships with external stakeholders. Therefore some type of internal control will be required by management to treat risk. It is particularly important that risk control frameworks include mechanisms to ensure regular dialogue with stakeholders (customers and suppliers) to maximise the chance of mitigation.

**TABLE 4 – HMT ‘ORANGE BOOK’ RISK RESPONSES**

TOLERATE	The exposure may be tolerable without any further action being taken. Even if it is not tolerable, ability to do anything about some risks may be limited, or the cost of taking any action may be disproportionate to the potential benefit gained. In these cases the response may be to tolerate the existing level of risk. This option, of course, may be supplemented by contingency planning for handling the impacts that will arise if the risk is realised.
TRANSFER	For some risks the best response may be to transfer them. This might be done by conventional insurance, or it might be done by paying a third party to take the risk in another way. This option is particularly good for mitigating financial risks or risks to assets. The transfer of risks may be considered to either reduce the exposure of the Federation or because another organisation (which may be another government organisation) is more capable of effectively managing the risk. It is important to note that some risks are not (fully) transferable – in particular, it is generally not possible to transfer reputational risk even if the delivery of a service is contracted out or provided by a partner.
TERMINATE	Some risks will only be treatable, or containable to acceptable levels, by terminating the activity. This option can be particularly important in project management if it becomes clear that the projected cost / benefit relationship is in jeopardy.
TREAT	By far the greater number of risks will be addressed in this way. The purpose of treatment is that whilst continuing within the Federation with the activity giving rise to the risk, action (control) is taken to constrain the risk to an acceptable level.
TAKE THE OPPORTUNITY	This option is not an alternative to those above; rather it is an option which should be considered whenever tolerating, transferring or treating a risk. There are two aspects to this. The first is whether or not at the same time as mitigating threats, an opportunity arises to exploit positive impact. For example, if a large sum of capital funding is to be put at risk in a major project, are the relevant controls judged to be good enough to justify increasing the sum of money at stake to gain even greater advantages? The second is whether or not circumstances arise which, whilst not generating threats, offer positive opportunities. For example, a drop in the cost of goods or services frees up resources that can be re-deployed.

## **Reviewing Existing Control Responses**

28. Once the risks facing the Federation have been identified and assessed it is necessary to consider how effectively they are being managed i.e. the quality of the controls. For any particular risk there may be a number of controls, and it may therefore not be appropriate to determine the quality of individual controls - the controls relating to a particular risk can be assessed as a group.

29. In order to assess the overall quality of the controls relating to a particular risk within the Federation we will consider both the **effectiveness** of the controls in mitigating the risk and the **efficiency** of the control procedure.

### **Effectiveness**

30. In order to assess the effectiveness of the controls relating to a particular risk it is useful to consider whether the existing controls:

- adequately mitigate the risk; and
- are actually being performed as intended.

31. To determine whether the control adequately mitigates the risk, it is necessary to consider whether the controls reduce the risk to an appropriate level. In practical terms, this is assessed by considering whether:

- the controls are sufficient to reduce the likelihood of impact of the risk; and
- the overall cost of the controls is reasonable/not out of proportion given the extent/nature of the risk.

### **Efficiency**

32. In order to assess the efficiency of the controls relating to particular risk, it is necessary to determine whether:

- the control is being performed in a cost efficient manner; and
- there are any other potential controls that are just as effective in managing the risk, but that would be less costly to operate.

33. Depending on the nature of the risk and cost of controls, advice may be sought, through the Chairman, from expert resources at Sport Scotland. Where further investigation or control options need to be generated, the Executive Committee will meet to provide direction.

## **ONGOING MONITORING OF RISKS, CONTROLS AND ACTIONS**

34. Effective risk management requires a reporting and monitoring structure that ensures that all risk controls continue to operate effectively under changing conditions. This reporting structure should enable risk management activities to be monitored, aggregated and reported upwards, when necessary, through the Executive Committee to the Chairman.

## **ANNUAL REVIEW**

35. An annual review of risk management processes should be carried out by the Executive Committee; it is suggested that the Treasury's Risk Management Assessment Framework, which provides a means of assessing the maturity of an organisation's risk management, is used for the review. The purpose of the annual review is to provide assurance that the risk management processes are working effectively for the Federation's requirements and to improve future effectiveness of the risk management process as part of the Federation's commitment to continuous improvement.

**REPORTING TO THE EXECUTIVE COMMITTEE AND THE CHAIRMAN**

36. Risk management should be an integral part of performance management and therefore should be included in the quarterly Executive Committee Meeting agenda. This provides a mechanism for risks to Balanced Scorecard objectives to be considered by the Executive Committee. For Executive Committee consideration of risk, reporting should be in a consistent form across the Federation. To this end Project Leads/Office Bearers are to use the Statement of Internal Control (SIC) format described in Chapter 4.



## CHAPTER 2 ANNEX A

## SUMMARY OF HORIZON SCANNING ISSUES

*(Provided by the Civil Contingencies Secretariat of Cabinet Office)*

- **Periodicity / Regularity:** Horizon scanning may be continuous (in an organisation like the Civil Contingencies Secretariat (CCS) which continuously searches for potential future disruptive challenges) or periodic (e.g. weekly or annually). *For the Federation the regularity of Horizon scanning will be determined by the Executive Committee based on challenges identified in the Strategic Plan. As a standard however the preference is for a continuous approach to be adopted.*
- **Timescale:** Policy makers could well be interested in developments over the next twenty-five years whilst horizon scanning that supports operational decision making may be restricted to a six month timeframe. *For the Federation, looking ahead 10 years will ensure that all potential risks are identified at an early enough stage to afford the opportunity for mitigation.*
- **Scope:** Some organisations may be fairly insular in their risk identification processes if they perceive that the major element of risk arises from within the organisation; others may need to consider a much wider scope if they consider that they may face risks from a wider environment. Depending on the nature of the organisation's business this element of risk identification may range from almost exclusively internal activity to activity that depends on international networks of technical information. *For the Federation risks can come from both within and without. It is therefore the policy of the Federation to consider the wider environment, political, economic and social which could present risks.*
- **Opportunity/threat:** Some horizon scanning is concerned mainly with spotting potential problems, but it can equally be used to scan for opportunities ("positive risks"), and many problems may be translatable into opportunities if spotted early enough. *The Federation, whilst conducting horizon scanning will actively seek to identify and maximise potential opportunities.*
- **Rigour / technicality:** Horizon scanning varies in the extent to which it is structured and supported by technology. Some organisations use sophisticated assessment schemes and information search technologies; other organisations will rely almost entirely on informal networks of contacts and good judgement. *The Federation will, in the short term, rely on its informal network of contacts, partnerships and good judgement but must look to improve its risk identification processes both its, and technology, develops.*

[See [www.ukresilience.info/home.htm](http://www.ukresilience.info/home.htm) for more information]



## CHAPTER 2 ANNEX B

## EXAMPLE OF DOCUMENTING RISK ASSESSMENT

OBJECTIVE – To travel from A to B in time for an important meeting								
RISK	Inherent assessment		CONTROLS IN PLACE	Residual assessment		ACTION PLANNED	TARGET DATE	OWNER
	Impact	Likelihood		Impact	Likelihood			
Missing a train makes me late for the important meeting	High	High	Catch train one earlier than I actually need	High	Low	No further action planned		M. Y. Self
Severe weather prevents the train from running	High	Low	Cannot control	High	Low	Telephone conferencing facility to be installed as a contingency	August	A. N. Other
Engineering works make the train late	High	Medium	Check for engineering works and arrange flexibility with people I am meeting	Medium	Low	No further action planned		M. Y. Self

(Source: *Management of Risk – Principles and Concepts*, HM Treasury May 2004)



## CHAPTER 3

### RISK AND PERFORMANCE MANAGEMENT

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#### INTRODUCTION

1. This Chapter provides guidance on risk management in relation to performance management and the planning and budgeting cycles.
2. It is assumed that the reader is familiar with the Federation's planning and budgeting processes.

#### RISK AND THE BALANCED SCORECARD

3. In the same way as performance management is not simply about in-year review or even in-year management, but about all that is involved in setting strategic objectives and turning them into practical results, so risk management needs to happen at different levels and in different contexts (strategic planning, short term and equipment planning, in-year management). The Balanced Scorecard, with its focus on objectives, provides a vital common framework.

#### THE BALANCED SCORECARD

4. The Federation has adopted the Defence Balanced Scorecard as its preferred means of performance management. The Scorecard provides a comprehensive view of Federation performance in key areas, viewed from 4 perspectives:
  - 4.1 Output/Deliverables - Are we delivering what Sport Scotland, Government and the Membership expects?
  - 4.2 Resource Management - How well are we planning and managing our resources?
  - 4.3 Enabling Processes - Are we organised as well as we can be?
  - 4.4 Building for the Future - Are we developing our people and organisation for the future?
5. Each perspective contains a series of objectives that reflect the strategic priorities agreed by the Executive Committee. Each objective is supported by performance indicators - the means through which performance will be assessed; and targets - the level of performance expected.
6. Performance against Scorecard objectives is assessed each quarter against a four colour 'traffic light' scheme, which identifies where performance is satisfactory (green), where there are minor weaknesses (yellow), serious weaknesses (amber) or critical weaknesses (red).
7. The identification of risks (and opportunities) to the achievement of Balanced Scorecard objectives should, where necessary, prompt the commissioning of more detailed analysis. In turn, this may lead to the redefinition of existing objectives and the amendment of performance indicators and targets so as to reflect better what it is we are trying to avoid or achieve. In other words the explicit consideration of risk will help the Federation focus on lead rather than lag indicators.

## **RISK TO OBJECTIVES**

8. From a Federation perspective there are essentially two levels of risk:

- Strategic risks which derive primarily from the consideration of risks to the achievement of Balanced Scorecard objectives, and,
- Operating risks that may require more immediate management attention.

9. The strategic risks will tend to be relatively static in nature and may only require review on an annual basis as part of the drafting of the Strategic Plan or when there is a change to an objective on the Scorecard. These risks will focus Executive Committee attention on Federation-wide issues and the risks that Project leaders/Office bearers may have difficulty in managing.

10. The operating risks are likely to be more fluid in nature and will be closely linked to the consideration of performance and targets. For example, our inability to train and retain sufficient coaches. These risks will derive primarily from the Project leaders'/Officer bearers' consideration of risks to their own objectives. Risks that the Project leaders/Office bearers feel unable to manage should be reported to the Executive Committee.

## **RISK MANAGEMENT WITHIN THE ANNUAL FEDERATION PLANNING AND BUDGETARY PROCESS**

11. At Executive Committee level the active consideration of risk will provide a vehicle for the re-balancing of resources across the scorecard so as to meet better, within extant control totals, the delivery of objectives. Where the Executive Committee is unable to continue to deliver its objectives within existing resource levels, because either existing risks have matured or new risks have emerged, this should be highlighted in the Plan, indicating the reasons for the failure of existing risk controls. The revised control strategies and associated costs (both financial and non-financial) should also be highlighted.

12. This moves away from attempts to quantify risk in financial terms and instead enables Balance of Investment (BOI) decisions to be made, by the Executive Committee, on the basis of the risk controls necessary to maintain the delivery of objectives. This approach should help the Executive Committee ensure that resources are allocated to best effect, and direct attention to those aspects needing top management action in-year.

## CHAPTER 4

### THE STATEMENT ON INTERNAL CONTROL

#### CONTENTS

Para

- 1 BACKGROUND
- 2 TLB, Trading Fund Agency, Agency and NDPB SICs
- 3 Risk Management Assessment Framework

#### BACKGROUND

1. Accounting Officers in all government departments are required to sign an annual Statement on Internal Control (SIC). This requirement was introduced by HM Treasury in December 2000. The SIC provides confirmation that Accounting Officers have carried out their responsibility for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives, whilst safeguarding the public funds and department assets for which they are personally responsible in accordance with Government Accounting instructions. The SIC is a very useful tool and will be adopted by the Federation to meet its Corporate Governance requirements. The SIC will form part of the annual reporting system of the Federation, and is to be presented as part of the accounts. It should be prepared by the Executive Committee and passed to the external auditors for review as required.

2. A revised proforma SIC is at Annex A and includes:

- a requirement for the SIC to confirm that the results of the review of the effectiveness of internal control has been discussed with the Executive Committee;
- an expectation for a reference in the SIC to ongoing maintenance and development of risk management and review processes.

#### **Project Lead/Office Bearer's SICs**

3. Within the Federation, in order to underpin the Executive Committee SIC, a SIC has to be personally signed by each Project lead/Officer bearer to provide the Chairman with assurance that projects or responsibilities for which they have delegated authority have been effectively assessed. The proforma SIC is at Annex A.

#### **Risk Management Assessment Framework**

4. The Risk Management Assessment Framework Assessment Tool is at Chapter 5. The framework supports the production of a SIC and the Executive Committee, Project leads/Officer Bearers will find this of assistance in compiling their reports.



## CHAPTER 4 ANNEX A

**PROFORMA STATEMENT ON INTERNAL CONTROL**

(The wording which is not in *italic* script in this proforma SIC should be replicated in every SIC, the words in *italic* script being amended as appropriate to the body in question. ***Bold italic*** script indicates a rubric which should be fulfilled in a way appropriate to the actual processes in place in the body to which the SIC relates.)

**1. Scope of responsibility**

As *Executive Committee Member, Project Leader/Office Bearer*, I have responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, whilst safeguarding the funds and Federation assets for which I am personally responsible.

***(Executive Committee Members, Project Leaders/Office Bearers should add to this paragraph to provide a brief explanation of the accountability arrangements surrounding their role. In particular they should comment on:***

- ***Processes in place by which they work in order to manage risk***
- ***Inter-relationships with other officer bearers/projects or departments***

**2. The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Federation policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in *Executive Committee/Project/Office* for the year ended 31 March 200x and up to the date of approval of the annual report and accounts, and accords with Federation guidance.

**3. Capacity to handle risk**

***(Describe the key ways in which***

- ***leadership is given to the risk management process***
- ***staff are trained or equipped to manage risk in a way appropriate to their authority and duties. Include comment on guidance provided to them and ways in which you seek to learn from good practice)***

**4. The risk and control framework**

***(Describe the key elements of the risk management strategy including the way in which risk (or change in risk) is identified, evaluated, and controlled. Include mention of how risk appetites are determined.)***

***(Describe key ways in which risk management is embedded in the activity of the organisation)***

*[This section should only be inserted by those bodies to which it is relevant.*

***(Describe the key elements of the way in which public stakeholders are involved in managing risks which impact on them)]***

**5. Review of effectiveness**

As *Executive Committee Member, Project Leader/Office Bearer*, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the key appointed individuals within the

*Executive Committee/project team/office* and comments made by any external audit reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the *Chairman/Executive Committee* and a plan to address weaknesses and ensure continuous improvement of the system is in place.

(Describe the process that has been applied in maintaining and reviewing the effectiveness of the system of internal control, including some comment on the role of the Chairman/Executive Committee and any involvement with external bodies/partners)

**6. Significant internal control problems (if applicable)**

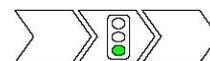
***(If there are significant internal control problems, record here an outline of the actions taken, or proposed, to deal with them. The wording should be tailored to reflect the circumstances of the case.)***

*(Signature of Executive Committee Member, Project Leader/Office Bearer and date of signature)*

CHAPTER 5

# Risk Management Assessment Framework

A tool for Departments



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## Introduction

The Risk Management Assessment Framework (RMAF) is a tool for assessing the standard of risk management in an organisation. It is the tool that the Federation will use to help collect and assess evidence. It will support the production of a Statement on Internal Control, and is consistent with the criteria set out in Government Accounting and thus will help to meet the requirements of our external partners such as Sport Scotland, Children1st etc.

The Framework has its genesis in the EFQM excellence model but is simplified and targeted to provide a flexible tool to assist in evaluating performance and progress in developing and maintaining effective risk management capability, and assessing the impact on delivering effective risk handling and required/planned outcomes. It should also assist with identifying areas of particularly good or poor performance and in establishing priorities for improvement action.

It is intended that it can be used flexibly to replace or augment existing evaluation arrangements as appropriate. The top-level framework and the seven key questions can be used with or without the supporting question sets and/or the quantified 'levels' scale. This makes the Framework flexible enough to be used centrally by the Executive Committee or devolved to Project Leads/Office Bearers for lower level self-assessment or used cooperatively with partner organisations.

The question sets under each of the seven main questions are intended as indicative of the range of issues and extent of evidence needed to come to a decision in respect of the key questions. All the questions may not be relevant to all areas and existing arrangements may cover some or all the question areas.

The tool should enable any 'gaps' in existing evaluation arrangements to be identified and provide a means to identify actions to rectify them. It will also assist in indicating the evidence that will need to be provided by any alternative evaluation tool in order to effectively judge performance and progress.

The performance levels scale provides a means of quantifying performance and should assist in benchmarking performance, both in terms of type of activity (leadership, strategy, people etc) and separate offices, projects etc within the Federation. This should help with planning and priority setting for future work plans and in identifying and setting targets for improvement and in monitoring progress towards those targets. It should also provide a basis for peer review and/or benchmarking between different areas.

Chairman, SFCA

## Assessment Framework

The top-level framework is adapted from the EFQM Excellence Model but is simplified and targeted to provide a flexible tool to assist in monitoring and evaluating performance in a systematic and structured way. It can be used to identify areas of particularly good or poor practice and in establishing priorities for improvement action.

At the most summarised level there are **seven questions** to address:

### Capabilities

1. **Leadership:** do Executive Committee Members, Project Leads/Office Bearers support and promote risk management?
2. Are **people** equipped and supported to manage risk well?
3. Is there a clear risk **strategy** and risk **policies**?
4. Are there effective arrangements for managing risks with **partners**
5. Do the Federation's **processes** incorporate effective risk management?

### Risk Handling

6. Are **risks handled well**?

### Outcomes

7. Does risk management contribute to **achieving outcomes**?

These seven 'key' questions at the top-level are each underpinned by a lower level, non-exhaustive, set of questions which are intended as indicative of the range of issues and extent of evidence needed to come to a decision in respect of the key questions and hence to help guide evidence gathering.

## Assessment Scale

The levels scale provides a means of quantifying performance and should assist in monitoring existing performance, in identifying and setting targets for improvement and in judging progress towards those targets. It should also be useful in establishing a basis for planning and priority setting for future work plans and for peer review and/or benchmarking, both within the Federation and between it and its partners (bilaterally or multilaterally).

The assessment scales have five levels to gauge progress in developing the necessary risk management **Capabilities** and to assess the effectiveness of **Risk Handling** and impact on delivering successful **Outcomes**. In summary these levels are:

**Capability** (Leadership; Policy & Strategy; People; Partnerships & Resources; and Processes):

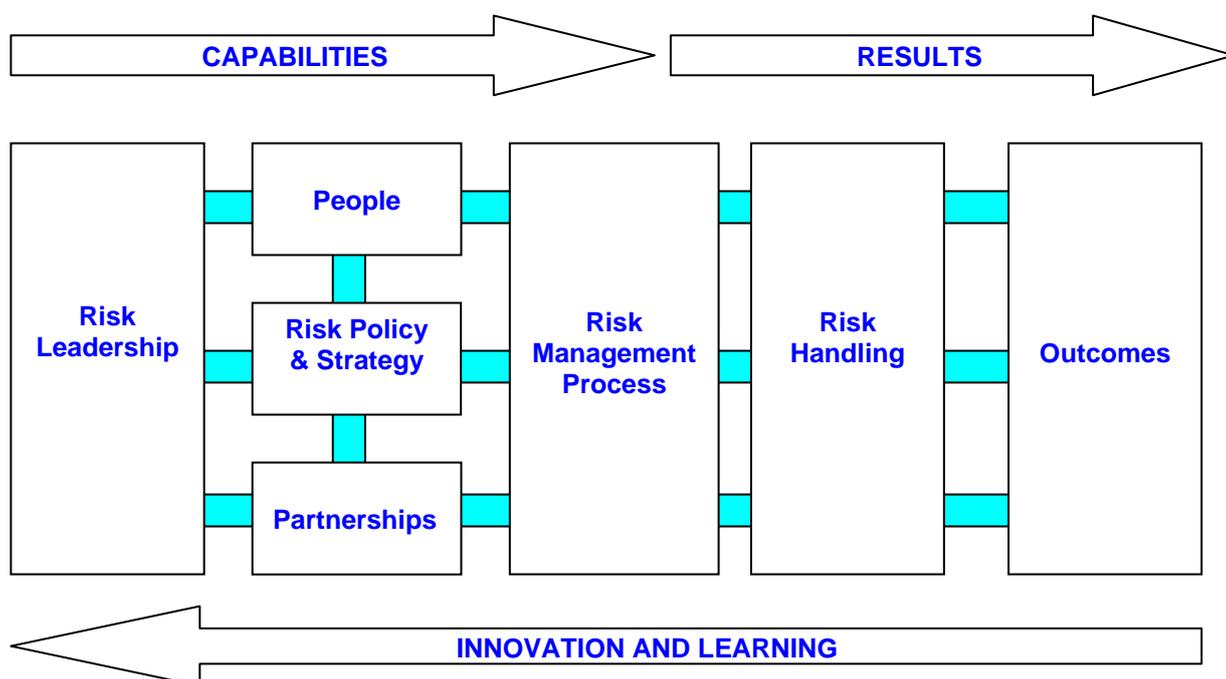
- 1 Awareness and understanding
- 2 Implementation planned & in progress
- 3 Implemented in all key areas
- 4 Embedded and improving
- 5 Excellent capability established

**Risk Handling and Outcome performance:**

- 1 No evidence
- 2 Satisfactory
- 3 Good
- 4 Very good
- 5 Excellent

**3. Using the Assessment Tool**

This can be used either to give a broad/impressionistic overview, using just the summary framework. Alternatively, by using the top-level questions informed by systematically collected evidence (such as that indicated by the supporting indicative questions) it can give a more detailed assessment. This would be suitable for monitoring and reviewing the effectiveness of internal control processes and supporting a Statement on Internal Control (SIC). It can also be used in reviewing and reporting on performance and progress in improving risk management capability and assessing impact on improved risk handling and performance outcomes. Used in this latter way it can also assist with identifying areas of particularly good or poor performance and in establishing priorities for improvement action. The framework can also be used as a tool to assist peer-review and benchmarking, both internally and between organisations (bilaterally or multilaterally).

**RISK MANAGEMENT ASSESSMENT TOOL**

## 1. Leadership

Do management (Executive Committee Members, Project leads/Office bearers) support and promote risk management?

### Summary of progress

<b>Level 1: Awareness &amp; understanding</b>	<b>Level 2: Implementation planned &amp; in progress</b>	<b>Level 3: Implemented in all key areas</b>	<b>Level 4: Embedded and improving</b>	<b>Level 5: Excellent capability established</b>
Management are aware of need to manage uncertainty & risk and have made resources available to improve	Managers take the lead to ensure that approaches for addressing risk are being developed and implemented	Managers act as role models to apply risk management consistently and thoroughly across the organisation	Management are proactive in driving and maintaining the embedding and integration of risk management; in setting criteria and arrangements for risk management and in providing top down commitment to well managed risk taking to support and encourage innovation and the seizing of opportunities.	Managers reinforce and sustain risk capability, organisational & business resilience and commitment to excellence. Leaders regarded as exemplars.

### Evidence

Are management (Executive Committee Members, Project leads/Office bearers):

#### 1.1 Taking key risk judgements and providing clear direction?

- Are they routinely in a position to be aware of the key risks and have systems in place to ensure that this is up to date?
- Do they have a good understanding of the key risks facing the organisation and their likely implications for service delivery to the public and the achievement of programme outcomes?
- Are the risks that could result in key objectives or service delivery responsibilities not being met identified and the likelihood of them maturing regularly assessed?
- Are key risks prioritised for action and mitigation actions identified and monitored?

#### 1.2 Setting the criteria/arrangements for the Federation's appetite/tolerance for taking on risk?

□

- Are they setting the criteria for acceptable and/or unacceptable risk?
- Are they setting the criteria for reference for Board consideration?
- Are they establishing the criteria/arrangements for escalation of consideration of risks at various levels in the Federation etc)?

(See also section 5.5.3)

### 1.3 Supporting innovation?

- Is well-managed risk taking encouraged to help seize opportunities and support effective innovation?
- Is there support and reward for innovation and seizing opportunities to better deliver the Federations aims and objectives?
- Is individual success rewarded and support given by management when things go wrong despite risks being well managed, ie avoiding a blame culture?

### 1.4 Ensuring clear accountability for managing risk?

- Are appropriate staff members clearly assigned responsibilities for assessing, reporting and managing identified risk and are these responsibilities regularly reviewed?
- Do those responsible have the necessary authority and support to discharge their responsibilities effectively?
- Do managers understand and take responsibility for the management of risk in their area?
- Are matters actively reported through the management arrangements and to the audit/risk committee or Board as appropriate?

### 1.5 Driving implementation of improvements in risk management?

- Are they proactive in supporting and encouraging effective risk management?
- Are they proactive in supporting and driving a culture embracing well-managed risk taking?
- Are they proactive in supporting and driving the embedding of effective risk management in the departments core activities (ie policy making, planning and delivery)?
- Are they ensuring effective management of risks to the public?
- Are they ensuring effective communication about risks and risk issues?
- Are they ensuring that managers and staff are equipped with necessary skills, guidance and other tools?

## 2. Risk Strategy and Policies

Is there a clear risk strategy and risk policies?

### Summary of progress

<b>Level 1: Awareness &amp; understanding</b>	<b>Level 2: Implementation planned &amp; in progress</b>	<b>Level 3: Implemented in all key areas</b>	<b>Level 4: Embedded and improving</b>	<b>Level 5: Excellent capability established</b>
The need for a risk strategy and related policies has been identified and accepted	A risk management strategy & policies have been drawn up and communicated and are being acted upon	Risk strategy & policies are communicated effectively and made to work through a framework of processes	An effective risk strategy and policies are an inherent feature of department policies and processes	Risk management aspects of strategy and policymaking help to drive the risk agenda and are reviewed and improved. Role model status

## Evidence

Is there a clear:

### 2.1 Risk Management Strategy?

(The Risk Management Strategy may be contained in a separate document but this is not essential and as embedding progresses more of the information would be expected to be part of the organisations general policies and processes)

- Is there a risk management strategy which:
  - Is endorsed by the Head of the organisation/ Board / Audit Committee / Risk Committee?
  - Sets out the organisation's attitudes to risk?
  - Defines the structures for the management and ownership of risk and for the management of situations in which control failure leads to material realisation of risks?
  - Specifies the way in which risk issues are to be considered at each level of business planning and delivery ranging from the corporate process to operational action and the setting of individual staff's objectives?
  - Includes risk as an opportunity (if it can be managed effectively) as well as a threat?
  - Allows for peer review and the benchmarking of risks where appropriate?
  - Specifies how new activities will be assessed for risk and incorporated into risk management structures?
  - Ensures common understanding of terminology used in relation to risk issues?
  - Defines the structures for monitoring, review and gaining assurance about the management of risk?
  - Defines the criteria that will inform assessment of risk and the definition of specific risks as "key"?
  - Defines the way in which the risk register(s) and risk evaluation criteria will be regularly reviewed?
  
- Is it easily available to all staff and reviewed at least annually to ensure it remains appropriate and current?
  - Does it allow for balancing the portfolio of risk?
  - Does it support effective innovation and encourage well-managed risk taking to generate improved delivery of aims and objectives?
  - Does it encourage and promote the integration of risk management into established procedures and arrangements for departmental business, ie policy making, planning (eg business plans, delivery plans, spending plans etc), delivery etc and does this include effective management of risks to the public (information on 'Principles of Managing Risks to the Public' can be found at: [www.risk-support.gov.uk](http://www.risk-support.gov.uk))?
  -
  
- Does it include effective communication about risk with staff and all stakeholders, inside and outside the organisation and including management of risks to the public? (A tool-kit on risk communications providing more detailed guidance can be found on: <http://www.ukresilience.info/risk/index.htm>)

**2.2 Risk Management Policy?** (The Risk Management Policy may be contained in a separate document but this is not essential and as embedding progresses more of the information would be expected to be part of the organisations general policies and processes)

- Does a formal risk policy (policies) exist and is this documented, endorsed by the head of the organisation, clearly communicated, readily available to all staff and subject to regular

review?

- Were views from in-house stakeholders (eg employees, internal experts, auditors etc) taken into account?
- Is the risk management policy (policies) integrated with established policies for departmental business activities (ie policy, planning, delivery etc)
- Are there clear statements that set out a proactive approach to innovation, and are staff encouraged to read them?
- Is there an explicit policy to encourage well-managed risk taking where it has good potential to realise sustainable improvements in service delivery and value for money, and is this policy actively communicated to all staff?
- Is a common definition of risks and how they should be managed, clearly communicated and adopted by all staff throughout the organisation with detailed guidance for staff drawing up or implementing programmes, policies, plans etc?
- Is there a policy on balancing the portfolio of risk within the overall risk appetite/tolerance and does this include seizing opportunities as well as dealing with threats?

### 3. People

Are People equipped and supported to manage risk well?

#### Summary of progress

<b>Level 1: Awareness &amp; understanding</b>	<b>Level 2: Implementation planned &amp; in progress</b>	<b>Level 3: Implemented in all key areas</b>	<b>Level 4: Embedded and improving</b>	<b>Level 5: Excellent capability established</b>
Key people are aware of the need to assess and manage risks and they understand risk concepts and principles	Suitable guidance is available and a training programme has been implemented to develop risk capability	A core group of people have the skills & knowledge to manage risk effectively	People are encouraged and supported to be innovative and are generally empowered to take well-managed risks. Most people have relevant skills & knowledge to manage risks effectively and Regular training etc is available for people to enhance their risk skills and fill any 'gaps'	All staff are empowered to be responsible for risk management and see it as an inherent part of the Departments business. They have a good record of innovation and well managed risk taking

#### Evidence

Are people equipped and supported by:

#### 3.1 The Culture of the organisation?

- Is there a general culture of risk management at all levels?
- Do managers and staff feel able to raise risk related issues?
- Do staff have clear reporting chains and mechanisms to raise risk issues?
- Do managers and staff feel able to raise risk issues even where this may be seen as 'bad news'?
- Are they encouraged and empowered to identify and take opportunities that will better deliver aims and objectives?

- Are they confident that their concerns/ideas will be heard and acted on?
- Do staff feel empowered to take well-managed risks?
- Are staff rewarded for taking well-managed risks?
- Are staff confident that they will not be blamed for failure when risks have been well managed?
- Are staff encouraged to challenge practices, to identify new ways of doing things and to be innovative?
- Do the monitoring and reporting systems generate an expectation that action will be taken on issues raised?
- Is risk management encouraged as part of the established way of planning and delivering the departments business?
- Is risk management performance embedded in recruitment and performance appraisal?
- Is risk management incorporated into quality measures, eg Investors in people?

(Further guidance is available in document 'Creating a Risk Management culture' which can be found at: [www.hm-treasury.gsi.gov.uk/GFM/rst/index.htm](http://www.hm-treasury.gsi.gov.uk/GFM/rst/index.htm) or more specifically at: [http://www.hm-treasury.gsi.gov.uk/uploaded/documents/strands/leadershipculturechange/culture\\_change\\_tips.doc](http://www.hm-treasury.gsi.gov.uk/uploaded/documents/strands/leadershipculturechange/culture_change_tips.doc)).

### **3.2 Arrangements for allocation of Responsibility?**

- Do staff have properly delegated clear and appropriate responsibility for managing risks and seizing opportunities?
- Is this reflected in their personal objectives and annual assessment?
- Are they clear when matters should be referred elsewhere (eg line management, audit committee, risk committee, board etc) for consideration?

### **3.3 Arrangements to ensure staff Awareness?**

- Are staff aware of the importance of handling risks well, of being innovative and identifying and seizing opportunities to improve outcome performance?
- Are staff aware of the risk management strategy and policy(ies)?
- Are they aware of the key objectives, priorities and main risks facing the organisation as a whole?
- Are staff aware of the key objectives, priorities and main risks facing their part of the organisation?

### **3.4 Provisions to ensure appropriate risk management knowledge, experience and skills?**

- Are staff adequately trained and experienced in risk management relative to the needs of the organisation and the particular job being done?
- Do staff receive appropriate guidance and training on the typical risks that the organisation faces in relation to their role/job, and the action to take in managing these risks?
- Do staff use guidance effectively?
- Do they have good access to advice and expertise?
- Does the personal performance review include assessment of relevant risk management skills and establish development objectives to fill any gaps?
- Are arrangements in place to ensure new staff receive early assessment of their development needs and appropriate guidance, training etc to rapidly address these needs.
- Does skills transfer place take place when consultants or risk management professionals work within local teams?

#### 4. Partnerships

Are there effective arrangements for managing risks with partners?

##### Summary of progress

Level 1: Awareness & understanding	Level 2: Implementation planned & in progress	Level 3: Implemented in all key areas	Level 4: Embedded and improving	Level 5: Excellent capability established
Key people are aware of areas of potential risk with partnerships and understand the need to agree approaches to manage these risks	Approaches for addressing risk with partners are being developed and implemented	Risk with partners is managed consistently for key areas and across organisational boundaries	Sound risk management arrangements have been established. The most suitable: partnership arrangement (PFI, 'arms length' etc); partners; suppliers etc are selected in full knowledge of the risks, risk management capability & compatibility	Excellent arrangements in place to identify and manage risks with all partners and to monitor and improve performance. Organisation regarded as a role model

##### Evidence

Are there appropriate mechanisms for:

#### 4.1 Identifying, assessing and managing risk in Partnerships:

- Are the risks associated with working with other organisations assessed and managed?
  - Are there arrangements to ensure a common understanding of the risks and how they can be managed (eg a joint/shared risk register, sharing of risk register information, agreed risk assessments etc)?
  - Are there arrangements for agreed standards for assessing risks?
  - Has the risk terminology/language been agreed?
  - Is there clarity about who is carrying which risks and what the requirements are for providing information?
  - Are those responsible for managing the risks empowered to do so?
- Are arrangements scaled to match the risks, size/importance of the project etc?
- Are all those organisations, which are likely to have some influence over the success of a programme or service to the public identified (e.g. through landscape reviews)?
- Are there arrangements to ensure, where possible, selection of the most appropriate partnership approach (eg 'arms length', partnering, PFI etc)?
- Is consideration being given to the need for a consistent and common approach to managing risks that cut across organisation boundaries, for example cross-departmental projects?
- Do organisations understand and have confidence in the risk management arrangements of all those involved in the joint working or who could influence the success of the programme?
- Are there incentives for partners to manage risks effectively (ie is the risk reward balance right for each partner)?
- Is there clear responsibility and accountability for risks where delivery of results is through partners, eg some risks (eg reputational) may remain even though responsibility for delivery is with a partner?

## 4.2 Monitoring and reviewing performance?

- Is there reliable and regular information (eg Key issues, risks to be monitored, scale of risks, how they will be managed) to monitor the risk management performance of all those organisations involved?
- Is it clear who will provide what monitoring information and are rights of access sufficient to obtain the necessary information?
- Are there arrangements for joint review of risks and how differences of judgement and/or perception will be resolved?

## 4.3 Provision and testing of contingency arrangements?

- Are there adequate contingency arrangements (including prioritisation of mitigation action) to minimise the adverse effects on public service delivery of one or more party failing to deliver?
- Have the contingency arrangements been tested?

## 4.4 Identifying and addressing the implications of risk transfer?

- Has the extent to which risks can be transferred to organisations – both public and private – best placed to manage them been considered and acted upon?
- Are staff encouraged to take responsibility for risks when they are best placed to do so rather than transferring them to other organisations?
- Where risks are transferred to a partner organization are accountabilities clearly established and capacity maintained to manage and monitor performance and take early action in the event of difficulty?

(See also guidance - **Managing Risks with Delivery Partners at:**  
[http://www.ogc.gov.uk/sdtkdev/new\\_content/ManaginRisksDeliveryPartners.pdf](http://www.ogc.gov.uk/sdtkdev/new_content/ManaginRisksDeliveryPartners.pdf) )

## 5. Processes

Do the Federation's processes incorporate effective risk management?

### Summary of progress

<b>Level 1 : Awareness &amp; understanding</b>	<b>Level 2: Implementation planned &amp; in progress</b>	<b>Level 3: Implemented in key areas</b>	<b>Level 4: Embedded and improving</b>	<b>Level 5: Excellent capability established</b>
Some stand-alone risk processes have been identified	Recommended risk management processes are being developed	Risk management processes implemented in key areas. Risk capability self assessment tools used in some areas	Risk management is an integral part of the organisation's core processes (policy, planning, delivery etc) and data are collected to monitor and improve risk management performance	Management of risk & uncertainty is an integrated part of all business processes. Best practice approaches are used and developed. Selected as a benchmark site by other organisations

## Evidence

### 5.1 Is Risk Management being fully embedded in the organisation's business processes?

- Is risk management embedded in key processes, eg:
  - Policymaking (see also guidance and tool 'Early Management of Risks to Delivery' at: [www.hm-treasury.gsi.gov.uk/GFM/rst/index.htm](http://www.hm-treasury.gsi.gov.uk/GFM/rst/index.htm))?
  - Project and programme management?
  - Operational management?
  - Performance management?
  - Business planning?
  - Delivery planning?
  - Spending Review?
- Are there well-established approaches for (i) identifying risk and (ii) assessing and reporting risks that are effectively communicated, followed and fully understood by relevant staff?
- Is risk management ongoing and integrated with other procedures so that staff accept it as a standard requirement of good management and not a one-off or annual activity?
- Are arrangements in place to ensure risks to the public are well managed, including:
  - Ensuring openness and transparency;
  - Promoting wide involvement and engagement;
  - Taking steps to promote proportionate and consistent action;
  - Ensure clarity in the validity and use of all relevant evidence;
  - Ensure those best placed to manage the risk are given the responsibility for so doing? (ie implementation of the 'principles of managing risks to the public' – [www.risksupport.gov.uk](http://www.risksupport.gov.uk))
- Are arrangements in place to ensure sufficiently early and effective communication on risks and risk issues with staff, internal and external stakeholders, including members of the public etc (eg application of cabinet office guidance to be found at: <http://www.ukresilience.info/risk/index.htm>)?

### 5.2 Do the processes support innovation and the identification and seizing of opportunities?

- Are arrangements in place to identify opportunities that might be available if risks are well managed, (eg reduced need for elaborate systems of oversight and control of service delivery and hence greater cost effectiveness and efficiency)?
- When practicable is a monetary or other numerical value put on risk to emphasise to staff the potential loss or missed opportunity which could occur if risks are not well managed?

### 5.3 Do the procedures ensure risk management arrangements are effective and reflect good practice?

- Are arrangements in place, such as reviews by internal audit, consideration by audit and/or risk committee, involvement of non-executive Director(s), peer review, benchmarking with other organisations etc, to ensure that risk management approaches are effective, efficient and reflect good practice?
- Are the arrangements for monitoring and review subject to review to ensure they remain appropriate, proportionate and cost-effective?
- Has management sought advice from internal and external audit on good practice in the development, implementation and maintenance of robust risk management processes and systems?
- Has professional advice been taken to ensure that the most appropriate tools and techniques are used to assess risk and the likelihood of it maturing?
- Are both internal and external experiences used to inform risk management processes and

procedures?

#### **5.4 Do the processes ensure appropriate resilience?**

- Does the organisation have a well-developed business/service continuity plan?
- Does the organisation have an IT recovery plan?
- Is the action (ie contingency plans, business continuity plans) planned to deal with consequences of risks maturing (such as the impact on the delivery of services to the public) regularly reviewed (tested as appropriate) to ensure that it remains appropriate, sufficient and cost effective?

#### **5.5 Do the Risk Management Processes contain:**

##### **5.5.1 Context for risk management?**

- Is the context in which risk is managed identified by considering the issues of:
  - Stakeholders, including
    - Ministerial interests?
    - Public interests?
    - Service user interests?
    - Wider societal interests (eg environment)?
  - Risk aspects of relationships inside and outside of government (including key suppliers of goods and services), including: -Ways in which the behaviour of “partners” affects the organisation? -Ways in which the behaviour of the organisation affects the “partners”? -The risk priorities of “partners”? (See also Section 4. Partners)

##### **5.5.2 Risk identification and evaluation?**

- Is there documentation which:
  - Records identified risks and opportunities in a structured way to: -record dependencies between risks? -record linkages between lower level risks and higher-level risks? -identify key risks? -facilitate assignment of ownership at a level that has authority to assign
  - resources to the management of the relevant risk?
  - Evaluates risks using defined criteria that are applied consistently?
  - Provides evaluation of inherent risk (before any control implemented) and residual risk (risk remaining after planned controls are implemented)?
  - Evaluates risk-taking account of both:
    - the likelihood of the realisation of the risk, and
    - the impact of the realisation of the risk?
  - Identifies assigned ownership of the risk?
  - Records, in as far as it can be defined: -the acceptable level of exposure in relation to each risk? -why it is considered that the defined acceptable level of exposure can be justified?
- In assessing risks are the potential implications for key stakeholders – citizens as both taxpayers and consumers of government services and specific client groups such as business – taken account of?
- Is a risk assessment carried out before commencing major projects and reviewed at intervals to determine its continued validity and identify any new and emerging risks?
- Is use made of feedback from the public (eg citizens’ forum) to identify the public’s perception and attitude to risk(s) and to help with identification of any unforeseen risks?
- Are early warning indicators in place – covering for example, quality of service or seasonal increase in customer demand not being met – to alert senior management of

potential problems in service delivery or that the risk of planned outcomes not being met is increasing?

- Is horizon scanning used to spot emerging threats and opportunities?

### 5.5.3 Criteria for evaluation of risk?

- Do specific criteria for evaluating risk encompass a range of factors, including:
  - Financial / value-for-money issues?
  - Service delivery / quality of service issues?
  - Public concern/public trust /confidence issues?
  - Degree and nature of risks to the public?
  - Reversibility or otherwise of realisation of the risk?
  - The quality or reliability of evidence surrounding the risk?
  - The impact of the risk on the organisation (including its reputation) / stakeholders (including the public) / partners / others?
  - Defensibility of realisation of the risk?
- Are these criteria applied consistently and methodically across the whole range of risks?

### 5.5.4 Risk control mechanisms?

- • Are controls in place in relation to each risk which are:
  - Based on active consideration of the options for controlling that risk to an acceptable level of residual exposure?
  - Promulgated to all those who need to know about the controls?
  - Regularly reviewed to consider whether they continue to be effective?
    - The best value for money response to the risk?
  - Documented by the relevant managers?
- In respect of key risks, including those which lie outside the control of the organisation, are plans developed and documented contingent against the risk being materially realised despite the controls that are in place (ie to address the residual risk after control action)?
- Are there adequate Business Continuity arrangements?
- Are reliable contingency arrangements in place so that if problems arise services to the public will be maintained and the adverse impact on key programme outcomes such as late delivery or reduced quality will be minimised?

### 5.5.5 Arrangements for appropriate Communications?

(See also cabinet office guidance to be found at: <http://www.ukresilience.info/risk/index.htm>)

- Are there adequate means of communicating with staff about risk issues?
- Is there adequate communication with external stakeholders?
- Are the principles of communicating on risk to public being implemented fully?
- Are trusted sources used to communicate on risk to the public? (e.g. best use of arms-length bodies?)
- Is there a reliable communications strategy in place so that if risks mature those most affected by the potential adverse consequences fully understand and have confidence in the remedial action that the organisation may need to take?
- Are communication issues considered at a sufficiently early stage to ensure implications can fully inform policy, programme etc development and implementation?
- Are there effective arrangements to meet the requirements of the Freedom of Information (FOI) Act?

### 5.5.6 Review and assurance mechanisms?

- • Are review and assurance mechanisms in place to ensure that each level of management, including the Board, regularly reviews the risks and controls for which it is

responsible?

- Are these reviews monitored by / reported to the next level of management?
- Is any need to change priorities or controls clearly recorded and either actioned or reported to those with authority to take action?
- Are risk identification, assessment and control lessons that can be learned from both successes and failures identified and promulgated to those who can gain from them?
  - Is an appropriate level of independent assurance provided on the whole process of risk identification, evaluation and control?
  - Is the methodology for gaining independent assurance defined with particular reference to the role of internal audit and the audit committee (or assurance, risk committee etc), and to the role of non- executive directors and any other review bodies working within the organisation?
- Has any system of peer review and/or benchmarking been used to provide independent assurance of the approach used and the results?

## 6. Risk Handling

Are risks handled well?

### Summary of progress

Level 1: No evidence	Level 2: Satisfactory	Level 3: Good	Level 4: Very Good	Level 5: Excellent
No clear evidence that risk management is being effective	Limited evidence that risk management is being effective in at least most relevant areas	Clear evidence that risk management is being effective in all relevant areas	Clear evidence that risks are being handled very effectively in all areas	Very clear evidence of excellent risk handling in all areas and that improvement is being pursued

### Evidence

Has risk management action contributed to:

#### 6.1 Effective anticipation and management of strategic risks?

- Reduction in levels of threat?
- Higher risk 'opportunities' being identified and successfully pursued?
- Successful anticipation of shocks or other risk events?
- Reduced adverse impact of unexpected/low likelihood events?
- Crises being avoided/mitigated (eg analysis of near misses, avoiding issues escalating into crises)?
- Successful application of contingency or business continuity plans?
- Contingency and business continuity plans being drawn up and successfully tested?

#### 6.2 Effective decision and policymaking?

- A robust evidence base for decisions?
- Proactive procedures and approaches to maximise identification of opportunities in line with the organisations risk appetite/tolerance?
- Stakeholder involvement and understanding of stakeholder issues and perceptions?
- Allowance for delivery issues in policy development?
- Proactive promotion of Innovation occurring knowing that risks can be managed effectively?
- Allocation of resources (including skills/capabilities) and prioritisation in line with aims and objectives?

- Assessment of resources allows time/resources for staff to learn any new working methods
- High quality risk assessments and risk management proposals in Delivery plans, policy formulation, business plans etc?
- Evaluation of intended and unintended outcomes occurring?
- Few significant and unanticipated weaknesses arising?
- Few policy failures (e.g. few legal challenges) consistent with the risk appetite/tolerance?
- Good identification and management of reputational risks?
- Few issues resulting in reputational damage?
- High level of customer/stakeholder satisfaction?

### 6.3 Effective handling of cross cutting issues?

- Good coordination, understanding and management of risks with delivery partners?
- Clear and effective coordination of policies and actions between Departments?
- Few surprises from other government Departments' policies & activities?

### 6.4 Effective review and assurance?

- Regular and effective use of independent assurance of quality and effectiveness of risk management?
  - Internally (eg internal audit, Audit/Assurance/Risk committee, Non-Executive Directors)
  - Externally (eg interdepartmental exchanges, external experts etc)
- Clear accountability for key risk management decisions?
- Identification of indicators of effective risk management that are capable of measurement and monitoring over time?
- and which can demonstrate contribution to

### 6.5 Effective planning and target setting?

- Objectives and targets that are relevant and stretching but achievable and capable of monitoring and validation (eg are they SMARTer)?
- Clear setting of risk appetite/tolerance?
- Decisions are not taken in ignorance of the risk?
- Clear understanding & consideration of the overall level of risk taken on and the approach being taken to manage it?
- High level of understanding of the capability to manage this level of risk?
- High quality of risk identification and proposals for risk management in business and delivery plans?

### 6.6 Effective management of risk to the public?

- High level of **openness and transparency** in respect of risks to the public?
- High level of success in **engagement** with the public, media and representational organisations on risk decisions?
- Clear explanation of risks and presentation of robust, validated **evidence** for decisions wherever possible (eg unless there are issues such as confidentiality or security)?
- **Proportionality** in decisions on risk management (ie take account of nature and level of risks, costs, benefits and also aspects such as public/societal concerns)?
- Consistency in decision-making?
- Effective **communication** on risk with the public (greater public understanding of risk)?
- Effective implementation of provisions of the **Freedom of Information Act**?

### 6.7 Effective risk allocation?

- Allocation of risk to those best able to handle it? (e.g. public, partner organisations, staff within the organisation)?
- Consideration of the potential impact on the total portfolio of risks before a new initiative,

project etc is taken on?

### 6.8 Effective management of risks to delivery?

- Assessment and control of risks inherent and evident in day-to-day actions of staff?
- Learned lessons from elsewhere in department/outside department, notably for new or untried aspects?
- Assessment of cost-effectiveness of potential new services, including improved value for money?
- Flexibility and resilience to the way services are delivered (eg adapt to changes in public expectations; regular appraisals of delivery mechanisms, careful planning and effective continuity arrangements)?

### 6.9 Encouraging greater efficiency?

- Assessment of departmental procedures and processes against well managed risk taking and the departments risk appetite/tolerability criteria to ensure they are fit for purpose and cost effective (eg potential for improved service delivery, value for money)?

## 7. Outcomes

Does risk management contribute to achieving outcomes?

### Summary of progress

<b>Level 1: No evidence</b>	<b>Level 2: Satisfactory</b>	<b>Level 3: Good</b>	<b>Level 4: Very good</b>	<b>Level 5: Excellent</b>
No clear evidence of improved outcomes	Limited evidence of improved outcome consistent with improved risk management	Clear evidence of significant improvements in outcome performance demonstrated by measures including, where relevant, stakeholders' perceptions	Clear evidence of very significantly improved delivery of outcomes and showing positive and sustained improvement	Excellent evidence of markedly improved delivery of outcomes which compares favourably with other organisations employing best practice

### Evidence

Has risk management action contributed to:

#### 7.1. Successful delivery?

- Better public services (delivery to meet commitments eg to quality, coverage, timeliness, with few errors etc; potential disruptions to delivery anticipated and avoided/addressed/mitigated etc)?
- Sustained improvements in services (continuing improvement over time taking account of stakeholder and public views, lessons learned, government priorities and changing circumstances to ensure meet (and continue to meet) public expectations)?
- Few negative, more positive press reports on delivery?
- Achievement of business objectives (including intermediate targets, milestones, review criteria etc)?
- Project success?
  - Programmes and projects deliver as intended (eg good, effective IT systems; intermediate measures eg traffic lights at 'Gateway' review – may include managing 'red' to 'green'; meeting intermediate targets for delivery of project elements or stages etc)?
  - Programmes and projects delivered to time and budget (eg Effective IT systems by due

date and cost,; meeting intermediate milestones for cost and time on profile for project progress; etc)?

- Few significant failures consistent with risk appetite/tolerance?
- PSA target achievement (including interim measures, eg traffic light status, milestones, trend analysis)?
- Few NAO reports citing failures of risk management?
- Few press reports commenting on failures that relate to failures of risk management?

## **7.2 Meeting planned financial outcomes?**

- Improved value for money?
- Delivery within budget (e.g. fewer calls on reserves arising from inadequate risk management)?
- Effective control of fraud (eg evidence of less fraud or trend towards less fraud – both fewer instances and reduced size of loss; may involve more fraud identified as an initial phase of better control)?
- Effective cash management?

## **7.3 Effective management of risks to the public?**

- Improved public understanding of risks and risk management (eg as assessed by survey results; fewer demands for ‘zero’ risk; understanding of need for considered and proportionate action in response to risk issues; fewer demands for ‘instant’ action to increase controls in response to accidents/incidents etc)?
- Increased public confidence that risks are well managed?
- Increased trust in Government/Department risk based decisions?
- Better achievement of targets for risks to the public?
- Improved responsibility by the public in risk matters (eg more willingness to act proactively in response to risk issues; fewer demands for risk averse action by government; more willingness to accept responsibility where public can control the risk)?
- Greater satisfaction from the public with the way risks are handled (eg results of surveys; few complaints, protests etc, more positive comments, support for actions etc)?

## **7.4 Maintenance of high reputation for the organisation?**

- Attract positive 3<sup>rd</sup> party comments (eg press)?
- Attract positive public comments (eg surveys, communications on departmental issues, comments to the press etc)?
- Attract positive comment from staff, partners, stakeholders, professional and other bodies of repute (eg stakeholder surveys, staff surveys, project/programme reviews, publications in magazines etc)?



