

The Orange Book: Management of Risk - Principles and Concepts

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The **Orange Book** is published with the permission of HM Treasury on behalf of the Controller of Her Majesty's Stationery Office, and is the main reference guidance on risk management in UK Government. In the context of Enterprise Risk Management, however, the Orange Book recognises that other authoritative sources also need to be considered.

The Orange Book establishes the concept of risk management and provides a basic introduction to its concepts, development and implementation of risk management processes in UK government organisations. The 2004 version of the Orange Book makes the assumption that, since its predecessor in 2001, all government organisations have basic risk management processes in place. The main risk management challenge was not seen as being in recognising risk and developing a management process, but rather in the ongoing review and improvement of risk management. The 2004 version therefore includes guidance on "horizon scanning", internal processes for risk management, and consideration of an organisation's risk management in relation to the wider environment in which it operates.

The assumption of basic process being in place was confirmed by the National Audit Office's 2011 good practice publication "managing risks in government" ¹ which found that a large number of departments and other public sector bodies had well-developed risk management process, with boards and non-executives focusing increasingly on risk management information as a tool with which to challenge management. Scope for improvement was found in connecting risk management and operational decision making.

The Orange Book cross refers to other publications such as the Green Book ² which provides specific advice on appraisal and evaluation of proposals before committing funds, and the eponymously titled Managing Public Money ³ which explains how to handle public funds with probity and in the public interest, which includes an Annex 4.3 further guidance on risk.

The Orange Book's guidance is intended for a wide range of users from newcomers to risk management, trainers, and Audit Committee members, to senior leadership and experienced risk managers. Rather than setting a specific "standard", the guide establishes principles of risk management, and a "Risk Management Assessment Framework". It is felt to be more important that an organisation can demonstrate that it is managing its risk in its particular circumstances and in a way which effectively supports the delivery of its objectives, than it is to demonstrate compliance with a particular standard.

¹ "managing risks in government" https://www.nao.org.uk/wp-content/uploads/2011/06/managing_risks_in_government.pdf

² Green Book https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf Annex 4 Risk and uncertainty incl. sections on Transferring risk, Optimism bias, and Irreversible risk

³ Managing Public Money July 2013 with annexes revised as at August 2015 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_jan15.pdf

However, the management of risk at strategic, programme and operational levels does need to be integrated so that the levels of activity support each other. In this way the risk management strategy of the organisation will be led from the top and embedded in the normal working routines and activities of the organisation. All staff should be aware of the relevance of risk to the achievement of their objectives, and training to support staff in risk management should be available.

The guidance uses a risk management model to show the range of considerations which apply in risk management, all of which can be applied at various levels ranging from the development of a strategic, organisation-wide risk policy through to management of a particular project or operation. It is not a detailed instruction manual – its aim is simply to show the range of issues which are involved and to offer some general direction to help the reader think about how these issues may be addressed in the specific circumstances of their own organisation.

Along with various illustrative Annexes and a helpful Glossary the guidance covers:

- The Risk Management Model (below)
- Identifying Risks
- Assessing Risks
- Risk Appetite
- Addressing risks
- Reviewing and reporting risks
- Communication and learning
- The extended enterprise
- Risk Environment and context

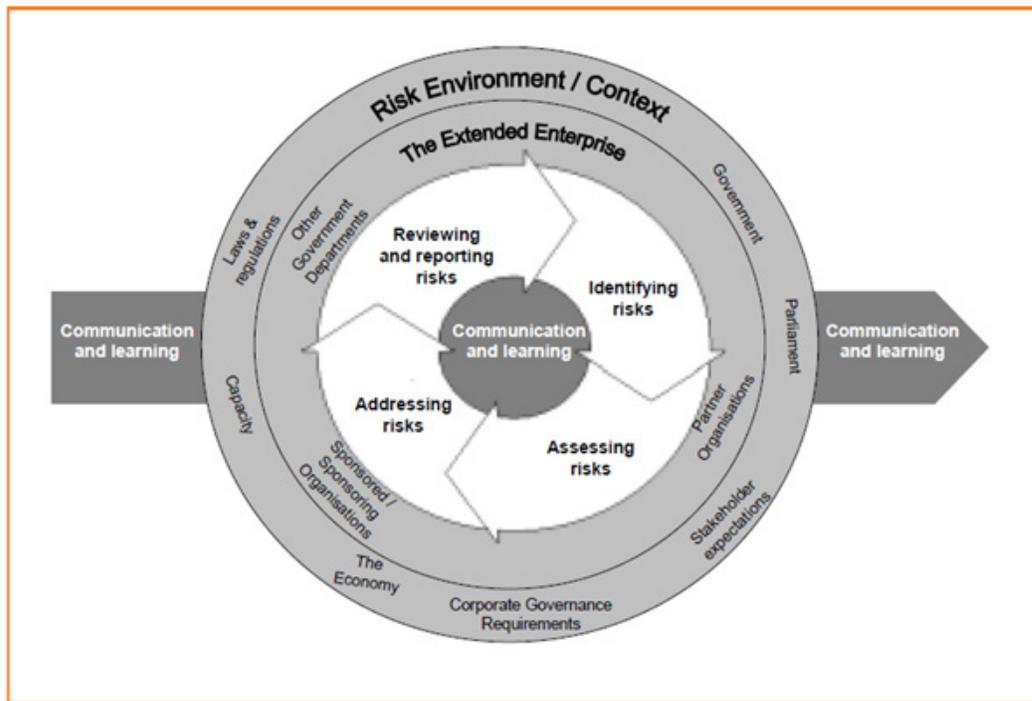


Figure 1: Risk Management Model

Although the model presents the core risk management process as a series of elements, in reality they blend together with different risks at different stages within the process. Those using the guide are therefore reminded that managing risk is not a linear process but is a balance of a number of interwoven elements which interact with each other and need to be in balance with each other if risk management is to be effective. Also, that specific risks cannot be addressed in isolation from each other – managing one risk may impact on another, and multiple risks might be managed simultaneously.

The model works in an environment where the risk appetite (how much risk is tolerable and justifiable) has been defined; with the concept of risk appetite applied as an “overlay” across the whole of the model.

Additional Material

As the orange Book acknowledges, other guidance material on risk in an ‘Enterprise Risk Management’ context is available. This includes from sources such as:

- **ALARM:** <http://www.alarm-uk.org/> originating from the ‘National Advisory Group for Risk Manager in Local Authorities’;
- **The IRM:** <https://www.theirm.org/> the Institute of Risk Management covers all sectors and has a public sector special interest group – Government staff contributed to the IRM publication Risk in the ‘Extended Enterprise’ <https://www.theirm.org/knowledge-and-resources/thought-leadership/risks-in-the-extended-enterprise/>
- **CIPFA:** Publication ‘it’s a risky business’ <http://www.cipfa.org/policy-and-guidance/publications/i/its-a-risky-business-2014-edition-online> .
- **Sir Nick Macpherson Review of quality assurance of Government analytical models March 2013 risk complexity and quality:** https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206946/review_of_qa_of_govt_analytical_models_final_report_040313.pdf

The review of the quality assurance (QA) of analytical models that inform government policy found that key elements of quality assurance are being widely applied. There is significant variation in the type and nature of QA used within, and between departments which is to be expected given the differences in organisations’ remits, and the levels of risk in question. The review highlighted the benefits of a more systematic approach to creating a work environment that expects high quality.

Author’s Bio

Simon Edge is a Chartered Fellow of the Institute of Internal Auditors (UK & Ireland) and has been working in public sector internal audit, external audit, and audit regulation for over 35 years. He is a member of The Institute of Internal Auditors’ global Public Sector Guidance Committee, and of the UK’s Public Sector Internal Audit Standards Advisory Board.

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