

## Risk Management

HM Treasury defines risk as the "uncertainty of outcome, within a range of potential exposures, arising from a combination of the impact and probability of potential events". Risk management is the mechanism by which risks are identified, controlled and managed. It is central to the way in which Ofgem delivers its corporate plan.

**An example of risk in Ofgem is 'Failure to recruit and retain sufficient, appropriate staff'.**

Ofgem has identified and recorded the likelihood of this risk and the impact it would have on the organisation on its Business Risk Assessment. Ways of minimising this risk and dealing with it if it does occur can then be identified and put into place. This is the essence of effective risk management.

### **Why must Ofgem have a risk management strategy?**

1. Ofgem is required to comply with good corporate governance rules in all areas of its business and to have the relevant supporting policies in place. The Modernising Government initiative requires the public sector to adopt good risk management procedures.
2. Risk management in Ofgem is all about understanding the risks that may impact on our work and ensuring they are effectively managed to minimise negative consequences and optimise any opportunities.
3. A risk management strategy is an essential element of strategic planning. Ofgem has a corporate strategy looking five years ahead. It sets out our goals and what resource we will deploy to achieve them. Risk management should be seen as sitting under this broad umbrella.
4. This risk management strategy describes how we will identify, assess, manage and review and report on our risks.

### **What is Ofgem's approach to risk management?**

Within Ofgem a formal risk management framework has been developed. The stages in the development of the risk management framework were:

- The identification and agreement of the major categories of risk faced by Ofgem and the events within those categories
- Revaluation of the risks in terms of likelihood of occurrence and impact
- Mitigating actions to bring risks within acceptable limits
- Identification of the response to each risk
- Assignment of responsibilities for managing each major risk
- Identification of points for reviewing risks and for the risk management strategy.

The key elements of Ofgem's risk management strategy for identifying, evaluating and controlling risk are as follows:

1. Project, policy and programme managers create and maintain a risk register (a bottom-up approach),
2. Risks are assessed and given a risk rating using a combination of their likelihood and

impact,

3. All risks identified in quarterly reports are reviewed by senior managers during the quarterly review process,
4. Early warning indicators are in place for the most important risks – damage to Ofgem’s reputation, policy errors and legal,
5. Audit Committee considers risk on a regular basis,
6. Senior Management Team and Directors review strategic risks and update, where necessary, Ofgem's risk framework (a top-down approach),
7. Annually, the Authority identify top risks based on the risk framework, and
8. In all cases, all risks, once identified, are managed by a risk manager who will be responsible for applying practical and proportionate countermeasures.

**How are risks monitored and reported?**

Risks are monitored on an ongoing basis, through the standard approach for managing projects. In addition a formal review is carried out at directors' team meetings every six months. High level risks are identified and recorded in Ofgem’s Risk Register.

