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Dear Accounting Officer

Revision of the Management of Risks - Principles and Concepts (The Orange Book)

This letter informs departments and arm's length bodies of a revision to the principles for risk management in government.

Contact

Please address enquiries to GovFinance@hmtreasury.gov.uk

Action

Each Accounting Officer should be aware of the requirements and guidance and ensure that his or her staff are aware of the revised version, which applies to arm's length bodies as well as to their sponsor departments.

Context

Managing Public Money 3.3 lists several areas where Accounting Officers have personal responsibility for important aspects of risk management, which include to:

- take a balanced view of the organisation's approach to managing opportunity and risk commensurate with the organisation's risk appetite;
- have trustworthy internal controls to safeguard, channel and record resources as intended;

- have practical documented arrangements for controlling or working in partnership with other organisations, as appropriate;
- use management information systems to gain assurance about value for money and the quality of delivery and so make timely adjustments;
- use internal and external audit to improve its internal controls and performance; and
- sign the governance statement within their Annual Report and Accounts.

In the case of principal accounting officers, these personal responsibilities apply to the whole departmental group.

The revised document updates the version published in 2004. This revised and updated document (Orange Book) sets out a principles-based approach that provides flexibility and judgement in the design, implementation and operation of risk management, informed by relevant standards and good practice. It sets out the main principles underlying effective risk management within and across departments, arm's length bodies and organisations with linked objectives, and to activity at any level of decision-making.

The core processes at the heart of the risk management framework hasn't changed. These involve identifying risks, assessing these, designing and operating risk treatment activities (including controls), monitoring these and reporting on success or otherwise. In line with good practice, the primary shift is to position risk management as more than a process, but rather as an essential part of good governance, decision-making and performance management at all levels of the organisation. The revised Orange Book reflects an increased emphasis on:

- leadership, culture, values and behaviours as a part of effective risk management;
- embedding risk management in decision-making – within planning, policy development, prioritisation and performance management – not as something separate;
- the need to have an informed view of all risks based on the best information and expertise, including the critical role that functions and professions play in providing expert judgements on risks and their management; and
- learning from experience to continually improve the successful deliver of outcomes.

The way in which the main principles are applied should be the central question is considering the effectiveness of risk management arrangements and in assessing

compliance with the *Corporate Governance Code*. Each government organisation is required either to disclose compliance or to explain their reasons for departure clearly and carefully in the governance statement accompanying their Annual Report and Accounts.

Public sector organisations should note that the document on the gov.uk website has now been updated. A draft version of the revised document was made available in July 2019. This final version now corrects some wording to aid clarity and adds additional cross-referencing. This includes an additional reference to the opportunities and risks in the management of intellectual property and intangible assets. It does not alter the main sense of the principles set out in the draft document previously.

A handwritten signature in black ink, appearing to read 'D. S. Fe.' with a stylized flourish at the end.

David Fairbrother

Treasury Officer of Accounts