

**Analysis and risk Management.
Risk Management implementation in the Romanian
Public Sector**

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Abstract

The complexity of a public service corresponding to the demands of the nowadays society and limiting the necessary resources for the functioning of the institutional environment determined the changes of the vision for the management in public system regarding the risk and implications of it in realizing the objectives on an entity inside the public system, in Romania.

Keywords: risk, risk management, probability, impact, risk exposure, tolerance to risk, internal control

Introduction

Daily experience shows that the economy and the hazard are statements strictly tightened and the try to motivate in detail this statement would be useless because the evidence is overwhelming.

Each economic activity assumes successive choices which affects even the decider person as many other people, and from this reason the formal theories in this direction becomes more and more scientific fundamented.

Existing since 1921 (Frank H. Knight) concerns regarding uncertainty and risk in the organizations activity, is surprising that until the occurrence of probabilistic economy (T. Haavelmo 1942), economic theory assigns for the economic phenomena and behaviors a determined

route. After that, economic model started to be built on uncertain type elements, and today the widely opinion among specialists is that the managerial decisions, most of them, are more or less affected by uncertainty and/or risk.

Material and Methods

Analysis and management of risks at institutional level in Romania impose a matrix construct for risk evaluation for realizing the risk profile and internal control measures that need to be done. In this case, the inherent initially identified risks should be further classified under the tolerance limit agreed in the organization.

Literature review

Documental research for defining the term for risk and risk management in Romanian public system is realized with the support of The Ministry of Public Finance – Central Unit for Harmonizing of Financial and Control Management Systems. It was studied also the Romanian legislation concerning risk management as an integrating part of internal control standards implemented by OMFP 946/04.07.2005 in the public institutions in Romania.

Also it was taken into account the international literature concerning the risks management developed in public system. In this field, it was taken as reference the Orange Book – Management of Risks Principles and Concepts (HM Treasury 2004).

Concept of risk

The humanity realized from ancient times that risks exists.

In a first (classic) approach of the concept, it is identified a negative dimension of risk seen as a loss, a fatality, risk notion being exclusively limited to mathematical wait of losses which can appear in the case of one possible variant. Now, this exposure is useful only in the condition of identifying of pure risk, when there are low chances that the decider, following the application of one decision, to record a loss, without the chance of a gain.

In the last years, it is observed the evolution of tendencies for defining the concept from negative sense (risk=danger), to positive valence, based on experience, professionalism and anticipation capacity, which treats the risk as an event which can be generated by the

environment or organization, with rapid influences (negative or positive) on the activity.

In the present, the concept of risk takes a bigger importance, so the human factor sensibility to risk becomes higher, defining the risk as representing the assumptions of actions which will be made in the future. Therefore, top managers do not agree with a passive acceptance of risks and considers that they ought to seek the best methods to control so that goal achieving to be realized in optimal conditions.

As a conclusion, the risk is a multidimensional concept whose level cannot be reduced to a single element, to a number. It is important for each organization to establish an acceptable level of risk to be able to assume. The acceptable level of risk referees to the maximum level which can be accepted without harming by failing the proposed objectives.

Management of risks

Over the years, the existence of a wide range of risks generated continuously concerns in efficient managing of risks. Such, there were created procedures and modern instruments for exposal control of entities to different risk factors in order to minimize the risks and turn to account the opportunities.

Therefore, in the literature appeared the notion of 'risk management'. If the concept appeared first in '50 in some enterprises in Australia and New Zealand (as integrant part of insurance mechanism), the end of 20-th Century and the beginning of 21-th Century were marked by appearing of numerous publications and standards regarding the risks, these referring especially to the activity in private sector.

The first standards recommended to the organizations from the public sector and which regarded the negative and/or positive consequences of risks on short and long term was elaborated in 2002 by specialists from United Kingdom (The Institute of Risk Management; The Association of Insurance and Risk Managers; The National Forum for Risk Management in the Public Sector).

According to this standard, management of risk in an organization should be realized in a continuous process related to its strategy. The process will be implemented by the manager with the help of all the employees. The main lines of the standard are: the overview of the organization, the improvement of decisional process through planning and prioritize objectives and activities, optimizing the

operational efficiency, contributing to efficient split of capital and resources, reducing the volatile unimportant zones of business, protecting and improving values and company image.

Due to internal and external diverse factors which act on the environment in which the organization behaves, the specialists implemented The Management Standards ISO 31000:2009.

In our days, the platform of this kind of risk management integrated in the entire organization structure can be structured as follows: 1. Identifying the risk profile of the organization; 2. Operational risks management to each level of the organization; 3. To put into practice risks management to each level of the organization; 4. The developing of risks management.

As presented, the modern concept of risks management implemented in all organization processes, is in fact an answer (based on experience) to the uncertainties of environmental factors and to the necessity of strictly controlling the risks to which an organization is exposed to.

Implementing a risk management methodology for the Romanian public sector

Starting from scientific researches regarding risk management, the author of this paper proposes a critic analysis of the risk management implementation in the Romanian public system.

Due to Romania acceding to the EU and due to the fact that it is necessary to have reasonable risk management, in the last years, public institutions realized the necessity of a risk management system with all the integrated processes which are realized.

Actually, it starts from the premise that, the main objective in the public sector is a public service that must answer to the contributors needs. This objective is influenced by the accuracy of data and by a lot of internal or external factors that generate uncertainty in reaching the objectives. Sometimes these cause negative consequences over the public service environment.

In the Romanian public sector, risk management is based on the experience of other countries such as England, well known as the promoter of modern principles in risk management; France, a country based on an efficient principle of public management, promoted by EU and Holland.

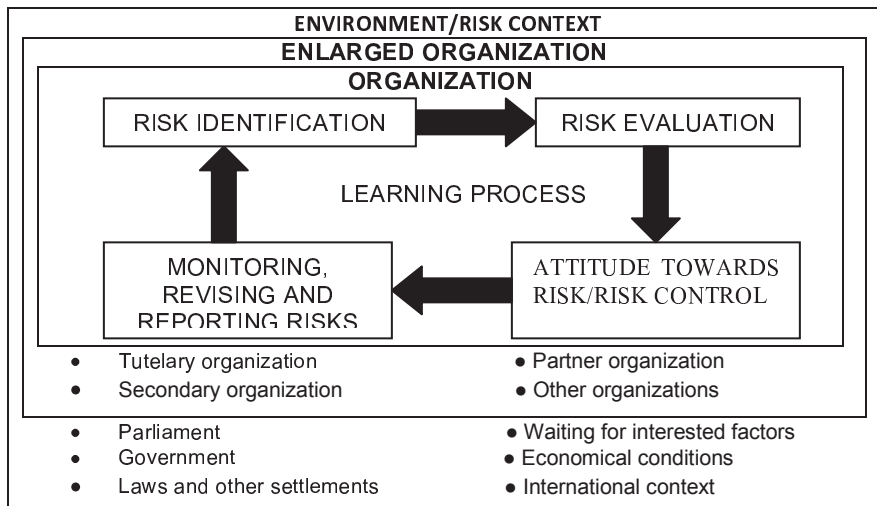
Starting from the experience of English specialists in defining risk management for public sector and its standardization at international level, The Romanian Ministry of Public Finance – Central Unit for Harmonizing the Financial and Control Management Systems, created the legal frame for the development of an efficient risk management.

Through OMFP no. 946/04.07.2005, Romania created the legal frame for implementing the risk management as a standard of internal control, as a uniform and coherent model of internal control with which are evaluated the internal control systems (implemented by public institutions managers).

Risk management is seen under a traditional form based on identification and evaluation of risks, controlling the risks and monitoring, revising and reporting risk state.

The managers will implement a system of internal control based on identified and evaluated risks and risk tolerance.

In fact, it is about implementing the English model of improving a public sector to manage risks and uncertainty. The management it's not realized in isolated organizations, but at country level.



In the following, they are studied the main lines of the process for risk management necessary to be integrated in institutional culture in Romania. This process suppose the following steps: risks identification,

evaluating the risks, identifying the tolerance to risk, the answer to risk-controlling the risks, revising and reporting the risks

a) Risks identification

In any organization, the process of risk management starts with risk identification at every level referring to the organization's objectives. In fact, it's the first step to establish the kind of risks may occur.

The identification activity can be an initial one typical for a new organization or for a new process in an existing organization and it can be a permanent one for an organization which has an active process of risk management.

There are a few important rules in risk identification and definition: risks are an uncertainty, or more exact are probabilities for an event to happen; responsibility in solving identified difficult problems (crisis); the events with no impact to the organization's process are not risks; not to identify certain events; not to define risks by denying the objectives; use the cause and effect principle upon objectives in risk identification; treat differently inherent and residual risks; broach the risks with suitable instruments (internal or external listener for risk analysis); group the risks.

With regard to the above mentioned principles, in this stage, the risk management must be realized objectively.

b) Risk evaluation

The second step, after the risk identification is the evaluation of them. In fact, it is the evaluation of risk importance referring to the activity where it was identified. Usually, we do that on a numeral scale (especially for financial risks), but there are risks that we evaluate from a more subjective perspective (image risk, credibility risk) and because of that, the evaluation is more an art and less a science.

We do this evaluation of risk importance to can prioritize the next steps for a proper control of risks. The aim is that risks must be between reasonable limits.

In the end, risk evaluation is done by two essential indicators. We are talking about the probability of risk attaining and its level estimation, and the impact of risk attaining over the objective of the organization. Those two indicators combined, represent the organization's risk exposure to its environment.

In this stage appears the organization's risk awareness. The limits of the evaluation system enable framing the risk as insignificant,

minor, moderate, major and sever. In other words, a matrix model based on the two indicators, probability and impact to evaluate risk is, in fact, the key factor, to quantify the risk exposure of an organization and to situate a risk potential due to the maturity of organization management.

It is recommended to use a 3 level risk evaluation classification scale, in the implementation stage. Applied to all organization levels, it is necessary to build a 5 level risk evaluation classification scale, in order to have a strong internal control.

↑	Very high	I M P A C T	VH - VL	VH - L	VH - M	VH - H	VH - VH
	High		H - VL	H - L	H - M	H - H	H - VH
	Medium		M - VL	M - L	M - M	M - H	M - VH
	Low		L - VL	L - L	L - M	L - H	L - VH
	Very low		VL - VL	VL - L	VL - M	VL - H	VL - VH
			PROBABILITY				
			Very low	Low	Medium	High	Very high
			→				

The limits in between a risk is framed from probability and impact points of view, is quantified by every organization, due to risk nature, risk “documentation”, organization usual risk and management interest in risk analysis.

c) Risk tolerance

Risk tolerance is a level of risk that an organization is willing to take without damaging its objectives. Risk tolerance can be seen either an opportunity or a threat. As an opportunity, risk tolerance concept is the limit till an organization is willing to expose itself in order to obtain benefits. As a threat, risk tolerance concept is the limit that an organization must reach for the identified risk, not to represent a threat for the organization’s objectives.

Because risks are generally regarded as threats, and if they materialize the objectives might be harmed, risk tolerance, as the main responsibility of risk management, is in fact, a cost problem (if we talk limited financial resources). Therefore, risk tolerance for any

organization is the level where it is possible to realize a balance between risk cost control and risk cost exposure to a materialized risk.

In practice, tolerability level is realized from top to bottom, from top management to operational level, regarding the major objectives of the organization. Based on top management references, the reasonable tolerance is sent to the second level of management. This second level of management establishes organization limits to risk exposure for every other organization level. So, all the risks with a bigger risk exposure than established limits are identified. It is possible then, to perform internal control actions to situate risks inside tolerability limits. If risks aren't between the established limits, they are sent to the next superior hierarchical level, for them to either take the decision of direct managing of risks or ask for supplementary measures of internal control.

After the assessment of these limits, next step is to proceed to a thorough analysis of costs and benefits, settling new adjustment if necessary. These new adjustments (more costs) of risk tolerance and insufficient resources ask for a hierarchy of risks based on priorities and aim for readjustment of tolerance limits for other, less important risks.

All the things mentioned above are useful in the registry of risks of an organization, as follows: describing risk/inherent risk (probability, impact, display); internal control measures/residual risk (probability, impact, display).

d) Risk response – Risk control

After the organization identifies and evaluates the risks, after the organization settles the tolerance limits, it is necessary to settle the response time for every risk.

The risk response depends of the nature of risks from the possibility of control perspectives. In fact, we talk about the answer to the next questions: Are the organization able to control the risks? If yes, is the organization able to control the risks until a satisfactory level? If not, can the organization externalize the risks or the activities generating the risks?

In risk theory we identify a few alternative strategies that public institution managers can adopt: risk acceptance (tolerance), risk avoidance, risk transfer, risk attenuate, difficult situation treat.

e) Revising and reporting the risks

Revising and reporting the risks is done for two reasons:

- Monitoring the changes of risk profile due to the implementation of internal control instruments and changes of circumstances who favor risks;
- To obtain assurances regarding risk management efficacy and to identify the need for future measures

Revising processes must be applied if the risks persist, if there are new risks, if impact and probability of risk are modified, if internal control instruments used are efficient, if some risks must escalate to superior levels of management

The results of the revises must be reported to ensure a sequel monitoring of risks situation and to see the major changes that call for a priority change.

Conclusion

Through this debate, the author wants to highlight the necessity of implementing an appropriate mechanism of risk management in the Romanian public system. The high level of objectives set by the quality of public services that must answer to contributors needs and the limited level of resources from public system, bring to a major exposure of the organization to a series of risk factors. Therefore, a mechanism of risk management able to minimize public system exposure under the tolerance level must be one of the major concerns of public system management.

Therefore, starting from the idea that now, the Romanian public system does not have an appropriate risk management concordant with the trend dictated by the complex activities and diverse factors, this paper wants to loom a minimal elementary construct which every Romanian public institution should develop and adapt to realize an optimum risk control.

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