Theoretical Studies and Contributions Pertaining to Risk Management in Public Administration

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Abstract

The paper is part of the doctoral thesis study and examines aspects related to risk management at the level of public administration, trying to achieve an analysis of inherent and residual risk.

Managing risk is a stringent problem in the present context in which European public administration as well the Romanian one are in a constant state of change.

The reform of public administration is a very dynamic and ongoing process. The objectives of the research are: an analysis of risk management and methods of managing it in Romanian public administration as well as generating a holistic model of risk management.

Key words*:* risk management, quality, public administration, risk
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1. Introduction

The issue of risk and its management is nothing new. Yet, it is a young concept. In the current context, the concept of risk has acquired different meanings and can be observed in many areas and organizations, private or public. Every public institution has the obligation to evaluate and manage risk periodically, this practice having been adopted from private entities that have implemented risk management a long time ago. We can say that the reform in progress at the level of public administration in all European countries wants to achieve the integration of risk management at all levels of public administration. It is very hard to offer a classification of risk in general but we can try to generate one of the risk appearing in public administration. A good knowledge of risk makes way for a better management of it which, in turn, allows a decrease in risk and an increase in service quality in public administration.

2. Theoretical background

Risk has two dimensions: its occurrence and its impact.

Occurrence is, in fact, determining the possibility of risk manifesting itself and the impact, the negative consequence after the risk has occurred. Taking into consideration the previously stated facts, we can infer that risk management seeks to diminish it in the following way: diminishing the probability of risk occurrence and/or minimizing the impact the risk has on the overall process.

When talking about risk management, what we really want to emphasize is the risk of not being able to achieve previously established objectives. In the private sector the main objective is to increase the invested capital.

The public sector has as its main objective the ability to offer good service to the general public in accordance to its expectations. Irrespective of the public entity, achieving its objectives is burdened by risk and uncertainty.

To achieve it established goals, the public entity must identify and evaluate risk. There are many types of risk, among which we encounter:

- Inherent risk;
- Residual risk.

Inherent risk is the type of risk appearing when a process is exposed to a certain risk, before implementing the measures stated in measures plans created to diminish that risk. When the process is exposed to a certain risk, after the measures plan has been generated and actions to minimize that risk have been taken, the resulting risk is called residual risk.

The measures plan belongs to the internal audit. For this reason, we can state that the efficiency of the internal audit can be quantified by measuring residual risk. Many countries in the EU use the term "control risk" rather than "residual risk".

Residual risk can be defined as risk left over after the implementation of measures provided in the internal audit team's measures plan. They serve to minimize residual risk to a level easily tolerable by the public entity, and the internal audit's continued aim is to maintain such risk at a level the public institution can accept.

If we analyze risk in connection to when the measures plan is implemented, we can observe that, before implementing the plan there is inherent risk and, after implementing the plan, there are residual risks. It can be concluded that inherent and residual risk is one and the same but in distinct stances.

The management of the public entity keeps under observation the occurrence of residual risk in order to keep modifications, changes, the intensity of impact or the occurrence of such risk under control so that it does not become uncontrollable. Even so, there is the risk that, at a certain point in time, the introduction of control instruments is done at the moment of inherent risk manifesting itself thus allowing residual risk the same volume as inherent risk, leading to the conclusion that residual risk can be seen as inherent risk.

The main role of the internal audit and measures plan is to decrease the frequency with which inherent risk emerges and to reduce its impact on objectives set by the public institution's management. We can deduct that inherent risk is the risk emerging before the implementation of the measures plan and, residual risk presents itself after the measures plan has been implemented. Between the two there is the following relationship:

$$\mathbf{E}_{\text{inherent risk}} > \mathbf{E}_{\text{residual risk}}$$

In the situation in which residual risk is greater or equal to inherent risk, this means the measures plan is not effective and must be revised. The internal audit and the measures plan may or may not be effective-nobody can argue with that. The result is the following: inherent and residual risk is of relative scale and is not absolute. By comparing the two, we can say if the measures imposed by the internal audit are effective or not or, in other words, if the public entity possesses a good internal audit team.(Bârsan-Pipu)

Risk management is a cyclic process and, putting it against the measures implemented by the internal audit and the risks which have been dealt with, it can be said that a current residual risk can become an inherent risk for the next stage of the internal audit.

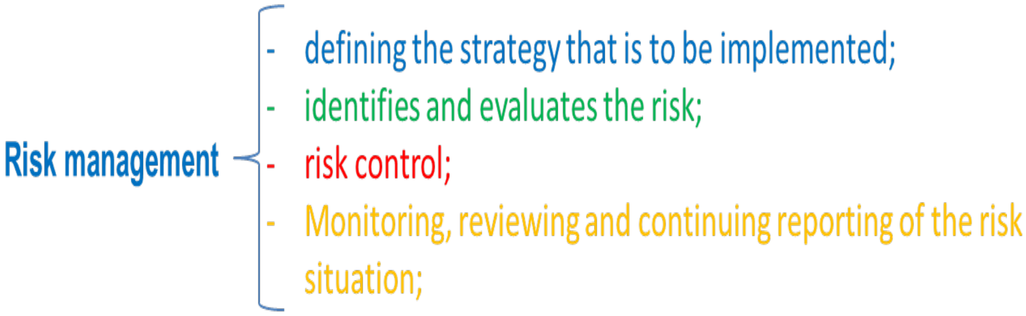
This new stage is followed by a new appraisal of risk and the implementation of new measures that will, in the end, generate a new residual risk.

3. A holistic model of risk management

In the process of risk management, all the employees at all levels of the public entity are involved. As it is with self-evaluation, risk management involves the general manager of the institution as well as those executing his orders.

Risk management is schematized in the following figure:

Figure no. 1 The schematic definition of risk management

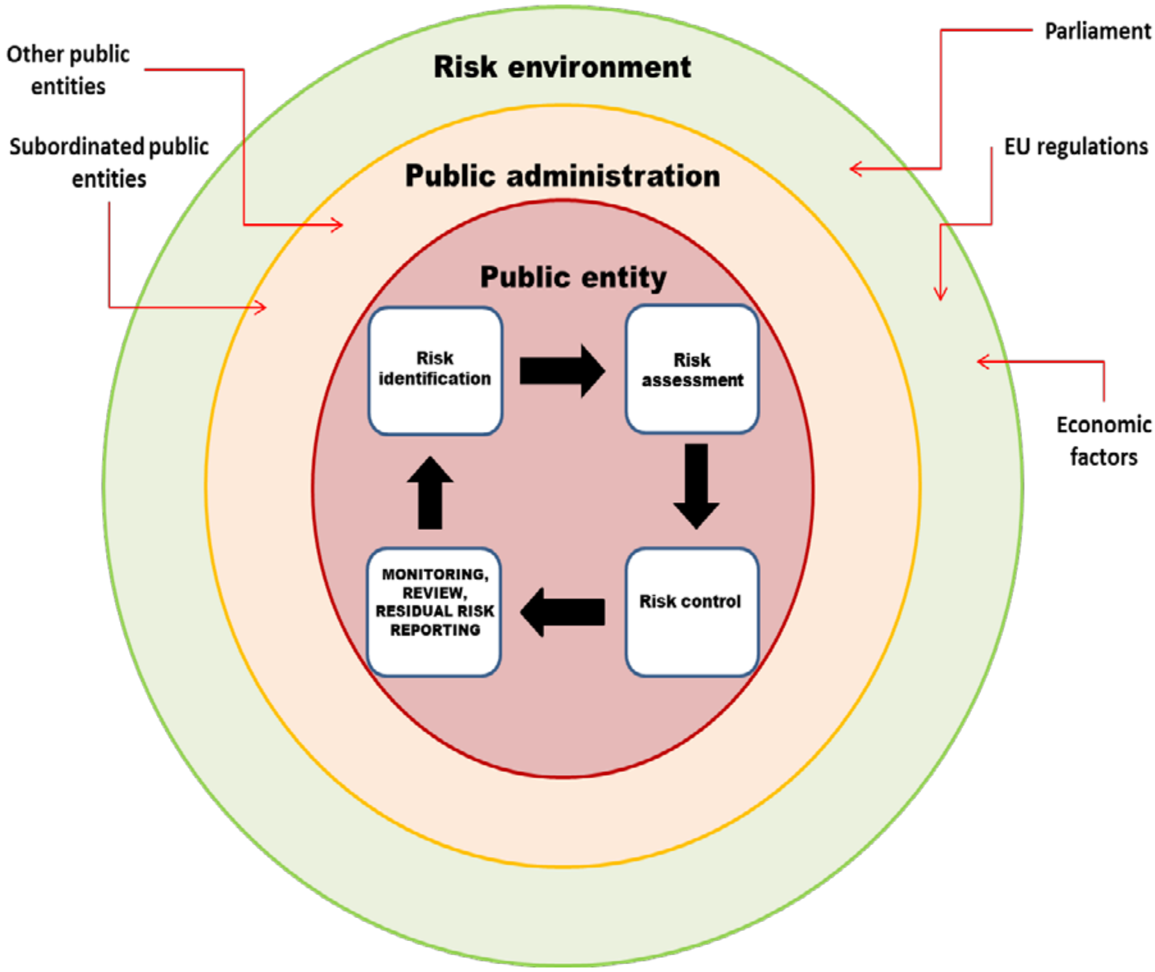


Source: own processing

According to Fig. 1, risk management is a multiple-stage process. The first stage is concerned with defining the strategy that is to be implemented within the public institution; the second stage identifies and evaluates the risk that threatens the public institution and all its activities. The third stage deals with risk control. It is done periodically in order to maintain it within tolerable limits.

The fourth and last stage refers to monitoring and updating risky situations encountered in the institution. It exists to keep residual risks within the limits imposed by the manager of the institution to allow the completion of the goals mentioned in the first stage.

Figure no. 2 A holistic model of risk management in public administration



Source: own processing

The model presented in figure no. 2 represents a holistic model of risk management but, in reality, risk management in public institutions is a process whose elements harmoniously merge into a whole.

All the components of risk management interact in such a way in which to influence how a risk and its management can affect other types of risk and their management. It is possible that risk management can offer instruments meant to minimize these types of risk and, in turn, positively or negatively affect the management of other kinds of risk. When taking about public institutions, it must be emphasized that they are part of the public administration system and risk management in one institution can predetermine the management of risk in other institutions.

When it comes to risk management, the internal audit must keep into account the environment in which the public institutions functions and the kinds of risk that can influence the activities performed within them as it leads to achieving their set goals.

The risk environment, as shown in Fig.2, is generated by actions performed by public institutions that are part of public administration such as the government and, by laws and regulations imposed by the EU as well as economic factors.

4. Conclusions

To conclude, risk management is a very important process for the management of public institutions as it handles risk and minimizes its impact and occurrence in daily activities in the public sector.

For the institution to achieve its goals it must have an effective risk management and measures implemented by the internal audit that will handle as best as possible all types of risk.

The public administration exists to serve its citizens and its main objective is to efficiently meet and satisfy their demands and expectations.

In the actual context in which Europe's entire public administration system is in full reform and the dynamics of change is at a very high level, a more efficient risk management is needed, geared toward the needs of its citizens as well as a better functioning of the institution itself.

Risk management is a process which is seamlessly integrated with quality management, both having as a main objective minimizing risk and increasing the quality of public services rendered to the public. As the issue of risk has been recently brought forth in European public administration, an increased interest in it has been observed, coming from public administration managers that want to align their institutions to the European standards.

It is a complex process as the public institution's management cannot generate a plan of measures without interacting with other institutions and entities. They all perform activities which merge together, creating a system.

Within an organization, the plan of measures that is to be created to minimize risk must take into account risk emerging from the institutions that interact with the organization, risk that can reverberate on its own activities. The implemented measures will take into account all entities and institutions that render public services.

5. References

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