



# HM TREASURY

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## **DAO(GEN)01/10**

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28 October 2010

**Dear Accounting Officer**

### **CROSS GOVERNMENT FINANCIAL SYSTEMS RISK**

**This letter guides public sector organisations on managing the risk of financial loss in the light of work recently completed by the Financial Systems Risk Review.**

**It applies to all central government Accounting Officers. They are invited to work with their finance directors to follow through the recommendations of the review, and to share the advice with their arm's length bodies.**

2. Please address any enquiries about this letter to Steve Barnes, who can be reached on 020 7270 5788 or at [steve.barnes@hmtreasury.gsi.gov.uk](mailto:steve.barnes@hmtreasury.gsi.gov.uk)

### **Review findings**

3. While there is much good practice, the review found evidence that risks leading to financial loss in the public sector are not coherently identified, or managed consistently. A variety of different flows of funds could be at risk. They include, for instance, systems handling large volumes of relatively low value transactions to implement complex policy; and more familiar systems, such as payroll or expenses, that could be exploited to perpetrate systematic fraud.

4. The review therefore recommended strategies for more effective management of these exposures. Each significant system needs to be assessed and evaluated comprehensively, end to end. In these analyses, it is important to be alert to issues that may cross organisational and geographical boundaries.

5. Departmental Finance Directors have been briefed on the results of the review and the need to ensure risks are managed adequately.

### **Advice**

6. Accounting Officers should already have processes in place to assess risk in their organisations. Additional work on financial systems will support both the risk management framework and the Statement on Internal Control (SIC).



7. The toolkit outlined in the annex to this letter is designed to help diagnose risk of financial loss and then design proportionate responses. Accounting Officers should continue to work with and through their Finance Directors, and to harness support from their boards, in managing risks and in carrying out preparation for the SIC.

8. Jon Thompson, Head of the Government Finance Profession, is writing to you separately about the approach recommended in the review and with further information about the toolkit.

Yours sincerely,  
Paula Diggle

Paula Diggle  
Treasury Officer of Accounts



## MANAGING RISK OF FINANCIAL LOSS TOOLKIT

The review of the incidence and impact of financial risk was led by Jon Thompson and reported to the Cabinet Secretary. It covered risk of all kinds that might have financial consequences in all parts of central government.

A2 In order to help prevent financial losses from such risks, the review developed a toolkit to help public sector organisations to manage them. The tools (supported by associated guidance and training materials) encourage good practice and focus on building knowledge, skills and capabilities.

A3 The toolkit comprises two complementary elements:

- two self assessment tools, associated guidance and training materials:
  - a Financial Process Assessment tool for application to each individual financial system to enable departmental management and process owners to identify exposure to risks of financial loss and implement a plan of action to address identified control weaknesses;
  - an Organisational Capability Assessment model to help departments assess their organisational capabilities specifically to manage risks of financial loss and build a sustainable capability and culture of continuous improvement for reducing financial loss.
- a Roles and Accountabilities Model, which sets out a best practice approach for the establishment of delegations, joined up roles, monitoring, reporting and accountability.

A4 The review recommends this toolkit as good practice in the effective management of the risk of financial loss and providing appropriate assurance to Accounting Officers.

