

**Managing risks in the National Institute of Statistics - Romania:
the national legal requirements into practice**

**Dan Ion Gherguț
Claudia Căpățînă
National Institute of Statistics, Romania**

1. Introduction

The Risk Management system of the National Institute of Statistics – Romania (NIS RO) is part of the internal control system, subject to a set of regulations, applicable to all Romanian public administration entities.

The internal control is defined as the “*whole set of control tools used by the public entity, including internal audit, established by the management according to its objectives and legal regulations, in order to secure an economic, efficient and effective administration of funds; it includes, also, the organizational structures, the methods and procedures.*”¹

Being a rather new concept enforced by legal provisions at the end of ‘90s, in order to avoid potential confusion with what financial control would mean, the notion of “internal control” has been changed to “internal/managerial control” with an aim to shift the weight from solely financial aspects to the entire business environment of a public institution.

The Romanian internal/managerial control framework has its roots in the COSO² control model, defining for the five components a number of 16 internal control standards (see Fig. no. 1) as a support to achieve three groups of objectives related to:

- a) Efficiency and effectiveness of operations;
- b) Reliability of internal and external information;
- c) Compliance with laws, regulations and internal policies.

The regular management operations, including the statistical production of NIS RO seemed to fit perfectly into the first Code of internal/managerial control, released in 2005. At the same time, it was a challenge to translate the specificities of a national statistical office to the Code, as the role and activities are quite particular in comparison with a line ministry, for instance.

On one hand, NIS RO started to develop its own strategies and annual working programmes years before other Romanian public entities without a national legal procedural framework, binding to the Fundamental Principles of Official Statistics. It had also developed a set of generic activities to be planned and monitored, where statistical activities were described in methodological papers, following a process

¹ According to the definition of internal/managerial control set by the Government Ordinance no. 119/1999, with subsequent amendments and completions.

² COSO: Committee of Sponsoring Organizations of the Treadway Commission 2004/2013 (www.coso.org)

flow starting from “objectives” to “dissemination”. On the other hand, it wasn’t quite clear wherefrom to begin: from an overall evaluation of the internal control system which would give a picture of priority areas of action or a more direct approach, focusing on developing standardized procedures, starting from the existing methodological descriptions. The second approach was preferred and a major effort was devoted to produce *operational* and *system procedures* following the main lines of statistical production and support activities (human resources, legal support, budgeting and financial operations, property management and logistics, internal audit, etc.).

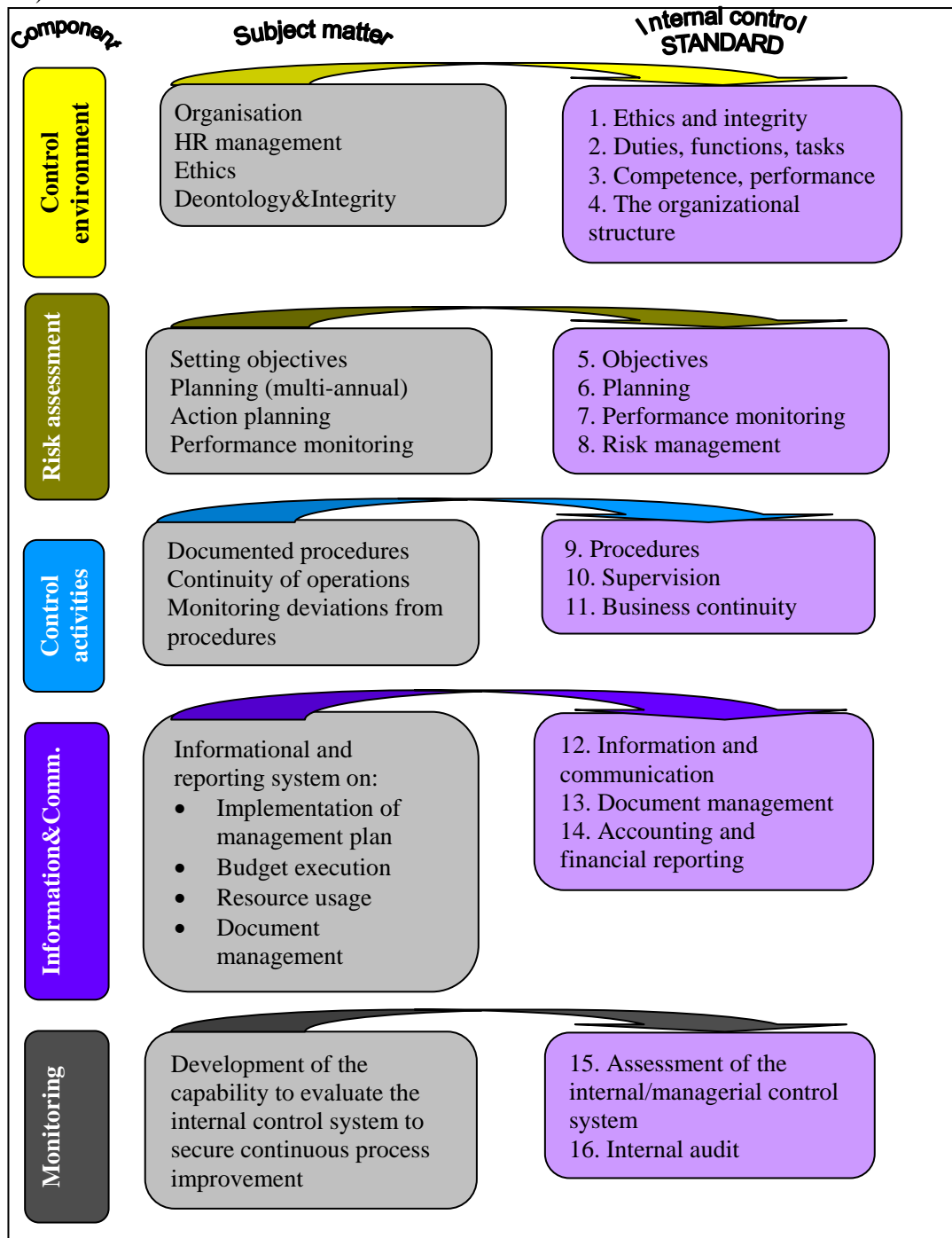


Fig. 1: Internal Control components and standards

It was in 2011 when a Risk Management System Procedure (RMSP) was developed and formally approved. Although the RMSP follows the Risk Management methodological guidelines applicable to all public administration entities, it was considered from the beginning as a central point of the Statistical Quality Management system. As one of the strategic objectives³ of the Romanian National Statistical Institute is to improve the quality of statistical products and services, the Risk Management system focused mainly on statistical production, including gradually all the other support activities.

2. Governance of the Risk Management system

There are two main levels in the governance of the Risk Management system in the Romanian public administration.

At first level, the General Secretariat of the Government (GSG) has the responsibility to design and implement the internal/managerial control systems policy. GSG provides methodological guidelines, coordinates and oversees the implementation of the internal/managerial control systems within the Romanian public administration entities.

At second level, the head of each public entity is responsible for taking the necessary measures for the elaboration and/or development of the internal/managerial control system, including procedures formalized on activities⁴. The objectives, actions, responsibilities, deadlines, and other components of those measures are included in the program on development of internal control/managerial system, developed and updated by each public entity.

In order to monitor, coordinate and provide methodological guidelines on the implementation and development of the internal/managerial control system, NIS RO established the Internal Managerial Control System (IMCS) Committee.

The IMCS Committee composition and mandate are described in the Rules of Procedure (Rules of organization and functioning), which are approved by NIS RO president order. The IMCS Committee is formed by all general directors (5) of production departments and directors of supporting departments (7) and chaired by the Secretary General (senior civil servant).

Concerning Risk Management, the purpose of the IMCS Committee is to integrate information and documents to address issues like prioritization and risk monitoring and to report to the top management for due course of action. To fulfil this purpose, each general direction or individual direction nominates a Risk Management Team (RMT) composed of the head of the general direction/direction, the Risk Officer and the heads of units.

The Audit Unit has the responsibility to carry-out audits, including on implementation of the RM System Procedure.

³ The National Statistical System and Romanian Official Statistics Development Strategy for 2015-2020 (NSSDS)

⁴ According to the Order of the Ministry of Public Finances no. 400/2015

3. Risk Management process at NIS RO

The Risk Management process developed by NIS RO is founded on two main methodological and regulation frameworks. The first one is a methodology for the implementation of the internal control standard “Risk Management”, developed by the Ministry of Public Finances in 2007 and the second is the Risk Management System Procedure developed by NIS RO.

The procedure describes the steps to be followed, the tasks and responsibilities of different actors and the documents to be filled-in in each step (Fig. no. 2).

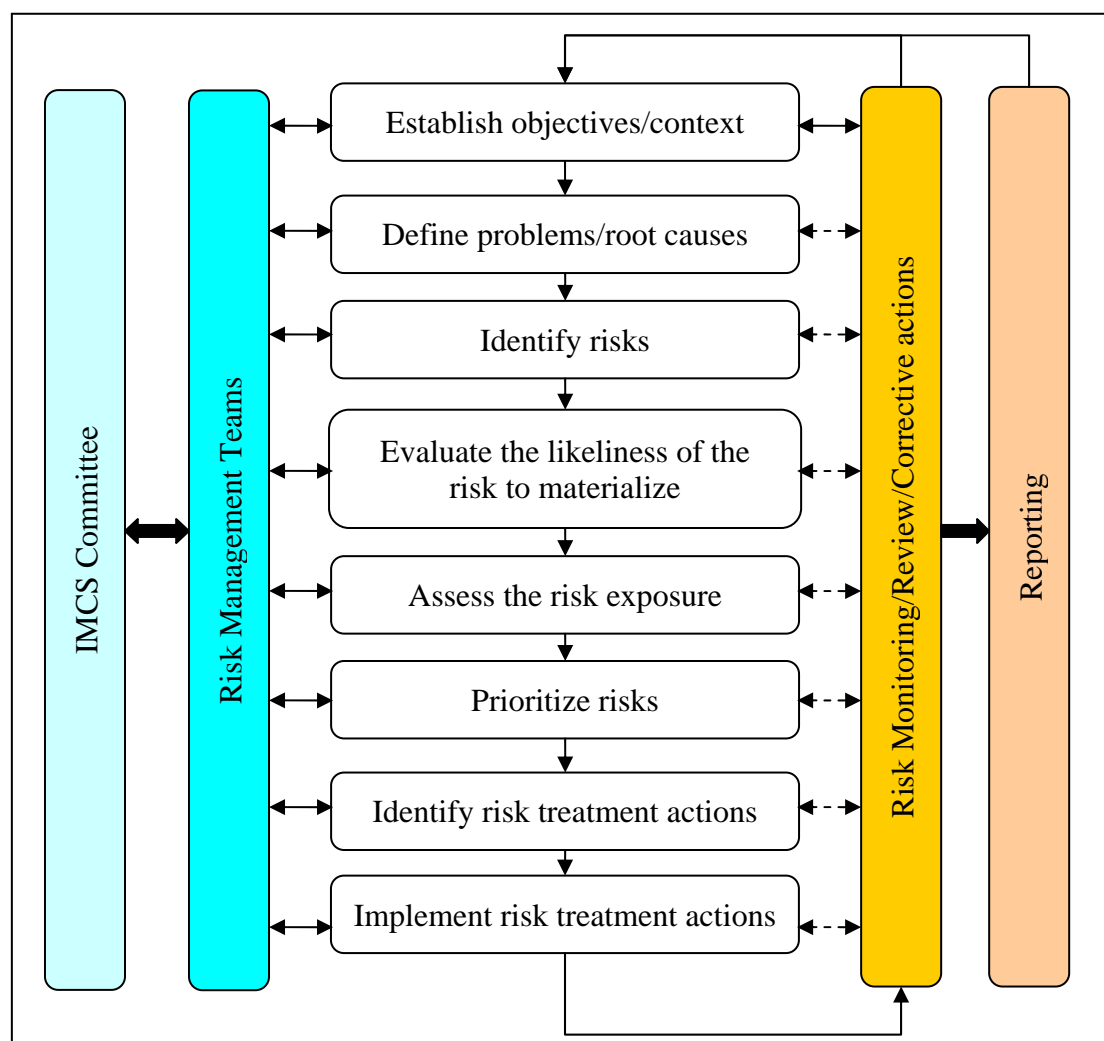


Fig. 2: The Risk Management Process at NIS RO

In the implementation of the RM process, NIS RO has a both top-down and bottom-up approach in all phases. All organizational units, either statistical production, IT&C or supporting units are responsible to identify and measure risks and to propose treatment actions, mainly in the portfolio and operational risks areas. Top management identify strategically risks and sets directions for corrective actions.

The RM procedure specifies the roles and accountabilities for:

- a) staff members: to define the risk and to assess the causes and circumstances that favours the risk to occur and/or repeat; to evaluate the risk exposure through risk

probability on a 5 level scale and risk impact on a 5 level scale; to propose risk control actions; to fill-in the Risk Alert form (RAF) and to hand it to the Risk Officer.

- b) the Risk Officer: to collect the RAFs; to analyze the RAF and propose preliminary treatment actions (closing, escalate risk if it exceeds unit's level of authority, treatment approach: accept, supervise, avoid, transfer, internal treatment); to prepare the risk documentation and hands it to the Risk Management Team (RMT); to prepare the meetings of the RMT and to assist the chair of the RMT meetings; to prepare due documents and to fill-in the Risk Register.
- c) the RMT: to validate/invalidate the closing solution; to propose actions for escalated risks; to consider audit reports for identified risk and to identify treatment actions; to prioritize risks according to risk exposure; to analyze the proposed risk treatment and adequate risk control actions, to set tasks and time limits for proposed actions; to monitor the implementation of control actions, to evaluate the results and propose corrective actions.
- d) the head of unit: to secure the organizational and procedural framework to implement the RM procedure at unit level and to co-ordinate with other units; to decide on the appropriate risk treatment; to supervise the implementation of the adopted risk control actions; to endorse RMT decisions; to approve regular reports.
- e) the IMCS Committee: to review the regular reports on risk management process at unit levels; to integrate the regular risk management reports and identify high risk areas related to strategic or business processes; to identify, analyze, assess and prioritize risks affecting NIS RO general objectives and overall functioning of NIS RO; to report to top management on RM.
- f) the IMCS Secretariat: to update the Risk Registry; to assist the IMCS Committee in preparation of meetings and reports.
- g) the NIS RO vice-presidents and president: to review and adopt regular reports under their area of authority; to decide on risk control actions, deadlines and follow-up corrective actions.

Specific descriptions on RM issues are included in the job descriptions of Risk officers and head of units. There is no designated Risk Manager.

In practice, RM teams focus on risks related to the objectives of the statistical or support business areas, focusing on achievement of Annual National Statistical Programmes, which are integrated in the Multi-Annual Statistical Programme. These are considered as portfolio risks. The strategic risks are associated with NIS RO strategic goals and specific objectives, defined in the National Statistical System Development Strategy (NSSDS). The strategic goals and specific objectives cover key areas of action are further detailed into objectives to be met at business area level, corresponding to organizational units. Operational risks are defined in particular cases related to specific projects.

At present, NIS RO doesn't have an IT application to manage the RM process. According to procedural rules, the documents used in the RM process are:

- Risk Alert form (RAF): includes descriptions of the identified risks, causes and impact; scales rated 1 to 5 to assess the risk probability and impact; risk exposure as a combination between probability and impact; recommended risk

treatment actions; supporting documents for the identified risk; brief description of the RMT decision; identification entry into the Risk Register.

- Risk monitoring form: includes description of the required preventive actions and status, hampering situations, new actions proposed, responsible and deadlines.
- Risk Register: provides description of objectives, identified risk, risk favouring context; inherent risk evaluation in terms of probability, impact and exposure; risk treatment actions and deadlines; date of latest action review; residual risk evaluation in terms of probability, impact and exposure; secondary risks, if any; comments.
- Minute of the Risk Analysis meeting: brief description of risks under review, status of control actions, proposal for new control actions, hampering situations, recommendations and conclusions.

In risk assessment, a classic risk matrix is used, setting an area of risk tolerance and two areas of deviation from tolerance limit: warning (yellow) and highly critical (red).

Very High (5)	I M P A C T	VL-VH	L-VH	A-VH	H-VH	VH-VH
High (4)		VL-H	L-H	A-H	H-H	VH-H
Average (3)		VL-A	L-A	A-A	H-A	VH-A
Low (2)		VL-L	L-L	A-L	H-L	VH-L
Very Low (1)		VL-VL	L-VL	A-VL	H-VL	VH-VL
		PROBABILITY				
		Very Low (1)	Low (2)	Average (3)	High (4)	Very High (5) →

Fig. 3: The Risk Assessment Matrix

Risks are not formally classified as corporate or operational risks. Nevertheless, the risks related to strategy and policies, human resources and internal control system, compliance and regulatory issues, financial, accountability, reputational or external issues are under the top management scrutiny. The risks related to statistical business processes are considered as operational risks.

At the end of 2015, a number of 83 corporate risks and 217 operational risks were identified. Out of the 300 identified risks, 52,4% are in the tolerance area, 34,0% in the warning area, and 13,6% are highly critical.

The highly critical risks concern:

- obsolescence of the IT&C infrastructure;
- lack of specialized human resources in several statistical areas such as population census, IT&C, national accounts, methodology, statistical quality management or public procurement;

- insufficient development of the regulation framework to strengthen the NIS RO coordination role;
- lack of support of other public institutions to provide administrative data.

The Risk Management reporting has two levels:

- organizational units to NIS RO management: quarterly
- NIS RO to GSG: twice a year on all Internal/Managerial Control standards, including RM

4. Lessons for continuous improvement

Under the urge to implement the internal control standards, the implementation phase was not preceded by a testing phase, accompanied by thorough communication and training. This resulted in inconsistencies in definition of objectives, of risks and treatment actions and post evaluation.

The actual procedure is rather complex and involves a lot of time and bureaucracy. It is envisaged to proceed to simplification in terms of tasks, creating poles of competence related to RM, streamlining actions and for a closer link to key action areas.

Although the RM procedure was introduced in 2011, the staff members consider RM an additional burden. At the same time, more applied training and communication are needed, to enhance the RM culture. New collaborative tools are required to promote and support co-operation, dialogue and share of knowledge and practices, along with efforts to integrate the strategic and operational objectives with actions in a more standardized way. Other efforts should be devoted for a closer alignment of risks identified in the top-down approach with those identified in bottom-up approach.

In a subsequent phase, the main steps to be taken are:

- to define a risks catalogue to harmonize definition criteria and vocabulary;
- to integrate RM process with GSBPM model;
- to develop the capabilities for RM audits;
- to develop training programmes on RM process implementation in the context of official statistics;
- to develop RM dedicated software, integrated in the internal control system.