

Briefing

The Risk Management of Everything

This Briefing is based on the 6th P D Leake Lecture
at Chartered Accountants' Hall, 23 June 2004

Michael Power

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I recently decided that there was no longer space to store 20 years worth of *Accountancy* and *Accountancy Age*. Prior to disposal I reviewed all the back issues for articles of particular note worth saving. In the course of this process, a number of things were striking. First, articles on financial reporting were conspicuous in the 1980s, but in the 1990s it was auditing which seemed to be the main object of discussion. Second, risk and risk management begin to receive regular exposure only from about the mid-1990s onwards. In particular, the late 1990s reveal increasing commentary on practice management and risks to professional partnerships.

This review was not a formal content analysis and the observations are impressionistic. However, the recent accent on risk management by accountancy practices provides the point of departure for this lecture.

The audit risk model, as an idea if not a concrete practice, can be traced back to the 1980s. In time this developed as Business Risk Auditing (BRA) with different firms offering proprietorial variations on the same theme. Of particular interest in this methodological development is the manner in which 'audit risk', originally conceived in terms of the risks *of* client business (sub-analysed into control risk and inherent risk) and the risks *of* the audit process (sub-analysed as sampling and non-sampling risk), came to be understood to include the risks *to* the auditor him/herself. In short the *primary risk*, that the financial statements are materially misstated, has come to be thought of also in terms of a *secondary risk*, the risk of financial and reputational losses to auditors themselves.

Recent professional preoccupations with practice management, quality control and client selection processes are a further reflection of this. Changes in the regulatory environment for the accountancy profession, the emergence of the corporate governance codes, new areas of work driven by new legislation, and the liability environment, all make the focus on secondary risk management very understandable and rational at the level of the individual firm or practitioner. At the macro or systemic level there is more cause for concern. The accountancy profession as a whole, which has historically been

granted a monopoly over work regarded as essential to the risk management of the corporate economy, namely auditing, may be becoming preoccupied with risks to itself. However, this is much more than an accountancy-centred story of the problems created by the liability law, as some would argue. It is systematic, cross-functional and concerns many other agents and agencies in society. Indeed, society is facing a major challenge, whereby those agencies traditionally charged with handling (pooling, collectivising, reporting) primary risks on behalf of others, such as professions, insurers and government, are focusing increasingly on their own risks with a view to avoiding responsibility, blame and financial penalty.

This is the problem underlying the idea of 'the risk management of everything', namely that there is an ongoing shift in society in the balance between primary and secondary risk management, with a marked growth in the latter.

There is no doubt that risk talk and ideas of risk management have become more prominent in recent years. Specifically, since 1995, the year that Barings bank collapsed and Shell experienced reputational damage with the disposal of Brent Spar in the North Sea, there has been a literature and conference explosion in the risk management area. New journals have been created and old journals have been renamed to include the word 'risk.' Numerous texts book have been written on risk management, particularly on new objects of concern such as 'operational risk' and reputational risk. Regulatory changes, notably the Basel 2 proposals for banks,

have provided a further stimulus to the risk management industry and in many organisations senior risk positions, like chief risk officers, have been created. In the UK public sector, central government has undertaken a major risk management initiative and risk is becoming a basis for challenging the quality of public services.

Over this period the quantitative expansion of risk management has been accompanied by very important qualitative changes, notably the alignment of risk management with good governance agendas. In addition, there has been much talk of the strategic benefits to organisations resulting from more explicit risk management.

This lecture strikes a more critical tone and argues that the rise of risk management has been characterised by an increasing accent on risk management for defensive and secondary risk management purposes, and that this shift in focus may in fact pose very serious risks to society.

The argument begins in the very heartland of accountants and auditors: internal control.

The rise of internal control

Six years ago in 1998 I gave the first P D Leake lecture on the theme of *The audit implosion: regulating risk from the inside* which anticipated the growing importance of internal auditors and organisational internal control systems. Since then, the Turnbull report has become a blueprint for thinking in the UK, expanding its influence well beyond the intended private sector audience to become a generic conceptual framework for internal control and risk management. In addition, internal control has been elevated from its lowly and private organisational position to become the basis for enterprise-wide risk management thinking, for risk-based regulation, and for accountability and governance. In short, internal control is now an unshakeable part of the moral economy of organisations in which specific responsibilities for different categories of risk are allocated.

This transformation in the status and scope of internal control is a project of

turning organisations 'inside out' and of making their risk-based internal control systems a public and potential disclosable matter as never before. This process has been under construction for some time. In the USA, the COSO framework in the early 1990s provided a conceptual framework for internal control and is now being remodelled as an enterprise risk management template. The Sarbanes-Oxley Act section 404 takes the public focus on internal control to the next level. Directors of the Securities and Exchange Commission (SEC) registrant companies will be required to evaluate the effectiveness of internal controls relating to financial reporting, and auditors are required to certify the process by which directors arrive at this evaluation and to provide an opinion on effectiveness itself. At a seminar in Spring 2004, it was reported that the SEC expects 20 per cent of the s404 audit opinions to be qualified in some way.

Reporting on internal control effectiveness has always been problematic, and has been discussed in the UK throughout the 1990s since the original corporate governance code was created. While auditors have privately developed a basis for assessing internal controls, to determine the extent of substantive tests, and have been active in reporting on control issues to management, the public reporting of internal control effectiveness has proved problematic. Effectiveness is itself elusive and auditors remain hesitant about giving public opinions in this and other areas because of liability concerns. The historical tendency is for auditors to give opinions on management processes, so the advent of s404 reporting will be challenging and will mark a new phase in the public life of private control.

The rise of internal control systems and their increasingly public role can be explained by a number of factors. First, organisations have come to recognize the self-insurance aspects of good internal controls as a basis for reducing and rationalizing insurance. Second, internal control systems have become central to regulatory strategies, such as Basel 2, concerned to work with the grain of organisations' own systems. Third, the rise of internal control is

symptomatic of an institutionalised mode of responding to crisis and failure by extending the formalisation of reporting and control functions. Sarbanes-Oxley is a classic example of this as a response to Enron and other high profile failures. More generally, we observe that a whole spectrum of difficult primary risk issues get translated into problems of organisational control systems. These organisational translations of risk are to be seen in the cases of BSE and farm management systems; the Shipman murders and registration and monitoring systems for doctors in the UK; earthquakes and building regulation controls; terrorism and the organisation of security services.

Societies have no option but to organize in the face of risk, and this extends the reach of internal control into every aspect of organisation life. Given the significance of organisations for individuals (we work in them, buy goods and services from them, send our children to school in them), the rise of internal control is part of the risk management of everything. However, the rise of internal control as an unquestionable principle should also give cause for some concern. Such systems may project ideas of controllability which are unjustified and which may generate expectations gaps of a new kind. Will auditor reporting on such systems in fact improve public trust in organisations, or will it represent a form of risk management which looks increasingly defensive and uninformative, the managerial equivalent of political spin?

The challenge for policy makers is to understand how the logic of secondary or reputational risk management is beginning to percolate and pervade internal control and risk management agendas. This is as true for the state as it is for business.

The state as risk manager

Modern states, with welfare and social insurance systems, have always been concerned with the management of social risk. However, such states have only recently begun to think of themselves explicitly in terms of risk management ideas. In the UK, this change has been largely brought about by a number of crises, notably BSE and

the handling of the foot and mouth crisis in the public health domain, and project and systems failures, such as in the UK passport office. In recent years state sector organisations have begun to import and implement risk management ideas and blueprints from the private sector. There is an observable 'Turnbull effect' in schools, universities, hospitals and charities, and financial and project risk management has become an important feature of private-public partnerships.

Two areas where the state as risk manager is most evident are the emphasis on risk communication and the development of explicitly risk-based regulatory systems.

Risk communication

The significance of risk communication has been argued for many years, but has only relatively recently begun to surface in public policy. A critical community, including academics, has argued for many years that in matters of public interest, particularly health and safety, risk acceptance decisions cannot simply be left to scientific experts. The distributional issues involved in public risk management demand greater democracy in the decision process and many areas of risk knowledge are themselves so uncertain that scientists cannot claim any unique authority. Indeed, scientists began to find themselves on the back foot, arguing both that they are the risk experts, but admitting that many areas of relevant scientific knowledge are essentially conjectural.

In this setting, where public perceptions of risk may also be varied, it has come to be accepted that the legitimacy of public risk management policy demands a degree of communication and involvement with the public and with stakeholder organisations.

Extending this line of argument, it can be claimed that risk communication practices are in part concerned with managing the reputation of government, a reputation which can be said to be 'at risk' where there is a gulf between public expectations of performance and service delivery, and perceptions of that performance. The idea of an 'expectation gap' is of course well known to accountants, but is not

unique to the problems of auditors. Such gaps can be managed with strategies to change the performance dimension of the gap. Alternatively, or in addition, an attempt can be made to change the expectations dimension of the gap, i.e. to 'educate' and enfranchise relevant publics via risk communication and participative schemes.

An important feature of risk management and this accent on risk communication in the domain of public policy is the management of reputational or political risk to government. Another way of putting this is to suggest that, while government and its agencies, such as the Department of Health, certainly focus great efforts on first order risks to the public associated with, say, mobile phone radiation and food quality, there are also more conspicuous strategies to manage reputation by avoiding the potential for blame.

One potentially important aspect of risk communication concerns the very concept of 'risk' itself which, though subject to different definitions, implies the *ex ante* possibility that things can go wrong or not turn out as expected. This is relevant to the second public policy theme in risk management – risk-based regulation.

Risk-based regulation

It is now well known that there has been a profound shift in ideas about regulation in the last 20 years or so. Regulatory systems increasingly seek to work with the grain of organisational control practices, enlisting them in the regulatory process and preferring to establish broad frameworks rather than detailed rules. The Company Law review in the UK has this ambition. This approach has the merit of being efficient and cost-effective and gives regulatory processes a legitimacy that an older command and control style may have lacked. Organisational internal control systems are an essential feature of this style of regulation, its mirror image at the organisation level.

States have created a number of distinct agencies to regulate specific functional areas. In the UK the Financial Services Authority (FSA), The Food Standards Agency, the Health and Safety

Executive, and the Healthcare Commission are examples, and there are many others. Indeed, the growth of such agencies, particularly in the wake of the privatisation of many utilities, is said to characterise the UK 'regulatory state'.

Some of these agencies have recently become more explicit about having a risk-based approach to regulation. The principle is that an ongoing risk assessment of regulated entities will enable resources to be directed to areas where they are most relevant and where risks are deemed to be higher. Organisations with risk management and control systems regarded as effective i.e., those whose process of self-control are good, can be regarded as low risk and subject to a moderated regime of inspection and enquiry. The operating philosophy of the UK FSA clearly reflects this. Risk-based regulation also provides the basis for a common language between regulator and regulated, even to the extent that the two become more similar in their formal structure ('isomorphism').

Some regulators are making increasingly explicit claims that risk-based regulation means that regulation is not an insurance process, that things can go wrong and that such agencies cannot be *a priori* responsible for every possible failure. Being public about this meaning of risk is a kind of reputation management strategy, an effort to displace an apparent public expectation of zero-failure, exacerbated by political discourses of zero-tolerance.

Here the politics of risk becomes complicated. On the one hand events like the demise of Equitable Life might be regarded as tolerable from a statistical or systemic point of view, but is experienced by large numbers of people as catastrophic. So whatever *ex ante* risk-based communicative strategy is adopted for reputation management purposes, *ex post* it will remain difficult to control public responses because crises are distributional and impact on some people more than others. Despite this, reputation management has emerged as an ambition to control such public responses.

Reputational risk

Most businesspersons today, when asked about the risk which worries them most, will often mention reputation. Yet the idea and practice of reputation management is itself very young, created in the wake of Shell's experience of attempting to dispose of Brent Spar in the North Sea in 1995. In an orchestrated campaign against the company, stations were boycotted, particularly in Germany, and there was resulting economic loss. In response the company undertook a sweeping internal review. Sea-based disposal of the old unit was calculated to be the least environmental harmful option, but Shell had failed to communicate this to the public and to relevant interest groups.

An example closer to the home of accountants concerns the demise of the firm Andersen. The lesson seems to be that the actions of a few employees can bring down an entire organisation via a 'multiplier' effect – markets can interpret the actions of the few as a signal about the culture of the whole. The event certainly galvanised reputation management thinking within the accountancy profession. Specifically, the client acceptance and retention decision, assessment of the 'tone at the top' of clients, and the risk management of accountancy firms themselves have all received considerable attention in recent years.

From an accounting point of view, reputational risk turns the concept of materiality upside down. Traditionally, but not exclusively, thought of in terms of financial magnitude, reputation means that even apparently small events or losses, such as a minor regulatory fine, can have larger repercussions. Much depends on how and whether certain events are *amplified* or not by wider social processes, not least the media and legal systems. And these amplification processes are not normally under the control of most organisations. This means that reputation risk reflects a new sense of vulnerability, a dread factor for senior managers as well as politicians, and has created new demands to make reputation 'manageable'.

While organisations can do much themselves to mitigate these secondary or reputational risks, they remain hostage to the institutional environment in which they operate. Effort is being expended on external stakeholder and relationship management, including the development of strategic partnerships. From this point of view, the current interest in Corporate Social Responsibility (CSR) can be argued to be a defensive strategy; CSR is simply subsumed within reputation risk management.

If everything can potentially threaten reputation, then reputation risk demands the management of everything.

Explaining the risk management of everything

To summarise the argument so far; there has been an explosion of risk management practices since the mid-1990s across a wide variety of organisational contexts. Internal control has emerged from being a private matter to being at the heart of organisational governance; internal control and risk management have become increasingly co-defined; the UK state has begun to think explicitly of its risk management role and risk-based regulatory organisations are more prominent; categories such as 'reputation' have emerged to characterise a newly visible kind of threat to organisations. In short, risk management seems to be everywhere.

Why has this happened?

The common sense answer is that the rise of risk management is simply an efficient response to the fact that the world has become more risky, i.e. dangerous. The sociologist Ulrich Beck, author of *Risk Society*, is often attributed with this view (a little unfairly). However, it is more accurate to say that while the world of developed economies is now much safer from natural dangers, it has generated a number of man-made risks as side effects of progress. Many societies are more conscious that these issues demand organisational control, intervention and management. Expectations have increased because, as Beck rightly argues, processes of individualisation in modern societies

have also increased, creating more demanding contexts in which all organisations now operate. These social environments are sometimes described in terms of ‘compensation’ or ‘blame’ cultures, but they are also environments which simply demand more decisions in more areas of life.

Accordingly, risk management and the wider ‘Turnbullisation’ of UK organisational life is primarily a defensive response to a more activist and demanding organisational environment of consumers and stakeholders. The risk management of everything may well reflect increased attention to primary risks to health, financial and physical, but it is also characterised to a very large extent by secondary risk management of reputation.

Of course, it can be argued that the distinction between primary and secondary risk is artificial for organisations whose assets are largely intangible and reputational. The primary risk is identical to the secondary risk. So the rise of reputational risk management is simply a product of the emergence of the ‘new economy’ and the need to manage intangibles. And for brand rich organisations, it is completely rational to manage reputation. Nevertheless, secondary risk management remains an issue for individual organisational actors for whom the costs of blame are perceived as high. The risk management of everything involves everyone becoming a risk manager.

We should be very concerned about a society and its constitutive organisations (professional bodies, corporations, universities, hospitals, etc.) when they expend increasing resources on defending themselves. The consequences of an obsession with secondary risk management are potentially very serious.

The risks of risk management

Claims for the benefits of risk management are numerous. In financial services organisations, risk management has enabled a new focus on asset and earnings quality. In the corporate sector more generally, risk management has become perceived as integral to business strategy and to value creation. Risk

management has been shifted from a back-office, transaction-veto defensive role into a fundamental part of the business model. Risk officers and chief risk officers have been created as champions of risk management, seeking to embed the risk management gospel within a broader organisational culture. In the public sector, risk management is becoming part of the way organisations challenge themselves in the absence of market mechanisms. And in all these settings it is widely accepted that the managed taking of risks is essential to progress and the creation of value – with the exception of extreme enthusiasts for the precautionary principle.

Notwithstanding these claims, for which there is considerable support, time may show that risk management is more like the latest management fad than a timeless panacea. And there is a darker side to these developments than is often apparent.

Legalisation and hyper-internal control

The accountancy trade press regularly reports practitioner concerns about the costs of compliance with corporate governance initiatives. The Sarbanes-Oxley legislation seems to have taken these concerns to a new level, but compliance with International Accounting Standards, the proposed review of the Turnbull guidance, recent FSA proposals for reporting on corporate governance and the impending regulation of the Operating and Financial Review (OFR), not to mention Basel 2 for the banking sector, add to the weight of opinion about the corporate regulatory overload.

There are genuine economic risks of the internal control and risk management explosion. Getting the cost to benefit ratio wrong of such initiatives means that they will be far from economically efficient, even if they satisfy political demands for action. While such a regulatory evaluation is important, some effects of risk management are not only hard to quantify, but require in the first instance adequate conceptualisation.

The growth of risk management out of internal control involves an intensified focus on process, and on auditable trails of documentation. This creates a certain

internally *legalised* organisational environment. Legalisation does not mean the law literally but the process by which a distinctive style of rule making pervades organisational life. From this point of view, the formal difference between laws, voluntary codes and in-house procedures matter very little; what matters is their effects. Indeed, it can be argued that many organisations, and perhaps accounting firms too, internally amplify imagined legal risks with internal processes which systematically build in forms of caution, and which create incentives for responsibility avoidance via formal modes of compliance. There is a vicious circle linking the multiplication of rules to rule-like actor mentalities. Risk management systems 'hard-wire' defensiveness in organisations but this is not to be identified simply with risk aversity. Systems may well affect risk appetite, but it is only necessary to say that they enable responsibility avoidance, whereby agents allocate more non-productive time to managing the secondary risk of adverse outcomes.

If the 1980s was the decade of intensifying external accountability for organisations, the 1990s and the corporate governance revolution added pressures for greater internal accountability, facilitated by an internal control system which is also a responsibility allocation system. Risk management is largely an extension of this trend. A form of *hyper-internal control* amplifies the time and attention spent on secondary risk management by organisational actors and professional agents in a climate of heightened expectation. Typically, as process becomes more finely grained, individuals are increasingly concerned with the risks of being seen not to comply with the system, as well as with managing first order risk in a visible way. However, they are increasingly distracted from first order risk issues and get socialized into a certain way of thinking about the organisation. If one has any doubts on this matter, ask the question: what assumptions about human nature underlie the Sarbanes-Oxley act?

At worst, risk management based internal control threatens to imprison organisational thinking. The fearful

concern with reputational risk leads to a loss of materiality as categories of control become more fine-grained. Indeed, as professional service firms and professions more generally apply these ideas to themselves, they become potentially inward-looking and preoccupied with secondary risk.

The role of professional judgement in society as a whole, not just that of accountants, is threatened by these effects. An implicit contract exists between society and expert occupations. In return for monopoly rights over areas of work, risky but necessary judgments are made for the greater good. These are judgments which could be made reasonably at one time, but might in retrospect turn out to be wrong. Today, this sense of reasonable judgement is subject to increasing pressure from a legalised environment, referred to variously as the 'consumer movement', the 'human rights culture' and the 'compensation culture'. While such external pressures play a role in assuring the quality of professional services, by providing a point of challenge and potential sanction, there is also a growing sense that the defensive investments they trigger are out of control.

Take the recent money laundering regulations in the UK. The press anticipates a wave of 'defensive' reporting to the National Criminal Intelligence Service (NCIS) by accountants and lawyers, managing their own risks in relation to the legislation. In the university sector, student references have become more anodyne and less informative over the years (more like audit reports?). As a consequence, such references have become devalued and employers recruit 'employment risk management' consultants to do searches. So a risk industry feeds on the consequences of secondary risk management.

If we look at the regulations which pervade organisational life, they are all individually reasonable. But they all demand systems of internal control to demonstrate visible compliance, and their collective effect is to force opinion formation underground or to make it only visible in coded form accompanied by complex disclaimers.

Individual teachers, accountants, lawyers or doctors cannot be blamed for this state of affairs. Far from it; it is completely rational to invest in secondary risk management strategies to avoid blame for downside outcomes. The problem is systematic and therefore much more serious. A 'morally thin' environment is being created which, despite much talk of the 'opportunity' inherent in the new risk management and the Sarbanes-Oxley requirements, is profoundly damaging to professional cultures. Whatever critique might be mounted about those cultures, such as their historical lack of accountability, it remains true that all individuals in society need, at crucial times and without hesitation, to trust professional judgement, whether that of a tax adviser or a doctor. That need is frustrated when those same professionals, including politicians, appear to be preoccupied to a great extent with their own risk. The risk management of everything, and the rise of hyper-internal control, is a symptom of a profound crisis in our trust in informed but necessarily imperfect judgement.

Conclusions and recommendations

It has been suggested that a certain kind of secondary or reputational risk management increasingly pervades organisational life at all levels of society. A growing activism and individualism in the environments of organisations, amplified by political pressures, has resulted in an intensification of internal control practices. From this broad point of view, despite the positive talk, the new wave of risk management can be regarded as a defensive reaction to an increasingly demanding environment. Professionals will argue that that the law, an aggressive media and an over-responsive political system are at the centre of this story. Certainly, the free press and media, core institutions of liberal democracies, are not without reputational issues of their own in early 2004, but they remain a powerful conduit for secondary risks to organisations.

The risk management of everything is not simply to be discussed at the level of the effects of organisational internal controls, although this is where the current discussion has laid most

emphasis. It is also to do with problems of political culture, and the failure to develop a politics of uncertainty in which failure can be openly spoken of both *ex ante* as possible and *ex post* as not always blameworthy.

Assuming the above analysis strikes some chords in the world of practice, what might be done about it? As far as accountancy is concerned, we stand on threshold of some critical developments. Expectations seem to high, maybe too high, that the new OFR will provide a disclosure vehicle capable of satisfying analyst demands for information about strategy and risk, and social demands for information relevant to wider corporate responsibility. In addition, the requirements of Sarbanes-Oxley section 404 will begin to bite for some companies, although this is likely to become diffused as a standard for non-SEC registrant entities as well, rather in the way of ISO 9000. The Turnbull report will be reviewed and the FSA proposes a new form of auditor reporting for the combined code.

In the current environment, it is only too easy to predict what may happen. Reports by auditors and others will default to a standardized form with defensive, uninformative wording. Liability is often regarded as the main culprit for this, but this is doubtful. A change in liability law for auditors might have an effect over the long term, but the secondary risk management practices of many individuals and organisations are now part of their operating culture. A change in the law would provide but a small dent in this. Furthermore, excessive lobbying for law reform may also damage reputation.

The challenge is daunting, because it is not rational for any individual, organisation or professional institute to initiate changes on its own. But this in effect is what will need to happen, with political support. The challenge of the risk management of everything is to roll back the culture of secondary risk management before it consumes organisational life. This effort will need to be conducted at two levels: risk management practice and political discourse.

At the level of risk management practice, the need is for an 'intelligent' risk management which is not control obsessed and which has a second order capacity to observe and challenge the effects of the internal control system itself. Some organisations will say they already have this intelligence. It is a capacity to challenge the, often very ideal, organisational models and assumptions inherent in risk management standards and the systems whose design they inform. It is also a capacity to avoid being swept away by regulatory programmes – very difficult given the wave of recent initiatives in the corporate world. In addition, there is a need to nurture no-blame internal organisational environments.

There is nothing very original about these suggestions, but they would require all organisations to develop operating philosophies of *experimentation* rather than compliance. From this point of view scenario analysis has value to stimulate the imagination of possible alternatives to the present, rather than as a method of prediction.

At a more systemic or political level a new politics of risk is required. An older politics of risk sought to challenge expert judgement, particularly that of scientists, by increasing public participation in risk management processes. A new politics is required which restores trust in expertise and which re-enlists honest professional judgement in the public domain. The creation of safe havens for judgement does not mean making professionals non-accountable. Rather, it is to have public recognition of the essential dependence of society on that judgement even when failure is possible. A more differentiated public concept of failure would restore to the very centre of its legal and conceptual framework the idea of reasonable judgement which might in retrospect prove to be mistaken.

Outright rogues would need to be dealt with, but only in the context of wider public acceptance that risk means *ex post* failures are possible, as some regulatory bodies are trying to communicate. In short, a politics of uncertainty would create a public understanding of the terms on which

professional opinions of all kinds are offered, an understanding grounded in a political culture which tolerates uncertainty rather than the depressing ubiquity of disclaimer paragraphs. In this world, technical reform of liability law might take place, but it would have to be part of a larger shift in political consensus, a shift in which professional institutes, and corporate and political leaders would need to play a part.

These suggestions may seem very idealistic, and they are no doubt underdeveloped and incomplete. But the stakes are high. The possible consequence of the risk management of everything may be nothing less than the retreat of socially valuable intelligence from the public domain. In this lecture I have tried to suggest that the problem is reflected in, but is much wider than, the position in which auditors presently find themselves. Indeed, society is in a bizarre predicament. Never before has there been such a need for considered expert opinion in so many fields of social and economic life. And yet are we not designing institutions and risk management practices whose effect is to frustrate that need?

An expanded version of the arguments in this lecture is to found in *The Risk Management of Everything: Rethinking the Politics of Uncertainty* by M Power (London: Demos, 2004). Available from www.demos.co.uk.

About the author

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