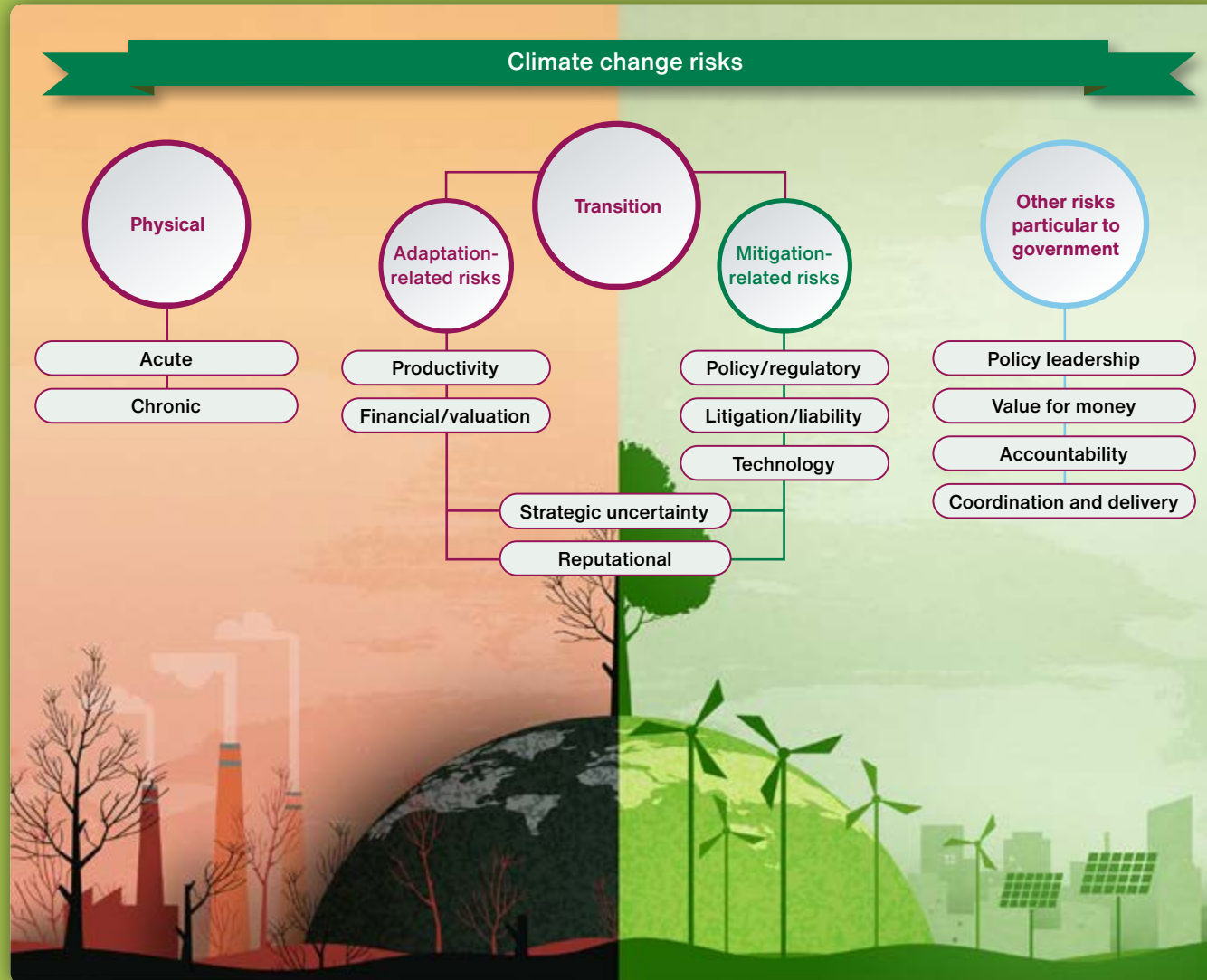


# Key takeaways

You can find more detail on the individual risks in Part One of our [main guide](#).

## Risk taxonomy



## Challenge questions

### Governance and leadership



Risk management shall be an essential part of governance and leadership, and fundamental to how the organisation is directed, managed and controlled at all levels.

- Is there a clear understanding of what the organisation's requirements are in terms of government policy?
- How have climate-related risks and opportunities been identified and factored into the organisation's strategy?
- How effective is the risk culture promoted by leadership in supporting debate, discussion and understanding of climate change as an emerging risk?
- How does management gain and maintain an appropriate level of understanding of climate-related risks and opportunities that are likely to have a material impact on the organisation?
- Is there clarity of roles, responsibilities and accountabilities for each component of the 'three lines of defence' as part of the overall risk management of climate change?<sup>1</sup>
- How does the board gain assurance over the management of climate-related risk in the organisation? For example:
  - assessing the organisation's approach to managing climate-related risks;
  - reviewing board briefings on relevant climate change matters, including results of climate risk deep-dives; and
  - assessing management's use of data and consideration of data integrity to gain assurance over any potential impact.

#### Note

- 1 See the *Orange Book*, Annex 2.

### Integration



Risk management shall be an integral part of all organisational activities to support decision-making in achieving objectives.

- How does management build awareness and understanding of emerging risks such as climate change across the organisation?
- What processes does the organisation have in place to embed climate-related risks throughout the organisation?
- Do the organisation's strategic objectives, budgets and delivery plans reflect management's consideration of climate change risks and opportunities?
- How is climate risk embedded in climate-related policy development (where applicable)?
- How does management ensure that climate change considerations are clearly factored into its risk appetite?
  - Is the organisation's risk attitude and appetite over climate change-related matters understood by the wider workforce, particularly key decision-makers?
  - Is management able to explain the impact of climate change risk on decision-making across the organisation?

### Collaboration and best information



Risk management shall be collaborative and informed by the best available information and expertise.

- How does management keep up to date with climate change-related developments, policy and regulatory changes?
- How confident is management in its understanding of its organisation's responsibilities in delivering wider departmental or government policy objectives, such as achieving net zero by 2050, and the Greening Government Commitments?
- How does management identify external risks which have the potential to impact it from beyond the organisation, for example in its supply chain or – in the case of departments – within arm's-length bodies?
- Has management considered data sharing arrangements with other government bodies to support a joined up and collaborative approach to climate risk management?
- How does management get an awareness of what matters to its stakeholders on climate change risk?
  - What is management doing to respond to those expectations?



## Challenge questions *continued*

### Risk identification and assessment



Risk management processes shall be structured to include risk identification and assessment to determine and prioritise how the risks should be managed.

#### Risk identification:

- What is management's process for identifying climate-related risks?
  - Does this process extend across the whole organisation, so all potential climate-related risks can be identified?
  - For departments, does this include risks within arm's-length bodies?
- Can management articulate what climate-related risks are most significant to the organisation and why?
- If the organisation considers climate change as an emerging risk, how confident are we that management has a clear understanding of the indicators which would cause it to escalate to a principal risk?
- What timeframe (short-, medium-, and long-term) does management use in its identification and assessment process?

#### Risk assessment:

- How are climate change risks measured?
  - Has management considered a range of methods to analyse the impact of climate-related risks?
  - Are we confident that the methods used to measure the risks are appropriate for climate-related issues?
  - Are we confident that management has good-quality data to be able to calculate the impact of climate-related risks to the organisation?

- How confident are we that management understands and considers the inherent uncertainty associated with risks arising from climate change?
  - Does management conduct horizon-scanning and scenario analysis to consider the range of outcomes?
  - Has management conducted deep-dive reviews (where required) and assessed the results to help it understand the impact and severity of climate-related risks on the organisation, and how they should be prioritised?
- How is the organisation's risk appetite or tolerance levels considered when evaluating climate-related risks?
- Can management demonstrate that it has conducted a robust assessment of all climate change risks?



### Risk treatment



Risk management processes shall be structured to include the selection, design and implementation of risk treatment options that support achievement of intended outcomes and manage risks to an acceptable level.

- How confident are we that management can demonstrate a clear rationale for the treatment activities and response to climate change risks, including the benefits it expects to gain?
- Has enough consideration been given to the uncertainties that exist in this area?
  - How flexible is management's current risk response strategy in dealing with the unpredictability of climate change risks?
- Are climate-related risk responses aligned with the organisation's risk appetite?
  - Is there any indication that management needs to reassess its risk appetite to respond appropriately to climate change risk, particularly given the unpredictable nature of the risks?
- With extreme climate events likely to worsen over time and potentially at an accelerated pace, has management considered how responding to these will impact on other areas of the organisation, and the management of other principal risks?
- Has management developed a climate change adaptation strategy for the organisation, and have climate change risk treatment and response plans been integrated as part of this?
- Climate change targets by their nature can be long-term. Is management clear on what represents good progress against its climate change targets?

## Challenge questions *continued*

### Risk monitoring



Risk management processes shall be structured to include the design and operation of integrated, insightful and informative risk monitoring.

- Does management understand how its overall risk profile is likely to change as a result of climate change risk?
- Has management defined core performance metrics, and key risk and control indicators for climate-related risks, and have risk appetite and tolerance been factored in?
  - How do those metrics influence strategic decision-making, investment plans and budget considerations?
- How are the results of climate change risk monitoring shared with the rest of the organisation?
  - Is there a feedback loop between the results of monitoring, the assessment of the residual risk, the effectiveness of the risk management activities, and the decision-making?
- How often does management re-assess the impacts of existing climate-related risks? For example, if the organisation is impacted by legislative changes or new government targets, does management track these changes?
- How do departments monitor risks within their arm's-length-bodies and ensure that climate change risks are escalated and aggregated effectively?

### Risk reporting



Risk management processes shall be structured to include timely, accurate and useful risk reporting to enhance the quality of decision-making and to support management and oversight bodies in meeting their responsibilities.

#### Internal reporting

- Is climate change risk reporting similar in style to other principal risks, so that we can assess how progress is being made with objectives?
- How regularly are climate change risks reported? Is this frequent enough to inform robust decision-making?
- Does management conduct deep-dive reviews of climate-related risks, and present the review findings to the board and ARAC?
- How have climate-related risks and assumptions been factored into financial information such as budgets and forecasts in the short-, medium- and long-term?
- How satisfied are we with the quality of information reported?

#### External reporting

- Is climate change clearly embedded within the organisation's strategy and strategic objectives? Can readers see a clear link between the strategy, objectives and key performance indicators?
- Is there clear articulation of how climate change risks are identified, monitored and managed across the organisation?
- Is the information in the financial statements consistent with commitments that are disclosed in the annual report?
- Where climate change risks give rise to a material financial impact, is this appropriately and accurately reflected in the financial statements?
- Has management clearly explained material assumptions and uncertainties relating to estimates affected by climate change? For example, does it include relevant sensitivity analysis so users can appreciate the scale of impact?

### Continual improvement



Risk management shall be continually improved through learning and experience.

- How regularly is climate change risk re-assessed? Is this frequent enough?
- How does management build experience and learning into the climate change risk assessment process?
- Is climate change risk incorporated within the organisation's overall approach to continually improving its risk management processes?
- Are there any lessons to be learned from government's response to other cross-cutting challenges, such as COVID-19 and EU Exit?
- Is there a plan to assess the maturity of management's approach to climate change risk management?

