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**THEME: RISK MANAGEMENT AND MANAGEMENT ACCOUNTING IN THE PUBLIC SECTOR—  
EMERGING ISSUES AND FUTURE RESEARCH PERSPECTIVES**

**Guest editors: Tarek Rana, Enrico Bracci and Danture Wickramasinghe**

**Editorial: Management accounting and risk management—research and reflections**

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Our *Public Money & Management* theme invited submissions on the current trends in risk management practices in the public sector and the role of management accounting therein; the determination of risk within government projects and programmes; the implications of current risk management practices for performance measurement, strategic choices, and decision-making processes; and the effects of such external factors as funding uncertainty, budget pressures, and legislative requirements on the design and use of risk management globally.

We attracted contributions by academics and practitioners from Australia, Italy, Middle East, New Zealand, South Asia, the UK, and the USA. Following the peer-review process, we are pleased to include four full research articles, four new development articles, and two debate articles in our PMM theme. The issues addressed in the theme help us to understand how contemporary risk management practices within the public sector are linked to new roles for management accounting. These issues also enhance our understanding as to how management accounting and control systems can assist public sector managers to navigate and manage uncertainties and risks. In addition, our contributions highlight some directions for future research.

### **Public sector risk management and management accounting**

The notion of risk has often been packaged as 'Enterprise Risk Management' (ERM). Within the apparatuses where public money is managed, ERM has permeated globalized ideas, practices and debates about how risk should be viewed and managed. ERM is now a boundary-spanning model including management accounting systems (MAS), management control systems (MCS), performance management systems (PMS), business models, and strategic management and decision-making. Management accounting researchers (for example Soin & Collier, 2013; Soin, Huber, & Wheatley, 2014) alluded to this development and began to examine how the notion of risk has expanded the boundary of management accounting into the areas of governance, business planning and processes, investment decision-making, adopting and monitoring, and accountability systems.

Prior studies on risk management in accounting have largely focused on the context of private sector organizations such as banks and big firms (for example Arena, Arnaboldi, &

Palermo, 2017; Mikes, 2009), and our understanding of risks and management of risk in the public sector is sparse (Rana et al., 2019a, b). In recent years, public sector organizations around the world have experienced severe disruptions, particularly in the Covid-19 pandemic, in the delivery of essential public services—food, agriculture, education, healthcare—necessitating insights of risk management and innovative designs for management accounting and control systems. However, this research is still in its infancy and requires:

- A better understanding of organizational practices and processes of management accounting.
- An appreciation of unintended consequences in relation to mediations between discursive propagations of ERM ideas and day-to-day practices of ERM-inspired management accounting and controls within the public sector.
- Policy directions for addressing the issues surrounding such consequences.

Our PMM theme is an attempt to address these issues and narrow the perceived gap between academic research and managerial practices of risk management and management accounting in the public sector to prompt helpful debates and subsequent reforms, policies, and practices. We hope that the theme will provide new insights into existing debates, practices and innovations of risk management but that it will also be a guide to developing new practices and processes.

This PMM theme documents the implications of risks and risk management for public sector management, governance, and accountability and explains the role of management accounting in this. It also offers insights on how management accounting systems and performance management systems would improve the identification of the emerging risks and how such risks should be managed. Importantly, the theme attempts to reconceptualize previous frameworks for understanding public sector risks and the roles of management accounting in the management of such risks moving towards a new framework that integrates risk management and management accounting.

## **Contributions in this PMM theme**

### *New research*

In our first research article, Zhiyun Gong, Gillian Vesty and Nava Subramaniam (2022) examine how school leaders in Australia confront distinct risk management and control cultures. They highlight the need for governmental risk management policies to embrace leadership attributes at the individual level. This article suggests a proactive risk management culture and practices can only be triggered when senior leaders move beyond a compliance mindset and develop the capacity to foster the risk management values that are unique to their individual school context. Given that their conceptions of risk are intricately connected to the values they believe to be at stake in the contextualized model in their school, it is essential that school leaders are recognized and rewarded for their innovative contributions to societal value creation.

The second research article, by Georgios Kominis, Adina Dudau, Alvise Favotto & Douglas Gunn (2021), draws on the conceptual distinction between risk and uncertainty to examine the governance of shared risk in public sector partnerships. Their case study of a local safeguarding children board (LSCB) reveals differences between risk and uncertainty, and ways in which negotiations of LSCB partners' different risk conceptualizations contributes to uncertainty reduction in the delivery of children's services. It offers insights on micro-level inter-organizational relations by investigating risk governance and negotiation employed by English children's services professionals in their attempt to make sense of the uncertainty in which they operate. The article enhances our understanding of risk and uncertainty management in the public sector, as well as in public sector inter-organizational management accounting and control systems. Public managers may learn lessons from this article as to how such partnerships would identify, measure, and govern risk and employ the risk typology (i.e. organizational risk, professional risk, and risk to clients) to manage and absorb uncertainty within and beyond organizational boundaries.

Our third research article, by Mohammad Istiaq Azim & Shamsun Nahar (2021), explores the managerial perception of risk disclosure by government-owned banks and demonstrates that institutional pressure, along with organizational governance structure such as risk committees and board independence, are critical contributing factors for risk

management and disclosure. Based on interviews with executives from government banks, government regulatory and monitoring authorities, the article shows that government-owned banks in Bangladesh commonly suffer risks due a lack of good governance, non-performing loans, undetected money laundering and other management malpractices. The authors found that legitimization, with effective evaluation and monitoring systems that reply on good governance, might be a strategy for government-owned banks to use to manage risks in the finance industry.

The final research article, by Enrico Bracci, Mouhcine Tallaki, Tarek Rana & Danture Wickramasinghe (2021), presents a literature review showing that public sector organizations (PSOs) design and implement risk-based management control systems arbitrarily. This leads to the concern of appropriate integration of risk management in management accounting and control systems (MACS). Despite the importance of integrated risk management, the existing literature shows that risk management is not well integrated at the MACS and business model level. To achieve that integration, a radical cultural shift and strategy development is required in PSOs. This article explains how risk management can provide public service managers and government policy-makers with practical tools to help them make risk-informed strategic and operational decisions. The authors also discuss how risk management can be supported by an integrated framework of management accounting and control systems that helps all levels of government organizations meet growing demands in public service governance, performance management and accountability. The article provides direction for future research on, for example, risk management implementations and their performance measurement.

### *New developments*

In our first new development article, Habib Mahama, Mohamed Elbashir, Steve Sutton & Vicky Arnold (2020) argue that public sector reforms have led risk management to gain prominence as it ensures effective public service delivery and a better form of accountability. Addressing the question of what organizational capabilities can be mobilized for effective deployment of ERM in PSOs, the article presents a conceptual framework for enhancing risk management practices. The framework includes three essential enablers of

risk management (management control systems, business intelligence and analytics, and ERM) and provides conceptualizations for improving service delivery.

The second new development article, by Pat Barrett (2019), warns that not taking a risk can be a risk in itself for PSOs. Risk-taking with public money has long been anathema to parliaments and the public, in Westminster systems of government, with a particular emphasis on administrative and financial legislation involving bureaucratic processes and prohibitions. The latter have been reinforced by management controls, rules, and regulations and subject to external oversight and investigation by treasury, finance and attorney general departments, policing bodies, and audit office. As attention has been paid to programme outcomes and associated performance measures, this has raised the question of taking risks to achieve better outcomes/impact. The author concludes that a better focus on risk management will help producing required outcomes/impact which will contribute to better performance and accountability. Moreover, for ministers to be involved in issues such as risk appetite and risk tolerance, confidence in risk management policies and practices are equally important.

The third new development article, by Anil Narayan & John Kommunuri (2021), argues that risk management is becoming important in the higher education sector, but risk-taking behaviour associated with human vulnerabilities is not well understood as yet. This article offers new insights into risk-taking behaviour and its consequences within higher education institutions. The authors show that risk-taking behaviour is associated with human vulnerabilities and that policy-makers and managers must recognize that understanding and managing people's behaviour is most critical to ERM success. The article will assist policy-makers and managers to formulate sound risk management policies and frameworks focusing on behavioural implications.

In our final new development article, Georgiou Vasileios & Alvis Favotto (2021) show how ad-hoc risk management tools and techniques can be meaningfully integrated in pre-existing MCS arrangements; and the limits that reliance on MCS poses to PSOs' conceptualization of risk. The authors revisit the conceptual underpinnings of the levers of control framework and argue that it offers a basis for theorizing the dynamic interplay between risk and management control in PSOs. At both intra- as well as inter-organizational

levels, the framework can reflect competing notions of risk and uncertainty, offering valuable insights for managers in practice.

### *Debates*

In our first debate article, Laurence Ferry & Peter Eckersley (2019) show how the slogan of 'what gets measured gets done' can be applied to English local government. The UK government and relevant professional bodies encouraged the development of comprehensive risk management approaches in public services. However, the authors argue that there has been a retreat from the 'risk society' and 'audit society' in central government's approach to local authorities. Risk management practices have become more localized as a result, which is a good sign, but concerns are increasing about the exposure of local governments to significant financial and service risks beyond their control.

The second debate article by Ken Warren (2019) argues that traditional risk management approaches are challenged by the complexity in environmental, social, and economic conditions. The author identifies many reasons/sources for risk: for example climate change, demographic shifts, transboundary networks, modern business practices, new systemic risks, and reliance on closely coupled infrastructure systems. The author argues that there needs to be a clear allowance for uncertainty, and that a focus on proactive rather than reactive risk management will interconnect strategies to combine active mitigation of specific risks with enhancement of generic reliance on resilience measures.

### **Ways forward**

With empirical and theoretical materials, and from a variety of methodological and practical applications, this theme presents new ideas of public sector governance, management and accountability based on unique narratives, case studies, exciting debates, and policy reflections. Research presented here ranges from a state-of-the art review of current trends in risk management literature and practices in the public sector through ways of



determination of risk associated with government projects and programmes, performance measurement, strategic decision-making, and innovation processes.

In the post-Covid world, risk management is a vibrant topic for future research in the public sector context, especially in the management of risks around essential public services such as education, agriculture, infrastructure, and healthcare, to build an equitable and resilient society. The pandemic highlighted the importance of financial management, well-being budgeting, the security and stability of supply chain management, indigenous and gender equity, national safety and cyber security, climate change management, and rebuilding public trust in government. Non-essential services have been postponed or delayed to create space for Covid-related action. One of the key risks here is who/how decides what/whether some public services are essential or not. For example, in low-income countries particularly, face-to-face education has been considered non-essential, which has disrupted young people's learning and mental health significantly; governments now need to find ways to address these risks. Future researchers may unearth how risk was associated or considered in situations like this.

There has been an increasing demand for risk management under the imperatives of national security and safety due to the pandemic and geo-political crises. These risks have implications for government security and defence agencies, as well as for the security of businesses and individuals. Recently, cyber/digital security has emerged as one of the greatest threats. In addition, governments are facing emerging risks associated with immigration and border control. Moreover, climate change is another challenge for governments entrusted with setting climate change policies and action agendas. They now need to consider risk for humankind and accelerate action based on public policy and programme agendas. Future research may explore debates, new developments, and theory developments on these issues of risk and associated transformations of accounting, management control, and performance measurement. To this end, researchers must pursue critical–interpretive analyses and reflections on changing patterns of risks and risk management practices towards a better and contextual understanding of how PSOs can assess, manage, and govern risk in the context of natural, geopolitical and climate change crises.

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