# 

# Risk Management Policy

Adopted by Board: 16 March 2021

Review Period: 3 years

Review Date: March 2024

Person responsible for policy: Chief Financial Officer

# Purpose of this Document

This Risk Management policy forms part of the internal control and corporate governance arrangements for BePART Educational Trust (Trust).

The policy explains the Trust’s underlying approach to risk management, documents the roles and responsibilities of the Board, the Financial Risk Management Group and other key parties. It also outlines key aspects of the risk management process and identifies the main reporting procedures.

In addition, it describes the process the Trust Board will use to evaluate the effectiveness of the Trust’s internal control procedures.

# Policy Statement

Risk can be defined as:

‘the threat or possibility that an action or event will adversely or beneficially affect an organisation’s ability to achieve its objectives.’

The Risk Management policy of the Trust is to adopt best practices in the identification, evaluation and cost effective control of risks to ensure that they are eliminated or reduced to an acceptable level.

Risk management is not intended to have a financial bias. Risk is inherent in all the Trust’s activities. All employees should understand the nature of risk and accept responsibility for risks associated with their area of authority.

# Objectives of Risk Management

The Trust’s risk management objectives are to:

* Integrate risk management into the culture of the Trust.
* Manage risk in accordance with statutory and mandatory obligations and best practice.
* Minimise the costs associated with risk in order to continue to fulfil the Trust’s mission.
* Anticipate and respond to changing social, environmental and legislative requirements.

# Underlying Approach to Risk Management

The following key principles outline the Trust’s approach to risk management and internal control.

* The Trust Board has responsibility for overseeing risk management within the Trust as a whole;
* An open and receptive approach to solving risk problems is adopted by the Trust Board;
* The Chief Executive Officer (CEO), senior management team and head teachers within each member school supports, advises and implements policies approved by the Trust Board;
* The Trust makes conservative and prudent recognition and disclosure of the financial and non-financial implications of risks;
* Senior and middle managers are responsible for encouraging good risk management practice within their designated managed area; and
* Key risk indicators will be identified and closely monitored on a regular basis.

# Role of the Trust Board

The role of the Trust Board in the management of risk is to:

* Set the tone and influence the culture of risk management within the Trust.
* Determine whether the Trust is ‘risk taking’ or ‘risk averse’ as a whole or on any relevant individual issue.
* Determine what types of risk are acceptable and which are not.
* Set the standards and expectations of staff with respect to conduct and probity.
* Approve major decisions affecting the Trust’s risk profile or exposure.
* Monitor the management of significant risks to reduce the likelihood of unwelcome surprises or impact.
* Satisfy members that the less significant risks are being actively managed, with the appropriate controls in place and working effectively.
* To review the Risk Management policy at least every three years.

# Role of the Trust Financial Risk Management Group

Key roles of the Trust Financial Risk Management Group are to:

* Take overall responsibility for the administration and implementation of the financial risk management process throughout the Trust.
* Identify and evaluate the significant financial risks faced by the Trust for consideration by the Trust Board.
* Provide adequate information in a timely manner to the Trust Board and its committees on the status of risks and controls.
* Issue updated financial risk register information as follows:
  + The risk register reporting on all financial risks to be reported twice annually to the Audit Committee and annually to the Board.
  + Any significant risk will be reported to each of the board members immediately.
* Undertake an annual review of the effectiveness of the system of internal control and provide a report via the Audit Committee to Trust Board. This should also include a review of the Trust’s approach to financial risk management to advise the Board of any changes or improvements required to key elements of its risk management processes and procedures.

# Role of the Local Risk Management Group(s)

Key roles of the Local Risk Management Groups are to:

* Take responsibility for the administration and implementation of the risk management process in the relevant member institution.
* Issue updated risk register information as follows:
  + Operational risk is identified and managed by senior management teams at each institution with frequent discussions with the CEO taking place. Any risks identified will be included in the Headteacher’s and Principal’s reports presented at the board meetings where appropriate.

# Method of Risk Assessment

A risk register is maintained which lists all key financial risks. Each risk is linked to a strategic objective, has a further description of the likely outcomes, is given a rating, lists the controls in place to mitigate the risk, details any gaps or action plans to be implemented and an owner is assigned. There are two main factors for assessing the key risks:

* Impact – how significant might the consequences be, ideally expressed in financial terms?
* Likelihood – how probable or likely it is to happen?

The impact is multiplied by the likelihood to arrive at an overall rating. We arrive at the ratings based on discussion and debate by management with input from specialists (were necessary). We assess the situation at that point in time and using the following scales the rating is calculated.

Impact is assessed on a five point scale where:

* 1 - Minimal impact on financials
* 2 - Low impact on financials
* 3 - Medium impact on financials
* 4 - Fairly high impact on financials
* 5 - High impact on financials

Likelihood is assessed on a five point scale where:

* 1 - 20%, Highly unlikely to happen (has never happened and is unlikely to happen)
* 2 - 40%, Unlikely to happen (not likely to happen in the foreseeable future)
* 3 - 60%, Possible (could happen in the near future)
* 4 - 80%, Likely to happen (likely to happen in the foreseeable future)
* 5 - 100%, Very likely to happen (this has happened or is expected to happen)

Each risk is considered and rated twice. The initial rating is prior to any controls being put in place, reflecting a ‘do nothing’ scenario and the second reflects the residual risk after controls have been implemented. The residual risk rating is the key focus as this represents the potential exposure that remains after all controls are in place. The action plans, which should focus on the most significant risks, once implemented should further reduce the residual risk rating.

The overall rating for each key risk on the risk register is categorised into three groups on the basis of the scores as follows:

* Score 1 - 7 = Green, Low Risk
* Score 8 - 11 = Amber, Medium Risk
* Score 12 - 25 = Red, High Risk

Those risks with a residual score greater than 7 will have clearly defined action plans in place to seek to reduce the risk and minimise the Trust’s exposure.

# Risk Appetite

Risk appetite can be defined as ‘the amount of risk that the Trust is prepared to accept, tolerate or be exposed to at any point in time’. Risks need to be considered in terms of both opportunities and threats and are not usually confined to money - they will invariably also impact on the capability of the Trust, its performance and its reputation.

A simple approach is to ensure that risk appetite is part of the challenge process when identifying and assessing risks. In that situation, risk appetite becomes something to be considered for every single risk rather than an overarching concept for the entire organisation. Questions to ask are:

* What is the level of risk we think we are facing?
* What is the impact?
* Can we tolerate the possibility of that risk actually happening?
* If not, do we want or need to do more?
* Will the cost of managing this risk further outweigh the benefit?

# Risk Management as Part of the System of Internal Control

The system of internal control incorporates risk management. This system encompasses a number of elements that together facilitate an effective and efficient operation, enabling the Trust to respond to a variety of operational, financial, and commercial risks. These elements include:

1. *Policies and Procedures*

Attached to significant risks are a series of policies that underpin the internal control process. The policies are set by the Trust Board and implemented and communicated by senior management to staff. Written procedures support the policies where appropriate.

1. *Reporting*

Comprehensive monthly reporting is designed to monitor key risks and their controls. Decisions to rectify problems are made at regular meetings of the senior management team and the Trust Board if appropriate.

1. *Strategic Planning and Budgeting*

The business planning and budgeting process is used to set objectives, agree action plans, and allocate resources. Progress towards meeting business plan objectives is monitored regularly.

1. *High Level Risk Action Plan*

Members of the management team contribute to the development of the risk management action plans that are reviewed regularly by the Financial Risk Management Group. This helps to facilitate the identification, assessment and ongoing monitoring of risks significant to the Trust. The document is formally appraised annually but emerging risks are added as required with improvement actions and risk indicators monitored regularly.

1. *Audit Committee*

The Audit Committee in their report to the Trust Board on internal controls alert Directors to any emerging issues. In addition, the committee oversees internal scrutiny findings, external audit and management as required in its review of internal controls. The committee is therefore well placed to provide advice to the board on the effectiveness of the internal control system, including the Trust’s system for management of risk.

1. *Internal Scrutiny Findings*

Internal scrutiny findings are an important element of the internal control process. Apart from its normal programme of work, internal scrutiny findings are responsible for aspects of the annual review of the effectiveness of the internal control system within the organisation.

1. *External Audit*

External audit provides feedback to the Audit Committee on the operation of the internal financial controls reviewed as part of the annual audit.

1. *Third Party Reports*

From time to time, the use of external consultants may be necessary in areas such as health and safety and human resources. The use of specialist third parties for consulting and reporting can increase the reliability of the internal scrutiny findings.

# Annual Review of Effectiveness

The Trust Board is responsible for reviewing the effectiveness of the internal control of the Trust, based on information provided by the Financial Risk Management Group. Its approach is outlined below.

For each significant risk identified, the Trust Board will:

* Review the previous year and examine the Trust’s track record on financial risk management and internal control.
* Consider the internal and external financial risk profile of the coming year and consider if current internal control arrangements are likely to be effective.

In making its decision the Trust Board will consider the following aspects:

* Control environment:
* The Trust’s objective and its financial and non-financial targets;
* Organisational structure and calibre of the senior management team;
* Culture, approach, and resources with respect to the management of risk;
* Delegation of authority; and public reporting.
* On-going identification and evaluation of significant risks:
* Timely identification and assessment of significant risks; and prioritisation of risks and the allocation of resources to address areas of high exposure.
* Information and communication
* Quality and timeliness of information on significant risks; and time it takes for control breakdowns to be recognised or new risk to be identified.
* Monitoring and corrective action:
* Ability of the Trust to learn from its problems and its commitment and responsiveness with which corrective actions taken are implemented.

The Financial Risk Management Group will prepare a report of its review of the effectiveness of the internal control system annually for consideration by the Trust Board.

# Risk Management Structures, Roles and Ownership

Risk Management Structures, Roles and Ownership

**Trust Board**

**Audit Committee**

**External Audit**

**Internal Scrutiny**

**Local Risk Management Champion**

**Local Risk Management Group(s)**

**Trust Financial Risk Management Champion**

**Trust Financial Risk Management Group**

**Risk Management Plan/Process**

A summary of the roles and responsibilities of each body are set out below.

|  |  |  |
| --- | --- | --- |
| **Body** | **Key Roles** | **Key Responsibilities** |
| Trust Board | The Trust Board is expected to:   * Set the tone and influence the culture of risk management throughout the Trust; * Approve all major decisions affecting the Trust’s risk profile or exposure; * Frequently monitor the management of significant risks to reduce the likelihood of unwelcome surprises; * Satisfy itself that the less significant risks are being actively managed, with the appropriate controls in place and working effectively; and * Annually review the Trust’s approach to risk management and approve changes or improvements to key elements of its processes and procedures. This should include an examination of the framework / process and its rigour. | The Trust Board is ultimately responsible for the Trust’s system of internal control and reviewing its effectiveness. This will include:   * Reviewing the key risks together with the controls which have been implemented to mitigate those risks; and * Confirming whether or not there has been a formal on-going process for identifying, evaluating and managing the Trust’s significant risks that has been in place for the 12 months to 31st August each year and up to the accounts approval date.   The Trust Board will also need to ensure that there is a regular review of the risk management process and its outcomes (usually via the Audit Committee). |
| Trust Audit Committee | The Audit Committee oversees internal audit, external audit, work of other auditors as appointed by external bodies and management as required in its review of internal controls. The Committee will provide advice to the Trust Board on the effectiveness of the internal control system, including the institution’s system for the management of risk as part of its annual report. | The Audit Committee reports to the Trust Board on internal controls and alerts Directors to any emerging issues. The Audit Committee provides a forum for reporting by the Trust’s external auditors, who have access to the Committee for independent discussion. The Committee also receives and considers reports from the funding bodies as they affect the Trust’s business. |
| Trust Financial Risk Management  Group | A Financial Risk Management Group (FRMG) is comprised of the CEO and Chief Financial Officer (CFO) from within Trust. Its main function is to:   * Implement policies on risk management and internal control. * Identify and evaluate the significant risks faced by the Trust for consideration by the Trust Board. * Provide adequate information in a timely manner to the Trust Board and its committees on the status of risks and controls. * Undertake an annual review of effectiveness of the system of internal control and provide a report to the Trust Board. * To maintain an up to date risk register including an action plan to address those risks which give rise to a significant exposure to the Trust. | Its responsibility is to support the Trust Board and associated committees in discharging their duties.  It should hold regular meetings to ensure the action plan implementation is being carried out efficiently and effectively. |
| Trust Financial Risk Management Champion | The Trust Financial Risk Management Group have nominated the CFO as the Risk Management Champion for the Trust, whose role will be to:   * Take overall responsibility for the administration and implementation of the risk management process. * Provide advice and support to colleagues within the broader Trust and to Board members as appropriate. * Provide impetus and drive to the risk management process to ensure the implementation timetable is achieved. * Ensure risk management and its processes are disseminated and become embedded throughout the Trust. |  |
| Internal Scrutiny Findings | Internal Scrutiny Findings are an important element of the internal control process. Apart from its normal programme of work, internal scrutiny is responsible for aspects of the annual review of the effectiveness of the internal control system within the organisation.  The CFO will work with the audit committee to identify areas requiring assurance and these areas will be subject to either internal or external review. The findings will be reported to the audit committee. | The Trust’s internal auditors monitor the systems of internal control in accordance with an agreed plan of input and report their findings to management and the Audit Committee. Management are responsible for the implementation of agreed recommendations and internal audit undertake periodic follow up reviews to ensure such recommendations have been implemented.  At least annually, the head of internal audit provides the Trust Board, via the Audit Committee, with a report on internal audit activity in the Trust. The report includes an independent opinion on the adequacy and effectiveness of the Trust’s system of internal control, including internal financial control. These are the key areas of the internal scrutiny report. |
| External Audit | External Audit will ensure that the annual risk management process has been undertaken, and that statements of corporate governance reflect the Trust’s implementation of the Combined Code.  It is **not** the role of the external auditors to ascertain the robustness or accuracy of the risks identified or the internal controls over their operation. The auditors do not form an opinion on the effectiveness of the Trust’s governance procedures or its risk and control procedures. | External auditors express an independent opinion on whether the financial statements give a true and fair view, monies expended out of funds have been properly applied for those purposes and, if appropriate, managed in compliance with relevant legislation. Also, that monies expanded out of funds provided by the funding bodies have been applied in accordance with the Funding Agreement between the funding bodies and the Trust Board of the Trust.  The external audit opinion will also clearly set out the scope of their responsibilities and work in respect of confirming compliance with the Combined Code. |
| Individual institutions within the Trust | The Headteacher/Principal at each member institution is responsible for taking the lead for their institution in following the Trust’s risk management policy and process.  The Headteacher/Principal should nominate a risk management champion who is responsible for performing the risk management champion role for the institution (performing the same duties as the Trust Risk Management Champion).  Each institution should identify their risks. These should be included within the Headteacher’s and Principal’s reports to the Board meetings, where appropriate. |  |

# The Risk Management Process

