PDET

Risk Management Policy

Date	Revision & Amendment Details	By Whom
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1. Context and purpose

Peterborough Diocese Education Trust (the Trust) is a multi-academy Trust with responsibility for a large number of academies.

Academies are first and foremost charities:

> *"Charity trustees should regularly review and assess the risks faced by their charity in all areas of its work and plan for the management of those risks. Risk is an everyday part of charitable activity and manging it effectively is essential if the trustees are to achieve their key objective and safeguard their charity's funds and assets." Charity Commission Guidance (CC26)*

Academies also discharge public functions:

> *"Public sector organisations cannot be risk averse and be successful. Risk is inherent in everything we do to deliver high-quality services." (HMGov The Orange Book)*

The purpose of this Policy is to ensure that the Trust develops and maintains a robust approach to:

- risk in relation to all decision making pursuant to our vision; and
- risk management in terms of processes and procedures.

The Trust's approach to Risk Management incorporates the principles and processes set out in this Policy, which will be reviewed annually by the Trust's Audit and Risk Committee (A&R Committee) and recommended to the Board for adoption.

1.1 Overview

Definition of Risk management

"Risk management involves the identification, measurement, management, monitoring and reporting of threats to an organisation's business objectives." (ESFA).

Reasons for Risk Management

Managing risk effectively helps ensure:

- Trustees/Directors can make informed decisions about the charity's/organisation's activities
- The charity/organisation can make the most of opportunities
- Forward and strategic planning are improved
- The charity's/organisation's aims are achieved more successfully

Key Principles of Risk Management

(Orange Book key principles)

A. 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.

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

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

Risk appetite

Risk appetite is the level of risk that an organisation is willing to accept while pursuing its objectives, which may include but is not limited to financial loss. It is basically a framework for making decisions about risks.

Risk appetite is related to the longer-term strategy of what needs to be achieved and the resources available to achieve it.

It is recognised that in reality:

- It is neither feasible nor practicable to fully prevent or mitigate all risks and some may almost always need to be tolerated, sometimes beyond stated risk appetite
- It is often not possible, and not financially affordable, to fully remove uncertainty from a decision
- Decisions should be made using the best available information and expertise re risk but not expecting to eliminate all risk

The benefits of adopting a conscious and well-informed risk appetite:

- Limited resources can be prioritised and allocated where most needed
- Strategic objectives are pursued, whilst maintaining optimal (but not perfect) performance and value for money

1.2 Process

Risk appetite - process

Setting the risk appetite

- The Board will set the risk appetite for the Trust, following recommendation from the A&R Committee, on an annual basis. The appetite can and will change over time.
- Factors to be taken into account when setting the risk appetite:
  - Operational context including ESFA expectations
  - The extent of ambition in the Trust's culture = aggregate ambition of executive and director
  - Financial resources strength and capabilities of the Trust

Rating the risk appetite

The risk appetite will be rated by category on a five-point scale (*from Orange Book guidance on risk appetite*):

Risk Appetite	Description
Opposed	Avoidance of risk and uncertainty is key objective
Minimalist	Preference for safe options that have a low degree of inherent risk
Cautious	Preference for safe options that have a low degree of residual risk
Mindful	Willing to consider all options and choose one that is likely to result in successful delivery
Enterprise	Eager to be innovative and to choose options that suspend previous held assumptions and accept greater uncertainty

Categories of risk

Categories of risk will be:

- Financial;
- Operational e.g. HR, H&S, IT;
- Educational;
- Governance;
- Growth

Ethos, culture and sustainability are considered within each category of risk. In our Trust, sustainability refers to the pursuit of our vision whilst positively impacting on:

- the environment - good stewardship in terms of church schools and beyond
- the community or wider society as a whole – the flourishing of all.

2. Risk management – process

This has been broken down into 4 stages:

1. Risk Assessment
2. Risk Evaluation
3. Application of Risk Assurance Controls
4. Documenting, Monitoring and Review

Stage 1 – Risk Assessment

- **Risk identification:**
  - Need to 'consider the whole risk universe not just financial risks: start from the top down not the bottom up or risk management will not connect with Trust strategy.
  - Risks to be identified by the Executive, taking into account trust-wide issues, and then the operational implications and control measures derived from them.

- **Risk analysis and initial scoring:**

  The following will be undertaken:

  - An estimate will be made of:
    - the likelihood (or probability) of the identified risk occurring, and
    - the impact (or severity) if it did occur
  - A score for the inherent risk will be assigned by applying the formula below

Impact	Score	Likelihood
Extreme / catastrophic	5	Very high
Major	4	High
Moderate	3	Medium
Minor	2	Low
Insignificant	1	Very low
Score = (Impact x Likelihood) + (Impact)		

- A “Heat Map” will be populated to show an overview of inherent risks

Risk Analysis Heat Map

Extreme / Catastrophic 5	10	15	20	25	30
Major 4	8	12	16	20	24
Moderate 3	6	9	12	15	18
Minor 2	4	6	8	10	12
Insignificant 1	2	3	4	5	6
	1 Remote	2 Unlikely	3 Possible	4 Probable	5 Highly Probable

XY+Y (X=likelihood; Y=impact)

Stage 2 – Risk Evaluation

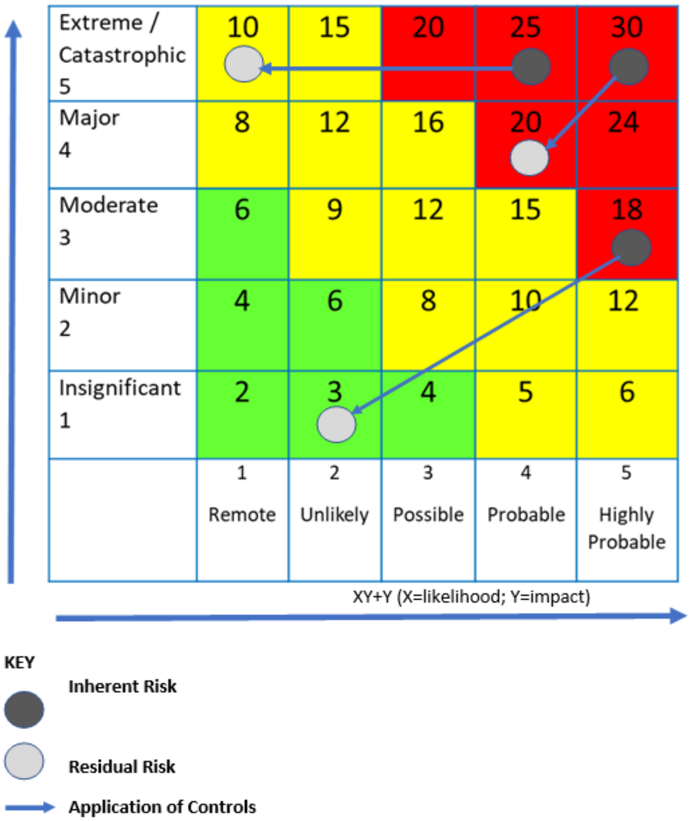
Risk evaluation will be undertaken by comparing the results of the risk analysis with the Trust’s risk appetite to determine where and what additional action is required. Therefore, for each risk a decision about action (or inaction) will be made considering risk appetite (*the amount of risk the Trust is willing to accept in the pursuit of its objectives taking into account an update on the resources (financial human and so on) which the Trust is able to put in place to manage the particular risk*).

Deployment of risk treatment / control measures:

The Trust has adopted the 4T’s approach:

- *Tolerate* – retain the risk as an informed decision (including any contingency planning if it materialises)
- *Treat* – take proportionate action to reduce risk (if necessary and possible)
- *Transfer* – sharing the risk through insurance / outsourcing (contract with third party)
- *Terminate* – cease the activity

Following the application of risk treatment / control measures a residual score will be assigned.



The outcome of risk evaluation will be:

- Recorded (including residual score)
- Communicated and validated at appropriate levels of the Trust; and
- Regularly reviewed and revised based on the dynamic nature and level of the risk faced.

Stage 3 - Application of Risk Assurance Controls

What is meant by Risk Assurance?

In this context, assurance:

Provides: 'Confidence based on Evidence'

To: Members / Directors / CEO / Headteachers / Management (individually and collectively)

That: what needs to be done (strategically and operationally) is being done in a way which:

- Ensures that Directors and Executive meet their duties
- Preserves the strength and reputation of the Trust and its academies

There are 3 lines of defence, as follows:

- First line of defence is part of the Executive who owns and manages risk. Each risk will have a lead individual assigned
- Second line of defence is overall risk management and compliance by the Executive; there is also a named leader of risk;
- Third line of defence is internal audit which provides the Board and senior management with comprehensive assurance based on the highest level of independence and objectivity. (*RSM currently undertake internal audit for the Trust*.)

Stage 4 - Documenting, Monitoring and Review

Documenting

Risk register – this covers the key areas of the Board Assurance Framework. The risk register will follow the above cycle of risk management and will document the following:

- Risk category: the main categories referred to in 'Categories of Risk' (above) with appropriate sub-categories
- Risk: a clear, concise description of what is considered to be the risk that the Trust could be exposed to
- Cause: cause of the potential risk
- Effect: the effect to the Trust if the risk materialised
- Inherent Risk Score: estimate of likelihood of identified risk occurring and impact if it did occur (see 'Risk analysis and initial scoring' above)
- Risk Control / Treatment: controls that can be put in place to manage the causes identified) (see above 4 Ts in 'Deployment of risk treatment/control measures')
- Residual Risk Score: re-assessment of likelihood and impact assuming that the identified Risk Control/Treatment measures are in place (see above 'Risk evaluation')
- Assurance: evidence /confidence that the controls identified are working (see 3 lines of control assurance in 'Application of Risk Assurance Controls')

For example see risk register - *Appendix 2*

Monitoring and review

- A lead person on the Executive has responsibility for risk
- A process is in place (*see Risk Management Process Details – Appendix 1*) with requirements for:
  - Frequency of risk review
  - Monitoring effectiveness of actions and controls
- There is an annual review of approach by the A&R Committee and a re-setting of key risk priorities, including scheme of work with internal auditors (currently RSM)
- Communications and reporting:
  - Within the Executive:
    - Reporting to Risk Lead
  - Board of Directors:
    - The Board determines the form of reporting
    - Keeps risk appetite under review (as part of this risk management policy)
  - Regulatory reports:
    - A compulsory annual report on internal audit, which has to be copied to the

ESFA, is produced.

3. Risk Assurance

Trust's Risk Assurance System – Key Ingredients

The key ingredients are:
- Executive
- Internal Audit
- External Audit
- Governance

3.1 Executive

Key defence against risk
The Executive are the key defence against risk, providing the first two lines of defence and instrumental in the third line (*for more information on lines of defence – see above*).
Within the Executive there is a leader in risk (Risk Lead), who has sufficient power and independence.

Manage individual risks
The Executive manage individual risks by treating each risk.

NB – ownership of a risk by an executive must not be confused with assurance for Directors about the control of that risk.

The Executive provide an effective overall risk system:
- Central management of risk: appointing and supporting the Risk Lead - an individual to take leadership regarding risk overall
- Managing Trust-wide risks with strategic impact
- Managing risk at academy level, with effective central reporting of academy-specific risks with strategic consequences

3.2 Internal Audit
The purpose of internal audit is to:
- Give assurance
- Help the Trust improve governance, risk and control arrangements
- Provide comfort that the leadership is doing the right things in the right way
- Inform the Accounting Officer in their role
- Assist external audit and possibly reduce its costs

The Executive remains responsible for risk management and internal audit must not manage any of the risks on behalf of the Executive. **Internal audit provides advice, challenge and support to the Executive's decision making, as opposed to taking risk management decisions themselves.**

RSM are currently the Trust's internal auditors and for details of remit – see A&R Committee's Terms of Reference.

3.3 External Audit

- The Trust's current external auditors are Moore.
- The auditors work with the Executive during the year – the Executive raise particular issues for a view.
- The Chair of A&R Committee meets with Auditors prior to the start of the audit to discuss current status of the Trust and management of risks.

NB – it is crucial to maintain a distinction between:

Risk management: by Executive = operational

Risk governance: by the Directors = obtaining sufficient information and assurance to maintain effective strategy

3.4 Governance

Under the Trust's Master Funding Agreement, the Trust is responsible for operating each academy, but the Directors have delegated some functions to its Committees e.g. A&R Committee and Academy Governance Committees (AGCs), who are also committees of the Board.

3.4.1 The Board:

- Has ultimate responsibility for all risks: ATH 2.38 "***Overall responsibility for risk management, including ultimate oversight of the risk register, must be retained by the board of trustees, drawing on advice provided to it by the audit and risk committee***."
- The approach to supervision of risk in a multi academy trust depends in practice on the mix of central and local coverage of the governance detail in the trust. For details as to what responsibilities are central and what are local in the Trust - *see the Trust's Board Remit and Scheme of Delegation*.
- A&R Committee is empowered to govern the detail of all risk in the Trust (including those elements covered by AGCs).

Governance of risk in main Board meetings:

Regular scheduled tasks re risk system comprising of review of:

- A&R Committee Terms of Reference and composition – *annual*
- Risk management policy and procedure – *annual*
- Risk appetite – *ongoing*
- A&R Committee annual report – *annual*

Additionally, there is the risk register and review of key risks:

- Detailed review, especially selection of key risks – *annual*
- Report on Risk exceptions to the Board by the CEO - *at each Board meeting by way of the updated Risk Register*

This allows regular alignment of Trust strategy to actual operational environment.

3.4.2 Academy Governance Committees (AGCs):

The Trust's *Board Remit and Scheme of Delegation* sets out the areas of governance (and hence risk) which AGCs are tasked with.

Academies have academy level risk registers which are reviewed by the Executive and the AGCs (within the extent of their stated role under the Trust's *Board Remit and Scheme of Delegation*) against the Trust's strategy. Any risk specific to an academy which is sufficiently strategic, is reported to the Executive to be elevated to the Trust Risk Register, as appropriate. The Executive escalate to A&R Committee.

3.4.3 Trust wide committees:

Have a role in governance of risk for the areas falling within their remit (as to remit – see Terms of Reference for particular committee). These committees report by way of exception to A&R Committee.

3.4.4 Audit and Risk Committee:

- Annually review the approach (financial and non-financial risks and controls) (Academies Trust Handbook requirement);
- Set and re-set risk priorities;
- Propose risk appetite;
- Set the scheme of work for internal scrutiny by the internal auditors (currently RSM);
- Have access to the external auditors (currently Moore).

Appendix 1 - Risk Management Process Detail

- **Board:**
  - Sets the risk appetite (*see above*)

- **Executive:**
  - Undertake stages 1-4 of Risk Management process (*see above*) on an annual basis
  - Identify lead person for risk (Risk Lead)
  - Allocate a lead individual for each risk (e.g. Director of Finance for all finance risks)
  - Include risks on individual action plans. (The Strategic Plan sets out the Trust's strategic objectives and, from this, the Trust-wide Improvement Plan is developed. The Executive have different areas of responsibility within this plan.
  - Monitor and Review:
    - Risk generally and in relation to any matters on the agenda of Executive meetings. Consideration is given as to whether adjustment is needed to the Trust Risk Register, or whether new risks need to be added.
    - By way of approval of all academy risk registers once set up and then on an annual basis. During this exercise, the Executive identify academy specific risks with strategic consequences and whether adjustment to/inclusion on the Trust Risk Register is required
    - By receiving reports of exceptions from academies.
  - Report:
    - On risk within their individual area of responsibility to appropriate Board Committees
    - Risk exceptions (including academy specific risks with strategic consequences) received from academies which pertain to the Trust Risk Register, to A&R Committee
    - Risk exceptions to the Board by the CEO at each Board meeting by way of the updated Risk Register

- **Ethos, Standards and Effectiveness Committee, Business and Finance Committee and Trust Governance Committee:**
  - Monitor risk within their remit by way of reporting from the Executive
  - Report by way of exception to A&R Committee

- **A&R Committee:**
  - Approve Trust Risk Register and recommend it to the Board for approval
  - Monitor Trust Risk Register and risk generally across the Trust by way of reporting from the Executive and other Board Committees
  - Report to Board at each Board meeting on risk.

- **Academies:**
  - Undertake stages 1, 2 and 4 of Risk Management Process (see above) on an annual basis – Headteacher/Senior Leadership supported by Chair of Governors
  - Risk register, once complete, is sent by the Headteacher to the Executive (Risk Lead) for approval

- Monitor and review:
  - **AGC** – monitor areas delegated to them (*see Board Remit and Scheme of Delegation)* at each AGC meeting (6 x per year)
  - **Director of Learning and Achievement** (through AIOs) monitors educational risks (prior to each Ethos, Standards and Effectiveness Committee meeting)
  - **Director of Finance** (through Headteachers) monitors financial risks (prior to each Business and Finance Committee meeting)
  - **Director of Governance** (through AGCs) monitors governance risks (prior to each Trust Governance Committee meeting)
- Report:
  - Headteachers inform the Risk Lead of any matters to be reported by way of exception to the Executive. This is where a risk residual score has changed.

Appendix 2 - Risk Register

			Risk Control		Assurance			Movement from previous risk score	Notes
Risk Category and Title	**Cause and Effect**	**Inherent Risk Score**	**Treatment (4 Ts)**	**Residual Risk Score**	**1st Line**	**2nd Line**	**3rd Line**		
	Cause: **Effect:**							↓	