Risk and Audit Policy

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Contents

1. AIMS

The Risk Management Strategy and Policy aims to ensure that the Trust complies with risk management best practice and sets out the current processes and responsibilities for risk management in the Trust. This strategy and policy was developed using guidance from Academy trust risk management - GOV.UK (www.gov.uk)

2. GENERAL PRINCIPLES

Risk is inherent in everything Trusts do to deliver high quality services. Risk management is an essential part of governance and leadership and part of business planning and decision-making processes. The Trust is focussed on building a culture which provides effective risk management which is PACED (Chartered Institute of Internal Auditors)

- Proportionate to the organisation size and nature of the risks
- Aligned to the objective for the Trust and the needs of the stakeholders
- Comprehensive
- Embedded in the ongoing processes for strategic and operational decision making
- Dynamic – able to change as the organisation and environment changes

This requires engagement by all staff and governors, a learning culture, team work so that there is clear accountability and understanding of risk and mitigation, and communication at all levels

Risk management is considered in terms of the ICAEW four lines of defence concept The four lines of defence | Assurance practical guidance | ICAEW

1. Management and staff who own and manage the risk on a day-to-day basis
2. The Trust board who oversee the effectiveness of the risk management framework
3. The internal scrutiny provided by the auditors who provide independent assurance on the overall effectiveness of risk management and controls
4. Assurance from external independent bodies such as the Trust external auditors

The Academies Handbook requires Trusts to:

- Manage risks to ensure their effective operation and maintain a risk register
- Management of risks must include contingency and business continuity planning

Risk management involves the identification, measurement, management, monitoring and reporting of threats to an academy trusts business objectives. Such threats can arise from a wide variety of sources such as litigation relating to safeguarding failures, financial uncertainty from a falling roll, security risk from inappropriate access to data, property risk from fire or flood, accidents resulting in injury, natural disasters, and of course a global pandemic. School leaders identify risks and implement appropriate mitigating control measures as part of normal business, for example managing the risks associated with school trips.

Risk management is not about adding new processes, but ensuring processes are integrated in the management and operation of businesses. Effectively managing risk informs business decisions, enables a more effective use of precious resources, enhances strategic and business planning and strengthens contingency planning.

Ultimate overall responsibility for risk management, including the oversight of the risk register, lies with the Trust Board who have an audit and risk committee (in accordance with the handbook (part 3) to:

- direct the trust's programme of internal scrutiny
- ensure that risks are being addressed appropriately through internal scrutiny
- report to the board on the adequacy of the trust's internal control framework, including financial and non-financial controls and management of risks

3. ROLES AND RESPONSIBILITIES

Trust Board – Audit and Risk Committee

- Oversee that all categories of risk are identified and must extend to ensuring the risks at constituent schools are being assessed and addressed appropriately
- Consider and focus on highest priority risks which have the greatest impact on the trust
- Hold responsibility for the system of internal control
- Review the risk register, as a whole, 3 times a year (once per seasonal term)
- Monitor the impact of the mitigation factors in place and receive updates where changes have been implemented
- Ensure that all categories of risks identified are appropriately identified and mitigated for in each school
- Consider any differences in risk across the schools in the Trust
- Receive reports around the implementation of the continuity and contingency plan when 'recovery' exercises are conducted
- Review the contingency and continuity plan
- Include the risk register review as part of the Committee report to the Trust Board, including considering school level operational risks
- To provide assurance to the Trust Board that risks are being adequately controlled, or identify areas for improvement
- To ensure action is taken appropriately in relation to accepting, mitigating, avoiding and transferring risks
- Review actions taken when an unforeseen risk occurs to ensure it was appropriately identified, measured and actioned
- Ensure the Trust is compliant with best practice and updated guidance on risk management
  - Direct the programme of internal scrutiny along with the CEO

Strategic Team (Head Teachers and CEO)

- Head Teacher hold responsibility for day to day risk management in each school, with the Trust CEO holding day to day risk management for Trust risk management
- Ensure appropriate mitigation factors are in place and continue to minimise risk; make adjustments and share changes as necessary
- Conduct 'recovery' exercises to ensure contingency and continuity is fit for purpose (from the Trust Contingency and Continuity plan)

Trust Executive team (CEO and TBM)

- Consider all potential risks which would have an impact on the Trust, including operational risks, on an ongoing basis, responding to local and national changes as needed
- Continue to develop Trust contingency plan, working in collaboration with the Strategic team
- Conduct 'recovery' exercises to ensure contingency and continuity is fit for purpose
- Monitor the effectiveness and performance of risk management and mitigation processes
- Ensure appropriate mitigation factors are in place and continue to minimise risk; make adjustments and share changes as necessary
- Provide an up to date risk register and continuity and contingency plan to the Audit and Risk Committee
- Act on any internal control aspects which are identified from internal or external audit and share these with the
- Work closely with staff and other stakeholders to discuss and share risks and mitigation to ensure that everyone is aware of what factors must be in place
- Provide training and guidance for staff in risk assessment and ensure risk assessments are in place across the Trust. Ensure these are held centrally for staff to access and update
- Share the risk register with the Strategic team so that operational risks can be shared and considered

4. POLICY FRAMEWORK OVERVIEW

Risk Management policy

This policy sets out the Trust approach to risk management, including the framework adopted for risk management, the risk appetite, the processes for identifying, categorising, measuring risks and its strategy for treating risks. The policy also includes roles and responsibilities, monitoring, reporting and review procedures, and training arrangements to ensure effective risk management is embedded throughout the trust.

The Trust takes a balanced view to managing opportunity and risk to make the process meaningful.

5. PROCEDURAL STAGES

Risk identification

At the risk identification stage, all potential events that are a threat to the business objectives (including not capitalising on opportunities) are identified, defined and categorised. This is undertaken as a joint effort with Trustees and school staff who own and manage the risk day-to-day. Events that may appear to be negative but which do not have an impact on business objectives may not be risks at all. These are included on the risk register to set out the mitigation which is in place to ensure they do not have an impact on business objectives. School leaders should contribute through identifying operational risks.

The Trust considers types of risk and how they can be categorised.

- **Internal risks** - these are risks over which the academy trust has some control, by managing them through internal controls/ additional mitigating actions. Examples of such risks include health and safety risks, data security.
- **External risks** - this focuses on big external events/perils and then considers how to make the academy trust more resilient to such events. Examples of such risks include a pandemic and extreme weather.
- **Strategic risks –** these are risks to the achievement of the academy trust's core objectives. For example, the risk of high staff turnover.
- **Project risks –** risks associated with any critical projects the academy trust may be involved in. For example slippage on the delivery timescale for a new building

Each risk on the risk register is categorised accordingly giving consideration to the impact on the organisation.

Consideration is given to the:
- Nature and extent of the risks facing the organisation
- Extent and categories of risk which it regards as acceptable
- Likelihood of the risks concerned materialising
- Trust's ability to reduce the incidence and impact of the risks that do materialise

Measuring risks

Once the risks have been identified, they are measured to give them a standard for comparing risks consistently. Measurement consists of assessment, evaluation, and ranking.

The aim of assessment is to understand better each specific instance of risk, and how it could affect business objectives. The Trust estimates:

- the likelihood (or probability) of it occurring, and
- the impact (or severity) if it did occur

The Trust uses the following grid to calculate risk:

		Severity				
		Very low	**Low**	**Medium**	**High**	**Very High**
Likelihood	**Unlikely**					
	Possible					
	Probable					
	Likely					
	Highly likely					

Likelihood of risk

Unlikely	• Not likely to occur within a 4-year period • Less than 5% of occurrence • Has not occurred • Is unlikely to occur
Possible	• Less than 25% chance of occurring within the next 12 months • Could occur more than once in a 4 year period
Probable	• Likely to occur each year with a more than 25% chance of occurrence in the next 12 months • Potential of it occurring several times in a 4-year period • Some history of occurrence
Likely	• Likely to occur each year with a more than 25% chance of occurrence in the next 6 months • Potential it will occur several times within next 2 years • Has occurred recently
Highly Likely	• More than 50% chance of occurring in the next 6 months • Has occurred previously and likely to recur • Very likely to occur for the first time

Impact of risk

Very low	• The financial impact will be low (below £1,000)

	• No real impact on the operation, management or safety of the pupils, schools or Trust
Low	• Any financial impact will be low (between £1,000 and £2,500) • Any impact can be easily managed
Medium	• The financial impact could be moderate (between £2,500 and £5,000) • Has no more than a moderate impact on strategy or on teaching and learning • Causes moderate stakeholder concern • Can cause moderate reputational damage to the school
High	• The financial impact could be considerable (between £5,000 and £25,000) • Has considerable impact on the school's strategy or on teaching and learning • Creates significant stakeholder concern • Can cause significant reputational damage to the school or Trust
Very High	• The financial impact could be significant (in excess of £25,000) • Has a significant impact on the school's strategy or on teaching and learning • Creates very significant stakeholder concern • Can cause irreversible reputational damage to the school or Trust

Risks which are very low likelihood and very high impact will be ranked in the same position as those with very high likelihood and very low impact. However, the former could be catastrophic for the Trust if realised, so they should be prioritised appropriately.

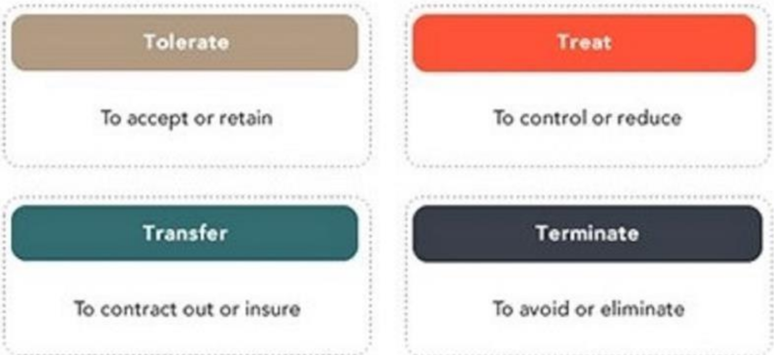
Management

Once risks have been assessed, evaluated and ranked, the Trust will need to ensure there are appropriate plans to manage them. These plans include preventative controls, mitigation processes and contingency plans in the event that risks materialise. The approach taken will depend substantially on the trust's risk appetite and risk capacity and from discussion by the Finance, Audit & Risk Committee with consideration of:

- Risk appetite – the amount of risk the academy trust is willing to accept in the pursuit of its objectives – each risk identified is considered individually
- Risk capacity – the resources (financial, human, and so on) which the Trust is able to put in place in managing risk

The 4 T's are used to categorise the risk strategy:

- **Tolerating** risk is where no action is taken. This may be because the cost of instituting controls is not cost-effective or the risk or impact is so low that they are considered acceptable. For instance, the Trust may decide to tolerate the risk of contracting with a supplier with a poor credit rating provided the goods/services could be obtained relatively easily from someone else
- **Treating** risk involves controlling it with actions to minimise the likelihood of occurrence or impact. There may also be contingency measures to reduce impact if it does occur. For instance, the Trust may decide to train more than the statutory minimum of staff as paediatric first aiders and to put in place a rota for first aid cover during lunchtimes
- **Transferring** risk may involve the use of insurance or payment to third parties willing to take on the risk themselves (for instance, through outsourcing). The trust may decide to take out insurance to mitigate the risk of the excessive costs of supply staff in the event of extended staff absences
- **Terminating** risk can be done by altering an inherently risky process to remove the risk. If this can be done without materially affecting operations, then removal should be considered, rather than attempting to treat, tolerate or transfer. Alternatively, if a risk is ranked highly and the other potential control measures are too expensive or otherwise impractical, the rational decision may well be that this is a process the academy trust should not be performing at all. For instance, the Trust may decide to end an established after school club if it is impractical to get suitably qualified staff to cover it



It is considered by some risk experts that the fifth 'T' exists – **Take advantage**. This recognises that the uncertainty attached to risk sometimes offers opportunities as well as threats. For example, working to support another school may run the risk of taking up staff time but could lead to wider discussions around the school wishing to join the Trust.

The contingency planning actions set out what action will be taken to address the risk if it does materialise and what factors are in place to mitigate the risk.

Monitoring

Monitoring will be ongoing and continuous as this supports the Trust understanding of whether and how the risk profile is changing. Monitoring also provides assurance on the extent to which mitigating actions and controls are operating as intended and whether risks are being managed to an acceptable level.

The risk register is central to the risk monitoring undertaken by the Audit and Risk Committee. Risks are logged on the register as they are identified and associated control measures documented. A blank template for the risks, incorporating all aspects of the suggested elements, is part of the Risk Register.

The Audit and Risk Committee consider the common pitfalls as set out in [Academy trust risk management - GOV.UK (www.gov.uk)]

- *Reporting too many risks* – the Audit and Risk Committee keep under review those that have changed, high risks despite mitigation and new risks. All remaining risks are reviewed at least annually
- *Ignoring known risks* – all risks are considered and the FA&RC can add/edit risks to ensure that all views are considered
- *Overreliance on subjective judgement* – all risks are discussed to ensure a collaborative judgement is reached
- *No real buy in at a senior level* – the risk register is updated by the Trust Executive team (CEO, Trust Strategic Lead and Trust Business Manager) to ensure that mitigation factors can be put into place
- *Risks not linked to strategic objectives or only captured bottom up* - risks from enacting the Trust Plan and School Plans are considered and then linked to existing risks on the register, as well as allowing new risks to be added
- Over complexity – the methodology and terminology is agreed by the Audit and Risk Committee and shared within this strategy and risk register so that time to discuss the risks is efficiently used
- *Not using the output* – risk management is linked to internal risk reviews and is focussed on areas of risk to ensure that good practice is in place and the risks are appropriately considered and acted on

Reporting and scrutiny

The Trust Board and the Audit and Risk Committee set out how and when it wants to receive information about risks. Information should be clear and provide key information on the significant business risks. The information should support the Trust Board and the Audit and Risk Committee to assess whether decisions are being made within their risk appetite, to review the adequacy and effectiveness of internal controls, to reprioritise resources and improve controls and to identify emerging risks.

For this process to be effective it is important that the number of risks reported is appropriate to the trust's own circumstances and is a manageable number. If too many risks are reported the process may become more difficult to manage and may lose focus. For this reason, the full risk register is submitted and only high risks, those with significant change in impact or probability, new risks and those risks which have been changed will be reviewed 3 times a year. The whole register is reviewed once a year. Should any new or increased risk be identified, this will be shared at an interim FAC meeting to keep the Trustees informed of the changing risk climate.

- The date that the risk register is reviewed will be recorded in the Audit and Risk Committee minutes, along with any changes which should be made to the risk register

- Where changes are made to the risk register, these will be edited along with an edit date
- Where a risk changes, the direction of travel will be recorded, along with current risk level and commentary
- The risk owner is the person who is responsible for deciding whether the risk trigger needs to be activated, manages the control measures and contingency plans and communicates with the stakeholders as needed
- Where a risk can be retired (as the risk climate changes), the date and rationale are recorded (as seen on the main template in appendix 1 of the risk register).

The Trustee report which accompanies the audited financial statements should explain the principle risks and uncertainties and the plans for managing those risks.

Risk management is as much about ensuring that the control environment remains effective to manage the risks that are already known, such as through testing of the controls. Risks will materialise if controls only exist on paper. Trustees must stress test the controls and mitigating actions to ensure that they have been implemented and are effective. For example, trustees, or the internal scrutiny function, could ask their IT provider to produce their MIS backup data within contract time and quality requirements

Programme of internal scrutiny

The Audit and Risk Committee is responsible for directing the Trust's programme of internal scrutiny. The internal scrutiny function must focus on evaluating the suitability of, and level of compliance with, financial and non-financial controls, offering advice and insight to the board on how to address weaknesses in financial and non-financial controls and ensuring all categories of risk are being adequately identified, reported, and managed. The risk register also facilitates a rational risk-based approach for the internal scrutiny function's work programme and the risk register must be used as a reference point, as required by the AFH (part 3).

The risk register will be used to inform the programme of internal scrutiny reviews.