

**Purpose of this document**

1. This risk management policy forms part of the University's internal control and corporate governance arrangements.
2. The policy explains the University's underlying approach to risk management, documents the roles and responsibilities of Council, the Executive Group, Audit Committee and other key parties. It also outlines key aspects of the risk management process, and identifies the main reporting procedures.
3. In addition, it describes the process that Council will use to evaluate the effectiveness of the University's internal control procedures.

**Background to Risk Management**

4. Risk management is widely recognised in the private sector, and increasingly in the public sector, as a best practice element of corporate governance. An effective risk management programme should integrate existing management processes and provide assurance over the management of key risks. While no programme will aim to eliminate risk it is envisaged that any such programme will assist in the controlled taking of necessary risks and will increase institutional risk awareness.
5. Not only is Risk Management recognised as good practice, the need to have a risk management programme in place is now a funding council (HEFCE) requirement, as articulated in their Accounts Direction for 2001/2002.
6. The funding council requires of Kent (in common with other HEIs) that:  
  
*there is an ongoing process for identifying, evaluating and managing the risks faced by the institution, that this process is regularly reviewed, and that it follows the key principles of effective risk management.*
7. Essential principles of effective risk management, as enunciated by HEFCE include:
  - coverage of all risks (including governance, management, quality, reputational and financial, although focusing on the most important risks)
  - maintenance of a balanced portfolio of risk exposure
  - clearly articulated policy and approach
  - regular monitoring and review, giving rise to action where appropriate
  - integration into normal business processes and aligned to the strategic objectives of the organisation

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- demonstrable commitment of governors, academics and senior officers.

## **Underlying approach to risk management**

8. The following key principles outline the University's approach to risk management and internal control:

- Council has responsibility for overseeing risk management within the University as a whole
- an open and receptive approach to solving risk problems is adopted by Council
- the Vice-Chancellor and Executive Group supports, advises and implements policies approved by Council
- the University makes conservative and prudent recognition and disclosure of the financial and non-financial implications of risks
- Deans, Heads of Academic Departments and Heads of Administrative Sections are responsible for encouraging good risk management practice within their area of control
- key risk indicators will be identified and closely monitored on a regular basis.

## **Role of Council**

9. Council has a fundamental role to play in the management of risk. Its role is to:

- Set the tone and influence the culture of risk management within the University. This includes:
  - ⇒ determining whether the University is 'risk taking' or 'risk averse' as a whole or on any relevant individual issue
  - ⇒ determining what types of risk are acceptable and which are not
  - ⇒ setting the standards and expectations of staff with respect to conduct and probity.
- Determine the appropriate risk appetite or level of exposure for the University.
- Approve major decisions affecting the University's risk profile or exposure.
- 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.
- Annually review the University's approach to risk management and approve changes or improvements to key elements of its processes and procedures.

## **Role of the Executive Group**

10. Key roles of the Executive Group are to:

- Implement policies on risk management and internal control.
- Identify and evaluate the significant risks faced by the University for consideration by Council.
- Provide adequate information in a timely manner to Council 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 Council via Internal Audit.

## **Role of Audit Committee**

11. Audit Committee's key role is to provide an independent opinion on the adequacy of Risk Management by:

- Commenting on proposals for implementation of risk management and expressing an opinion on their overall adequacy
- Receiving reports from the Head of Internal Audit Services concerning the effectiveness of controls in each area of Major risk
- To comment annually on the effectiveness of risk management activity in the University on the basis of audit reports received and the annual report from Executive Group.

## **Risk management as part of the system of internal control**

12. 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 University to respond to a variety of operational, financial, and commercial risks. These elements include:

### **a. *Policies and procedures.***

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

### **b. *Termly and regular reporting.***

Comprehensive termly reporting is designed to monitor significant risks and their controls. Decisions to rectify problems are made at regular meetings of the Executive Group and Council whenever appropriate.

**c. *Business 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.

**d. *High level risk framework (significant risks only).***

This framework is compiled by the Executive Group and helps to facilitate the identification, assessment and ongoing monitoring of risks significant to the University. The document is formally appraised annually but emerging risks are added as required, and improvement actions and risk indicators are monitored regularly.

**e. *Audit Committee.***

The Audit Committee is required to report to Council on internal controls and alert Members to any emerging issues. In addition, the committee oversees internal audit, external audit and management as required in its review of internal controls. The committee is therefore well-placed to provide advice to Council on the effectiveness of the internal control system, including the University's system for the management of risk.

**f. *Internal audit programme.***

Internal audit is an important element of the internal control process. As part of its normal programme of work, internal audit is responsible for aspects of the annual review of the effectiveness of the internal control system within the organisation. Internal Audit will also perform additional reviews focused toward review of the controls in place to manage the significant risks identified in the High Level Risk Framework. The results of these reviews will be reported termly to the Executive Group and Audit Committee, to assist them in forming opinions on the adequacy of management of key risks.

**g. *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.

**h. *Third party reports.***

From time to time, the use of external consultants will 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 control system.

## **Annual review of effectiveness**

13. Council is responsible for evaluating the effectiveness of internal control of the University, based on information provided by the senior management team. Its approach is outlined below.

14. For each significant risk identified, Council will:

- review the previous year and examine the University's track record on risk management and internal control
- consider the internal and external risk profile of the coming year and consider if current internal control arrangements are likely to be effective.

15. In making its decision the Council will consider the following aspects.

**a. Control environment:**

- the University's objectives and its financial and non-financial targets
- organisational structure and adequacy of the University's management oversight
- culture, approach, and resources with respect to the management of risk
- delegation of authority
- public reporting.

**b. On-going identification and evaluation of significant risks:**

- timely identification and assessment of significant risks
- prioritisation of risks and the allocation of resources to address areas of high exposure.

**c. Information and communication:**

- quality and timeliness of information on significant risks
- time it takes for control breakdowns to be recognised or new risks to be identified.

**d. Monitoring and corrective action:**

- ability of the University to learn from its problems
- commitment and speed with which corrective actions are implemented.

16. The Executive Group will prepare a report of its review of the effectiveness of the internal control system annually for consideration by Audit Committee, prior to reporting to Council.