

# Risk Management

April 2007



## Agri-Food and Biosciences Institute

### RISK MANAGEMENT

Attached are:

Key Reporting Aspects

Risk Management Strategy

## KEY REPORTING ASPECTS

### Divisions

Formally review and report on Risk Register and Management Plans to SMT on a quarterly basis, or as risks emerge. Relates to risks of a medium or high rating.

Risk Registers and Management Plans to be embedded at Branch or other appropriate business level for reporting to DCEOs. Should cover all risks, including those of a low rating.

Branch and Divisional pro-formae should be signed to provide an assurance to the next line of management.

### SMT

Decide on the appropriate risks to be included in the Corporate Risk Register (CRR).

Report on the CRR to the quarterly meetings of the Audit Committee.

Report to the AFBI Board formally on a 6 monthly basis or on an exception basis for new risks or significant changes to existing risks.

### Audit Committee

Report to the AFBI Board after each of its quarterly meetings, and to the Chief Executive and Board as part of its annual reporting.

### AFBI Board

Board has ultimate responsibility for ensuring an effective risk manager process is in place and is regularly reviewed.

### Internal Auditors

Provide independent assurance to the Audit Committee that the process is operating effectively. Review specific systems as part of planned internal audit review.

### External Auditors

Provide feedback to the Head of BSU and the Audit Committee on the operation of internal controls reviewed as part of the annual audit.

## RISK MANAGEMENT STRATEGY

### 1. PURPOSE OF THIS DOCUMENT

- 1.1 This risk management strategy forms part of AFBI's internal control and corporate governance arrangements.
- 1.2 The strategy explains AFBI's underlying approach to risk management, documents the roles and responsibilities of the Board, the Audit Committee, the Senior Management Team, and other key parties. It also outlines key aspects of the risk management process, and identifies the main reporting procedures.
- 1.3 In addition, it describes the process the Board will use to evaluate the effectiveness of the AFBI's internal control procedures.

### 2. UNDERLYING APPROACH TO RISK MANAGEMENT

- 2.1 The following key principles outline AFBI's approach to risk management and internal control:
  - the Board has responsibility for overseeing risk management within AFBI as a whole
  - an open and receptive approach to solving risk problems is adopted by the Board
  - the Senior Management Team supports, advises and implements policies approved by the Board
  - AFBI makes conservative and prudent recognition and disclosure of the financial and non-financial implications of risks
  - Heads of Divisions are responsible for encouraging good risk management practice within their areas
  - key risk indicators will be identified and closely monitored on a regular basis.

### 3. ROLES AND RESPONSIBILITIES

- 3.1 The key points are as follows:
  - the Board has ultimate responsibility for ensuring an effective Risk Management process is in place and is regularly reviewed;
  - the Senior Management Team is responsible for co-ordinating Risk Management activities and reviewing the processes. They will report to the Board and the Audit Committee;
  - Divisional Heads and Branch Heads are responsible for ensuring there is an embedded Risk Management process in their own areas and that it is regularly monitored; and
  - internal audit's role is to provide assurance to the Audit Committee that the process is operating effectively and to review specific systems as part of the planned internal audit review.

## 3.2 Role of Board and the Senior Management Team

3.2.1 The Board will retain ultimate responsibility for ensuring an effective risk management process is in place. It will be the responsibility of the Senior Management Team to ensure that this responsibility is discharged and that effective and efficient systems are being operated.

3.2.2 The Senior Management Team will act on behalf of the Board and will:

- determine AFBI's approach to risk management;
- discuss and approve issues that significantly affect AFBI's risk profile or exposure;
- continually monitor the management of significant risks and ensure that actions to remedy control weaknesses are implemented;
- report changes in risk assessment to the Board on an exception basis;
- annually review AFBI's approach to Risk Management and approve changes or improvements to key elements of its processes and procedures.

The Senior Management Team will report on a quarterly basis to the Audit Committee on risk management matters.

## 3.3 Role of Audit Committee

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

In reviewing the effectiveness of the internal control systems, the Audit Committee will receive reports annually which:

- review the previous year and examine AFBI's track record in risk management and internal control;
- consider the internal and external risk profile for the coming year and assess if current internal control arrangements are likely to be effective.

## 3.4 Role of Management

The role of Divisional Heads and Branch Heads in the Risk Management process includes responsibility for:

- implementing policies on risk management and internal control;
- identifying and evaluating the significant risks faced by AFBI for consideration by the Board and the Audit Committee;

- provision of adequate information in a timely manner to the Senior Management Team on the status of risks and controls; and
- undertaking an annual review of the effectiveness of the system of internal control.

### 3.5 Role of Internal Audit

Although risk management and internal control are management’s responsibility, Internal Audit clearly also has an interest in effective internal control. Internal Audit’s primary objective is to provide independent assurance on the effectiveness of the internal control framework (and therefore Risk Management) to the Audit Committee. It does this by carrying out audits across AFBI focusing on key risks. Internal audit will use the output from the risk management process to direct efforts.

### 3.6 External Audit

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

### 3.7 Quality and Assurance Control Systems and Programmes

All AFBI’s quality and assurance control systems and programmes form an important element of the overall internal control process.

### 3.8 Third Party Reports

To increase the reliability of the internal control system from time to time, the use of external consultants may be necessary in areas such as risk management, health and safety, and human resources.

## 4. RISK IDENTIFIED AND THE RISK REGISTER

AFBI needs to ensure that all significant risks are identified and evaluated on an ongoing basis. To that end a Corporate Risk Register and Divisional Risk Registers and Management Plans will be constructed in a structural and systematic way and will be reviewed on a regular basis. The following criteria have been established for defining, evaluating and reporting of risks on an ongoing basis.

### 4.1 Risk Categories

To help with the overall risk management process, risks may typically fall within one or more of the following categories. However, this list is not exhaustive.

Staffing	Legal/Statutory	Financial
Strategic/Policy	ICT	Research
Reputation	MIS	Estates/Infrastructure
Health & Safety	Third Parties/Key relationships	Systems/Projects

## 4.2 Risk Threshold and Risk Criteria Rankings

In order to effectively rank identified risks the following risk criteria have been established based on a materiality threshold for AFBI. Threshold levels may need to be adjusted on a regular basis.

Rating	Corporate Aims	Financial Impact	Reputational Impact	IT Impact	Legal/Regulatory/Governance Requirements
3	Actual/potential adverse significant impact to the achievement of AFBI corporate aims	Actual/potential financial loss in excess of (£25k) <b>AND/OR</b> Any potential/actual fraudulent activity/misappropriation	Actual/potential for significant adverse publicity in the national/local media	Loss of a key system or data for more than one day which causes a significant operational impact	Non-compliance with specific legal/regulatory/governance requirements
2	Actual/potential adverse impact, of a moderate nature, affecting AFBI corporate aims <b>AND/OR</b> significant impact on Departmental level priorities and targets	Actual/potential financial loss of (£10-£25k)	Actual/potential for significant adverse publicity in the local media	Loss of a key system or data which causes a moderate operational impact	Partial non-compliance with specific legal/regulatory/governance requirements
1	Minor impact on AFBI corporate aims <b>AND/OR</b> moderate impact on Departmental level priorities and targets	Actual/potential financial loss less than £10k	Limited potential for adverse publicity	Loss of a key system or data which causes a minor operational impact	Partial non-compliance with legal/regulatory/governance requirements which have a limited effect

### 4.3 Likelihood

Once risks have been identified, an assessment needs to be made as to the likelihood of the risk occurring.

Likelihood		
Low	Unlikely to occur but not impossible	1
Medium	Less likely than not to occur	2
High	More likely to occur than not to occur	3
Very High	Very likely though not certain to occur	4

### 4.4 Risk Matrix

Impact	Risk Matrix			
	1 – Minor	Low	Low	Low
2 – Moderate	Low	Low	Medium	Medium
3 – Significant	Low	Medium	High	High
	1	2	3	4
	Low	Medium	High	Very High
	Likelihood			

Based on the assessment of both impact and risk, a risk matrix may be produced as outlined above. Any risk with a combined “score” of 9 or higher, would be rated high and as such should be escalated for possible consideration as a corporate risk. Risks rated between 6-8 would be moderate and included therefore at least as Divisional risks in the relevant Divisional risk register. Generally risks with a combined score of 5 or under would not be included on either the corporate or Divisional risk registers but line management may consider that they to be kept under review at a local level.

## 5. 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 AFBI to respond to a broad range of risks. These elements include:

<p><i>Policies and Procedures</i></p>	<p>Attached to significant risks are a series of policies and (where appropriate) procedures that underpin the internal control process. These policies are established by the Senior Management Team of AFBI on behalf of Board and are implemented and communicated by senior management to all staff.</p>
<p><i>Reporting</i></p>	<p>Regular reporting is designed to monitor key risks and their controls. Reports will also identify emerging risks and bring forward recommendations to improve and enhance internal controls.</p>
<p><i>Business Planning</i></p>	<p>AFBI is developing a business planning process at Divisional level to inform the overall Corporate Plan to assist in the setting of objectives and the agreement of plans and policies to achieve those objectives. Risk Assessment and management is part of this ongoing process and will assist AFBI in achieving those objectives.</p>
<p><i>Corporate Risk Register (significant risks only).</i></p>	<p>The corporate risk register is compiled by the Senior Management Team and helps to facilitate the identification, assessment and ongoing monitoring of risks significant to AFBI. The risk register is formally appraised by the Board on a 6 monthly basis but emerging risks are added as required, and improvement actions and risk indicators are monitored regularly.</p>
<p><i>Divisional Risk Registers and Management Plans</i></p>	<p>Divisions develop risk registers at a local level ensuring all risks in their area are identified, assessed and monitored. Branch Heads will submit Risk Reports to their Divisional Heads. Divisional Heads will submit risk reports to the Senior Management Team and the Senior Management Team will review the corporate risk register in the light of these reports.</p>

## 6. REVIEW/MONITORING/REPORTING PROCEDURES

In order to ensure that the Risk Management arrangements continue to be effective there is an ongoing need for review, monitoring and reporting including:

- a regular review and update of the AFBI’s corporate risk register;
- adequate ongoing monitoring arrangements including the effectiveness of early warning triggers/indicators;
- appropriate structures for review and update of the risk register;
- regular reporting to appropriate management;
- integration of risk management with the AFBI business planning process;
- personal objectives and appraisal including a link to the management of certain risks;
- key risk indicators are reported in regular reports with other performance measures through the business planning arrangements;
- focusing of Internal Audit to key risks identified in the risk management process;
- reporting from the Senior Management Team to Board and Audit Committee to inform the annual report and accounts;
- assurance provided annually from internal audit to Audit Committee as to the effectiveness of risk management arrangements.

In summary the roles, responsibilities and reporting requirements associated with risk management are as follows:

No. Projects	DARD	Other NI/GB Departs	Commercial
AFESD	72	10	43
APSD	35	1	18
VSD	9		12
AFEB	7		3
<b>Total</b>	<b>122</b>	<b>4</b>	<b>87</b>

### (i) Senior Management Team

#### *Reporting - Out*

To Board formally on 6 monthly basis or as necessary on an exception basis.  
To Audit Committee on quarterly basis.

#### *Reporting - In*

Reporting quarterly from Divisions and staff with lead responsibility for Corporate Risks.

(ii) **Audit Committee**

*Reporting - Out*

To Chief Executive and to Board as part of annual Audit Committee reporting requirements.

*Reporting - In*

Senior Management Team quarterly reports.

Internal Audit reports.

Other assurance provision.

(iii) **Branch Heads**

*Reporting – Out*

Reporting monthly to Divisional Heads.

(iv) **Divisional Heads**

*Reporting – In*

Reporting monthly from Branch Heads.

*Reporting - Out*

Reporting quarterly to Senior Management Team or as risks emerge.

(v) **Board**

*Reporting - In*

Reporting from Senior Management Team on 6 monthly basis.

Annual report of the Audit Committee.

## 7. ANNUAL REVIEW

The risks facing the AFBI will change from year to year and there is therefore a need to annually review the content of the corporate risk register, the effectiveness of the controls in place and the need for alternatives and improvements.

The annual review should therefore include:

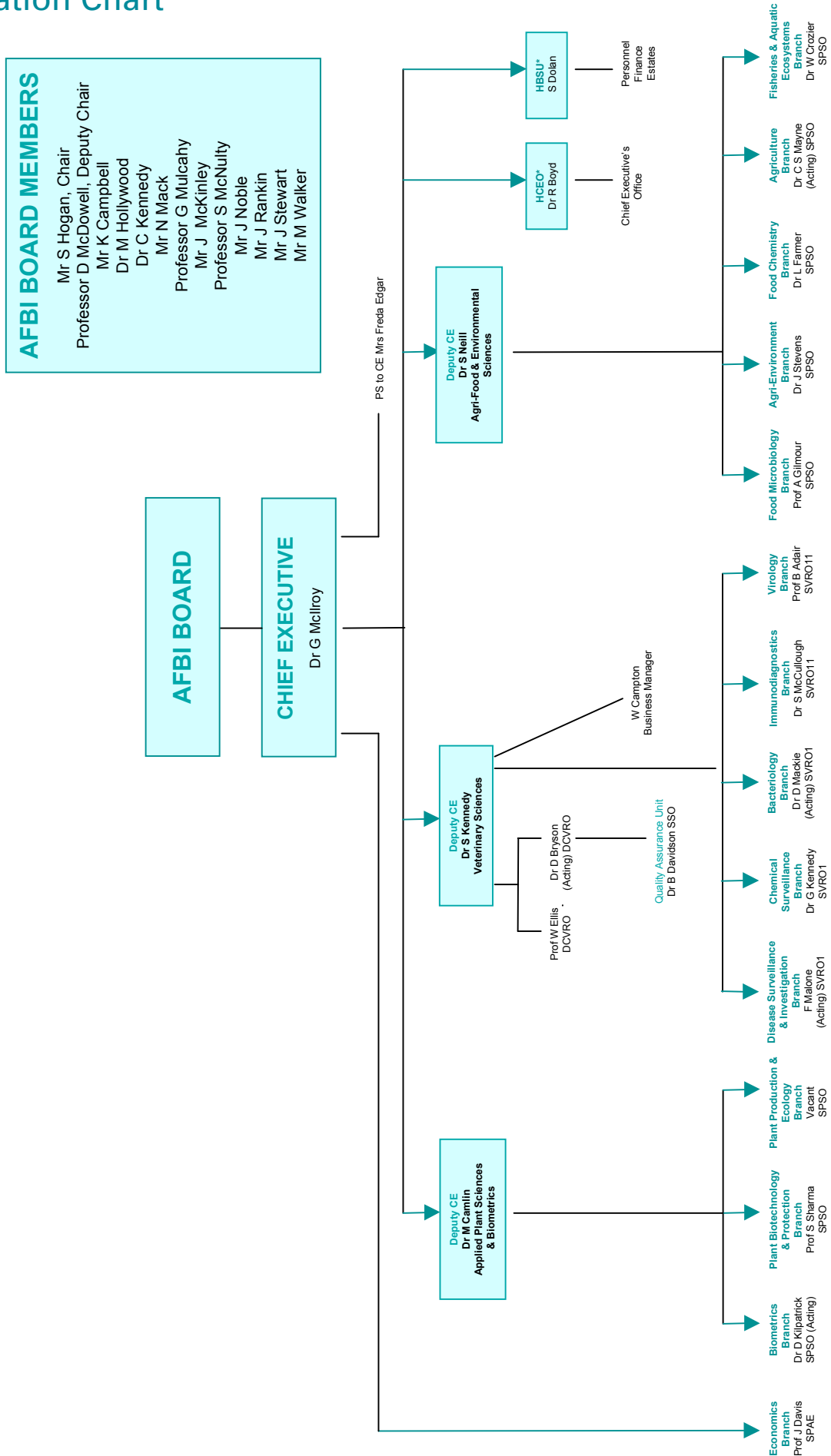
- review of the management of significant risks during the previous year including the effectiveness of controls in place;
- changes to the external environment that will change the risk profile and require amendment to the risk register;
- changes to the internal environment requiring amendments to the risk register;
- identification of emerging risks;
- identification of new controls required;
- changes or improvements in the risk management process.

The Senior Management Team will undertake the annual review and its results will be reported to the Chief Executive and to the Audit Committee. The annual review should be completed in line with the preparation of the annual accounts and made available to the Audit Committee. This process should enable the AFBI to publish an appropriate statement on corporate governance as part of the statement of annual accounts.

In addition to the annual review undertaken there is a need for Board (through the Audit Committee) to be assured that the risk management and internal control systems are working effectively. Internal Audit will provide an independent assessment of the effectiveness of internal control and will be informed by their ongoing programme of audit and by other independent assessments of the activities of AFBI.

Details of AFBI's corporate risks will also be communicated to Board on a 6 monthly basis, or more frequently where there has been significant change in the AFBI risk profile.

## Organisation Chart



\*HCEO - Head of Chief Executive's Office  
\*HBSU - Head of Business Support Unit