

Managing Risk

Control Environment and Responsibilities

Contents

Introduction	3
Risk	3
Risk management - using the framework	3
Source of risk	3
Likelihood and impact.....	3
Inherent risk.....	4
Risk-reducing measures.....	4
Effectiveness	5
Residual risk.....	5
The risk management process in the British Council.....	5
The reporting timetable.....	5
February.....	5
ENTS, DATS and GFS income.....	6
Areas of activity for which each SMT member is accountable.....	6
Audit.....	8
Framework for risk management.....	Error! Bookmark not defined.

Introduction

The British Council must have a system of internal control that identifies the risks to the achievement of policies, aims and objectives, evaluates the nature and extent of those risks and manages them efficiently, effectively and economically.

This chapter describes the process of risk management and provides a framework to record risks at all levels, consistently, throughout the British Council.

Everyone in the British Council must use this framework to record risk, except staff involved exclusively in managing contracts. DATS already has a more appropriate method for dealing with contractual risks. See ENTS, DATS and GFS income.

Risk

For the purpose of this chapter, risk is defined as unexpected loss arising from external or internal sources.

External loss arises from unexpected changes in the business or operational environment. Such losses cannot be controlled but can be anticipated through strategic planning

Internal loss is associated with human error, system failures and inadequate procedures and controls. Losses of this sort can be mitigated by improved management processes.

Unexpected loss does not occur where reductions are anticipated or contingencies allowed for. Nor does it occur through inefficiency or the failure to maximise the management of resources. Unexpected loss occurs only where contingencies are exceeded or where inefficiency results in a direct financial loss, either immediately, or in the longer term through damage to reputation or ability to trade.

Risk management - using the framework

The risk management framework form at the end of this chapter asks you to evaluate specific aspects of risk, explained in more detail under each heading below.

Source of risk

List all significant risks. If a risk is not significant in likelihood or impact terms as defined below then do not include it.

Likelihood and impact

A level of risk that is significant in one department or country (e.g. £50,000) may be insignificant in another. Use the table below as a guide to establish the seriousness of a risk.

Please state on the framework the **financial amount** that you regard as high risk for your unit.

	High	Medium	Low
Likelihood	Average of 1 incident per 3 years to continuous incidence	Average of 1 incidence per 10 years to one incident per 3 years	Unique incident to an average of 1 incident in 10 or more years
Impact - financial	Significantly affects the financial wellbeing of all three activity streams and may affect the British Council's future financial viability	Affects the financial well-being of at least one activity stream or region	Affects the financial well-being of a single activity unit or country

	High	Medium	Low
Impact on reputation	Significantly affects the reputation of the British Council as a whole and may affect the British Council's future viability	Affects the reputation of at least one activity stream or region	No significant impact on the reputation of all or part of the British Council's operation.
Impact on people	Significantly affects a large number of people in several offices	Significantly affects people in at least one office	Affects at least six people.
Impact on ability to trade	Significantly affects the ability of the British Council as a whole to continue trading	Affects the ability of at least one activity stream to continue trading	No significant impact on the ability of the British Council's operations to continue trading

Inherent risk

Inherent risk is the total risk to the British Council before you take any **new** measures to reduce the risk.

We could express each risk on a 3x3 matrix of likelihood against impact. This would give some idea of the inherent risk.

		Impact		
		Low	Medium	High
Likelihood	High			
	Medium			
	Low			

If you estimate that both the likelihood and the impact are high then the total risk is likely to be the same. If they differ (e.g. one is high the other medium) then you will need to use your judgement on the balance between the two measures for estimating the combined risk. This is your estimate of the inherent risk.

Risk-reducing measures

Having identified risks and evaluated them within a framework, you will need to consider what risk-reducing measures are most appropriate.

- Transfer:** For some risks the best response may be to transfer them. This might be done by conventional insurance, or it might be done by paying a third party to take the risk in another way.

- Tolerate:** Ability to do anything about some risks may be limited, or the cost of taking action may be disproportionate to the potential benefit to be gained. In these cases the response may be toleration.

- Treat:** By far the greatest number of risks will belong to this category. The purpose of treatment is not necessarily to obviate the risk, but more likely to contain the risk to an acceptable level. The actions which an organisation takes in treating risk are called "internal control" – they are actions instigated from within the organisation (although their effects may be felt outside the organisation) which are designed to contain risk to acceptable levels. Examples are health and safety controls, financial separation of duties, stock checking and

insurances. (See in particular chapters A4 Management checks, A7 Security of financial computer systems, D3 Insurance and G2 Control and custody of cash.)

Effectiveness

The framework asks you to estimate the degree of effectiveness of the risk-reducing measures you propose to take. The risk environment of any organisation is constantly changing. The risk measures should be regularly visited and reconsidered in order to make sure that they continue to be the best possible.

Residual risk

Once you have estimated

- the inherent risk before you apply your measures and
- the effectiveness of the measures you are going to take to reduce the risk,

you can estimate whether those measures are strong enough to change the inherent risk level. If the measures are expected to be highly effective then the level of risk will change. Auditors will be interested to compare how the levels of inherent and residual risks change over the years.

The risk management process in the British Council

The production of risk management frameworks by directors and SMT members should become part of the annual cycle of documentation which includes business plans, UK management plans, country plans and financial plans. We need to embed in all staff an awareness of the importance of managing risk in all areas of British Council activities.

The reporting timetable

Below is a timetable for risk management returns:

Deadline end of	Return	In time for SMT meeting in
September	Annual return together with country plan	January
October	Return update	December
February	Return update	March
June	Return update	September

In **late autumn** when directors are agreeing their objectives and country plans for the coming financial year they should meet with their senior staff and consider, as a group, what could prevent the achievement of these objectives and what measures they intend to take to counter these risks.

The results of this exercise should be written up in the risk management framework format.

Directors will then need to prioritise the risks very roughly, selecting the top two or three risks from all those identified.

By the **end of September** a fully completed Annual Management Risk Return, together with the country plan must be sent to the SMT member in their line management.

The SMT member in turn will select, from the risks reported to him or her, will in turn report them to the Financial Accountant together a Regional Summary and/or Regional Priorities.

The SMT member in turn will select, from all the risks reported to him or her, the most serious two or three and report them to the Finance Director. The Financial Accountant will summarise all risk information for the Financial Director at the specified SMT meetings.

Furthermore, there will be three update returns to be completed by the **deadlines specified** above i.e. **end of October, February and June** respectively. This allows the Directors to review the Annual Management Risk Return and where necessary to highlight new risks that have arisen and the measures they are taking to reduce them. Where there are no changes to the original risk return, you must send a nil return stating 'no change'.

Again, send these latter three returns to the SMT member. The SMT member will in turn pass the information onto the Financial Accountant, who will summarise the risk detail for use by the Financial Director in forthcoming SMT meetings.

Thus, the most serious risks are presented to SMT and the Director on a regular basis to ensure that all means are being taken to reduce and control them. The highest risks are presented to the Board annually, before the accounts are signed.

ENTS, DATS and GFS income

DATS and ENTS have had risk management processes in place for some time. DATS has developed a system for its **contract** work (DATSTRAX) which starts before the decision to bid for a project and continues during bid preparation and contract negotiation. At each stage the level of risk is evaluated and a decision made on whether to continue with the contract. DATS brings together all its risks in its business plan and monitors them through the quarterly business reviews.

GFS income is developing a similar system for its large UK contracts. However operational managers in DATS (Manchester) and directors in GFS income-earning departments will still use the risk management framework to report **other risks** that arise from a broader look at the business.

At present the teaching centres evaluate their risks annually when they produce their business plan, but they do not use the risk management framework described above. This will change later this year when they will start to use a version of the risk management framework in their returns with their business plans. Country directors will be expected to play a key role in discussing their views on ENTS risks with the teaching centre directors and co-ordinating the ENTS risk management framework with that for the country.

As before, ENTS in London will collate the ENTS risk returns and summarise the key risks in a section on marketing and action in their global business plan. In addition, both DATS and ENTS will continue to have regular quality reviews of their contracts and business plans by managers not directly involved in the business being reviewed. DATS operational managers in the UK are responsible for completing annual contract peer reviews for UK contracts, and country directors are responsible for ensuring that annual contract peer reviews take place for all locally managed contracts.

Areas of activity for which each SMT member is accountable

To ensure that all risks are covered, the accountability for every activity of the British Council has been allocated to a particular SMT member. Their areas of responsibility are set out below.

Each SMT member is accountable to DG for identifying all risks in their areas of activity, reducing them to a minimum and monitoring them at a global level. They also have authority to enforce a decision on the activity.

The SMT member is responsible for collecting from the director / managers level or from EDS reports, all high risks of significance to their area of activity. They then select from those high risks those that affect the whole organisation and warrant consideration by SMT.

They, together with the financial Accountant, will be informed by the risk management frameworks produced by directorates but they will also use other ways to ensure that they are aware of the risks in their areas of activity (e.g. the health and safety audits).

Please note that directors should still report their risks to the SMT member **in their line of management**; for example country directors report to their geographical director.

Accountable person	Areas of activity
Director Communications	External communications (timeliness, accuracy, unjustifiable claim against British Council, image or brand) Internal communications Managing reputation
Director ENTS / DATS / GFS	Activity service delivery Agreeing contracts Business interruptions Business planning systems Business sustainability Competitors Control of expenditure Debt management Devolution in UK (GFS) Ensuring or advising on appropriate insurance cover for those on British Council programmes Insurance New technology products Opening and closing centres Quality of product and services relationship with partners suppliers and clients customers legal claims Revenue collecting UK sponsorship (GFS)
Director Finance	Consolidation and reconciliation of the accounts Control of serious fraud Financial control <ul style="list-style-type: none"> - collecting credit - debtors - treasury Financial systems including DATS and ENTS systems OPM Reserves Status Tax
Director Human Resources	Compliance with employment law Employment and industrial relations Legal compliance in personnel policies and practices Loss of key skills and knowledge Medical coverage for employees on British Council business Pensions Staff competency and skills Staff morale UK payroll management Values, attitudes, equal opportunities Vetting
Director Policy, Research and Evaluation	Corporate planning system Strategic partnerships

Accountable person	Areas of activity
Director Resources	Asset management Data protection Documents Environment Health and safety, including injuries to staff. HQ buildings / IT business continuity and disaster recovery IT Procurement Security - physical
Geographical directors	Business and continuity and disaster recovery overseas Compliance with corporate standards overseas Compliance with local laws GFS business contracts overseas Management of incidents overseas Status overseas

Audit

Internal Audit and the National Audit Office are responsible for giving assurances to the Audit Committee, and hence the Chief Executive, that an adequate process for risk management is in place. They will be reporting on risk management in their audits.