

# Royal College of Music

## Risk Management Strategy and Policy

### *Risk Management Strategy*

#### **Purpose**

1. The purpose of risk management for the RCM is to help to ensure that the College's strategic aims are achieved. The system of internal control is intended to manage, rather than to eliminate, the risk of failure to achieve policies, aims and objectives.
2. The strategy is based on identification of the benefits that the College wishes to achieve, the main risks to this and assessment of the level of exposure that is regarded as appropriate to take in particular areas. In determining acceptable levels of exposure, the Finance & General Purposes Committee (F&GPC) of RCM Council plays a decisive role, acting as the College's Risk Management Committee. The Audit Committee and RCM Council are advised on the effectiveness of the establishment and implementation of risk management on a regular basis and formally in an annual report.

#### **Risk Register**

3. The Risk Register was fundamentally reviewed and redrafted by the Directorate, with assistance from the internal auditors, in October 2007. The aim was to align it with the Strategic Plan, ie to identify those risks that would prevent the College from achieving its strategic priorities as set out in the Strategic Plan 2007-17 over the period of the following 12 months. These risks were then assessed in terms of their likelihood of occurrence within the next 12 months, their impact should they occur and the level of control required. The result is a Risk Register scored for high (red), medium (amber) and low (green) priority. In October 2008 the risk register was first reviewed in its new format and will be reviewed in future in the autumn of each year, by way of a facilitated workshop. It has now moved to a 24 month time horizon, as the initial 12 month horizon was felt to be too close and might lead the College to ignore risks that needed relatively short term action.
4. Directorate level 'risk owners' are nominated for each of the risks and mitigating action plans, early warning indicators and controls are developed for high and medium priority risks.
5. The resulting Risk Register is presented to both the F&GPC and to the Council for approval and subsequently reviewed on a termly basis by the Directorate and on an annual basis by the Council.

#### **Key controls**

6. The College has in place the following controls:
  - an established organisational structure with identified reporting lines and responsibilities
  - Financial Regulations, specifying authorisation and approval levels
  - written policies for key areas of activity
  - a formal structure for the governance of the College and adoption of the CUC Governance Code of Practice
  - formal terms of reference, membership and periods of office for the governing body (RCM Council) and committees
  - formal agendas and minutes for all Council and committee meetings

- regular agenda items on risk management for Council, Committees (F&GPC, Audit Committee), Directorate
- annual strategic planning and review exercises
- Key Performance Indicators, reviewed annually
- A rigorous Value for Money framework, which includes a VfM Steering Group, chaired by a Council or a coopted member of the Audit Committee member.

### **Officer responsible**

7. The College's risk management procedures identify one member of the Directorate who is deemed to take responsibility for the management of the specific risk, to include:
  - monitoring the College's level of exposure to the identified risk, on a continuing basis;
  - drawing the attention of the Directorate to the need for review of and/or changes to institutional practice/activity, at any time, if:
    - the level of risk appears to be increasing;
    - new approaches to risk mitigation need to be adopted;
    - the level of risk appears to have been wrongly estimated;
  - leading the Directorate's regular review of the relevant risk;
  - ensuring that issues of concern are reported to the F&GPC, as part of the regular reporting on risk management made to the F&GPC.
8. In addition, the College nominates a Risk Manager, the Projects Manager, who works closely with the Director of Operations and who takes responsibility for maintaining and developing the Strategic Risk Register by liaising with the nominated risk owners and with internal audit.

## ***Risk Management Policy***

### **Purpose**

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

### **Underlying approach to risk management**

2. The following key principles outline the College's approach to risk management and internal control:
  - the Council has responsibility for overseeing risk management within the College as a whole;
  - the Council's responsibilities of regular review of risk management issues are delegated to the F&GPC which acts as the College's Risk Management Committee;
  - the Director and the Directorate support, advise and implement policies approved by the Council;
  - heads of department are responsible for encouraging good risk management practice within their departments, where appropriate.

### **Role of RCM Council**

3. The 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 College. This includes:
    - i. determining whether the College is 'risk taking' or 'risk averse' as a whole or on any relevant individual issue;

- ii. determining what types of risk are acceptable and which are not;
  - approve major decisions affecting the College'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 College's approach to risk management and approve changes or improvements to key elements of its processes and procedures.
4. The responsibilities of the Council for the regular review of risk management issues are delegated to the F&GPC of Council.

### **Role of the Directorate**

5. Key roles of the Directorate are to:
- implement policies on risk management and internal control;
  - identify and evaluate the significant risks faced by the College for consideration by the F&GPC of the RCM Council;
  - provide adequate information in a timely manner to the 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 the F&GPC of the RCM Council.

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

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

#### *Regular reporting*

Reporting is designed to monitor key risks and their controls. Decisions to rectify problems are made at regular meetings of the Directorate and the F&GPC if appropriate.

#### *Business planning and budgeting*

The business planning and budgeting process is used to set objectives, agree action plans, and allocate resources. Progress towards meeting objectives is monitored regularly.

#### *Audit Committee*

The Audit Committee is required to keep under review the adequacy and effectiveness of the risk management, internal controls and governance arrangements and to give its opinion on these to the Council and to alert the Council 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 the Council on the effectiveness of the internal control system, including the College's system for the management of risk and has a responsibility to ensure that the College is adopting a risk-based approach to its management of the institution. The Audit Committee uses the College's risk management activity to inform the internal audit programme.

#### *Internal audit programme*

Internal audit is an important element of the internal control process. Apart from 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. In addition, internal audit is asked to conduct special reviews of areas which are thought to present a risk to the business.

### *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.

### **Annual review of effectiveness**

7. The Council is responsible for reviewing the effectiveness of internal control of the College, based on an annual report on risk management activities provided by the Directorate. This report is also submitted to the F&GPC which oversees the risk management activity of the Directorate.
8. For each significant risk identified, the Council will review the previous year and examine the College's track record on risk management and internal control and consider the internal and external risk profile of the coming year and consider if current internal control arrangements are likely to be effective.
9. In making its decision the Council will consider the following aspects:

#### *Control environment:*

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

#### *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.

#### *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.

#### *Monitoring and corrective action:*

- ability of the College to learn from such issues;
- commitment and speed with which corrective actions are implemented.

Charlotte Martin  
Projects Manager  
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Kevin Porter  
Deputy Director