

KEY

POLICY REGISTER

ITEM A10

POLICY: RISK MANAGEMENT STRATEGY

First approved:	April 1997
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This policy is reviewed annually
at the January meeting of Board

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RISK MANAGEMENT STRATEGY

1. PURPOSE OF DOCUMENT

This Risk Management policy forms part of KEY's internal control and corporate governance arrangements.

The policy explains the organisation's underlying approach to risk management, documents the roles and responsibilities of the Board, the Senior Management Team and other key parties. It also outlines key aspects of the risk management process, and identifies the main reporting procedures.

Within this document we have also described a process by which the Board will evaluate the effectiveness of KEY's internal control procedures.

2. UNDERLYING APPROACH TO RISK MANAGEMENT

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

Committee of Management

Responsible for overseeing risk management in KEY as a whole, the Board shall:

- * agree the risk management framework within KEY
- * set the risk appetite for KEY
- * direct the risk strategy
- * receive reports and demand action where appropriate
- * annually review KEY's approach to risk management, approving any proposed change to the core aspect of the strategy and associated procedures.

Senior Management Team

The Senior Management Team is led by the Chief Executive and has responsibility for:

- * implementing policies on risk management and internal control
- * identifying and evaluating the key risks faced by KEY. These risks will be set out in a "Risk Register". Those risks appearing at the top end of the register shall be presented to the Board for consideration
- * providing adequate, timely information to the Board and the Office Bearers' Committee on the status of risk and controls.
- * undertaking an annual review of the effectiveness of the system of internal control and providing a report to the Board.

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Audit Committee

A sub committee of the Board, the Audit Committee shall approve the internal audit programme that is based on the risk register, and which tests the adequacy of the control arrangements and other related policies and procedures. In accordance with its remit, the Audit Committee will receive regular reports from the Internal Auditor (s) and Senior staff in relation to the internal control arrangements, and will report annually to the Board on the effectiveness of KEY's systems of internal control. Advice shall also be obtained from the external auditors as part of the review of governance in the annual audit.

Internal Audit

The internal audit function has a central role in reviewing the governance, risk and control issues within KEY. Specifically in relation to risk management, the internal auditor provides assurance of content and of process to the Audit Committee.

3. KEY ACTIVITIES WITHIN THE RISK MANAGEMENT PROCESS

Our system of internal control incorporates risk management. This system incorporates a number of elements that together facilitate an effective and efficient operation, enabling the organisation to respond to a variety of operational, financial and other risks. These elements include:

- * **Policies and procedures** - attached to key risks are a series of policies that underpin the internal control process. The policies are set by the Board and implemented and disseminated throughout the organisation by the Senior Management Team. Written guidance supports the policies.
- * **Planning and budgeting** – the planning and budgeting process is used to set objectives, agree action plans and allocate resources. Progress towards meeting plan objectives is monitored on an annual basis, with budget monitoring on a quarterly basis.
- * **High level risk framework (HLRF)** – the HLRF is compiled by the Senior Management Team and helps to facilitate the identification, assessment and ongoing monitoring of risks applicable to KEY. The document is formally appraised annually as part of the annual review of risk management.
- * **Audit Committee** – the Audit Committee is required to report to the Board on internal controls and inform them of any known emerging issues. In addition, the Audit Committee oversees internal audit, external audit and management as required in its review of internal controls. The Audit Committee is therefore well placed to provide advice to the Board on the effectiveness of the internal control system, including KEY's system for the management of risk.

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- * **Internal audit programme** – internal audit is an important element in the internal control process. The internal audit programme will address the key risks within KEY. Within the annual report to KEY, the internal auditor shall provide a specific comment upon his or her annual review of the internal control system and provide a professional opinion on the effectiveness of the internal control system and the extent to which it can be relied upon.
- * **External audit** – external audit provides feedback to the Audit Committee on the operation of those aspects of the internal control system review as part of the annual audit. They shall also provide a comment on the general governance arrangements within KEY.

4. ANNUAL REVIEW OF EFFECTIVENESS

The Board is responsible for reviewing the effectiveness of internal control of the organisation, based on information provided by the Senior Management Team. In practice, the Board shall identify and review the risks appearing at the top end of the Risk Register. For each of the key risks the Board shall:

- * review the previous year and examine KEY'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.

In its considerations, the Board shall consider the following;

- * The control environment – this includes:
 - the organisation's objectives and its financial and non-financial targets
 - * the organisation's structure and the calibre of the Senior Management Team
 - * the scheme of delegation
 - * public reporting (Annual Report)
 - * Ongoing identification and evaluation of key risks – this includes:
 - timely identification and assessment of significant risks
 - prioritisation of risks and the allocation of resources to address areas of high exposure
 - * Information on communication – this involves:
 - quality and timeliness of information on key risks
 - the time it takes for control breakdowns to be recognised.
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