Annex 4

Introduction

1.1 Risk management is critical to effective decision-making. The Turnbull Report encouraged companies to adopt a risk-based approach to establishing a system of internal control, ie to manage and control risk appropriately rather than seeking to eliminate it. The high level strategy for strategic risk management is included in the Financial Memorandum (Annex 8) and Management Statement (Annex 7).

1.2 The documents that have guided this section are Nolan's Report on Standards in Public Life[1], HM Treasury guidance on managing risk and managing fraud, the Turnbull Report and Dear Accounting Officer letters on Statements of Internal Control.

1.3 The role of Accounting Officer will be carried out by the Chief Constable so far as expenditure within the Force is concerned, and the Chief Executive and Clerk in relation to BTPA expenditure.

1.4 The Authority will ensure that a risk-based approach is adopted to establishing and maintaining a sound system of internal control. The Chief Executive and Clerk and Treasurer to the Authority and the Chief Constable will each identify and assess risks in connection with their respective functions, implement and maintain appropriate controls and provide assurance that they have done so.

1.5 The Authority recognises that managing risk is more than just identifying and assessing the risks. It means actively making choices in the face of uncertainty about the level of risk to accept to achieve the anticipated benefits for doing so, and then applying best practice and the most cost effective means to manage risk to that level. It is about fully understanding and communicating the risks and potential benefits inherent in opportunities presented, so that informed decisions can be taken.

1.6 The focus of having a risk management process will be on keeping everyone informed of the significant risks and providing comfort that they are being appropriately managed. When risks materialise, or near misses are experienced, the Authority needs to understand the circumstances and use this knowledge to continually improve practices.

1.7 The Authority's system of internal control will be intended to manage, rather than eliminate the risk of failure to meet strategic and operational objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

[1] The list of the seven principles of public life is provided in Appendix A.

General principles

2.1 The role of the BTPA is to ensure that the BTPF practices effective risk reduction strategies by:

- having procedures in place to enable effective risk reduction;
- using such procedures on an ongoing basis; and
- monitoring its effectiveness in terms of risk reduction.

2.2 The BTPA therefore requires regular reports from the Chief Constable in respect of his/her progress in implementing best practice guidance in this field.

2.3 A risk management framework has been developed for the BTPF as described in the strategic risk management cycle as defined by HM Treasury guidance[2].

Managing the risk of fraud

3.1 HM Treasury has also produced guidance on managing the risk of fraud. Best practice states that the Accounting Officer, along with the Principal Finance Officer, shall be responsible for establishing the internal control system designed to counter the risks the organisation faces. Together they are accountable for the adequacy and effectiveness of these arrangements. Managing fraud risk should be seen in the context of the management of this wider range of risks.

3.2 The Code of Conduct for Members alongside a commitment to Nolan's seven principles of public life should help to ensure that Members and staff know they are expected to follow these rules. Conditions should also be created in which staff have neither the motivation nor the opportunity to commit fraud.

3.3 The Authority's fraud policy statement will communicate their approach to fraud. Such a statement may include the following areas:

- allocation of responsibilities for the overall management of fraud;
- the procedures which Members/staff should follow if fraud it discovered;
- guidance on training for the prevention and detection of fraud; and
- reference to response plans that should have been devised to deal with and minimise the damage caused by any fraudulent attack.

[2] Detailed explanation of the risk management cycle can be found in Appendix B.

Responsibilities for risk management

4.1 The Authority has ultimate responsibility for managing the BTPF's risks. However on a day-to-day basis this responsibility will be delegated to the Chief Constable in his role as Accounting Officer. The Chief Constable is responsible for assessing and reporting risk to the Authority and the Audit and Corporate Governance Committee.

4.2 The Authority will have responsibility for deciding how much risk can be tolerated and for managing the BTPF's risks, in particular for:

- conveying their attitude towards risk management to the Chief Constable;
- making decisions which affect the BTPF's risk profile of exposure;
- ensuring the risk strategy is proportional to the impact of risk; and
- reviewing at least annually the BTPF's approach to risk management and the risk register.

4.3 The Authority will be responsible for reporting this information to the Department for Transport via the Statement on Internal Control (described below).

4.4 The Audit and Corporate Governance Committee shall review whether the risk management procedures within the BTPF are appropriate and operating effectively, consider any risk progress reports and report to the Authority. The Audit and Corporate Governance Committee in designing the internal audit programme will require the internal auditor to:

- conduct audits in accordance with the BTPF's risk priorities;
- provide an annual report to the Authority on the adequacy and effectiveness of the BTPF's system of internal control; and
- examine and report annually on the Authority's risk management and corporate governance arrangements.

Statement of internal control

5.1 Following the general principle that best practice in accounting requirements in the private sector should be reflected in central government, HM Treasury guidance in 2000 introduced the requirement for Accounting Officers of organisations, including executive non-departmental public bodies (NDPBs), to include a Statement on Internal Control (SIC) in their accounts that followed a pro-forma. This pro-forma was revised in 2003. The SIC must encompass the responsibilities of the Accounting Officer and may also include wider governance arrangements. The SIC must additionally include all risk management and review processes in place as well as a description of any planned work to further develop risk management.

5.2 The revised SIC additionally will require the Authority to confirm that the results of the Accounting Officer's review of the effectiveness of internal control has been discussed with the Authority and the Audit and Corporate Governance Committee and that, if appropriate, action has been taken or is planned to address issues arising from it. These results would also have to be discussed with a risk committee were one to be established. There should also be a reference in the SIC to ongoing maintenance and development of risk management and review processes. This would record key elements of the way in which this is done, whether as part of a "planned maintenance" programme or in response to problems or significant external developments.

5.3 The SIC is part of the annual reporting of the Authority and should be prepared by the Accounting Officer and presented alongside the accounts and passed to the external auditors for review.

5.4 In line with the Turnbull report and the risk management cycle, the SIC should be the end result of a process of management that is embedded in the planning, operational monitoring and review activities of the Authority. The SIC should therefore not be conducted as an "add-on" end of year activity and should instead explain the nature of control and any material changes in control exercised through the whole of the accounting period.

Processes to manage risk

6.1 To manage risk effectively to be identified in the SIC, the following will apply:

- a requirement for all reports to meetings of the Authority to detail any risk implications in an executive summary;
- a Committee which meets regularly will consider the plans and strategic direction of the BTP;
- reports from the Audit and Corporate Governance Committee to the Authority concerning internal control;
- regular reports by the Chief Constable on the steps he/she is taking to manage risks in his/her area of responsibility including progress on key projects;
- a regular programme of facilitated workshops to identify and keep up to date the record of risks facing the BTP;
- a programme of risk awareness training;
- implementing a prioritisation methodology based on risk ranking and cost-benefit analysis; and
- maintenance of an organisation-wide risk register.