Introduction

Every organisation must take, and is exposed to risks, in pursuit of achieving its objectives. Being risk aware means approaching this proactively to manage down the threats we face and make the most of the opportunities. The price of getting this wrong is high: wasting public money, and failure to deliver our objectives to protect the users and potential users of architects' services and support architects through regulation.

That is why it is essential we understand and manage our risks well across the organisation, whether they come from external events or from our own activities. We need an approach that ensures we address the right risks at the right time, with the right people involved. Whilst we recognise it is important that each team manages its own risks at an operational level, we want to ensure that we identify and where appropriate, mitigate those risks that affect the organisation as a whole, which might not be easily managed within existing resources and which need a strategic response.

The Board and Executive will make risk management central to all our decision making. The Board has overall responsibility for the leadership of the risk management policy, for ensuring that the risk appetite is set and communicated to the Executive, and that an appropriate risk culture exists within the organisation.

Management of Risk in Government (2017) states:

> *" A positive risk culture, one which encourages openness and discusses real business issues in a realistic manner, is absolutely essential to the effective management of risk. Everyone, from the board down, has a clear role to play in establishing and maintaining that risk culture."*

We consider this description, as well as HM Treasury's Orange Book (2019), a useful benchmark of what we should strive to achieve in risk management. Risk management should not be a remote, 'box-ticking' activity undertaken exclusively in senior management and Board meetings. We want good risk conversations to be a natural part of how we manage our business, at every level of the organisation. Each of us commits to using risk-based decision making in our everyday work, and to support those we work with to do the same. There is already a proportionate, effective risk management process and culture in place. This document is part of helping to embed it, to spread it further, and to ensure that the Board sets the strategy and leads by example.

Principles underlying ARB's Risk Management Policy

The Board has set the following principles which underpin the Risk Management policy:

1. To embed good practice within ARB's risk management framework.
2. To promote an ethos where risk management is everyone's responsibility within ARB.
3. To continuously identify, assess and mitigate risk in ARB's day-to-day operations.
4. To consider risk when identifying and defining strategy and policy.
5. To regularly monitor and report on the risks identified in the Risk Register.
6. To continually strive to manage the impact of risk commensurate with the Board's risk appetite through scrutiny of controls and actions specified within the Risk Register.

This policy facilitates the achievement of these principles by:

- providing a consistent and standardised approach to the identification, management and mitigation of risk by which future problems can be prevented or at least addressed;
- supporting the Board to focus on those risks which might compromise the achievement of ARB's strategic objectives;
- supporting ongoing compliance with statutory requirements;
- supporting decision making on the future provision and development of services and enabling the challenges of different delivery models (e.g. collaboration) to be systematically assessed and controlled;
- encouraging the sharing of good practice and learning lessons across the organisation;
- forming a key component of the Accounting Officer Statement, providing the pubic and stakeholders with assurances about the effectiveness of the organisation's approach to governance, risk and control.

What is Risk?

Risk is an inevitable consequence of making decisions, taking action or failing to do either. It is a part of everything we do and increases proportionately in volatile, uncertain, complex and ambiguous circumstances, where we have less direct control, or work at the edge of our knowledge and experience. Risk is inevitably higher during periods of change or when delivering new projects and initiatives.

The Orange Book defines **risk** as "*an UNCERTAIN future event, which if it occurs will have positive or negative effects on the delivery of corporate objectives*."

In contrast, an **issue** is defined as a relevant event which has happened or is happening and has resulted in a consequence, was not planned, and requires immediate management action. In this regard, it differs from a risk, which is defined as a future event which has yet to happen.

Risk Management is the co-ordinated activities designed and operated to manage risk and exercise internal control within the organisation.

Roles and Responsibilities for Risk

The Board

The Board has overall responsibility for risk management and more specifically for:

- leading by example by supporting a positive risk culture, focussed on learning from mistakes and not seeking to attribute blame, and encouraging openness and discussion of real business issues in a realistic manner;
- setting the risk appetite for the organisation;
- agreeing and reviewing Strategic Risk Register.

The strategic Risk Register is reviewed by the Board on a six-monthly basis. At each Board meeting (where the full Risk Register is not being reviewed), an update on risk movement, and newly added risks are reported through the confidential Registrar's report. Key risks will be addressed in each paper presented to the Board to ensure that the management of risk associated with Board decisions is not considered to be remote to the decision itself.

Audit and Risk Assurance Committee (ARAC)

The Audit and Risk Assurance Committee's Terms of Reference state that the Committee should:

- ensure that there are levels of assurance in place which are aligned to the delivery of the ARB's strategic objectives and other organisational priorities and consistent with the risk appetite agreed by the Board;
- review the effectiveness of the risk management process, in order that major risks are identified and that mitigation strategies are in place, and make recommendations about these issues to the Board;
- advise the Board and Accounting Officer on the strategic processes for risk, control and governance.

The Audit and Risk Assurance Committee will consider the Risk Register at each meeting and will have a duty to provide advice to the Board where significant concerns about risk assurance arise.

Accounting Officer

The Registrar and Chief Executive is the Accounting Officer. The Accounting Officer, supported by the Audit and Risk Assurance Committee, should:

- periodically assess whether the organisational values, leadership style, opportunities for debate and learning, and human resource policies support the desired risk culture;
- ensure that expected values and behaviours are communicated and embedded at all levels to support the appropriate risk culture;
- designate an individual to be responsible for leading the organisation's overall approach to risk management, who should be of sufficient seniority and should report to a level within the organisation that allows them to influence effective decision-making;
- establish the organisation's overall approach to risk management;
- establish risk management activities that cover all categories of risk and processes that are applied at different organisational levels;

- ensure the design and systematic implementation of policies, procedures and practices for risk identification, assessment, treatment, monitoring and reporting;
- consider the organisation's overall risk profile;
- demonstrate leadership and articulate their continual commitment to and the value of risk management through developing and communicating a policy or statement to the organisation and other stakeholders, which should be periodically reviewed;
- ensure the allocation of appropriate resources for risk management, which can include, but is not limited to people, skills, experience and competence.

Operational Management Group (led by Accounting Officer)

The day-to-day oversight of risk management is dealt with by the Operational Management Group, including the Accounting Officer, whose responsibilities are:

- to provide strategic direction on the risk management of ARB;
- to review the tactical risk registers and operational risks within their line management control on a routine basis, and at least quarterly;
- to lead and encourage proportionate risk management practices, consistent with the principles set out in this policy;
- to ensure appropriate risk management structures are in place;
- to identify, assess and manage the risks faced by the organisation, keeping the important risks visible and recognising when risks are changing, and taking the appropriate action.

ARB Staff team

- to be aware that everyone has a role to play in risk management;
- to apply risk management in carrying out day-to-day processes and procedures;
- to identify and report to management new or changing risks facing the organisation;
- to work together as an organisation to monitor, manage and reduce ARB's risk where appropriate;
- to learn from mistakes and take responsibility for them.

Risk Appetite

"Risk appetite" is the phrase used to describe how much risk, and the different categories of risk, an organisation is willing to accept. Where a risk exceeds the risk appetite something will usually need to be done to reduce the risk. Risk appetite may vary for different risks, for example, the organisation may be more willing to cope with uncertainty around future funding levels but have almost no appetite for risks which could damage the organisation's reputation and no appetite for not complying with the law.

ARB acknowledges that risk management involves judgement about situations and actions, and that ARB's risk profile is constantly changing. The Board's risk appetite will vary according to the nature of the risk and cannot be defined by one statement which applies to all of ARB's activities. Levels of risk appetite are defined in Annex A.

"Risk tolerance" is the potential impact of a risk that the organisation can literally cope with.

As a statutory body, ARB is naturally risk-averse and its “risk tolerance” is relatively low due to its statutory duties and the level of available resources. ARB generally therefore works to minimise and control risk, by taking an appropriate and proportionate approach to risk.

However, ARB acknowledges that being risk-averse also has its costs, in terms of measures put in place to control and mitigate risk. Being too risk averse may also mean that opportunities are missed. Some risks cannot be controlled and managed, and ARB must take decisions to accept that some risks will remain, whilst ensuring that appropriate controls and actions are in place. Our approach is not intended to stifle innovation or initiative, which help to achieve our strategic aims.

A table of the categories of risk ARB is exposed to (Annex B), and the agreed appetite relating to each will be recorded and form the basis for decision making at all levels. It will also act as a vehicle for the escalation of risks which exceed the Board’s appetite, but which cannot be managed within existing resources.

At a strategic level, risk appetite is considered against individual risks on an ongoing basis, and a target risk agreed by the Board. The Board must be satisfied that the current risk falls within the agreed target risk, and if not, identify further actions to try and mitigate the risk further (or amend the target risk score if this is not appropriate).

Risk Management Plan

Identification and Assessment of Risk

ARB has a Risk Register, which records and tracks risks faced by ARB. The template for the Risk Register (Annex C) is a key tool within ARB’s Risk Management framework. A Risk Owner/Controller is specified.

The strategic Risk Register is reviewed at least monthly at management meetings. New risks are added and consideration is given initially to the causes, effects and impacts of the risk. The Board should be notified of any new risks added to the Strategic Risk Register at the earliest opportunity so that full consideration of the matter and the proposed scoring can be undertaken.

There are two elements
Likelihood is generally considered to be a combination of the probability and frequency of a risk occurring.

Significance is considered to be the magnitude of the impact of the risk being realised.

The current **risk score** is applied using a formula: x (likelihood) multiplied by y (significance). Internal controls and external reviews are then added.

The **target risk** is then defined by the Board, and the score calculated using the same formula.

Once the current risk score is calculated, if it is higher than the target risk score, additional actions are identified to mitigate the risk, in an attempt to lower the risk to the tolerable appetite level.

Management of Risk

Having assessed the risk and identified controls and any additional mitigating actions, the risk is then managed on a day-to-day basis. The Head of Registration, with oversight from the Accounting Officer, is responsible for ensuring that control owners implement the actions and controls identified. Progress on managing the risk is reviewed at monthly management team meetings and each risk is subject to in-depth review. It is sometimes appropriate, dependent upon the risk identified, for the risk to be the subject of Committee or Board discussions and deliberations, and detailed scrutiny by the Audit and Risk Assurance Committee into specific aspects may be appropriate.

Operational and programme risk registers may be developed linked to specific risks, projects, core processes or key dependencies. Operational deep dives have been introduced by ARB staff to ensure that each principal risk is reviewed in depth. Details of programme, tactical and operational risk registers will be recorded in the register of risk registers along with the owner (Annex D).

It is only the Strategic Risk Register that will routinely be reviewed by the Board, with operational and tactical risk being reported by exception or if the Accounting Officer considers that a particular risk cannot be managed within the Board's stated risk appetite.

The effectiveness of the controls and actions can be seen from the changes to the current risk score. It is accepted that in some cases, despite robust actions and controls being put in place, some risks cannot be reduced to within the Board's target risk score. The management team will seek to reduce the risk to a level that is as low as is reasonably practicable and report back to the Board where it is not possible, within existing resources, to bring the risk within the Board's target score. The Board will need to consider whether it is appropriate to undertake further action, which may require additional resource, or to reconsider their risk appetite and subsequently the target score set.

The risks will also be considered when ARB is setting priorities and agreeing the annual Business Plan and budget, to ensure that ARB's resources are correctly targeted to risk.

Internal Audit

An internal audit programme agreed between management and the Audit and Risk Assurance Committee also forms a strong part of ARB's management of risk. The programme provides assurance on the internal controls and on specific areas of risk which arise through ARB's operations. Reviews are undertaken and reported both to Operational Management Group and the Audit and Risk Assurance Committee, and where appropriate a timetable for improvement is agreed and then monitored. The work plan is drawn up based on the risks, priorities and opportunities faced by ARB.

An internal audit of the ARB's risk management structure will be undertaken at least every three years.

Key Risk Indicators

Key risk indicators (KRIs) should be set for risks, where possible. A KRI is a measure used in management to indicate how risky an activity is. Key risk indicators are metrics used by organisations to provide an early signal of increasing risk exposures in various areas of the enterprise. It differs from a key performance indicator (KPI) in that the latter is meant as a measure of how well something is being done while the former is an indicator of the possibility of future adverse impact. KRIs give an early warning to identify potential events that may harm continuity of an objective.

There will be certain risks where it is not possible to set an appropriate KRI because of the nature of the risk and outcomes. Other issues, such as those relating to staff turnover or an increase in the number of registrants removed from the Register for non-payment of the retention fee, can have easily measurable KRIs put in place. KRIs essentially act as an alert to the management team and Accounting Officer as to when a risk requires escalation to the Operational Management Group or the Board.

Conclusion

This Risk Management Policy outlines ARB's policy on managing risk. To be effective, managing risk must be understood and accepted as an important area of ARB's responsibilities, ensuring that ARB considers and responds to risk in an effective way.

The Risk Management Policy will be reviewed by the Board once a year, following advice from the ARAC.

Annex A

Risk Appetite shall be categorised using the definitions below. The descriptions of each level of appetite against typical classes of risk should only be taken as a guideline, and not exhaustive; additional categories of risks could emerge, and the matrix will be kept under regular review to improve the relevance of the definitions.

Appetite	**Descriptions**	**Indicative target score**
Averse	Avoidance of risk and uncertainty is a key organisational objective.	6 or below
Minimalist	Preference for ultra-safe options that have a low degree of inherent risk and may only have a potential for limited reward.	10 or below
Cautious	Preference for safe options that have a low degree of risk and may only have limited potential for reward.	12 to 15
Open	Willing to consider all options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward	15 to 10
Bold	Eager to be innovative and to choose options offering potentially higher business rewards, despite greater risk.	16 and above

Annex B

As well as setting a risk appetite for specific strategic risks, the Board will use the table below to define its risk appetite for the different categories of risk at a tactical and operational level. For example, the Board may set a 'minimalist' risk appetite for reputational risk. This risk appetite will form the basis for the target scores set by the management team on tactical and operational risk registers. Tactical and Operational risks that cannot be managed within the Board's risk appetite will be escalated to the accounting officer, and if necessary, the Board.

	1 Averse	2 Minimalis t	3 Cautious	4 Open	5 Bold
	Avoidance of risk and uncertainty is a key organisational objective.	**Preference for ultra-safe options that have a low degree of inherent risk and may only have a potential for limited reward.**	**Preference for safe options that have a low degree of risk and may only have limited potential for reward.**	**Willing to consider all options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward**	**Eager to be innovative and to choose options offering potentially higher business rewards, despite greater risk.**
Reputational	Minimal tolerance for any decisions that could lead to external scrutiny of the Board, government or the sector	Tolerance for risk taking limited to those events where there is no chance of any significant repercussion for the Board, government or the sector	Tolerance for risk taking limited to those events where there is little chance of any significant repercussion for the Board, government or the sector should there be a failure	Appetite to take decisions with potential to expose the Board, government or the sector to additional scrutiny but only where appropriate steps have been taken to minimise any exposure.	Appetite to take decisions that are likely to bring scrutiny of the Board, government or the sector but where potential benefits outweigh the risks.
Operational	Defensive approach to objectives - aim to maintain or protect, rather than to create or innovate.	Innovations always avoided unless essential.	Tendency to stick to the status quo, innovations generally avoided unless necessary.	Innovation supported, with demonstration of commensurate improvements in management control.	Innovation pursued - desire to "break the mould" and challenge current working practices.
	Priority for tight management controls and oversight with limited devolved decision making authority.	Decision making authority held by senior management.	Decision making authority generally held by senior management.	Responsibiity for non-critical decisions may be devolved.	High levels of devolved authority - management by trust rather than tight control.
	General avoidance of systems/technology developments.	Systems/technology developments limited to improvements to protection of current operations.	Systems/technology developments limited to high priority improvements to customer experience and based on established technologies	Systems/technology developments considered where the enhance priority operational delivery.	New technologies viewed as a key enabler of operational delivery.
Financial	Avoidance of financial loss is a key objective.	Only prepared to accept the possibility of very limited financial loss if essential.	Prepared to accept the possibility of some limited financial loss.	Prepared to invest for reward and minimise the possibility of financial loss by managing the risks to a tolerable level.	Prepared to invest for the best possible reward and accept the possibility of financial loss (although controls may be in place).
	Only willing to accept the low cost option.	Short term efficiency, cost saving and VFM is the primary concern.	VFM still primary concern but willing to also consider long term benefits.	Value and benefits may be delivered over long periods	Resources allocated to initiatives with speculative or highly intangible returns
	Resources withdrawn from non-essential activities.		Resources generally restricted to core operational targets.	Resources allocated in order to capitalise on potential opportunities.	
Compliance	Avoid anything which could be challenged, even unsuccessfully. Always follow government requirements and timescales.	Want to be very sure we would win any challenge.	Limited tolerance for being a "tall poppy". Want to be reasonably sure we would win any challenge.	Challenge will be problematic but we are likely to win it and the gain will outweigh the adverse consequences.	Chances or losing are high and consequences serious. But a win would be a leap forward for us as a regulator.

Risk Management Policy

Annex C

Risk description			Current Mitigation	Current risk		Total Current Risk (x*y+y)	Risk appetite	Target risk		Target risk score (x*y+y)	Planned actions
Risk/Control Owner	Cause	Effect		Likelihood (x)	Significance (y)			Likelihood (x)	Significance (y)		
Event											

Formula: (X*Y) x- Likelihood y= Significance

significance

Catastrophic	**5**	**5**	**10**	**15**	**20**	**25**
Major	**4**	**4**	**8**	**12**	**16**	**20**
Moderate	**3**	**3**	**6**	**9**	**12**	**15**
Minor	**2**	**2**	**4**	**6**	**8**	**10**
Insignificant	**1**	**1**	**2**	**3**	**4**	**5**
		1	**2**	**3**	**4**	**5**
		Remote	**Unlikely**	**Possible**	**Probable**	**Highly probable**

Likelihood

Annex D

Register of Risk Registers

	Register	**Owner**	**Last review**
Strategic	Strategic Risk Register	Registrar	
Tactical	Criteria Review Procedures Review Prescribed Examination Review	Head of Q&G Head of Q&G Head of Registration	
Operational	Operational Risk Register IT Risk Register Brexit Risk Register	Head of Registration Head of Registration Head of Registration	