The Institution of Engineering and Technology

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Board of Trustees

RISK STRATEGY AND APPETITE

(Paper by Emily Meek, Compliance and Risk Management Officer and Zaheed Hussein, General Counsel. If you have any questions on this paper before the meeting please contact Emily Meek on 01438 765674 or by email emilymeek@theiet.org)

1. Issue

The Risk Strategy requires an annual review and approval by the Board of Trustees.

2. Timing

Board of Trustees meeting, 10 June 2022.

3. For Recommendation

The Board of Trustees is invited to review and approve the updated Risk Strategy document set out in Appendix A.

4. Background

4.1. The Risk Strategy is a standing item on the Board of Trustees agenda for its June meeting.

4.2. The Board of Trustees first approved an IET Risk Strategy in October 2016 and has reviewed it annually since then.

5. Key Points

5.1. The amendments proposed to the Risk Strategy during this review is to update the address for the Stevenage office, updated Internal Audit function and other minor corrections. The reviewed version with changes highlighted can be found at Appendix A.

5.2. Crowe are currently conducting fieldwork for an Internal Audit on Risk Management. If the outcome of this requires any amendments to the Risk Strategy these will be brought back at a later date.

6. Risk

Risk appetite – risk averse. It is important to have a risk strategy and risk management processes in place.

7. Resources

No additional resource is required.

Appendix A to T(22)49

IET Risk Strategy

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IET Risk Strategy

1. Background

Any organisation faces risks in its activities. Responsibility for the IET's activities, and the risks that go with them, ultimately sits with the Board of Trustees (BoT).

The IET Risk Strategy outlines the IET's approach to managing risk, which we define as:

"The opportunities and uncertainties which may impact on the IET's ability to deliver its Royal Charter, Bye-laws and charitable purpose through its Vision, Mission and Strategy or which may jeopardise the IET's compliance with legal, contractual and regulatory requirements."

The Risk Strategy outlines the way in which the BoT leads, directs and oversees the IET's risk management which helps underpin the delivery of the IET's overall strategy and supports the IET's reputation and performance.

Risks must be understood and an effective and integrated system of risk identification, assessment and management must be implemented throughout the IET. The risk of missing opportunities must be considered as well as risks that are more commonly recognised, such as financial and reputational risk, which may impact on the IET.

The IET Risk Strategy is supplemented by the IET Risk Management Manual setting out the practical details of how risk will be identified, assessed, recorded and managed by the Executive Team and staff.

The IET Risk Strategy will clarify the IET's approach to risk; the Risk Management Manual sets out how risks are identified and managed.

2. The IET's integrated approach

Risks occur at every level of the IET and therefore the understanding of and management of risk must also exist throughout the Institution. The focus is on the risks themselves and the management of them and it is the culture of the organisation which will determine the success of achieving an integrated and effective approach, where considering risk is part of business as usual for all levels of staff and management. Integration is consistent with the IET values of Integrity, Excellence and Teamwork. The systems used for identifying and recording risk, for example the Strategic Risk Register, are tools to assist in and record risk; but merely using the tools does not manage risk.

Within the IET everyone should understand how they are required to contribute to managing risk through a culture of speaking up; openly discussing and identifying risks; and being able to challenge, regardless of role or position. Staff must think about issues which may be barriers or facilitators to success in their work. The Risk Strategy and Risk Management Manual enhance understanding of risk and provide a consistent approach.

A culture of openness will lead to risk management being integrated into business as usual. Focus should be on the quality of discussions about risk, not the tool used to record them.

3. The Purpose of Risk Management

The IET undertakes coherent risk management practices to give consistency and sustainability to the delivery of the Vision, Mission and Strategy, to support the Institution's values and to ensure compliance with legal, contractual and regulatory requirements. Effective risk management facilitates well-considered risk taking in the context of an agreed strategy and in the development of strategic opportunities.

Effective risk management enables a better approach to taking opportunities.

4. Roles and Responsibilities for Risk

The Board of Trustees

The BoT has overall accountability for risk management, and delegates responsibility for managing risk to the Executive Committee and staff. A fundamental aspect of risk management is assurance that appropriate systems of controls and actions are in place, along with a robust and transparent reporting mechanism for strategic risk. The Board achieves this by having effective oversight procedures in place. In addition to the identification of strategic risk, which is a joint responsibility with the Executive Team, the BoT will receive an overview of strategic risk on a quarterly basis for their consideration, with a particular focus on any emerging risks to the current IET strategy or objectives or on strategic risks that are above the level of tolerance.

The Audit and Risk Process Committee

The Audit and Risk Process Committee is an integral part of risk oversight and assurance for the BoT. The Committee reviews the Strategic Risks and also determines work to be undertaken by Internal Audit.

The Finance and Investment Committee

The Finance and Investment Committee takes responsibility for the oversight of the financial performance of the Institution and proposes options for timely actions to mitigate risks to satisfactory financial performance.

Internal Audit

The Internal Audit function supports the BoT in providing assurance, evaluation and improvements to the effectiveness of the IET's risk management, control, and governance processes. Internal Audit reports directly to the Audit and Risk Process Committee. The internal audit function is provided by Crowe U.K. LLP

Main Boards

The Main Boards (Knowledge Services and Solutions Board, Membership and Professional Development Board and the Volunteer Engagement Board) which report to the BoT have oversight of the activities of the IET's Directorates and work with the BoT and Executive Team to manage strategic risk and with the Executive Team to manage operational risk.

Council

The IET Council has within its scope the role of monitoring governance.

The Executive Team

The day-to-day oversight and management of risk is dealt with by the Executive Team, who lead and encourage good, sound risk management practices.

All Staff

All members of staff have an important role to play in identifying, assessing and managing risk. To support staff in this, and consistent with its values of Integrity, Excellence and Teamwork, the IET nurtures a fair, open, consistent and non-judgemental culture reflecting a willingness to be open and honest and to report any situation where things have, or could go wrong. All staff are able either to speak to their manager(s) or, they may consult the Legal and Compliance Team who will help them assess the risk and consider appropriate steps.

The IET Project Office

The Project Office provides support to all of the IET's projects. It provides a framework for recognising and managing risk across all projects.

Everyone has a role in the IET's risk management.

5. Risk Management Operations

The IET has established a risk management function as part of the Legal and Compliance Team, which reports into the Director of Governance and External Engagement.
Support for the identification and management of Strategic Risks is also provided by the Strategic Planning Manager.

The IET's governance framework includes an Audit and Risk Process Committee whose terms of reference include: '*to review management's and the internal auditor's reports on the effectiveness of systems for internal financial control, financial reporting and risk management*."

Risk management is a standing item on the agenda for Board of Trustees meetings through the Chief Executive and Secretary's Report on Risks, and at the Audit and Risk Process Committee

The IET maintains a Risk Management Manual which outlines in detail the systems maintained and roles in place to manage risk.

The risk management operations are designed to ensure good governance and monitoring of risk. However, everyone has a role in the *management* of risk.

6. Risk appetite and tolerances

Active management of our risk appetite (the risk that the IET is willing to take on) and risk tolerance (the level of risk which is acceptable in our activities) is the technique used to control how much risk our organisation is willing to accept. Where the current level of risk exceeds the risk appetite, the relevant activity will need to be reviewed and consideration given to mitigating the risk further or taking other action such as stopping the activity.

The IET is a charity and it is important that the IET safeguards its position in the longer term to deliver against its charitable purpose. We therefore have a very limited appetite for risks in respect of our reputation but a higher risk appetite for developing products and services which respond to the changing needs of society, and the engineering and technology community. The Board of Trustees is therefore keen that the IET is able, where appropriate, to take advantage of opportunities to increase its positive impact while managing risk proactively.

When thinking about appetite itself, for simplicity purposes, the following three overarching categories can be considered:

Category	Overarching definition
Risk Averse	Avoidance of risk and uncertainty is a key organisational objective
Risk Balanced	Preference for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward.
Risk Seeking	Eager to be innovative and to choose options offering potentially higher business rewards (despite greater inherent risk)

Then, when the risk appetite of different decisions and actions is considered, these are then applied across four core areas (financial, activity, regulatory and reputational), with the criteria applied based on the nature of the activity.

In view of the breadth of operations within the IET, there will inevitably be a variation in appetites and tolerances to risk across the different areas within the IET and the risks facing the

organisation. For example, our appetite for taking strategic risks could vary considerably depending on whether it relates to compliance, finance, people, innovation (which could fall into two categories, one relating to our charitable purpose, and the other to our non-primary purpose activities, usually falling within our trading subsidiaries), or reputation.

The IET's risk appetite and tolerance in these and any other areas should be considered by the BoT when considering Strategic Risks.

The risk appetite and tolerance will vary according to the area of risk and there is no overall level across the IET. Risks will be considered individually and contextually to identify the level of appetite. The IET should be able to take advantage of opportunities to increase its positive impact while managing risk effectively.

7. Types of Risk

Risks are managed within three different categories: Strategic, Project and Operational.

Strategic Risks are those which may impact on the ability of the IET to deliver the Vision, Mission and Values and the IET Strategic Priorities. A strategic risk may occur from an external source and at a macro level, for example, the introduction of new legislation which impacts on the IET's ability to deliver key functions or operate in a particular jurisdiction; or a change in policy by the Engineering Council.

Alternatively, a strategic risk could relate specifically to the IET, for instance significant reputational damage could prevent the IET from fulfilling its influencing or thought leadership functions. Strategic risks often arise from external factors. The oversight of strategic risk rests with the BoT.

Project Risks are those that may impact on the ability of the IET to deliver a successful project and are managed by the Projects Office.

Operational Risks are those which may impact the delivery of particular operations or services, such as poor staff retention or revenue from a particular product or service. Operational risks can still raise challenges for the IET's delivery of its strategy, but they are unlikely to do so in isolation. Operational risks are managed within the Directorates of the IET.

Project and operational risks may escalate or crystallise individually or cumulatively to become strategic risks if they impact the IET's ability to deliver the Vision, Mission and Values and the IET Strategic Priorities.

The IET categorises risk as Strategic, Project and Operational. Risks evolve and should be regularly reviewed to check they are categorised correctly.

8. Identifying Risks

Identifying Strategic Risks

The Risk Management Manual outlines the methods used to identify strategic risks. A key element in the IET's integrated approach to risk is that risk will be considered and debated by both the BoT and the Executive Team. New risks can occur at any time and therefore strategic risks will be considered and reviewed on an ad hoc basis, as relevant, but existing risks will be reviewed at least annually.

Identifying Project Risks

Project risks should be identified and discussed during the project planning process and as they arise during the course of project implementation. Once a project has been completed, any remaining risks will be passed to the relevant department as operational (or strategic) risks.

Identifying Operational Risks

Responsibility for the identification and management of operational risks rests with the staff team, under the oversight and direction of the Executive Team and the Extended Leadership Team. The Risk Management Manual outlines the tools available to support risk identification but establishing a culture where staff are encouraged to discuss risk and speak out is the most important factor in identifying and managing operational risk.

Risk identification will take place throughout the IET in a continuous process and is not a once a year event.

9. Assessing Risk

Where a risk is identified, it will be assessed and consideration given to the likelihood of something happening and the impact it would have if it did. The appetite and tolerances for the risk will then be considered: is it a risk which the IET is willing to accept at its current level or is it one where steps should be taken to further control, mitigate or avoid the risk?

Controls should be considered to bring the risk to an acceptable level, by reducing the likelihood of an event or by mitigating its impact. "Impact" may be measured in financial terms or non-financial terms such as reputation loss or reduced standards of service. The risk should be re-assessed on a regular basis to ensure the effectiveness of control measures in place. If an identified risk comes to pass, the controls must be reviewed to see what measures can be implemented to prevent or better mitigate any recurrence.

The risk must be assessed for likelihood of occurrence and the potential impact on the Institution and its members and appropriate controls considered and implemented to enable the IET to take advantage of opportunities to increase its positive impact.

10. Risk Mitigation Tools

The IET has in place a number of risk mitigation tools to help both the assessment and monitoring of risk though appropriate levels of monitoring. The key tools are mentioned below.

a. **An open culture** – being able to talk about risk. "Setting the right principals and tone from the top, ensuring staff understand the risk appetite and desired behaviours"
b. **Good governance** – a robust structure of oversight and challenge, led by the Board of Trustees.
c. **The IET Strategic Risk Register** – used to support the identification, review and reporting of strategic risks.
d. **Your Directorate's own Operational Risk Register -** – used to support the identification, review and reporting of your Directorate's operational risks.
e. **The IET Risk Management Manual –** providing practical guidance on how to manage risk at the IET.

A range of tools will be provided to help assess and mitigate risk.

Approved by the Board of Trustees June 2022

Appendix A

Control Sheet

Risk Strategy Policy

Sponsor:	Simon Edwards, Director of Governance and External Engagement
Document reviewer:	General Counsel and Emily Meek, Compliance and Risk Management Officer
Document adopted on:	**1 October 2016**
Next review date:	**1 June 2023**

Review/change history

Date of Review/Change	Summary of changes	Version no.
October 2016	First Version – Dom Pickersgill	1.0
October 2018	Draft amends ready for approval by Board of Trustees – Emily Meek	1.1
May 2019	Updated logo and control sheet to fit current policy template style. Other minor amends ready for approval by Board of Trustees – Emily Meek	1.2
May 2020	Draft amends ready for approval by Board of Trustees	1.3
May 2021	Draft amends ready for approval by Board of Trustees	1.4
May 2022	Updated Stevenage address, Internal Audit functions and minor corrections, ready for approval by Board of Trustees	1.5