

<b>To:</b>	Legal Services Board	
<b>Date of Meeting:</b>	26 May 2016	<b>Item:</b> Paper (16) 41

<b>Title:</b>	LSB Risk Management Strategy – annual review	
<b>Workstream(s):</b>	Corporate	
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<b>Status:</b>	Official	

### Summary:

The LSB's Risk Management Strategy (**Annex A**) requires the Board to undertake an annual review of its approach to risk.

The Board last reviewed the Strategy in November 2014. The annual review for 2015 was postponed, with the agreement of the Audit and Risk Assurance Committee (ARAC), in order to take account of a trial being undertaken by the executive of inherent risk scoring.

The Strategy was subsequently reviewed by ARAC at its March 2016 meeting and comes to the Board with the Committee's endorsement. It contains one substantive amendment since 2014, which is to incorporate the use of inherent risk scoring into the risk management process.

In endorsing the Strategy to the Board, **ARAC asked that the Board explicitly confirm whether the Board's tolerance for risk remains** as stated - namely '**low**' for operational risk (including financial) and '**relatively high**' for strategic risk.

In line with best practice in corporate governance, the Board should ensure that the stated tolerances for risk remain in accordance with the Board's actual approach when risks emerge in practice. This is particularly important when the Strategy provides a steer for executive activity in managing and mitigating risk at working level. The current stated tolerances have been on the face of the Strategy since inception.

As the Board discusses its risk tolerance, it is important to note that the terms used are subjective rather than objective and that as such there is no set definition.

The sections of the Risk Management Strategy that have been updated in light of these changes are highlighted in yellow in **Annex A**.

### Recommendation(s):

The Board is invited:

- 1) to confirm the Board's strategic and operational risk tolerance and

2) in light of the decision on 1), to review and agree the Risk Management Strategy.

**Risks and mitigations**

**Financial:** N/A

**Legal:** N/A

**Reputational:** N/A

**Resource:** N/A

Consultation	Yes	No	Who / why?
<b>Board Members:</b>	✓		Reviewed by ARAC
<b>Consumer Panel:</b>		✓	N/A.
<b>Others:</b>	Reviewed by ARAC in March 2016		

**Freedom of Information Act 2000 (Fol)**

Para ref	Fol exemption and summary	Expires
tbc		

## LEGAL SERVICES BOARD

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### LSB Risk Management Strategy – annual review

#### Background / context

1. The LSB's Risk Management Strategy (**Annex A**) requires the Board to undertake an annual review of its approach to risk.
2. The current Strategy was revised significantly in 2013/14, and has been reviewed and endorsed by ARAC and the Board twice since then, in November 2013 and 2014. The annual review for 2015/16 was postponed with the agreement of ARAC to allow for account to be taken of a trial of inherent risk scoring (as recommended by internal audit in 2014).
3. The ARAC agreed to endorse the updated Risk Management Strategy, which incorporates the use of inherent risk scoring, at its meeting in March 2016. In addition, some minor drafting amendments were made
4. The sections of the Risk Management Strategy that have been updated in light of these changes are highlighted in yellow in **Annex A**.
5. ARAC endorses the Risk Management Strategy to the Board.

#### Use of inherent risk scoring

6. Inherent risk scoring was introduced for a trial period of six months. The decision to trial the enhanced technique reflected a recommendation by internal audit in 2014, which highlighted that it would be an enhancement to prevailing processes. Whilst initially sceptical, the Executive have found the added metric useful in providing more consistency in discussions of risk and more context when determining the effectiveness of mitigating actions.
7. The Board will see the inclusion of inherent risk scoring in Paper (16) 42 – the Corporate Risk Register.
8. The Executive recommended to the ARAC that the use of inherent risk be introduced permanently to the LSB Risk Management Strategy and this was agreed.

#### Risk tolerance

9. In its discussion of the Strategy in March 2016, ARAC members queried the basis for the Board's risk tolerance as included in the Strategy at paragraph 2.4. Specifically, ARAC was keen to make sure that the Board discuss whether the

risk tolerances have changed since the Strategy was last reviewed in November 2014. (This section has been highlighted in green in Annex A).

10. The current risk tolerance stands at '**low**' for operational risk (including financial) and '**relatively high**' for strategic risk. The Board has been operating with these risk tolerances for some time, reflecting the aspiration for taking robust and challenging decisions on strategy whilst being cautious on operational matters in particular those concerning budget.
11. In light of the important steer that the Strategy provides the executive as it manages working level risk, ARAC were concerned to ensure that the Board agreed that these tolerance levels, particularly the 'relatively high' tolerance for strategic risk, reflected the reality of the way the Board works and the decisions it takes on regulatory matters.
12. In considering the levels, it is important to note that there is no set definitions for the levels of risk tolerance; terms such as 'low' and 'relatively high' are subjective, rather than objective, and need to feel appropriate to the Board.
13. It is also important to note that whilst clearly defining and articulating the Board's risk tolerance is important for providing a steer to the executive, it does not constrain options or to stipulate any particular course of action in any case that arises.
14. The Board is encouraged to reflect on its tolerance for risk and consider whether the operational risk tolerance is still considered 'low' and the strategic risk tolerance 'relatively high'.

**Matter for decision**

The Board is invited:

- a. to confirm the Board's strategic and operational risk tolerance and
- b. in light of the decision on 1), to review and agree the Risk Management Strategy.