Risk Management Policy

December 2022

|  |  |
| --- | --- |
| **Document version control table** | |
| **Status** | Version 3.0 |
| **Approved by** | BCT Board |
| **Date of approval** | 14 December 2022 |
| **Expiry/review date** | 31 December 2023 |
| **Policy sponsor** | BCT CEO |
| **Policy owner** | BCT Manager, & Governance |
| **Policy contact** | BCT Principal Governance Officer |
| **Document location** | CM9: DOC23/807733 |
| **Superseded documents** | CM9: EF18/9144 |
| **Version control** | Version 3.0 updated 16 August 2023 reflects the changes made to Version 2.0 dated December 2022 (CM9 DOC23/816053)  Version 3.0 Section 8.1 Risk Assessment Criteria has been updated to include the BCT risk consequence criteria (page 12) and the BCT control effectiveness table (page 13)  Version 3.0 Section 6 updated to reflect Board decision in December 2022 to move the review of the Risk Management Framework documents from annual to a biennial review (CM9 Ref: DOC23/76288-1)  Version 3.0 Section 8.2 updated Risk Appetite Statement approved by the Board on 5 September 2023 |

Table of Contents

[2. Purpose 4](#_Toc83283401)

[3. Scope and application 4](#_Toc83283402)

[4. Related legislation, standards, and policies 4](#_Toc83283403)

[5. Policy 5](#_Toc83283404)

[5.1 Commitment to Risk Management 5](#_Toc83283405)

[5.2 Risk Management Framework 5](#_Toc83283406)

[5.3 Risk Governance 6](#_Toc83283407)

[5.4 Linking Risk Management and Strategy 6](#_Toc83283408)

[5.5 Roles and Responsibilities 7](#_Toc83283409)

[5.6 Risk Registers 9](#_Toc83283410)

[5.7 Internal Audit Process 9](#_Toc83283411)

[5.8 Risk Reporting 9](#_Toc83283412)

[5.9 Risk Appetite Statement 10](#_Toc83283413)

[5.10 Risk Management Continuous Improvement 10](#_Toc83283414)

[6. Policy Management and Implementation 11](#_Toc83283415)

[7. Document Control Management 11](#_Toc83283416)

[8. Appendices 12](#_Toc83283417)

[8.1 Risk Assessment Criteria 12](#_Toc83283418)

[8.2 Risk Appetite Statement 13](#_Toc83283419)

[8.3 Definitions 14](#_Toc83283420)

# 

# Purpose

The NSW Biodiversity Conservation Trust (BCT) operates in a complex physical, environmental, social, and political context, facing a diverse and complex array of challenges and risks. The BCT must manage risks effectively to achieve objectives and deliver programs and strategies.

Risk is the effect of uncertainty on objectives Risk is inherent in all business activities, all BCT employees continuously manage risk. Risk management is defined in the Australian Standard as ‘coordinated activities to direct and control an organization regarding risk’. This document sets out the overarching policy for managing risk at the BCT.

The BCT recognises that the aim of risk management is not to eliminate risk totally, but rather to provide the structural means to identify, prioritise and manage the risks involved in all our activities. It requires a balance between the cost of managing and treating risks and the anticipated benefits that will be derived. The BCT acknowledges that risk management is an essential element in the framework of good corporate governance and is an integral part of good management practice. The intent is to embed risk management in a practical way into business processes and functions via approval processes, review processes and controls to add significant value to the BCT.

# Scope and application

This policy applies to all BCT employees, consultants and contractors. It applies to all BCT management processes, including strategic and business planning, policy development and implementation, program design and management, service delivery, and decision making and resource allocation at strategic and operational levels. Its aim is to ensure that the activities of the BCT are undertaken within Board-approved risk appetite and tolerance levels to protect the activities, operations, and reputation of the BCT.

Embedding risk management principles and practices into strategy development and day-to-day operational processes is critical to achieving robust and proactive business outcomes – a balance between mitigating threats and exploiting opportunities. This policy establishes the top-level framework for risk management at the BCT and should be read in conjunction with the BCT Board’s Risk Appetite Statement and associated artefacts.

# Related legislation, standards and policies

In implementing this Risk Management Policy, the BCT will be guided by:

* [*Biodiversity Conservation Act 2016*](https://legislation.nsw.gov.au/view/html/inforce/current/act-2016-063)
* [Biodiversity Conservation Regulation 2017](https://legislation.nsw.gov.au/view/html/inforce/current/sl-2017-0432)
* [AS/ISO 31000:2018](https://www.iso.org/obp/ui#iso:std:iso:31000:ed-2:v1:en) Risk management – Guidelines
* NSW Treasury [Internal Audit and Risk Management Policy for the General Government Sector (TPP20-08)](https://www.treasury.nsw.gov.au/sites/default/files/2022-02/tpp20-08_internal-audit-and-risk-management-policy.pdf)
* Annual Reports (Departments) Regulation 2010, under which government agencies are required to report on their risk management activities
* [*Work Health and Safety Act 2011*](https://www.legislation.gov.au/Details/C2018C00293) and associated regulations
* [*Government Sector Audit Act 1983*](https://legislation.nsw.gov.au/view/html/inforce/current/act-1983-152)
* [*Civil Liability Act 2002*](https://legislation.nsw.gov.au/view/html/inforce/current/act-2002-022)
* [The BCT Business Plan](https://www.bct.nsw.gov.au/publications#bct_business_plan_2471).

# Policy

The policy covers the following areas.

### Commitment to risk management

The BCT Board and management are committed to the implementation and maintenance of a formal risk management system, including the integration of risk management throughout the organisation, which is fundamental to achieving strategic and operational objectives.

### Risk management framework

The Australian Standard [AS/ISO 31000:2018](https://www.iso.org/obp/ui#iso:std:iso:31000:ed-2:v1:en) and the [Internal Audit and Risk Management Policy for the General Government Sector (TPP20-08)](https://www.treasury.nsw.gov.au/sites/default/files/2022-02/tpp20-08_internal-audit-and-risk-management-policy.pdf) form the basis of this policy . TPP20-08 provides the foundations and organisation arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the BCT. Figure 1 below illustrates this framework:

**Figure 1**



### Risk governance

An effective risk management system is dependent on a governance structure that has:

* roles and responsibilities defined
* adequate separation of duties
* proper systems of supervision and monitoring of activities and transactions
* risk consciousness and a proactive approach to managing risks across the structure.

### Linking risk management and strategy

Embedding risk management principles and practices into strategy development as well as day-to-day operational processes is critical to achieving robust and proactive business outcomes – a balance between mitigating threats and exploiting opportunity.

As a general principle, the risk management process is to be undertaken in conjunction with strategic planning. The risks identified and evaluated as part of the strategic planning process will be the risks that will affect the entire BCT and its ability to achieve its vision.

Risk registers are the primary mechanisms to bring corporate, business and operational/functional strategies, as articulated in the hierarchy of strategic plans, together to ensure appropriate risk minimisation plans are built into strategic implementation plans. Figure 2 below illustrates how this occurs.

**Figure 2**



The BCT has different levels of risk ranging from overall business risks, such as the positive and negative impacts of making large funding decisions, through to the risks associated with our failure in communicating effectively with stakeholders. Our risk management system needs to allow an integrated and linked process of managing and reporting risks.

### Roles and responsibilities

Risk management is the responsibility of all staff, with some staff having specific responsibilities and accountability:

| **Role** | **Responsibility** |
| --- | --- |
| Board | The Board is responsible for setting policies, controls, procedures and systems that are necessary for BCT to be able to effectively manage, monitor and control exposure to risk. This includes setting the risk appetite and giving effect to the BCT governance and risk management frameworks. |
| Audit and Risk Committee (ARC) | Pursuant to the ARC Charter, the role of the ARC is to:   * monitor and control exposure to risk, develop the BCT risk appetite statement and provide advice to the Board * review whether management has in place a current and appropriate risk management framework that is consistent with AS/NZS ISO 31000:2018 * review risk management plans and provide advice to the Board (including in relation to OT and cyber-security risks) * seek assurance from management and internal audit that risk management processes are operating effectively * seek assurance from management and internal audit as to the adequacy and effectiveness of internal controls * review risk reports, including the risk register and provide advice to the Board * review whether a sound and effective approach has been followed in developing risk management plans for major programs * review the impact of the BCT’s risk management on its control environment and insurance arrangements * review the BCT’s fraud control plan and be satisfied that it has appropriate processes and systems in place to capture and effectively investigate fraud related information   review whether a sound and effective approach has been followed in establishing the BCT business continuity planning arrangements, including whether disaster recovery plans have been tested periodically. |
| Chief Executive Officer (CEO) | The CEO is responsible and accountable for risk management at the BCT:   * ensuring that a risk management framework is tailored to the needs of the agency and consistent with AS/NZS ISO 31000:2018 is established, implemented, monitored and maintained * ensuring that managers and decision makers at all levels understand that they are accountable for managing risk within their sphere of authority * ensuring that all staff (permanent, temporary or contractors) are aware they are accountable for managing risk in their day-to-day roles, including carrying out their roles in accordance with policies and procedures. |
| Chief Risk Officer (CRO) | The BCT CRO leads the risk management function and is responsible for ensuring risks are mitigated. The CRO is also the primary risk champion and is responsible for designing the BCT risk management framework and for the day-to-day activities associated with coordinating, maintaining, and embedding the framework in the BCT.  The CRO is responsible for:   * championing risk management * monitoring identified risks across the BCT and the effective implementation of the BCT Risk Management Policy * enabling staff to monitor identified risks, including: the review, updating and completion of risk treatment plans; reviewing risks for completeness, continued relevance, and effectiveness of controls, taking into account changing circumstances * managing any assigned strategic risks. |
| Governance team | The Governance team is responsible for:   * developing and maintaining the BCT Risk Management Policy, plan, procedures, tools, training, and documentation, working across all branches * providing advice and assistance on risk management to the Executive, branches, and teams * providing risk-related education, training and awareness across the organisation and acting as an advocate for effective risk management * reporting regularly on risk management to the Executive and ARC * managing the online risk management system, including provision of specialist support to the BCT in the use of the system. |
| Directors | Directors are responsible for:   * championing risk management within their area of responsibility * identifying, assessing, and addressing the risks to objectives within their sphere of authority * enabling staff to monitor identified risks, including the review, updating and completion of risk treatment plans; and reviewing risks for completeness, continued relevance, and effectiveness of controls, considering changing circumstances * establishing and maintaining risk registers, including any risks associated with outsourced activities. |
| Senior managers | Senior managers are responsible for:   * identifying, assessing, and addressing the risks to objectives within their sphere of authority * ensuring risks are escalated where necessary to a relevant Director * enabling staff to monitor identified risks, including: the review, update, and completion of risk treatment plans; reviewing risks for completeness, continued relevance and effectiveness of controls, considering changing circumstances * establishing and maintaining risk registers, including any risks associated with outsourced activities. |
| Staff | All BCT staff are responsible for contributing to the risk management process by:   * identifying, reporting, managing and mitigating risks * encouraging and supporting other staff in identifying, reporting and/or managing risks * complying with the BCT policies and procedures designed to address risks. |
| Contractors/ consultants | Contractors and consultants contribute to the risk management process by identifying, reporting and/or managing risks in their sphere of activity and by complying with the BCT policies and procedures. This obligation should feature in contracts. |

### Risk registers

The BCT maintains a central risk register that identifies strategic and operational risks to the business. Risks are assigned to Risk Custodians and Risk Stewards. The risk register:

* uses a system of unique risk identifications (ID) that provide a linkage of risk to the BCT core strategies and functional business areas
* lists the risks that could cause losses to be incurred and possible causes
* lists the likelihood and consequences of the risk occurring
* provides an assessment of the inherent risk rating, risk controls and control effectiveness
* details the existing risk mitigation (treatments)
* provides an assessment of the residual risk rating

Whenever any functions or systems are developed or changed, or new strategies, products or projects are considered, management is required to carry out a risk assessment. The review is carried out using the procedures and tools set out in BCT risk management methodology. New risks may be added to the risk register (and old risks retired from the register) with the approval of the Audit and Risk Committee.

### Internal audit process

The Internal Audit service provider:

* supports the development of a risk-based four-year Strategic Internal Audit Plan, and an Annual Internal Audit Plan (developed with reference to the Strategic Internal Audit Plan)
* reviews in-scope financial and non-financial policies and operations
* specifies audit objectives in internal audit terms of reference, relevant to the subject of the audit.

In addition to specific audits, the Internal Auditor may also provide advice in relation to the areas of risk management, compliance, performance improvement, operations, and financial management; and information technology (to the extent it is managed within the BCT), as outlined in the BCT Internal Audit Charter.

Additionally, the Internal Auditor is also responsible for advising the Board of best practice in identifying risks and sharing lessons learnt from other entities.

The Chief Audit Executive (CAE) manages the relationship with the Internal Audit service provider and monitors and reports on the delivery of the Strategic Internal Audit Plan and the Annual Internal Audit Plan.

### Risk reporting

Risk is reported in the following ways.

***Board and Committee reporting***

The quarterly risk reports and risk dashboard are provided to the ARC and the Board. The ARC has a specific role in reviewing risks, and when necessary, advising the Board on actions to be taken. Board meetings are structured to involve management participation to allow members to obtain comments on matters likely or capable of affecting the BCT financial position, reputation, or future performance.

***Internal audit reporting***

The Internal Auditor provides the ARC with a report after completing its work program, (one audit/quarter) as per the scope of work agreed between the Internal Auditor and the ARC. The report will describe the review undertaken and tests performed, conclusions reached, corrective action plan, personnel responsible to take corrective action and completion dates. Preparation of the report will include management’s review to confirm accuracy of facts. Copies of the report are provided to the CEO. Relevant sections of the report are also provided to managers responsible for areas reviewed.

***Risk mitigation action plans***

Actions to improve risk mitigation are documented in the Risk Register. The Governance team will monitor the progress of implementing mitigating initiatives and reporting progress to the ARC.

### Risk appetite statement

Please refer to paragraph 8.2 in the Appendix for BCT’s Risk Appetite Statement. The statement indicates the amount and type of risk the BCT Board is willing to tolerate in the pursuit of its strategic goals.

### Risk management continuous improvement

The BCT assesses the effectiveness of its risk management framework through a well-structured continuous improvement process to ensure risks and controls are continually monitored and reviewed. This includes appraisal of actions taken by risk owners to manage risks, input from the internal auditor and other assurance processes. The risk management methodology is aligned with the principles of continuous improvement. It requires management to continually identify, assess, mitigate, review and report risks within their business units so that all risks are mitigated and managed to an acceptable level, in accordance with the BCT risk appetite statement. Figure 3 below illustrates the continuous improvement cycle in relation to risk management.

**Figure 3**



# Policy management and implementation

The Risk Management Policy is a living document that will be altered as required. Approval of the policy is vested with the Board. Reviews of the policy are the responsibility of the policy owner and will be conducted biennially. Advice and opinions on the policy will be given by the ARC. Implementation of this policy is the responsibility of the CEO.

# Document control management

Please refer to the document version control table on the first page of the policy.

# Appendices

### Risk assessment criteria

The BCT has adopted risk assessment criteria that are used to assess risk. The criteria include the likelihood and consequences tables, the overall risk rating matrix, the control effectiveness ratings and the BCT Board risk appetite statement. The risk criteria should be used when identifying, assessing or reviewing risks.

**Table 1 – Risk rating matrix**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Consequence Rating | Insignificant | Minor | Moderate | Major | Extreme |
| General Description | Affects the ability of a team in the BCT to achieve its objectives and can be managed within normal management practices | Affects the ability of a team in the BCT to achieve its objectives but requires management effort from areas outside the team | Affects the ability of a the BCT to achieve its objectives and requires significant coordinated management effort at the executive level | Affects the ability of the BCT to achieve its objectives and may require third party intervention. | Affects the ability of the BCT to achieve its objectives and requires third party intervention |
| Social and relationship | • Expected issues with stakeholders which are likely resolved in a timely manner within business-as-usual practices  • Error or oversight related to administrative practice that is corrected through normal business | • Risk event that is able to be and led at BCT / DPE level and unlikely to require Ministerial intervention / attention  • Loss of trust by stakeholder group(s) that require some management effort to resolve but does not damage brand  • Minor breach of NSW Government administrative policies  • Perceived fraud or corruption risks that can be addressed through information / communication | • Risk event or poor handling of risk event that requires Ministerial intervention / attention  • Loss of trust by stakeholder group(s) that require some management effort to resolve or damages brand in short term  • Breach of NSW Government administrative policies  • Minor fraud or corruption event that is not reportable to ICAC / addressed through other mechanisms | • Risk event or outcome from poor handling of risk event that threatens Ministers confidence in BCT achieving objectives  • Loss of trust by stakeholder group(s) that require significant management effort to resolve or damages brand in mid-term  • Major breach of NSW Government administrative policies / minor breach of law  • Fraud or corruption event that is reportable to ICAC | • Risk event or outcome from poor handling of associated risk event that causes Minister / Parliament / Government of the day to lose confidence in BCT delivering objectives  • Irreparable loss of trust by stakeholders  • Major breach of law  • Major and systemic fraud or corruption with sustained reputation damage to BCT |
| Financial | • Financial loss below $1,000  • Minor errors in internal financial reporting | • Financial loss $1,000 - $10K  • Minor error or oversight effecting financial controls / FIMF controls but not systemic  • Errors in internal financial reporting | • Financial loss to 5% of operating budget  • Minor breakdown of financial controls or breach of delegations  • Immaterial errors in external financial reporting / material error in internal reporting  • Breaches of FIMF controls and risk appetite settings but which do not adversely affect the achievement of BCT objectives | • Financial loss between 5% to 10% of operating budget  • Major isolated breakdown of financial controls or breach of delegations  • Significant errors in external financial reporting  • Breaches of FIMF controls and risk appetite settings which adversely affect the achievement of BCT objectives | • Financial loss greater than 10% of operating budget or which threatens BCT with insolvency  • Major and sustained breakdown of financial controls or breaches of delegations  • Material errors in external financial reporting  • Breaches of FIMF controls and risk appetite settings which threaten the achievement of BCT objectives |
| Human | • Injury requiring first aid only  • Poor staff behaviour but not requiring additional management action (e.g., policy reinforcement) | • Minor injuries to staff requiring emergency assistance and not due to WHS issue  • Instance of poor workforce culture but manageable under normal arrangements  • Minor breaches of NSW public sector values / Code of Conduct but manageable internally | • Isolated instances of non-life threating injuries to staff due to WHS issue (non-systemic)  • Instance of poor workforce culture which could cause stress to staff  • Isolated serious breaches of NSW public sector values / Code of Conduct but manageable internally | • Major non-life threating injuries to multiple staff due to systemic WHS issue  • Multiple instances of poor workforce culture which could cause increased stress to staff  • Significant breaches of NSW public sector values / Code of Conduct with reputation damage to BCT | • Death or multiple deaths of BCT staff or serious life-threatening injuries  • Sustained poor workforce culture which causes psychological harm to staff  • Major breaches of NSW public sector values / Code of Conduct with sustained reputation damage to BCT |
| Natural | • Internal policy / technical advice issue but within normal business parameters | • BCT action / lack of action effects ecological value in a conservation agreement area or threatened species but no net loss  • Reputation impacts arising from above  • Internal policy / technical advice issue causing increased effort | • BCT action / lack of action causes loss of ecological value in a conservation agreement area or threatened species  • Reputation impacts arising from above  • Isolated poor policy / technical advice provision | • BCT action / lack of action causes systemic loss of ecological value in significant conservation agreement area or significant impact on threatened species  • Reputation impacts arising from above  • Multiple issues with policy / technical position or provision | • BCT action / lack of action causes systemic serious loss of ecological value in whole conservation estate or irreversible impact on threatened species  • Reputation impacts arising from above  • Systemic issue with policy/technical position or provision |
| Intellectual | • Internal records management compliance matter addressed through normal management | • Minor loss of BCT records / data  • Business as usual recoverable business information systems issue or event  • Breach of BCT information management but internally manageable | • Loss of BCT records / data  • Minor recoverable failure of BCT business information systems  • Breach of BCT information management with privacy or data management implication  • Reputation damage arising from above | • Loss of significant BCT records / data  • Significant but recoverable failure of BCT business information systems  • Breach of BCT information management with major privacy or data management implication  • Reputation damage arising from above | • Total and complete loss of BCT records / data  • Unrecoverable failure of BCT business information systems  • Breach of BCT information management with very serious privacy or data management implication  • Reputation damage arising from above |

**Table 2 – Likelihood measures**

|  |  |  |
| --- | --- | --- |
| **Likelihood Rating** | **Frequency** | **Probability** |
| **Rare** | The event could occur in exceptional circumstances | Less than 1% |
| **Unlikely** | The event might occur sometime in next 20 years | More than 1% and up to 5% |
| **Possible** | The event might occur at some time in the next five years | More than 5% and up to 20% |
| **Likely** | The event will probably occur once during the year | More than 20% and up to 99% |
| **Almost Certain** | The event is expected to occur in most circumstances, and frequently during the year | More than 99% |

**Table 3 – Consequence measures**

|  |  |
| --- | --- |
| Insignificant | Affects the ability of a team in the BCT to achieve its objectives and can be managed within normal management practices |
| Minor | Affects the ability of a team in the BCT to achieve its objectives but requires management effort from outside the team |
| Moderate | Affects the ability of the BCT to achieve its objectives and requires significant coordinated management effort at the executive level |
| Major | Affects the ability of the BCT to achieve its objectives and may require third party intervention |
| Extreme | Affects the ability of the BCT to achieve its objectives and requires third party intervention |

**Table 4 – Risk Matrix**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Likelihood** | **Consequence** | | | | | | | | |
| **Insignificant** | **Minor** | | **Moderate** | | **Major** | | **Extreme** | |
| **Almost certain** | **Medium** | | **High** | | **High** | | **Very High** | | **Very High** |
| **Likely** | **Low** | | **Medium** | | **High** | | **Very High** | | **Very High** |
| **Possible** | **Low** | | **Medium** | | **Medium** | | **High** | | **High** |
| **Unlikely** | **Negligible** | | **Low** | | **Medium** | | **Medium** | | **High** |
| **Rare** | **Negligible** | | **Negligible** | | **Low** | | **Medium** | | **Medium** |

**Table 4 – Control effectiveness**

|  |  |  |  |
| --- | --- | --- | --- |
| **Ineffective** | **Needs Improvement** | **Reasonable** | **Effective** |
| Major risk exposure  The control design does not meet the control objective.  The control is not being applied or applied incorrectly.  New or improved controls required. | Substantially risk exposure. The control design mostly meets the control objective. Control is normally operational, however is occasionally not being applied or applied incorrectly.  Significant improvement required. | For most Controls:  The control design meets the control objective.  The control is operational majority of the time and being correctly applied (test evidence).  Some improvement available. | For all Controls:  The control design meets the control objective.  The control is operational majority of the time and being correctly applied (test evidence).  No further improvement required. |

### Risk appetite statement

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *Risk management is the culture, processes and structures that are directed towards taking advantage of potential opportunities while managing potential adverse effects. Risk management begins with understanding the risk appetite. The board’s role is to set the risk appetite of the organisation and then to ensure it has a risk management framework to identify and manage risk on an ongoing basis.[[1]](#footnote-2)*  The approved BCT Board Risk Appetite Statement articulates the level of risk the BCT is willing to accept in pursuing its purpose and goals.  The BCT Board expects BCT management to establish and implement a Risk Management Framework and Plan, a Conformance Management Framework and Plan, and a Funds and Investment Management Framework consistent with this statement.  The BCT Board has established an Audit and Risk Committee to oversee risk management. BCT management and the ARC will provide quarterly reports to the BCT Board if any significant risks are realised and on the development of risk management controls.  **Application**  Risk tolerance levels are embedded for the type of risk and risk category and should be used by Risk Owners and Risk Managers to identify the level of *residual* risk they expect to achieve once risk treatments are completed.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Risk category**  **(The six capitals)** | **Risk** | **Risk appetite** | **Risk position** | **Risk tolerance** | | 1. Social and relationship capital:  our relationships with landholders, stakeholders, the government, and the community  REPUTATION & TRUST[[2]](#footnote-3) | Failure to achieve strategic goals | Neutral to Open | The BCT Board is motivated to maximise the biodiversity conservation outcomes achieved with the public funds entrusted in the BCT by the NSW Government. The BCT strives to be strategic, effective, efficient, and innovative in the delivery of biodiversity conservation programs. The BCT recognises that failure to adapt to changing economic or political environments may impact on our ability to achieve strategic goals.  After taking account of various strategic alternatives, the BCT builds and delivers its programs considering a long-term planning horizon and the need to remain adaptive to an inevitably evolving physical environment and operating context.  The BCT develops clear goals in our business plan and key performance indicators (KPIs) to measure progress against our legislative objects and goals. We are transparent and accountable to the community through our annual report to the Minister and Parliament.  We are open to some risk associated with being innovative in exploring the best ways to achieve our objectives, including through alternative delivery mechanisms and third-party partnerships. | Medium | |  | Harm to the BCT’s reputation | Conservative | The BCT aspires to be nationally recognised in advancing biodiversity conservation and improving the financial sustainability of landholders participating in funded agreements across NSW.    The BCT has a clear brand identity and positioning aligned with our strategic goals.  The BCT Board has an appetite for actively nurturing our reputation with customers, corporate investors and philanthropists, the NSW Government and all our stakeholders. The Board has a conservative risk appetite for partnering and receiving funds from third parties and has no appetite for irreparable loss of trust in our brand. However, the Board has an appetite for innovation, and are not motivated to totally avoid criticism.  The BCT Board recognises the need to be adaptive, responsive, and respectful in engagement with our various customer segments. | Low | |  | Breaches of the law or government policy | Averse | The BCT Board has no appetite for breaches of the law, including laws concerning privacy, intellectual property, contracts, and competition. The BCT Board has a low tolerance for breaches of NSW Government administrative policies and guidelines.  The BCT Board has a low appetite for failing to implement the Biodiversity Conservation Investment Strategy.  The BCT Board approves a conformance management framework and plan, and the Audit and Risk Committee (ARC) oversees BCT compliance performance. | Low | |  | Fraud, corruption, or maladministration | Averse | The BCT Board has no appetite for fraud, corruption or maladministration perpetuated by staff or third-party contractors and suppliers. Any potential identified breaches will be referred to the appropriate external body (e.g., Independent Commission Against Corruption or Ombudsman).  The BCT implements probity measures to protect the integrity and security of the markets through which it procures the conservation of biodiversity. | Low | | 2. Financial capital:  the funds available to the BCT to deliver programs and strategies  FINANCIAL | Poor asset management | Open | The BCT invests funds held in the Biodiversity Stewardship Payments Fund (BSPF) and funds held in the Biodiversity Conservation Fund (BCF) that are associated with funded conservation agreements with NSW Treasury Corporation (TCorp) Investment Management (IM) Funds. TCorp takes a prudent approach to risk. The BCT seeks to optimise investment settings to maximise investment returns while balancing this against appropriate investment risk settings.  The BCT generally pursues a higher-risk investment mix on the basis that the BCT is investing funds on an in-perpetuity basis. To give effect to this, the BCT Board is guided by actuarial analysis, modelling and advice provided by third party actuaries, and investment updates provided by TCorp. The BCT Board expects the BCT to maintain enough assets to support the present value of the future stream of payments to agreement holders. The BCT stands ready to be highly responsive to black swan events.  The Board is open to using some cash assets to acquire real property and biodiversity credits, to advance the BCT’s other strategic objectives. | Medium | |  | Poor financial management | Averse | The BCT Board has no appetite for a breakdown of financial controls, mismanaging our funds or material errors in financial reporting.  The Board has no appetite for a breach of the controls and limits on administrative and financial delegations.  Financial management is monitored by the ARC and is subject to internal audit, pursuant to strategic and annual internal audit plans approved by the ARC, and external audit by the NSW Audit Office.  The BCT Board has no appetite for fraud.    The BCT Board has a low appetite for threats to efficiency and effectiveness. | Low | |  | Poor Biodiversity Offsets Program administration | Averse | The Department of Planning and Environment (DPE) is responsible for setting the discount rate used to calculate the present value of future biodiversity stewardship agreement payments (PV-BSAPs).  The BCT Board expects DPE to set an appropriate discount rate based on actuarial advice and consideration of a suitable starting position for the adequacy of the funds to be set aside in the Biodiversity Stewardship Payments Fund for each Biodiversity Stewardship Agreement.  The BCT Board expects the BCT to maintain and update the Biodiversity Offsets Payment Calculator (BOPC) so that, on average, the BCT recovers the costs incurred in securing the necessary offsets (as per the then Minister for the Environment’s second reading speech on the *Biodiversity Conservation Bill 2016*). | Low | | 3. Human capital:  our people’s intelligence, skills, knowledge, experience, health, and productivity  WORKFORCE | Harm to the health and safety of our staff | Averse | The BCT Board and Executive are committed to creating a safe working environment for the wellbeing of all staff, where people are protected from physical and psychological harm. The Board and Executive have no appetite for practices or behaviours that could be expected to lead to staff being harmed while at work.  The BCT maintains workers compensation insurance through iCare (the NSW Self Insurance Corporation). | Low | | A poor culture or a disengaged staff | Conservative | The BCT Board expects the Chief Executive Officer to foster a positive culture in which staff are empowered, highly engaged in their work, satisfied with their jobs, and focused on the BCT’s purpose and outcomes.  Staff engagement and culture is assessed through the Public Service Commission’s annual People Matter Employee Survey.  The BCT Board expects staff to promote the public interest and adhere to the NSW public sector values of integrity, trust, service, and accountability as defined in the *Government Sector Employment Act 2013* and their Code of Ethics and Conduct. Staff are expected to meet general community standards. | Low | | 4. Natural capital:  the private land conservation and BOS agreements that support the BCT’s goals  BIODIVERSITY CONSERVATION | Poor conservation management of land under agreements | Neutral | The BCT provides cost-effective financial and technical support to our landholders to improve and maintain the ecological value of conservation areas.  The BCT delivers a risk-based Landholder Support Program. The BCT Board accepts there are some risks associated with an active Landholder Support Program. Risks will be identified and appropriately managed.  The BCT has implemented a risk-based ecological monitoring regime to inform assessment of the state of the private land conservation (PLC) estate. | Medium | | Failing to adapt to protect biodiversity to a changing climate | Expansion | BCT investment areas are guided by the targets and investment principals set out in the Biodiversity Conservation Investment Strategy, which is regularly reviewed to accommodate climate related scientific research and the resulting legislative and policy changes required to adapt to a changing climate. The BCT Board is open to developing new mechanisms to support landholders to adapt to climate change and build resilient protected areas.  The BCT Board has an appetite for innovation and taking risks in the area of new programs emerging from nature capital and biodiversity markets to protect, restore and manage native vegetation and biodiversity on private land. | High | | 5. Intellectual capital:  our knowledge-based intangibles, including our intellectual property, programs, delivery mechanisms, systems, databases, and tacit knowledge  PROGRAM DELIVERY | Poor or ineffective programs | Open | The BCT’s stewardship of protected land requires it to periodically assess the success or otherwise of its programs’ conservation actions. In performing those assessments, the BCT Board is open to the employment of effective and efficient monitoring technologies, including aerial imagery and citizen science.  The BCT Board is open to developing cost-effective and innovative business systems to support delivery of programs. | Medium | | Poor or ineffective business information systems | Conservative | The BCT Board has a very low appetite for risks to the availability and security of business information systems that support its critical functions and the privacy of its confidential and customer data.  The BCT Board has a low appetite for less than rigorous data and information management.  The BCT Board has a low appetite for poor provision of corporate services.  The BCT assesses and makes informed decisions about intellectual property on a project-by-project basis. | Low | | 6. Manufactured capital:  our buildings, land, equipment, and infrastructure  ASSETS | Damage or loss to our property | Neutral | The BCT maintains insurance through iCare (the NSW Self Insurance Corporation) covering legal liability, cyber exposures, personal accident cover, motor vehicle and property.  For land acquired under the revolving fund, the BCT is covered for any public liability issues under legal liability cover.  The BCT’s physical buildings are covered through property insurance cover which covers loss and/or damage to all real and personal property owned by the BCT. | Medium |   **Risk appetite**   |  |  |  | | --- | --- | --- | | Averse | = Low | We avoid identified risks as far as is reasonably practicable at all times. | | Conservative | = Low | We are not comfortable with activities that may adversely impact BCT. | | Neutral | = Medium | We understand that some risk must be taken in pursuit of our purpose and goals. We will accept circumstances where more risk is taken so long as it is balanced against the opportunities in acting. | | Open | = Medium | We will accept instances where risk is well managed and outweighed by substantial prospective outcomes. | | Expansion | = High | We consciously take associated risks in pursuing innovative solutions to deliver strategic objectives. | |  |

### Definitions

|  |  |  |
| --- | --- | --- |
| **Term** | | **Definition** |
| **ARC** | | The Audit and Risk Committee of the BCT |
| **Australian Standard** | | Means the Australia/New Zealand Risk Management Standard AS/NZS ISO 31000:2018 |
| **Board** | | Means the Board of the BCT |
| **Chief Executive Officer (CEO)** | | Means the person appointed by the Board to lead the BCT on a day-to-day basis. The CEO reports directly to the Board. |
| **Chief Risk Officer (CRO)** | | Means the person appointed as Chief Risk Officer of the BCT and includes any person appointed to perform the duties of the Chief Risk Officer. |
| **Consequence** | | Outcome or impact of an event and may be expressed qualitatively or quantitatively. There can be more than one consequence from one event. Consequence can be positive or negative. Consequences are considered in relation to the achievement of objectives. |
| **Control** | | Measure to modify risk. This term is often used interchangeably with risk ‘treatment’. Specifically, controls are the result of risk treatment. Controls include any policy, process, device, practice, or other actions designed to modify risk. See Risk treatment. |
| **Event** | | The occurrence of a particular set of circumstances. The event can be certain or uncertain. The event can be a single occurrence or a series of occurrences. |
| **Exposure** | | Extent to which the BCT is subject to an event. |
| **Inherent risk** | | The intrinsic risk prior to considering any controls in place. |
| **Likelihood** | | General description of probability or frequency. It can be expressed qualitatively or quantitatively. |
| **Residual risk** | | The level of risk that remains after assessing the effectiveness of the controls, management strategies and other mechanisms currently in place to mitigate a particular risk. |
| **Risk** | | Risk is the exposure to unexpected financial or other damage arising from BCT business activities. The risk elements comprise market, liquidity, credit, operational, legal, compliance and reputation risks. |
| **Risk acceptance** | | Informed decision to take a particular risk. Risk acceptance can occur without risk treatment or during the process of risk treatment. Risks accepted are subject to monitoring and review. |
| **Risk analysis** | | The systematic process applied to understand the effect of the uncertainty of the risk on the BCT goals and objectives. |
| **Risk appetite** | | The BCT approach to assess and eventually pursue, retain, take or turn away from risk. |
| **Risk assessment** | | The overall process of risk identification, risk analysis and risk evaluation. |
| **Risk avoidance** | | A decision not to become involved in, or to withdraw from, a risk situation. |
| **Risk evaluation** | | Process of comparing the level of risk against risk criteria. Risk evaluation assists in decisions about risk treatment. |
| **Risk identification** | | The process of determining what might happen, how, when and why. |
| **Risk management** | | Risk management is the culture, processes and structures that are directed towards realising potential opportunities while managing adverse effects. |
| **Risk management framework** | | Set of elements of the BCT management system concerned with managing risk. |
| **Risk management methodology** | The methodology for the identification, analysis, assessment, mitigation and monitoring of risks is set out in the risk management methodology |
| **Risk management plan** | A document specifying the approach, the management components and resources to be applied to the management of risk. Management components typically include procedures, practices, assignment of responsibilities and sequence of activities. |
| **Risk management policy** | A statement of the overall intentions and direction of the BCT related to risk management. |
| **Risk management process** | The systematic application of management policies, procedures and practices to the tasks of communicating, establishing the context, identifying, analysing, evaluation, treating, monitoring and reviewing risk across all functions within the BCT. The process is supported by the Board and all personnel. |
| **Risk mitigation** | Measures taken to reduce an undesired consequence. |
| **Risk owner** | The person specifically assigned to manage the risk, including monitoring the risk, its controls and any treatments that are implemented. |
| **Risk register** | Document used for recording risk management processes for identified risks. Data recorded in the risk register(s) provides summary information for the BCT risk profile. |
| **Risk tolerance** | The acceptable variation relative to the achievement of an objective. |
| **Risk tolerance level** | Risk tolerance level is the level of acceptable risk exposure in respect of each identified risk approved by the Board. |
| **Risk treatment** | The process of selection and implementation of measures to modify risk. |
| **Stakeholders** | Those people and organisations who may affect, be affected by, or perceive themselves to be affected by a decision, activity or risk. |

1. Australian Institute of Company Directors, ‘Risk management: Role of the board’, (<https://aicd.companydirectors.com.au/~/media/cd2/resources/director-resources/director-tools/pdf/05446-5-12-mem-director-rob-risk-management_a4-web.ashx>). [↑](#footnote-ref-2)
2. Risk appetite category nomenclature that is used in BCT risk registers [↑](#footnote-ref-3)