

**GETTING TO GRIPS WITH**

# **RISK**

**RESOURCES FOR GOVERNORS OF UK UNIVERSITIES  
AND HIGHER EDUCATION COLLEGES**

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## FOREWORD

As the governance of higher education in the UK evolves, there are major implications for members of governing bodies: increasing expectations about how they undertake their role; a greater focus on measuring institutional performance with associated implications for information and strategy; coming to terms with an increasingly complex governance environment; and so on. All this means that governors (particularly new ones) need to be well prepared for their roles and the challenges they face, so that they can contribute effectively to their boards from the outset.

To support governors in this challenge, a set of resources has been commissioned by the Leadership Foundation for Higher Education and the Committee of University Chairs (CUC)<sup>1</sup> to help governors get to grips with the key resource areas for which they are unambiguously responsible. Produced with financial support from all the UK higher education funding bodies (coordinated through Hefce), five different volumes make up the complete set of materials on finance, audit, human resources, estates/infrastructure and - this one - risk.

In an easy to read format, this particular volume is intended to provide the core information that all governors need for a basic understanding of their responsibilities for risk. It is not intended to provide the specialist information that members of audit or risk committees might need, although references to the sources of such material are provided.

To support the text there are quotations from governors<sup>2</sup>, self-challenge questions, suggested activities, and critical incidents called 'governors' dilemmas'. The quotations - some provocative - do not represent any 'agreed' view of the topic concerned, but are rather designed to illustrate different opinions. Similarly, the self challenge questions are at the end of each chapter to enable readers to reflect on key issues for them, and not to be used as a vehicle for governors to place unreasonable demands on their governing body clerk or secretary!

For these reasons, the materials - self evidently - do not represent any agreed view which governing bodies are expected to adopt, but rather are intended to encourage self reflection, debate, and critical thinking. Although we expect that readers will agree with most of what is written, we also hope that some things will be contested.

The materials are intended to be used in different ways: as resources for individual governors; by HEIs as part of their in-house governor development activities (perhaps initiated by the clerk or secretary to the governing body or finance director); or as web based material (see [www.lfhe.ac.uk/governance](http://www.lfhe.ac.uk/governance)). The text does not consider broader issues concerning the overall responsibilities of governors and how their effectiveness might be determined. Readers interested in this should consult an earlier companion volume called 'Getting to Grips with Being a Governor' produced in 2006<sup>3</sup>.

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<sup>1</sup> See [www.lfhe.ac.uk](http://www.lfhe.ac.uk) and [www.shef.ac.uk/cuc](http://www.shef.ac.uk/cuc). The revised CUC Guide for Governors (2009) - available from the CUC website - sets out the definitive responsibilities of governors, and is not duplicated in this material but is cross-referred where necessary.

<sup>2</sup> The quotations have been obtained from a wide range of sources, including personal meetings with governors. Where the professional background of the source governor is known it has been provided at the end of the quotation.

<sup>3</sup> SCOP, Getting to Grips with Being a Governor, 2006, available electronically at [www.guildHE.ac.uk](http://www.guildHE.ac.uk)

## **A note on terminology and diversity**

As most governors know, governance in UK higher education is complicated by the use of different terms for similar functions, so for simplicity some key terms have been standardised throughout the five volumes. In all the materials the terms 'governing body' and 'board' are used generically to include: the governing bodies of post-1992 institutions; the councils of pre-1992 universities; and courts in Scotland. Similarly the word 'governor' is used to indicate a member of these different bodies; 'chair' is used as the term for the person who convenes governing body meetings; 'head of institution' for the vice-chancellor or principal; and 'executive' for members of the senior management team. Finally, the abbreviation 'HEI' is used as the widely accepted shorthand for 'higher education institution'.

It is important to recognise that the UK higher education system is very diverse, and this means that what makes governance effective in one HEI may not necessarily be so in another. Moreover, governors will have legitimately different views on many of the issues presented in this material, as will heads of institutions and other senior managers. It follows that if after working through the text important issues are raised for governors about practice in their own HEI (and we hope they will be), then they may need to obtain more detailed information from the clerk or secretary of their board or its chair.

Because higher education is now the responsibility of the devolved administrations within the UK, another aspect of diversity is the need to recognise differences in governance arrangements in HEIs in England, Scotland, Wales and Northern Ireland. This is particularly the case with some financial issues, and differences which exist within the different jurisdictions are pointed out in the text. Where no separate discussion of the different jurisdictions occurs, readers can assume that the content applies to all four higher education systems. The term 'funding councils' is used to indicate the public body which provides primary funding to HEIs in each jurisdiction, although in Northern Ireland this is done directly by the Department for Employment and Learning with no actual funding council intermediary.

## **Disclaimer**

The inevitable disclaimer! Although every care has been taken to try and ensure the accuracy of the content of this material, if in doubt about a specific issue governors should always check with the clerk or secretary of their own board.

*Happy reading!*

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## OVERVIEW: TEN KEY RISK ISSUES FOR GOVERNORS

- 1 Risk is inescapable for HEIs: it's OK to ask 'what is the risk in doing X?', but it's just as relevant to ask 'what is the risk if we don't?' [SEE CHAPTER 1 ►](#)
- 2 Risk concerns both opportunities and threats. It can present a direct threat to current activities, but equally an over cautious approach may prevent opportunities being properly grasped. [SEE CHAPTER 1 ►](#)
- 3 Governors are mostly concerned with key strategic risks, and need to be especially vigilant in this area. [SEE CHAPTER 2 ►](#)
- 4 The governing body is responsible for ensuring that an HEI's risk appetite is established and in helping to create an appropriate risk culture. [SEE CHAPTER 3 ►](#)
- 5 The audit committee has a key role in providing an oversight of the effectiveness and 'embedding' of risk management processes, and in testing and seeking assurances of effectiveness. [SEE CHAPTER 3 ►](#)
- 6 Risk management is a systematic approach to analysing, assessing, treating, monitoring and reporting on risks. It's about thinking the process through rather than letting things take their course. [SEE CHAPTER 4 ►](#)
- 7 Risk cannot be eliminated completely – there can be no guarantees, so governors need to be prepared to accept that sometimes things can go wrong even with a well run risk management process. [SEE CHAPTER 4 ►](#)
- 8 Some risks can be quantified, but there are often less tangible and less quantifiable risk areas, such as an HEI's reputation. Risk management often still comes down to informed judgment. [SEE CHAPTER 4 ►](#)
- 9 Dealing with risk is a management process but one that needs to be overseen by the governing body. It is the extent to which risk management is embedded in an HEI that is a crucial test. [SEE CHAPTER 4 ►](#)
- 10 And finally... the documentation – important as it is – should never obscure the real focus of what risk management is about. Tick boxes are of little value to anyone! [SEE CHAPTER 5 ►](#)

## 1. GOVERNORS AND RISK MANAGEMENT

- 1.1 You might be forgiven for believing that we live in a world preoccupied with risk, not least the consequences of the 'credit crunch'. As individuals we face up to these sorts of 'risks' throughout our everyday lives, from making decisions about what we invest to what we eat (or drink!). Life itself is a risk. Indeed for those who pursue high risk sports such as rock climbing or parachuting, risk might even be the very essence of life. So we all have some familiarity with risk, but for most of us it is at a passing or sub-conscious level.
- 1.2 So it was in the past within higher education, with HEIs and their governing bodies often taking substantial risks, but frequently without thinking much about it. Times have changed, and as a governor you will probably be familiar with the increasing focus on risk in your own institution. If you are an external (or lay) governor you will certainly be familiar with the widespread adoption of risk management in other sectors, sometimes to little effect: think Icelandic banks!
- 1.3 The best starting point for considering your responsibilities as a governor for risk is probably the external environment, and all the changes taking place with implications for most HEIs, for example: increased competition; changing student expectations; continued pressure on funding; greater internationalisation; commercialisation opportunities; involvement in partnerships and 'third mission' activities; and so on.
- 1.4 What new challenges, dangers and opportunities will these changes bring, and what will the impact be on your HEI? How will your governing body respond, indeed how is it already preparing for such changes? More generally, how should an HEI manage its business in the 21st century, and how can a governing body ensure that the risks associated with these kinds of changes are properly addressed? You will almost certainly have begun to face up to some of these questions in your role as a governor.
- 1.5 This volume is designed to answer some of your questions about what risk management is (and is not!), and what the role of the governing body is in relation to risk. It does not deal with detailed technical issues concerning risk, and is certainly not a guide to 'how to do it'. There are other resources for this, and Annex B gives some useful references<sup>4</sup>. This first chapter provides an overview of how risk has become a core aspect of the governance of HEIs, and what this means for you as a governor. Subsequent chapters look at: types of risk and the implications for governance; living with risk (including governing body and executive relationships); the responsibility of the governing body for risk issues; an overview of a typical risk management process; and finally forms of reporting and the information that needs to be provided to the governing body.

### SUGGESTED TASK

Think about your own personal approach to risk.

How do you think this influences your approach to risk in your role as a governor?

<sup>4</sup> A useful starting point is Hefce, PricewaterhouseCoopers, Risk Management in Higher Education, 2005 at [www.hefce.ac.uk/pubs/hefce/2005/05\\_11](http://www.hefce.ac.uk/pubs/hefce/2005/05_11)

*"When I first joined the governing body I was appalled risk management was so weak. Since then it has been beefed up, along with introducing KPIs. The two go together, one helps determine what we do and the other measures it."*

## LAY GOVERNOR WITH PRIVATE SECTOR BACKGROUND

### The world of risk management: the business influence

- 1.6 Although the focus of this volume is on the benefits of a proactive approach to risk management and its governance, undoubtedly the major spur to its adoption has been corporate failure. In the private sector we need no longer go back to Enron, the Maxwell Corporation, and BCCI because Northern Rock and the 'credit crunch' have provided examples of catastrophic risk management and associated governance. In the public sector, the example of the Child Support Agency provides another example where dire organisational performance created huge reputational risk leading to eventual closure. Although higher education has not suffered from problems on this scale, the separate volume on finance in this series identifies several major problems affecting HEIs at least partially resulting from a poor approach to risk management.
- 1.7 The relevance of this for higher education is two fold. First, this recent business history has been a catalyst for a wide ranging and continuing review of 'best practice' guidance on risk management and good governance across the business world. Second, there has been a wider diffusion of this best practice from the private sector into other sectors, and - most importantly for you as a governor - into HEIs. Best practice now sees risk management and its associated governance not just as a way of avoiding risk, but as an integrated part of the planning process which involves an HEI asking what kinds of risks it is prepared to take and why?
- 1.8 Inevitably, these developments have had an impact on governance, and in the private sector there have been two particularly influential reports brought together within the Financial Reporting Council (FRC)<sup>5</sup> Combined Code:
  - The Turnbull Report (on internal controls) which required a company's board to establish a sound system of internal control based "on a thorough and regular evaluation of the nature and extent of the risks to which the company is exposed"<sup>6</sup>.
  - The Smith Report which established a key role for the audit committee in "monitoring and reviewing the effectiveness of the risk management, control and governance arrangements"<sup>7</sup>.
- 1.9 The Combined Code provisions are mirrored in the CUC Code of Governance (included within their Guide for Governors<sup>8</sup>), and it should have been drawn to your attention by the clerk or secretary to your governing body. The CUC Code states that "institutions must have a sound system of risk management, control and governance", and one of the essential elements of such a control system is seen as "the identification and management of risk embedded in all business systems" .

### SUGGESTED TASK

Reflect on the challenges of introducing effective risk management in your HEI. What are they, and to what extent does the culture of your HEI support effective risk management?

5 Financial Reporting Council (2008), The Combined Code on Corporate Governance

6 Turnbull N, (1999), Internal Control: Guidance for Directors on the Combined Code, Institute of Chartered Accountants in England and Wales, London

7 Smith Report, (2003), Audit Committee Combined Code Guidance, Financial Reporting Council

8 CUC, Guide for Members of Higher Education Governing Bodies in the UK, revised version 2009. Available from [www.shef.ac.uk/cuc](http://www.shef.ac.uk/cuc)



## What is meant by risk management?

- 1.10 Most common definitions (including that in the Oxford English Dictionary) suggest that risk is always something bad. It's true that for any decision there is the chance of failure, and a potential penalty of some loss or other. This is risk as a threat. But there is another risk: that of failing to pursue an opportunity, and thereby failing to maximise true potential. These two perspectives have been refined into a definition of risk by CUC as being "the threat or possibility that an action or event will adversely or beneficially affect an organisation's ability to achieve its objectives".
- 1.11 This definition is the key to understanding the nature of risk and risk management. As a governor, what you are really trying to get to grips with are those events and decisions that may prevent your HEI from achieving its key objectives, whatever they may be. Of course, this can be done (just as in our personal lives) in an unconscious and unconsidered way, but what a formalised system of risk management seeks to achieve is more systematic management behaviour. This should be helpful to you as a governor in ensuring a consistent approach to risk in your HEI.
- 1.12 Elsewhere, HM Treasury<sup>9</sup> notes that "good risk management also allows stakeholders to have increased confidence in the organisation's corporate governance and ability to deliver", and positive risk management thereby helps an organisation to:
- Have increased confidence in achieving its desired outcomes.
  - Effectively constrain threats to acceptable levels.
  - Take informed decisions about exploiting opportunities.
- 1.13 A different perspective is to say what risk management is not about:
- Eliminating or avoiding risk. Indeed HEIs with active risk management may decide to take more risks on an informed basis (their 'risk appetite' increases).
  - Not making mistakes.
  - Just health and safety. Whilst there are operational issues involved in risk management (Chapter 2), the major focus for governors is strategy.
  - Just risk registers. An emphasis by some organisations on recording risk for reasons of compliance (often through risk registers) has given risk management a bureaucratic reputation. However, done well it is no more or less arduous than any other management process.

## Getting acceptance in higher education

- 1.14 It would be fair to say that the management discipline of proactively identifying risks as part of planning does not come easily to many people. Few truly successful entrepreneurs are likely to think long and hard about risk in a structured way, and a substantial number of new small businesses probably fail every year because the owner never gave it a thought. This is not solely ignorance, but also something ingrained in how some people see the challenges associated with work. The following quotation by a leading American management writer in the 1980s describes the position nicely:

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<sup>9</sup> HM Treasury (2004) The Orange Book: Management of Risk - Principles and Concepts

*"Entrepreneurs - and entrepreneurial organisations - always operate at the edge of their competence, focusing more of their resources and attention on what they do not yet know than on controlling what they already know. They measure themselves not by the standards of the past (how far they have come) but by the visions of the future (how far they have yet to go). And they do not allow the past to serve as a restraint on the future; the mere fact that something has not worked in the past does not mean that it cannot be made to work in future."*<sup>10</sup>

For such leaders, the real stimulant is the achievement of walking the organisational tightrope leading to success, and the idea of risk management providing a safety net would probably take some of the thrill away!

1.15 But this is not just the behaviour of some entrepreneurs: often it is also the behaviour of many other individual practitioners including some academics. For example, in science and medicine what senior researcher would not subscribe to some of the sentiments in the quotation? Almost by definition, HEIs are complex and disparate organisations, often predicated on long standing histories of independent and contrary perspectives and a culture that eschews a managerial approach. For some people traditional collegiality does not fit easily with processes of strategic planning, still less a systematic approach to risk management.

1.16 It follows that, in practice, risk management remains somewhat controversial in higher education. It has its strong advocates, but it also has its critics, as the following two quotations illustrate. The first (written in the Guardian - and perhaps somewhat tongue in cheek?) is from Peter Knight, at the time the Vice-Chancellor of a Midlands university:

*"There is too much management-speak in universities today. To keep the little hobbits at the funding council happy, universities have to have a mission statement, a strategic plan, a corporate plan and smart targets ... The most recent bright idea in management-speak is the dreaded 'risk register'. Like most ideas, this was sensible until the auditors got hold of it." ... "Everyone knows the principal risk in the catering department - it's the Hungarian goulash with the seafood salad topping. One university got very keen, lost the plot and produced a risk register more than 200 pages long. A tome like that does have some use. It was much better than a fire extinguisher when it came to propping the fire doors open in warm weather."*<sup>11</sup>

1.17 That is essentially a humorous complaint about the bureaucratisation of risk management, but a more fundamental critique of prevailing thought and practice is from Professor John Adams of University College London. In a number of articles and a seminal text, Adams refers to the problems of "obsessive risk assessment disorder", and "Compulsive Risk Assessment Psychosis (CRAP)". There is a serious point here behind the humour which is the reflection on risk management being dominated by the risk averse, with risk management seemingly focussed on risk prevention. In considering the armed forces, notably the Navy, Adams comments that:

<sup>10</sup> Kanter R M, (1983), *The Change Masters*, Unwin Hymen Ltd, p26

<sup>11</sup> Knight P, (2004), 'Risk Aversion', *The Guardian* June 8

*"From the Navy's Ship Safety Management Manual one might suppose that the Navy exists only to prevent accidents. Missing from its characterisation of its risk management problem is the principal reward of risk taking... An added complication in peacetime is the increasing litigiousness of society - increasing the pressure to ensure that war games are casualty free."*<sup>12</sup>

- 1.18 More practically, there are two reasons why some HEIs may wish to do no more than comply with external risk management requirements:
- First, there may be tensions between the leadership exercised by senior managers and the more systematic approach to planning implied by risk management. The former may be characterised by a dominant head of institution exercising his or her personal judgement over new initiatives, and some governing bodies have been happy to encourage such behaviour leaving themselves a rubber stamping role. However, despite the possible advantages there are also self evident drawbacks, some of which start with the words 'remember the Royal Bank of Scotland...!'
  - Second, it is - more reasonably - possible to argue that small, specialised institutions with (possibly) secure funding and no plans for expansion may not need to adopt a systematic approach to risk management, other than ensuring that major operational risks are dealt with (see Chapter 2). If next year is planned to be very much like this year, then few risks will be incurred. However, not many HEIs are likely to be in this position.
- 1.19 For all the rest, there are likely to be substantial institutional advantages - beyond compliance - in introducing a systematic process of risk management. Many HEIs are big businesses with substantial turnover, in many instances £100m plus. They are major employers, and the multiplying effect of the expenditure has a significant influence on the local economy. They have major assets to oversee and to continue to invest in, and reinvest in, be these buildings, grounds or IT infrastructure. They have an expanding customer base - becoming more international by the day - with all the consequent risks to reputation if something goes wrong.
- 1.20 As a governor you can support your HEI by ensuring that an effective risk management system is in place, and that it informs the strategic development processes which are your board's responsibility. This is likely to help keep the institution heading in its chosen direction, and to be better able to manage the vagaries of getting there.

*"Risk management is central to the work of our governing body. It underpins everything that we do and our whole approach to strategy"*

**SECRETARY TO AN HEI  
GOVERNING BODY**

<sup>12</sup> Adams J (1999), 'Does the Royal Navy Have Enough Accidents?', Management of Safety in War and Peace International Conference, London November, at: <http://john-adams.co.uk>

## Self-challenge questions

- Why should your governing body be interested in risk management?
- Some senior staff may think that risk management is just a waste of time - are they right?
- Your institution may have coped quite well in the past without a formal approach to risk management. Why do you need one now?
- Is risk management really about enhancing the running and governance of your HEI, or about ticking someone else's boxes?

### A GOVERNOR'S DILEMMA 1:

As a governor you think risk management is important and needs to be embedded in strategic management. Although your HEI has basic risk management systems in place, your fellow members of the governing body, in general, do not appear to be very interested, or perhaps think that risk management is an administrative task but has little meaning for them. How might you convince them otherwise?

## 2. TYPES OF RISK IN HIGHER EDUCATION INSTITUTIONS

- 2.1 HEIs are, of course, very diverse. For example, the Royal Scottish Academy of Music and Drama is one of the smallest HEIs with an annual turnover of around £10m and some 600-700 students, while the University of Leeds is much larger with a turnover of around £420m and more than 30,000 students drawn from over 130 countries. Equally the sources of funding differ greatly, with the 20 Russell Group universities accounting for 65% (over £1.8bn) of UK universities' research grant and contract income in 2004-05.
- 2.2 Given such diversity, risks will vary in their relevance, scale and potential impact, but there are areas of common concern. In this chapter we look in more detail at different types and sources of risk facing HEIs using an initial classification of:
- Strategic risks.
  - Financial risks.
  - Legal risks.
  - Reputational risks.
  - Operational risks (including human resources and estates/infrastructure).
  - Major project risks.

### a) Strategic risks

- 2.3 These are related to the most fundamental decisions made about the future, and the focus here is on translating the mission and values of the HEI into strategic plans involving such issues as: where to invest, whether and how to seek growth, which activities to pursue and which to abandon and why, and so on. Strategic risks are concerned with 'doing the right things'. By definition, all the main strategic risks should be considered by the governing body as part of the business planning and review processes, and in some HEIs the senate or academic board may be involved as well.
- 2.4 If we go back just a few years, relatively few HEIs included an analysis of risks as part of their strategic planning process. Of course, some choices for action would turn out better than others, but the relative risks involved were minimal: students would still be recruited; the core grant from the funding bodies would still pay most of the wages; and - frankly - if an HEI lost money on some activities it would probably get it back on others, and besides the whole sector was in a phase of growth. In this environment, it's easy to see why risk was not at the top of most agendas: HEIs were clearly operating in a more favourable risk climate.
- 2.5 Nearly a decade on the world has changed, and there is a clear need for HEIs to be both more strategic and aware of opportunities and risks. Consider the actions that the governing bodies of some HEIs have approved in the face of changing market conditions:
- A rigorous focus on mission and choosing not to pursue some opportunities in order to do others.
  - A proactive closure of selected academic activities (eg faculties) as opposed to a slow and steady decline.
  - Engaging substantially in international activities including setting up overseas franchises or campuses.

### SUGGESTED TASK

Imagine that a proposal has been made to establish an overseas campus in China for your HEI. What are the main risks that it might run, and what types of risk analysis would you expect to see in any final proposal coming to the governing body?

- 2.6 Taking such action can be difficult, it can arouse strong feelings, and in the long term it may even (in some cases) be wrong, despite the risk analysis that accompanied it. However, there are also substantial costs in doing nothing, in not investing, in not taking the difficult decisions, and in trying to please everyone. Effective strategic risk management is trying to get the balance between these two things.
- 2.7 So as a governor what you probably tend to find is that strategic risks exist as a consequence of three key challenges:
- Understanding the current and near future external and internal environment and context, insofar as it relates to your HEI.
  - Determining a risk based strategic plan for your HEI.
  - Selecting from an almost infinite range of possibilities the most appropriate strategic choices, and appreciating the opportunity costs related to the huge range of 'non-choices' that have to be set aside.
- 2.8 Strategic risk is about the consideration of such issues, about how an HEI assesses and manages such decisions, and from a governance point of view a concern with how the governing body can seek and receive assurances that such processes are being properly and effectively addressed.

## **b) Financial risks**

- 2.9 This type of risk is almost self evident, and is considered in more detail in the companion volume in this series on finance. Assessment of financial risk relates to both overall financial capacity and to the procedures that help direct and protect those finances. As such they are central concerns of the governing body. Areas of financial risk to consider include:
- Income generation and expenditure patterns - eg what are key drivers for both? How can they be managed to better effect?
  - The systems and key financial parameters across the HEI. Yes, the finance director may understand, but do other managers and governors? Is there an understanding of key sensitivities in the business plan?
  - Relating (in a not for profit environment) how non-financial objectives can be considered alongside financial issues?
  - Accounting and security issues - avoiding fraud and ensuring that accounting statements meet legal, regulatory and wider stakeholder needs and expectations.
  - Achieving value for money and efficiency. How can the money go further, or have a greater impact?
- 2.10 More specific financial risks also lie alongside other key operational areas, such as human resources costs (including future pension costs), and estates/infrastructure, such as insurance costs. For example, although HEIs are seen as low risk by lenders, they are seen as much higher risks for insurance purposes - and major fires at some universities have added to this rising risk concern.

### c) Legal risks

- 2.11 Of self-evident importance to all HEIs, this category of risk is increasingly important in higher education because of two main factors: the growth of 'for profit' activities by HEIs (eg consultancy, spin out activities, etc); and in many HEIs the relative autonomy of academic staff to undertake external activities with significant potential risk if contractual arrangements are not clear or agreed.
- 2.12 The first of these two issues is familiar to many governing bodies, and setting up subsidiary companies (and similar approaches) to try and mitigate legal risks is a common approach. However, despite this some research intensive universities have still faced legal threats when a contract has gone wrong.
- 2.13 Second, there are substantial potential risks in individual academic staff undertaking private external activities (as they are permitted to do in many HEIs), and the legal implications associated with IPR, failure to meet contractual conditions, and so on. Many private companies using academic staff in this way will wish to use an HEI's name in association with any valuable research outcomes, and HEIs need to ensure that they have robust processes in place to protect themselves. Although much of this is a management responsibility, as with other areas of risk a governing body will need to assure itself that appropriate processes are in place, for example, the possible requirement for staff to register any external activities undertaken.

#### SUGGESTED TASK

How does your HEI protect itself against legal challenge from any external work that its staff might privately undertake? Are such arrangements legally robust?

### d) Reputational risks

- 2.14 HEIs seek continually to enhance their reputation, and this breeds more students, more research income, more consultancy, and more sales of services. It is based on perceptions that are built up over a long period of time. More often than not, reputation can't easily be quantified or measured, although it is possible to reflect upon some reputational indicators. Reputation is transient: it can take years to achieve a good reputation which can then be easily destroyed through some chance remark or single negative event. It follows that reputation is held in trust by everyone within an HEI, and by those associated with it.
- 2.15 For these reasons reputational risk has also been described as the 'Cinderella Asset'. According to Warren Buffett, the US corporate financier "it takes 20 years to build a reputation and five minutes to ruin it". And if there is any doubt about how easily reputation can be damaged there can be no better example than that of Gerald Ratner's famous gaffe when describing his company's products as 'total crap' he also managed to wipe some £500m from his jewellery company.
- 2.16 Most UK HEIs understand the importance of reputation quite well, and trade on it all the time. For an illustration look at their websites which will frequently cite some favourable student rating, from sources such as the national student survey or newspaper league tables which rate HEIs (the same ones that most HEIs object to when the results are not favourable!).

## SUGGESTED TASK

As a governor, waking up to a new week, what's the worst thing you could read or hear about your HEI? Then consider what could have been done by the governing body to prevent or mitigate the impact and/or the likelihood of that event.

- 2.17 However, HEIs may not - in practice - take full account of reputational risk, and the challenge is three fold:
- Understanding how and where reputational value is added, and equally how value might easily be lost.
  - Understanding the current status and reality of reputation from the perspective of key parties.
  - Understanding how well geared up the organisation is to respond to internal or external challenges to reputation.
- 2.18 Perhaps the key point here is that not only should reputational risk be considered when thinking about new ventures, but that forward planning can help ameliorate potential reputational problems in current activities. To take one example from dozens: how proactively does your HEI consider the results of the National Student Survey (and other forms of student feedback) and put in place action to address the results and then communicate the actions? In doing so, how does your board assess management performance in dealing with such issues?

### e) Operational risks

- 2.19 These flow - in all their forms - from, and are a consequence of, seeking to deliver strategic objectives. Here risk management is concerned with the task of 'doing things right' and managing the risks associated with operational factors. Of course, this is a management function, but a challenge for the governing body is to encourage a risk culture which is 'embedded' within operational life. For the sake of brevity, just two main operational risks are highlighted: people and estates/infrastructure.
- 2.20 People risks: Risks associated with people are central to risk management in all HEIs, from the governing body down to each staff member. Without being able to capture the full range of potential issues, some key areas of concern for governing bodies may include:
- The capability of staff at all levels to deliver the academic portfolio and/or meet the HEI's other objectives.
  - Effectiveness in succession planning for key staff and governors.
  - The assurance that can be taken from recent staff recruitment. For example, is your HEI somewhere good staff want to join, or all too often want to leave? How do you know?
  - The effectiveness of appraisal, staff consultation and staff development systems and support mechanisms.
  - How well equipped is your HEI for the next planning period in terms of staffing resources and staff development?
- 2.21 The answers to such questions should feature in the human resources strategy (see the separate volume in this series), but will heavily influence your HEI's approach to risk, and how it determines future opportunities for investment.
- 2.22 Estates and infrastructure risks: Two key features are at the forefront of risk issues under this heading. First, property and the related infrastructure is a major asset and business continuity (or perhaps the converse - business interruption) is a central risk in respect of an HEI's estates function. Many of the risks associated with disaster



planning typically fall here. Second, as the key long term asset, the choice and timing of investment in the estate are key areas of risk. Property is the most tangible asset and the one on which your HEI is most likely to raise loans. Likewise, in a modern, virtual educational environment, the delivery of learning resources must be predicated on the quality of the IT infrastructure.

- 2.23 Risks associated with health and safety can be also be considered here. These are not new for most HEIs, and good practice in this area (for which the governing body has a direct responsibility - see the separate volume in this series on HR) is now generally risk based.

#### f) Major project risks

- 2.24 Major projects - of which there are plenty in higher education - involve both the strategic need to 'do the right thing' and the operational need to 'do things right'. Therefore project risks can be key areas of concern for governors, as they are often so central to the delivery of HEI business objectives. Both the public and private sectors are littered with examples of either 'failed' projects or those that suffered major problems, for example the Scottish parliament building, the new Wembley stadium, and numerous computer projects.
- 2.25 Typically, responsibility for project management and associated risks resides in one of three places: within an individual senior manager; in specialist committees (eg estates); or in ad hoc project boards. Although the specialist management skills needed for large scale project management exist in many HEIs, they do not exist in all, and external expertise is often bought in to provide necessary services. However, the extent to which such contractors have an acceptable approach to risk management may depend entirely on how an HEI undertakes the tendering and selection process, and what provision is made for effectively managing the client role.
- 2.26 Most project management methodologies now include specific approaches to dealing with risk, and key issues arise in respect of:
- Project appraisal and approval systems.
  - Project management through to delivery and final commissioning (ie that the skills and capacity exist to deliver to the client's requirements).
  - Programme management (ie the capacity of the organisation to manage a range of extensive and diverse projects).
  - Post project evaluation.
- 2.27 The governing body's risk role varies in relation to projects. Usually it will be through the 'standard' mechanisms of determining policy, being involved in key investment decisions, and receiving the reports necessary for them (or committees) to be assured of progress. However, some governing bodies may become directly involved, often in small HEIs where one or more members have specific expertise lacking in the HEI, or occasionally because something has gone badly wrong and the board feels the need to step in. Both are understandable but potentially dangerous steps. The gap between governance and management is undermined, and it may be very difficult for a board to exercise rigorous scrutiny if one or more of its members is actively involved in providing advice or involved in negotiations with contractors.

#### SUGGESTED TASK

Imagine the IT system in your HEI 'goes down' completely for 48 hours. What would be the consequences? Has the governing body approved a contingency plan if it actually happens?

## Self-challenge questions

- Does the strategic planning process in your HEI involve a thorough assessment of risks?
- Is this assessment primarily focussed just on negative risk, or is there proper consideration about how opportunities are to be pursued?
- How effective are your governing body approval processes for major projects? Do these provide for sufficient attention to be paid to risk?
- Does your HEI have sufficient project and risk management skills and capacity to manage and deliver its major projects?

## A GOVERNOR'S DILEMMA 2:

Your HEI's strategic plan includes a number of pretty large and quite complex 'projects', including a £25m new business school development. In terms of a focus on project risks, what sort of assurances might you wish to see as a governor in terms of the risk management of this particular project?

### 3. LIVING WITH RISK: THE RESPONSIBILITIES OF THE GOVERNING BODY

3.1 From the above it is clear that the governing body has an important role in enabling HEIs to live successfully with risk, and this chapter reviews this in three main ways: it asks first, what are the formal responsibilities of the board (and the audit committee) in relation to risk; second, the role of the board in setting risk appetite; and third, how a governing body can provide leadership to create a culture whereby risk is successfully managed.

#### Formal responsibility for risk

3.2 You will have noted earlier in Chapter 1 that dealing with risk is very much a management activity. But there is a clear responsibility here for all governors. As the PricewaterhouseCoopers guidance<sup>13</sup> notes: "The governing body of any higher education institution is ultimately responsible and accountable for the operation of the organisation. This involves it in the stewardship of public funds and the operation of effective corporate governance, while at the same time identifying opportunities and supporting management in a strategic context". This directly involves issues of risk management - and putting it simply: as a governor, the buck finally stops with you!

3.3 What does this mean in practice? Formally, a number of the risk management requirements for HEIs are set out in the regulatory frameworks of the four funding bodies. In England these are in documents produced by Hefce such as: the financial memorandum; the code of practice for accountability and audit; and the annual accounts direction. These requirements are also elaborated on in Hefce Circular Letter 12/2002 'HEI audit committees, risk management and statements of internal control'. The other funding bodies have similar documents.

3.4 Hefce also has a view about the internal responsibilities of a governing body concerning risk, and summarises these as "in the context of risk management the governing body should, as a minimum, ensure that there is an ongoing process for identifying, evaluating, and managing the risks faced by the institution, and should review this process regularly"<sup>14</sup>. The Hefce document goes on to suggest that "the governing body's job, therefore, is to:

- Set the tone and influence the culture of risk management within the whole institution.
- Determine the appropriate risk appetite or level of exposure for the institution.
- Actively participate in major decisions affecting the institution's risk profile or exposure.
- Monitor the management of significant risks to reduce the likelihood of unwelcome surprises.
- Satisfy itself that the less significant risks are being actively managed, possibly by encouraging a wider adoption of risk management.
- Report annually on the institution's approach to risk management, with a description of the key elements of its processes and procedures."

*The truth is that in a large research intensive university like ours the council can't - and shouldn't - know about every little risk. But what it should do (and ours does) is to make sure that we know what the big risks are and whose job it is to deal with them"*

**CHAIR OF THE COUNCIL OF A LARGE UNIVERSITY**

<sup>13</sup> Hefce, PricewaterhouseCoopers, Risk Management in Higher Education, 2005 at [www.hefce.ac.uk/pubs/hefce/2005/05\\_11/](http://www.hefce.ac.uk/pubs/hefce/2005/05_11/)

<sup>14</sup> Hefce, Risk Management: a Briefing for Governors and Senior Managers, at [www.hefce.ac.uk/pubs/hefce/2001/01\\_24.htm](http://www.hefce.ac.uk/pubs/hefce/2001/01_24.htm)

- 3.5 The PricewaterhouseCoopers study of risk management in higher education found that most governing bodies recognise the potential benefits of risk management, but that different boards have varying degrees of involvement in risk management procedures. This is not just because of institutional diversity, but also arises from genuine differences of view about the level of involvement that a governing body should have. In many HEIs the responsibilities of the governing body, its committees, and the senior executive for different aspects of risk management have usefully been clarified using an agreed schedule of delegation.
- 3.6 The PricewaterhouseCoopers study also found that in addition to meeting their formal responsibilities, the particular advantages of the involvement of the governing body in risk management included:
- Providing a more complete picture of risk for HEIs.
  - Ensuring that risk management is integrated into strategic planning.
  - Supporting and providing constructive challenge to senior managers.
  - Providing a high level sounding board for senior management in assessing risks.
  - Bringing external experience of risk management into the HEI.

## SUGGESTED TASK

Think back to (a) a major incident that has occurred in your HEI and (b) a significant lost opportunity that you are aware of. What do these two incidents say about the way in which your governing body is involved in risk?

### The role of the audit committee

- 3.7 All the funding bodies require the audit committees of HEIs to assess risk management, control and governance arrangements. The audit committee must form an opinion on these arrangements, and to do this it needs to establish how key risks are identified, evaluated and managed, and the rigour and comprehensiveness of the review process. However, this does not mean that the governing body should not be actively involved in risk: this is a matter for the whole board as well as the audit committee.
- 3.8 The role of the audit committee is considered in a separate volume on audit in this series, but in summary PricewaterhouseCoopers found that the audit committees in all the HEIs they surveyed had exercised their risk role in different ways, and they provided three examples:
- One audit committee reviewed the full risk register at every meeting.
  - Another explored individual departmental risks on a rolling cycle.
  - Other audit committees only considered risk management in detail when internal auditors had reviewed the area concerned.
- 3.9 An issue to consider here is the balance of responsibility between the audit committee, the full board, and the executive, and whether any other body should be involved. A few HEIs have introduced separate risk committees, perhaps combined with governance, to make a risk and governance portfolio. There is no requirement to do so, but those HEIs that have such a committee use it to develop and review the overall risk policy, or as an ad hoc committee to consider, for example, major project risks.
- 3.10 One argument used in some HEIs is that - as for other matters - the role of the audit committee is to ensure that suitable processes are in place, and not to discuss the effectiveness of particular actions taken to moderate risk. The detail of this is clearly a matter for management, but it raises the issue of what information should be supplied to the governing body on any action taken. Given full agendas and general pressure on the time of boards, the idea of establishing a risk committee to take a more active monitoring role on actions taken by the executive has some attractions. However, this also has the danger of the board getting over involved in management.

- 3.11 A further development of this role is the use of risk based auditing. This requires the use of the risk register (see Chapter 5) as a basis for audit against the main risks. The planning for risk based auditing may require the use of risk assurance mapping, which involves identifying the key risks and their controls to provide consistency in reporting between internal audit and other assurance providers, thereby obtaining an overall picture of the adequacy of the control framework across all key risks that can be readily understood by the audit committee and the board.
- 3.12 Risk assurance mapping should capture both the gross and net risk ratings, in order to identify the effectiveness of the control process. This enables internal audit to focus on those risks which would have a significant impact on the HEI (gross risks). The exercise should also highlight risks still considered significant despite controls being in place (net risks). It should also highlight possible gaps in the audit plan for the future.
- 3.13 Taken together, it is therefore important that the exact duties of the audit committee (and any others) are clear to governors, and PricewaterhouseCoopers suggest a number of straightforward questions:
- Has the risk management role of the audit committee been defined?
  - Do audit committee members understand what aspects of risk management they should be looking at?
  - How often is the audit committee considering risk management?
  - Is the audit committee responsible for all aspects of risk management, or is it more appropriate for some aspects to be reserved for the governing body (or another committee)?
  - Does - and should - the audit committee have the opportunity to discuss how well key tasks are being managed with those responsible for them, and if not how should this be done?

### **Risk appetite**

- 3.14 Risk appetite<sup>15</sup> is the overall level of risk exposure that an HEI is prepared to accept, and - following proposals from the executive - it is a responsibility of the governing body to define it, and then ensure implementation. Establishing the risk appetite therefore helps a board to consider the way it responds to risks, and what it is prepared to undertake or not. The level of acceptable exposure will vary between HEIs depending on numerous factors, and the views of the funding bodies and other external stakeholders on risk tolerance will also be an important influence.
- 3.15 To take a practical example: in the volume on finance in this series the issue is raised as to how much borrowing an HEI should engage in. There are often different and sincerely held views: is it better to hold substantial reserves (the 'cash is king' argument) or is it better to 'sweat the assets' and borrow? When argued at the governing body such a debate may sometimes come down to little more than the different personalities of the key parties: risk takers or risk avoiders. Clearly this is undesirable, and any board discussion of such matters should be firmly based on the institutional strategy and the risk appetite necessary to implement it.

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<sup>15</sup> The HM Treasury guidance defines it as "the formal definition of the amount, and type, of risk that is acceptable in the pursuit of [the institute's] business objectives" and "The amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time. See HM Treasury, (2006), 'Managing your risk appetite: A practitioner's guide'

## SUGGESTED TASK

Think about risk appetite in relation to your own HEI. Has the governing body defined risk appetite? Has it changed with different circumstances? Is it reviewed regularly?

- 3.16 There is no standard way of defining the limits of an HEI's risk appetite, beyond which a risk becomes unacceptable. Some use a qualitative risk priority, so that any 'very high' risk is considered unacceptable or reportable. Others apply monetary values for the impact of risks, producing risk estimates or quantitative assessment of risks.
- 3.17 In their good practice guide, PricewaterhouseCoopers found that the concept of risk appetite was under developed in most HEIs. In citing an example of one HEI that reviewed its risk appetite annually as part of its strategic planning process, they noted that this was the exception rather than the norm, and that risk appetite appears to be revisited infrequently once it has been set. This is slightly troubling, as it might be expected that the views of governing bodies in relation to risk appetite would change depending upon strategic needs and financial circumstances.

### Developing an organisational culture for effective risk management

- 3.18 Risk management is not just about having a robust process and procedures. In order for it to be a success it has also to consider the people involved, how they react to risk, their attitudes, behaviour and perceptions, as well as the culture in which it is implemented. It is a truism to say that people are the critical success factor in implementing risk management, but it is the case. Commitment to the process from top to bottom, the way in which it is implemented and the chosen approach will all lead to a risk culture within an HEI. Risk culture is about setting the tone in an HEI, and affecting the way in which staff feel about risk and influencing their conduct.
- 3.19 Think about this with regard to your HEI: how is risk perceived? Is it fair to say that the HEI is generally risk averse, shying away from ventures seen to be 'risky'? If so, there is a danger of this becoming a self fulfilling characteristic where management and staff will often not pursue or even recognise opportunities that may be key to success. On the other hand, if the board are seen as very risk seeking, management may chase opportunities that are inappropriate and untested, without the necessary risk management process in place.
- 3.20 Of course, being higher education it may be both of these things and many more! Particularly in highly devolved HEIs there is unlikely to be any consistent pattern, with some faculties or departments being risk averse, others being risk seeking, and many more never having thought about it. Much will depend on the culture of the academic discipline concerned, with some having a well developed understanding of some aspects of risk (eg medicine) but probably not applying it to all aspects of departmental life. Another factor will be the personality of the managers or heads of departments concerned.
- 3.21 Does this matter? Well, yes, and for at least two reasons. First, compare this situation concerning risk with that of basic financial control. Even within the individualistic culture of HEIs, most staff understand and respect the need for basic financial discipline. They may argue for larger budgets, but once funds are agreed they generally use them responsibly and understand the need for financial controls - the culture requires it.
- 3.22 Second, the environment in which HEIs operate means that there are new and very real challenges to reputational risk. A problem in one semi-independent department can rapidly escalate and lead to unpredictable results. The university is no longer (for

good or ill) a place where individual academics can largely 'do their own thing' and no one will notice. They will, and the consequences may often be unpredictable and severe. Consider the Laura Spence issue at Oxford University<sup>16</sup>, the consequences of certain types of research (eg animal experimentation), and so on.

3.23 The challenges of developing an effective system of risk management in such settings are therefore considerable, and for this to be done needs a supportive culture where the genuine benefits are recognised. Accordingly, it's essential that risk culture is considered by the board, and the appropriate messages communicated within the institution. Of course, there is no single risk culture that can be applied to all HEIs, and each must decide what is right for itself.

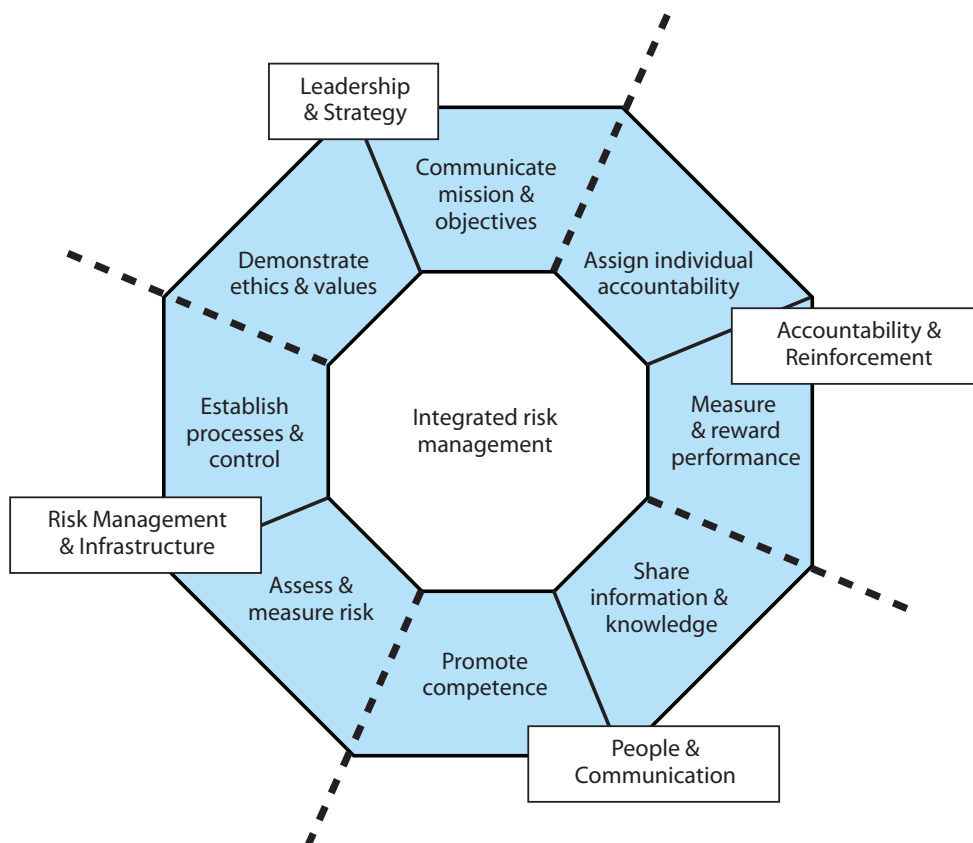
**SUGGESTED TASK**

Reflect on how supportive the culture of your own HEI is to effective risk management.

3.24 The attributes of a strong risk culture include:

- Leadership and strategy - this starts with the governing body, who have (along with the executive) an important leadership role.
- Accountability and reinforcement - revealing the institution's ability to assign accountability, and to measure and reward risk performance.
- People and communication - the organisation's ability to share knowledge and to promote good risk practice to staff.
- Risk management and infrastructure - conveying an HEI's ability to assess and measure risk and establish proactive processes and controls.

3.25 Shown diagrammatically these four attributes can be represented as follows<sup>17</sup>:



<sup>16</sup> The University rejected the application (reasonably from their point of view) from a well qualified candidate (Laura Spence), and the publicity furore that followed led to the active interest of the government.

<sup>17</sup> Rossiter C and Jackson P, (2001), 'Risk culture - up close and personal', CA Magazine, April

- 3.26 In practice, governing bodies face the challenges of encouraging culture change in different ways. In some HEIs it is central to their perceived role, with open channels of communication encouraged and the board members generally being known in the institution. In rather more, it is rarely done at all, with the board focused on its own business and seldom interacting with the staff and students it governs. In such circumstances it is difficult for a board to exercise any kind of leadership role in relation to risk.
- 3.27 In acknowledging that risk culture is important, it may be appropriate for you to think about the risk culture within your own HEI. Start with your governing body: does everyone share the same values concerning risk and the importance of developing a supportive risk culture? Then look outwards to the institution as a whole: what are the strengths and weaknesses in the existing culture, and what are the main gaps that need to be filled? Of course, if you wanted to, your board could always measure the risk culture, typically through surveys provided by risk management consultants who will provide you with the questions, the method of delivery and collection and the interpretation of the results - at a cost!

### Self-challenge questions

- Is your governing body clear about its responsibilities concerning risk, and what your main funding bodies require?
- How does your governing body know whether risks have been assessed accurately?
- How often does the governing body consider risk and is this appropriate?
- What if anything does the governing body do to encourage a suitable risk culture? How effectively is this communicated?
- How does your institution reward 'good' risk behaviour - be that appropriate assessment of negative risks, or positive and measured pursuit of business opportunities?

### A GOVERNOR'S DILEMMA 3:

You have recently joined an already well-established governing body managed by a long-standing head of institution and senior executive team. Your initial impression is that everything seems very safe and secure, but perhaps a little too safe and secure! You are wary of being too risk averse. What indicators or evidence might you look for to help confirm (or perhaps refute) your concerns?



## 4. RISK MANAGEMENT PROCESSES

- 4.1 In this chapter the main aspects of typical risk management processes are identified. As a governor you should not be directly involved in the operation of these, but you do need to know of their existence, and have confidence in how they are working. This confidence will largely be based on the documentation you receive as a governor (see Chapter 5).

### Risk maturity

- 4.2 A useful starting point is the idea of risk maturity. The more robust your HEI's risk processes, the more likely it is they will be embedded as part of day to day life, and as such may not need more than the occasional attention of the governing body. Conversely, the newer your HEI is to reviewing risk and the more scepticism there is about it, the more the governing body may need to get involved to ensure that effective processes are established.
- 4.3 The following table sets out five levels of risk maturity (the left hand column) and some associated implications:

RISK MATURITY LEVEL	RISK PROCESSES	ATTITUDE	BEHAVIOUR
1 Risk scepticism	No formal processes	Avoidance of the issue	Lack of engagement, blasé or ignorant
2 Risk awareness	Patchy, use of standalone processes	Suspended belief	Reactive, fire-fighting
3 Understanding and application	Tick box approach	Passive acceptance	Compliance, reliance on registers
4 Embedding and integration	Risk embedded in key business processes	Active engagement	Risk based decision making
5 Robust risk management	Regular review and improvement	Committed	Innovation, confident risk taking

### SUGGESTED TASK

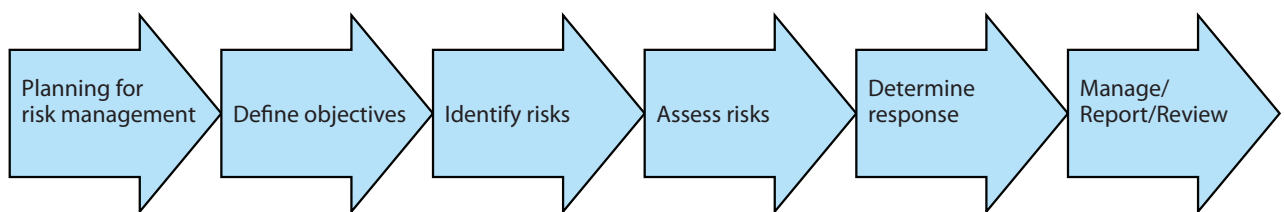
Consider where your HEI and governing body are on the following table about risk maturity. What are the consequences of your decision?

- 4.4 From a governing body perspective some of the key issues are:
- At levels 1 and 2: raising governing body awareness of risk and getting it actively engaged; developing a risk policy; approving a list of the key risks; and developing a generic assessment process.
  - At levels 2 and 3: agreeing an approach to raise awareness and understanding of risk across the HEI; ensuring effective central management of risk; and developing a strategy for managing risk.
  - At levels 4 and 5: oversight of an embedded and integrated institution wide risk management process; leadership in developing a supportive risk culture; and approving risk appetite.

4.5 As a governor, what indications can you look for to help determine where your HEI is on this matrix? The two key aspects from the above are the words in the final bullet point: the extent to which risk becomes embedded and integrated. Embedding is where risk management is part of day to day activity, not a separate process undertaken centrally or for special reports. As such it is seen as part and parcel of all decision making processes. Effective integration is where risk management demonstrates a clear link to strategic planning, the achievement of key objectives, and to key performance indicators, operated through an effective reporting framework.

### A risk management framework

4.6 What does a risk management framework look like? The key elements and processes are shown in the following chain, and each step is briefly described below:



#### a) Planning for risk management

4.7 The first stage of the framework is planning for effective risk management implementation, and one of the main reasons it may fail is that an inappropriate process is implemented. What is required is a fit for purpose process, usually based on an overarching document that sets the scene, and is written as a plan or policy for governing body approval. Its purpose is to record and communicate in broad terms how, who by, and when the risk management process will be operated. Such a policy is intended to: set the scene; provide a focus; ensure commitment from senior management, academics and the governing body; and give the process authority.

4.8 A risk management policy will usually include some reference to the following, with varying degrees of detail:

#### *Scope and objectives:*

- Why is risk management being undertaken?
- What benefits are expected, and at what level within the institution?
- How are the benefits to be assessed?

#### *Who is involved - organisation, roles and responsibilities:*

- Who is involved in the identified risk management activities? eg, the board, senior management, a risk management committee, etc.
- How will the process be resourced?
- What are the formal responsibilities of the governing body and key senior managers?
- What other roles and responsibilities need to be outlined? Risk champion, risk owner, action owner, etc?

*How risk management is going to be implemented - approach and process, tools and techniques:*

- How are the risk management activities to be undertaken?
- What tools and techniques are to be used?
- What key components of the system of internal control and risk management will be involved?

*What deliverables are expected or required?*

- What outputs or reports need to be produced? A risk register, an estimate of the cost of risk, summary reports?

*When are reviews and reports required?*

- What reporting and reviewing flows and structures are there? Are they embedded into normal reporting mechanisms?
- When are risk management activities and deliverables to be completed? In time for annual accounts only or on a more regular basis?
- Who are reports to be made to? A risk review committee, the audit committee or directly to the board of governors?

- 4.9 Hefce have provided an example risk management policy and this is available on the website<sup>18</sup>.

#### **b) Defining objectives**

- 4.10 Remember that risk is related to the ability of your HEI to achieve its objectives, and PricewaterhouseCoopers make the comment that "many institutions have taken the approach that their objectives and strategies for risk management should complement their existing strategy, vision and goals. These institutions have taken the opportunity to integrate risk management with their planning process, and gain immediate benefits from being able to monitor [risks] to their business objectives". So to be effective, identifying risk must be based on what your objectives are and how they are to be achieved. Without clear objectives and a continuing reference back to them, your governing body and HEI will not be able to determine which risks are relevant and will have the most significant impact.

#### **c) Risk identification**

- 4.11 Although this is the third step in the framework, risk identification is all too often where organisations begin their risk management approach. To use the infamous quotation from Donald Rumsfeld, in which he identified difficulties as "unknown unknowns: there are things we do not know we don't know", risk identification is partly about trying to eliminate the number of unknown unknowns!
- 4.12 It aims to provide a list of risks that is comprehensive, consistent and complete, although doing this may not be easy:

#### **SUGGESTED TASK**

How does the Hefce example on their website compare with your own HEI's risk policy? Have you read your own HEI's policy? Is it up to date, and do you think it is appropriate?

<sup>18</sup> See [www.hefce.ac.uk/finance/assurance/guide/risk.asp](http://www.hefce.ac.uk/finance/assurance/guide/risk.asp)

- *Comprehensive* can mean to some people that identification of risks is more about quantity than quality. Detail is required at project and operational levels; however, as a governor your focus is not on the detail but on looking for reassurance that it is being properly managed.
- *Consistency* is important when risks are escalated from lower levels, and without it you can end up with a lot of repetition and unwieldy risk registers. Consistency also helps with management.
- *Complete* suggests that no other risks can occur. As with anything in life, as soon as a list of risks has been made change happens and that list also changes. So no matter how good a risk identification process has been, new risks can still arise throughout the lifecycle of any venture.

## SUGGESTED TASK

Without looking at any governing body papers, do you know what have been identified as the main risks facing your HEI for the next three years?

4.13 The actual process of risk identification can take many forms and use many different techniques. Although it is generally an executive task, there are some instances where governing bodies should be involved, particularly in relation to strategic risks or in key projects.

### d) Risk assessment

4.14 The assessment stage deals with prioritising risks, enabling your HEI to focus management attention on the most important issues. Clearly this may be subjective, but needs to be dealt with as objectively as possible. There are two types of risk assessment: qualitative<sup>19</sup> and quantitative. Risks are usually assessed by their probability of occurring and the impact should they occur. Impact need not just be cost and time, but can cover net profit loss or gain, management attention, market share, student profile and numbers, anything that is important or related to overall objectives. Because words are very subjective, measures are attached to the ratings used to try to give some relative and objective prioritisation.

4.15 An impact scale for an HEI might look like this:

	LOW	MEDIUM	HIGH
Financial loss	< £x million	£X-Y million	> £Y million
Bad publicity	Damaging article in student press	Damaging article in local press	Damaging article in national press
Life and limb	Minor reversible injury	Major reversible injury	Major irreversible injury or death
Loss of RAE points	No improvement on previous RAE	Loss of x% for some subjects	Loss of x% overall

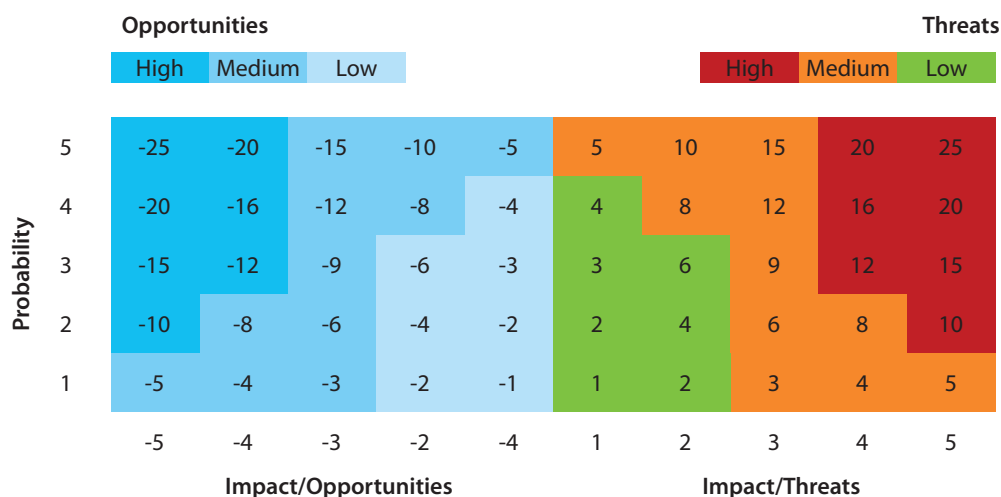
A scale for probability might be based on the following (but perhaps consider whether the first and last ratings are risks at all): never; once in five or ten years; once a year; four times a year; once a month; all the time.

<sup>19</sup> HEIs should note that the implications of quantification may need to be considered at a later date if Basel II starts affecting businesses outside the financial sector. The purpose of Basel II, which was initially published in June 2004, is to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of financial and operational risks they face.

4.16 Hefce, in considering its own risk assessment matrix, uses the following risk classification:

IMPACT:	EXPLANATORY NOTE
High	Impact that would result in failure to achieve one or more of our strategic aims, objectives or key performance targets
Medium	Impact that would restrict our ability to achieve one or more of our strategic aims, objectives or key performance targets
Low	Impact on some aspects of one or more of our strategic aims, objectives or key performance targets
PROBABILITY:	EXPLANATORY NOTE
High	A greater than 50 per cent chance of the risk materialising in the next three years
Medium	A 20 to 49 per cent chance of the risk materialising in the next three years
Low	A lower than 20 per cent chance of the risk materialising in the next three years

4.17 Once risks have been rated according to their probability of occurrence (P) and impact (I) they are usually plotted onto a grid or diagram that can be used to highlight priorities. An example of a Probability/ Impact Diagram (PID) is shown below, including both impact and opportunity. Clearly it is the areas in deep blue and dark red that are of most concern.



- 4.18 When assessing risks, although there can be one probability of occurrence for any given risk there may be more than one impact. It is the highest rating one that is used to report on the impact size, as this is the one that may need the most attention.
- 4.19 A simpler way of considering the relevant risk response is by classifying such risks into one of four categories:
- *Primary*: these risks are both high impact and highly likely to happen (or not happen in the case of opportunities). These are the 'show stoppers', and should be the focus of governing body concerns.
  - *Contingency*: these risks have high impact but are unlikely to happen. Such potentially catastrophic events are generally approached through a mix of insurance and business continuity planning (see below).
  - *Housekeeping*: these risks are likely to happen, but do not have a high impact. They require routine management and audit testing to ensure that planned action occurs.
  - *Negligible*: these can probably be dealt with through standardised administrative action, and need only to be monitored to ensure that they are not becoming more regular (or risk probable).

## e) Risk responses

4.20 The next stage in the framework is determining response: planning effective actions to help mitigate threat and maximise opportunity. When considering what to do to mitigate risks a governing body needs to recognise that there are almost always some existing controls in place, which usually can be improved. There is a cost benefit calculation here. It is possible to do some work on 'what if' scenarios showing the movement of a risk on the Probability/Impact Diagram to show the effect of proposed actions<sup>20</sup>.

### SUGGESTED TASK

Apply the approaches in paragraphs 4.21 and 4.22 to deciding whether or not to invest substantially in a particular overseas country to recruit international students. Which approaches has your own governing body chosen, and why?

- 4.21 So far as threats arising from risk analysis are concerned, a common approach is to divide possible responses to them into four categories:
- *Terminate*: these risks are avoided by doing something else, changing products or services, or even withdrawing from the activity concerned.
  - *Transfer*: these risks are passed on to someone else by a wide range of means: outsourcing, insurance, subcontracting, joint ventures, etc.
  - *Treat*: these risks are reduced by management action, for example, tackling the causes of the risk, enhancing marketing, etc.
  - *Tolerate*: these risks are accepted and built into operational or project management (ie they become the 'residual' risk).
- 4.22 So far as opportunities are concerned, a different but largely related category of responses can be used:
- *Exploit*: direct action to pursue a particular opportunity eg bidding for a particular research contract.
  - *Share*: working with others, through informal or formalised partnerships or alliances to pursue a particular opportunity.

<sup>20</sup> For example, in financial planning this is usually undertaken through appropriate sensitivity analysis to consider different financial projections and their business impact.

- *Enhance*: build up the potential and real capacity and capability eg recruiting a new research team, or developing conference facilities.
- *Accept*: perhaps merely a revision of exploiting an opportunity but it might, for example, apply to an agreement to deliver some new government initiative.

4.23 The two areas of opportunity and risk might then be seen as two sides of the same coin<sup>21</sup>:

THREAT	GENERIC APPROACH	OPPORTUNITY
Terminate	Eliminate uncertainty	Exploit
Transfer	Involve others	Share
Treat	Change the scale	Enhance
Tolerate	Take the risk	Accept

#### f) Risk reporting and review

4.24 This is the last part of the framework, and for you as a governor this is the key aspect of the risk management process. Because of its importance it is considered in a separate section of its own - Chapter 5.

#### Business continuity

4.25 This final part of the chapter reviews briefly a different aspect of the risk management process - business continuity. Even with an effective risk management system in place there may still be times when things go wrong, sometimes sufficiently so that the institution cannot operate normally. This is where so-called 'business continuity' is relevant.

4.26 Business continuity is intended to achieve an effective and robust framework that will enable a business to plan for and recover as quickly and effectively as possible from a major incident that interrupts normal business operations. Many businesses fail due to a lack of business continuity planning, with the damning phrase 'it won't happen to us' all too often proving to be untrue. Consider the following events:

- Major fire, flood or other environmental incident that involves death or significant injury to numbers of employees or students, or major damage to facilities that required emergency services.
- Major demonstrations against your HEI or one of its research centres.
- Any incident involving a major breach of security, either physical security of plant and facilities or logical security eg computer virus attack.
- Terrorist incidents directly or indirectly affecting your HEI, its employees and staff, or its facilities.
- Loss of computer applications or telecommunication links.

<sup>21</sup> Adapted from David Hillson: Extending the Risk Process to Manage Opportunities from: [www.irm.org](http://www.irm.org) (2003-07)

- 4.27 You can probably bring to mind an example of some of these events, and probably add more. As a governor, one of your roles is to ensure that the system of risk management and internal control safeguards institutional assets in the face of such problems, and business continuity is a control that helps to fulfil this responsibility. It may also be a prerequisite for insurance.
- 4.28 Risk management and business continuity are therefore closely aligned and share similar processes. Since much business continuity is operational it will not involve the governing body; however the board should approve a business continuity management (BCM) policy, and should be kept informed about developments. The Business Continuity Institute<sup>22</sup> have developed useful guidelines for developing a BCM policy, and details may be available from the clerk or secretary to your governing body.

### Self-challenge questions

- Compare the risk management processes of your own HEI with those set out above. What issues are raised for you and your governing body?
- Looking at the last risk assessments presented to your governing body, are you satisfied that the comparative weightings and assessments of the various risks look and feel right? Has there been any attempt to try to quantify or objectively assess one type of risk against another, or are these just guesses?
- Is a regular review of the risk assessments reported to your governing body as times and circumstances change? Or is the risk assessment simply rolled over from one year to the next?
- Has your governing body approved a business continuity plan? If so, is it up to date, and has it been tested, either live or as a desk top study?

### A GOVERNOR'S DILEMMA 4:

As a governor, you're worried that your HEI is simply not geared up to deal with a critical (business continuity) incident. From a board member's perspective what do you think are the key issues in trying to ensure that, should the unexpected happen, there are effective contingency measures in place and that business continuity planning will be effective?

<sup>22</sup> See [www.thebci.org](http://www.thebci.org).



## 5. DOCUMENTING AND REPORTING RISK MANAGEMENT

- 5.1 If it is to do its job, a governing body is almost totally reliant on the information on risk it is provided with. Too little information and it won't know what is going on, too much (or poorly presented) and it will suffer from overload, and members will stop reading governing body papers.
- 5.2 As a governor, you have two major concerns in this area: directly reviewing the key board level risks (basically the things that should keep you awake at night whether as opportunity or threat), and ensuring that there are effective and tested systems in place in respect of the lower level risks. Some organisations have escalation policies, linking the escalation of risks to their priority - all the high priority ones are reported to the board, while other risks are reported at lower levels.
- 5.3 In any organisation the risk process is predicated on both a top down and bottom up approach. Strategic risk issues will generally be considered at the higher level, whilst a range of operational risks will be dealt with at a variety of levels across the HEI. So it follows that reporting on risk may be aimed at several different groups. Each will require different types of information, so, with all this risk management information available within the institution, what kind of reports will you be involved with or receive as a governor? Perhaps the simplest distinction is between external and internal risk reporting.
- 5.4 So far as external risk reporting is concerned, the main route will be to the funding bodies (authorised and approved by the governing body), through the annual accounts and the statement of internal control, where an HEI can clearly state its attitude to risk. Part of the Sorp on accounting for further and higher education advises that the financial statement "should provide information to assist funders and financial supporters to assess the strategies adopted by the institution and the potential for those strategies to succeed" including "the resources, principal risks and uncertainties and relationships that may affect the institution's long-term financial position"<sup>23</sup>. This issue is considered in more detail in the companion volume on finance in this series.
- 5.5 It is up to each HEI to decide how it communicates risk issues to external sources, whether concerning regulatory requirements or otherwise. External reporting of risk information has been noted as not being "as sophisticated as it could be, and is often given low priority by institutions"<sup>24</sup>. However, some examples of good communication have been found, including the sharing of data on risk management through an HEI's website.

<sup>23</sup> Statement of Recommended Practice: Accounting for Further and Higher Education (2007), Universities UK at [www.universitiesuk.ac.uk](http://www.universitiesuk.ac.uk)

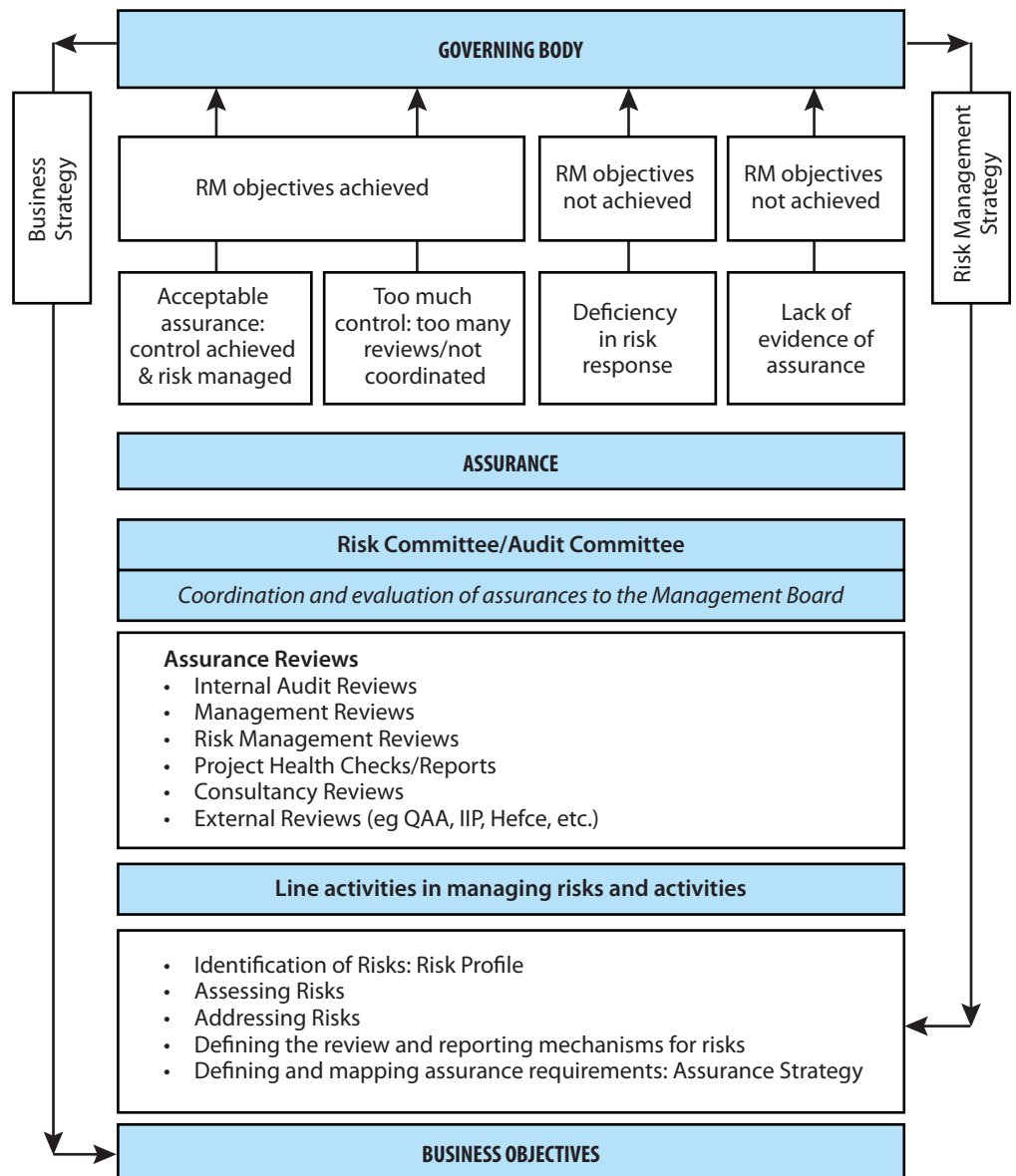
<sup>24</sup> Hefce, (2005) PricewaterhouseCoopers, Risk Management in Higher Education at [http://www.hefce.ac.uk/pubs/hefce/2005/05\\_11/](http://www.hefce.ac.uk/pubs/hefce/2005/05_11/) page 24

5.6 Beyond issues of compliance and accountability, it is internal reporting to the governing body that is the main concern of this volume. There are a number of key documents on risk management and control that your governing body should receive. The main ones are (and each is considered briefly in the following paragraphs): the risk policy; the risk register; regular reports on progress on key strategic, financial and reputational risks; reports as required on key operational risks (at least annually); reports on major project risks as required; audit, assurance and audit plans; and business continuity plans and documentation.

### SUGGESTED TASK

What does implementing this diagram mean for providing information to your governing body?

5.7 The Treasury (in its Orange Book) provides the following flowchart which sets out the typical layers of risk reporting to a governing body<sup>25</sup>.



<sup>25</sup> Amended from HM Treasury, (2004), The Orange Book: Management of Risks - Principles and Concept

## The risk policy

5.8 This was described in Chapter 4, and although it may vary between HEIs, it should provide sufficient data to guide both internal and external stakeholders as to how the risk management process is being overseen and managed. Importantly, it should be signed off by the board, and underpin the work of the audit committee and (where it exists) the risk committee.

## The risk register

- 5.9 Let's be clear about one thing immediately: a risk register is a recording and monitoring tool for management, and not a reporting tool for the governing body. A board should not be asked to wade through a full risk register - in truth most members wouldn't if asked. To be useful for most boards it needs to be tailored for presentational purposes.
- 5.10 Having said that, it is probably the main document used in the risk management process, so much so that all too often it is seen as *the* process, with completion of this paper/IT record as the end product of risk management! However, it is true that the risk register is the proof - the formal evidence - that you are in some way implementing a risk management system. Of course, your HEI will be asked to provide evidence of a risk register as part of its governance responsibilities, and as a governor you should have sight of it, and an understanding of the key risks on it.
- 5.11 However, for a governing body the challenge is to gauge the right level of scrutiny, so in practice, many HEIs will have a series of scaled risk registers, with the board only concentrating on the major threats and opportunities. The Hefce guide on good practice in risk management suggests "... initially focus on the 20 most significant risks that could damage the institution. Then expand into other areas, starting with those that seem to produce the greatest exposure"<sup>26</sup>. The audit committee or risk committee (if you have one) will look in more detail, but even then many operational risks should be a delegated management responsibility.
- 5.12 So, what should your principal risk register consist of? As a minimum, it should have the following information: identified risk; cause/effect; probability; likely impacts; risk owner; timing (impact window/action window); risk status; agreed actions (immediate/ contingency/fallback); action review dates; and action owner. In essence the risk register is a 'to do' list. An example risk register is provided in Annex A.
- 5.13 How often should the risk register be reviewed? A key issue here is the link to your HEI's strategic planning cycle, and it makes sense to have the review of key risks integrated into the same business planning processes. Your HEI should undertake a full strategic review on a regular basis (perhaps every three to five years) with an annual review of the business plan, and with ongoing risks considered at that time. This can then assess new risks, changing risks, dead or irrelevant risks and re-emerging risks.

### SUGGESTED TASK

Reflect on your HEI's risk register. Have you seen it, and what can you glean about risk in your HEI from it? Does it adequately capture key threats and opportunities as you see them?

<sup>26</sup> Risk Management: a Guide to Good Practice for Higher Education Institutions, Hefce 01/28 at [www.hefce.ac.uk/pubs/hefce/2001/01\\_28.htm](http://www.hefce.ac.uk/pubs/hefce/2001/01_28.htm)

## Regular risk reports

- 5.14 How regularly risk is reported to governing bodies varies. Some HEIs have a standing item at meetings consisting of a short progress update against key risks, and this might generally be considered to be good practice. Others ask for detailed reports on one of the major board level risks at every audit committee meeting, and many have risk management as a standing item on the audit committee agenda. Another has quarterly reports to the governing body as part of the review on strategic and operational performance. In a well run board, the need to discuss the issues causing concern will be identified beforehand in discussions between the chair and the clerk, and additional information on these items might be expected.
- 5.15 Increasingly, governing body or audit committee monitoring of risk is combined with simple presentational devices such as traffic lights, so that everyone can see the progress being made on specific items. If all is well then no discussion may be required; if all is not well then it is easy to identify the issues to pursue. In addition, a board should at a minimum receive - and approve - an annual risk report (usually prepared by the audit committee) which notes progress on all key identified risks. This is essential for internal purposes, and will form part of its compliance reporting to the funding body.

## Key operational and project reports

- 5.16 Much of this work will be delegated to the audit committee (and the risk committee where it exists) and to individual managers. Nonetheless the board needs to keep a 'watching brief', usually by receiving committee minutes. Major projects should have a risk plan and agreed monitoring system. Indeed, this is a requirement of projects undertaken under some professional standards (eg the Royal Institute of British Architects or the British Computer Society), as well as more generic project management systems such as Prince 2. Where a project is itself a key strategic objective (and therefore a key risk), specific monitoring reports might be expected.

## Reporting from committees

- 5.17 In Chapter 3 the audit committee's role was considered in relation to risk. Here the concern is on assessing and testing the assurances that are in place for a range of risks, right across the HEI. By comparison the governing body is really focused mainly on primary risks. It follows then that an audit committee has an important role in providing regular information, critical commentary, and assessment back to the full board on the wider range of risk issues. The same is true for the risk committee, where it exists.
- 5.18 It is standard practice for the minutes and reports of such committees to be received at each board meeting as part of an integrated committee reporting cycle. Perhaps the most important issue here is to ensure that committee minutes and reports meet fully the requirements of the main body, so that the process for monitoring risk is 'joined up'. This is not always the case; for example it is not unknown for a strong chair of an audit committee to have a particular view about audit and risk reporting which may not match the requirements of the main board. Of course, the audit committee needs to be independent, but that should not mean the main board does not receive the information it wants in the way it wants it. Clearly the professional role of the clerk or secretary of the governing body (who will often serve the audit committee in the same capacity) is crucial here, and a good committee secretary will ensure such a joined up approach.

### Final commentary

- 5.19 Let's go back to the start. You may recall that in Chapter 1 it was acknowledged that risk management has sometimes had a bad press, and has been seen by some people as a paper exercise to keep regulators happy. Certainly what you may find difficult as a governor is that there is no absolute 'end game' or final position in respect of risk management. It is fluid in both concept and application - a constant balancing act to achieve an appropriate level of analysis, whilst not being too inhibiting.
- 5.20 As a governor you can help provide the lead by ensuring that risk management is on the agenda, and is regularly seen in papers, reports and discussions. You can encourage frank analysis, recognising that risk is always with us and that we need to accept a level of residual risk in everything we do. You can help establish the no blame but continuous improvement agenda which is the challenge of effective risk management.

### Self-challenge questions

- As a governor, what type of information do you want to see on risk management? Do you get the information you want?
- How can you be sure that the audit committee or risk committee (if one exists) is getting the information it needs to do its job?
- What kind of risk management information is included in your annual accounts?

#### A GOVERNOR'S DILEMMA 5:

As a governor you find yourself increasingly swamped with information on risk registers and other reports discussing risk, but somehow they seem to miss the point: it's hard to see the wood for the trees! How do you seek to deal with this, and what might be done to manage and improve the reporting process?

## 6. ILLUSTRATIVE CASE STUDIES

To provide an illustration of some of the issues for governing bodies in dealing with risk, three case studies follow. They are based on case studies on the Hefce website<sup>27</sup>, but have been substantially adapted to concentrate on governance issues. They are not based on actual events at any one institution.

They are:

**CASE STUDY 1:** University of Southshire - building a new learning resource centre

**CASE STUDY 2:** University of Westshire - increasing income by offering distance learning

**CASE STUDY 3:** Northshire College - exploiting the results of research

We suggest that you read through them, and make brief notes to answer the questions at the end of each one. Annex C outlines what the authors of this volume think are the main issues arising from each.

### CASE STUDY 1: UNIVERSITY OF SOUTHSIRE - BUILDING A NEW LEARNING RESOURCE CENTRE

- 1 The University of Southshire estates strategy called for a major strategic investment in a new learning resource centre and some related works for an estimated of £25m. This was to be the largest single building development project undertaken by the University in more than ten years. The project was clearly set out in the estates strategy, but before proceeding the initial details were considered by the board of governors.
- 2 The board asked that all steps should be taken to minimise the risks arising from this project. Accordingly the senior management team made sure that the University bought in expert advice: a firm of accountants developed a tax reduction approach, a competition was used to select a major architectural practice, and external project managers and planning consultants were brought in at an early stage.
- 3 The director of estates made sure that a full risk analysis was undertaken, with inputs from the safety officer, the head of internal audit, and the trade unions. The design was approved by an internal project steering group, and a tender was drawn up and let in accordance with the University's standard financial regulations.
- 4 The project was to be financed in part by a funding council grant (£3.5m), cash from reserves (£2m), donations from alumni (£0.5m), and the balance through a loan from the University's bankers (£19m). The contract to build was let using the University's normal tendering arrangements, with a full bill of quantities. Tenders came in within budget and work started on time.

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<sup>27</sup> [www.hefce.ac.uk/finance/assurance/guide/risk.asp](http://www.hefce.ac.uk/finance/assurance/guide/risk.asp)

- 5 After six months, with the approval of the governing body, the University obtained additional capital funding to allow for a substantial increase in the number of workstations and computing facilities within the building. Unfortunately, when a full assessment was carried out it showed that there would have to be a substantial redesign, particularly of ventilation equipment, all of which would have to be completed quickly if this additional funding was not to be lost. With further delays and despite a comprehensive value engineering exercise, the total projected cost had by now risen by £7m to £32m.
- 6 In the meantime student recruitment had been more difficult than anticipated, with the result that the University had to draw on more of its cash reserves than it had planned. The director of finance approached the bank, who provided additional funds but at a premium rate of interest because of concerns about the University's cashflow. The chair of the finance committee was not available for consultation at the time, but the finance director obtained the approval of the head of institution who was concerned at further delays on this key project. The finance committee was subsequently informed of the action taken.
- 7 At final completion it was found that a substantial volume of unplanned minor variations submitted by subcontractors had in turn been passed onto the University, resulting in additional unplanned costs of nearly £2m.
- 8 Unfortunately, shortly after practical completion, there was a partial failure in a part of the concrete structure. While the building was being repaired, it was not possible to fit it out, with the result that it was not available for the beginning of term. As a result the University received a great deal of unhelpful publicity, particularly from the local paper which ran a campaign commenting on financial and managerial incompetence.
- 9 In response to the range of problems, the University's chair of the audit committee requested a full project review be undertaken via the internal auditors. Their report established that there had been:
  - Inadequate formalisation of project management controls.
  - An inadequate risk assessment process.
  - A lack of consultation by the project team with the end users in agreeing the building design.
  - Inadequate contingency planning.
  - Insufficient thought about the approach to capital procurement.
  - Inadequate interim reporting to the governing body.

### Questions

- a) What are the main issues arising concerning the role of the governing body of Southshire in relation to its oversight of risk management?
- b) If you had been a member of the governing body of Southshire what additional information or action would you have required, and at what stage?
- c) Does your own HEI have any major projects currently under way which could learn lessons from this case study?

## CASE STUDY 2: UNIVERSITY OF WESTSHIRE - INCREASING INCOME BY OFFERING DISTANCE LEARNING

- 1 The University of Westshire examined ways of increasing its income. It identified potential from developing its distance learning offerings. With this in mind it negotiated a commercial deal with an internet service provider, ConNet.com, whereby Westshire delivered bespoke modules which were then marketed and delivered by ConNet.
- 2 To deliver the required modules, an initial assessment suggested that the institution would have to commit significant academic time worth some £5m. Nevertheless, the potential returns were thought to be substantial. Since this represented a major strategic shift and risk to the institution, the outline proposal was put to the governing body. Although enthusiastic, a number of governors were concerned about the potential risks. Accordingly they asked the officers to commission a full risk assessment.
- 3 A well known international consultancy firm was commissioned. Its report identified four main areas of risk:
  - Student experience risk (which might arise from the way the education packages were supported).
  - Financial risk (if demand was insufficient).
  - Managerial risk (senior management team being overstretched).
  - Reputational risk (arising from the other risks and the link with ConNet).
- 4 These risks were addressed through: a system of peer reviews of educational support for each module; some detailed market research (backed up by test marketing); the recruitment of an additional senior manager; commissioning a due diligence examination of ConNet; and the creation of a separate joint venture with a distinct identity.
- 5 With these controls in place, the project was considered to be of medium/high risk, but that there was a real possibility of very high returns. This was set against other risks but considered to be a strategic investment. The University had been extremely prudent over the previous few years and had a relatively low risk profile. The governors decided to approve the project by a clear majority but asked for independent audit assurance of progress after 18 months.
- 6 With a successful launch the University looked forward to receiving significant returns. Unfortunately, other elements of ConNet were adversely affected by a range of incidents: a major legal challenge regarding some copyright material that it had hosted, a fall in its stock exchange valuation, and problems with a fixed cost service it had introduced. Facing increased pressures, ConNet ceased trading in this arena. Students already signed up to the distance learning programmes complained and, despite a clear legal opinion that there was no direct claim against the University, Westshire decided to support the commitments of its joint venture.



- 7 However, as part of the initial risk assessment of ConNet, Westshire had developed a contingency plan with various escape clauses in the contracts, but requiring some further initial upfront expenditure. At the end of the second year of operation it still had not made any surplus from this activity, this being a source of internal disquiet between various University internal section heads and amongst some of the academic community.
- 8 The University commissioned an independent report to examine events. The report concluded that the University could have adopted a more prudent approach, but that that would have led to a lower rate of return on its investment; and that at the time of the investment the university had acted in good faith and taken all reasonable steps to mitigate the risk to a reasonable level.

### Questions

- a) What are the main issues arising concerning the role of the governing body of Westshire in relation to its oversight of risk management?
- b) If you had been a member of the governing body of Westshire what else do you think the governing body might reasonably have done to address the issues raised, and at what stage?
- c) Does your own HEI have any major projects currently under way which could learn lessons from this case study?

## CASE STUDY 3: NORTHSHIRE COLLEGE - EXPLOITING THE RESULTS OF RESEARCH

- 1 Northshire's Professor of Fabrics had developed a concept for creating one-off fabric designs based on small liquid crystals. The idea had been fully developed in a series of academic papers supported by a large number of drawings, plus a technical feasibility study. The College was asked to invest resources to develop the idea into a more commercial proposition.
- 2 The idea was seen to have real practical applications, and the possible financial returns were significant: soft market research had established a potential worldwide market. A commercial manufacturer had indicated that if prototype development were successfully completed, it would reimburse the full cost of initial development, and make subsequent royalty payments, in return for future rights. Indications were that this might offer the college an income of about £200,000 a year.
- 3 The professor requested two years' commercial sabbatical, additional workspace, support staff and about £40,000 of equipment. The proposed development costs were estimated at £120,000. This project fitted well with the College's strategic plan which required a year-on-year increase in non-public funding sources. Against this the College had little commercial development experience or capacity and this was to be a new strategic, business development. After discussions the principal agreed to commit the resources necessary, using funds in the College's development budget.
- 4 The various investments were made but progress was less than initially expected and further extensions and cash injections were required to sustain the development work. The senior management team continued to be briefed on the potential of the project.
- 5 Almost three years after the project started, the trade papers carried an announcement from Threads R Us that it had developed SmartCloth, a fabric based on semi-conductors which could be 'connected' to a PC and would effectively make the College based development obsolete, even the prototype was ready and was to be marketed to various manufacturers. The research team also started to develop improved versions. Everyone agreed that it was very unlucky, the team was disbanded, but the college was encouraged when the department received a rating of 3 in the Research Assessment Exercise.
- 6 Four months later, because of changes to the funding formula, the College was forced to make two staff in Fabric Studies redundant. One of them complained to the governors that this redundancy was solely because of the mismanagement of the College's commercial investments and subsequent losses. Governors requested a review and audit of the project and its management.

- 7 The report suggested that there were major lessons that could be learnt, notably that:
- There was no investment risk appraisal.
  - The actual accumulated losses were over £150,000. This amounted to over £400,000 if support costs and overheads were properly costed.
  - No patents had been taken out.
  - Neither the governing body nor the audit committee had been properly informed and advised on the risks and the project progress.
  - There was no formal development contract with the potential private sector partner.
  - There had been no effective project control or management.
- 8 Following the publication of the report the trade union branch passed a vote of no confidence in the management, and from the resulting bad press negotiations over a possible investment by an alumnus broke down losing a potential investment of more than £100k pa.

### Questions

- a) What are the main issues arising concerning the role of the governing body of Northshire in relation to its oversight of risk management?
- b) If you had been a member of the governing body of Northshire at what stage do you think the governing body should have been involved, if at all?
- c) Does the risk management practice of your governing body have anything to learn from this case study in relation to your policy and practice on commercial exploitation?

## ANNEX A: SAMPLE RISK REGISTER

**NAME:** ANON UNIVERSITY  
**REF:** ORDERED BY CATEGORY  
**DATE:** NOW

RISK ID	RISK TITLE	RISK DESCRIPTION	CATEGORY	RISK OWNER	GROSS (QUALITATIVE)		
					PROBABILITY	IMPACT	PRIORITY GROSS
40	Inability to source and retain a qualified resource pool compatible with regional requirements	Inability to allocate International personnel from University population to provide support for growth. Inability to allocate home office support in established centres to provide support growth in new regions	Operational	Operational Directors	5	5	<b>5 VERY HIGH</b>
5	Increasing number of risks that the insurance market is no longer willing to carry	<ul style="list-style-type: none"> <li>Risks too big or too cumulative, that could wipe out the insurance market</li> <li>Current examples include asbestos, terrorism, toxic mould, data, silicosis</li> <li>Insurers only willing to insure 'known' risks</li> <li>Unpredictability of insurance costs in future years</li> <li>Inability to transfer risk to insurers</li> </ul>	Insurance	Insurance Manager	4	4	<b>4 HIGH</b>
23	Failure of security for employees in high risk areas	Personal security and the safety of our employees due to our lack of knowledge, lack of suitable transportation, etc. A terrorist or other major event may occur leading to damage to property and or people, reputation and continuity	Health and Safety	Operational Directors	5	5	<b>5 VERY HIGH</b>
2	Criminal prosecution for corporate manslaughter/ killing	Through University activities, especially in high risk areas in science block	Legal	Legal Manager	2	5	<b>4 HIGH</b>

CURRENT (QUALITATIVE)

RISK STATUS	EXISTING CONTROL(S)	PROBABILITY	IMPACT	PRIORITY GROSS	ACTION PLAN	ACTION OWNER	ACTION REVIEW DATE
Active	HR Department's internal advertisements	4	4	<b>4 HIGH</b>	<ul style="list-style-type: none"> <li>HR analysis of region</li> <li>Implement community liaison initiative</li> <li>Ensure a fully coordinated recruitment strategy/between all the recruitment /employment models, place key people in relevant teams</li> <li>Competitive compensation and benefits</li> <li>Stress communication</li> </ul>	HR Manager	Date
Active	<ul style="list-style-type: none"> <li>Image enforcement within insurance market</li> <li>Hard negotiation within insurers</li> <li>Avoidance of uninsurable risks, where possible, through policies and procedures</li> <li>Alternative risk transfer considered where appropriate</li> </ul>	4	4	<b>4 HIGH</b>	<ul style="list-style-type: none"> <li>Continuous monitoring and reporting of situation</li> </ul>	Insurance Manager	Date
Active	<ul style="list-style-type: none"> <li>Emergency response plan</li> <li>Business continuity plan</li> <li>Security reviews and safety assessments with specialists and clients</li> <li>General inductions</li> </ul>	3	4	<b>4 HIGH</b>	<ul style="list-style-type: none"> <li>Instigate personal 1/2 hour induction/pack prior to travel</li> <li>Meet and greet system with local representatives</li> </ul>	HR Manager	Date
Ongoing	<ul style="list-style-type: none"> <li>H&amp;S management framework</li> <li>H&amp;S audit</li> <li>Shared learning through internal communications</li> <li>Liaison with regulatory authorities</li> <li>Media handling process</li> </ul>	2	5	<b>4 HIGH</b>	<ul style="list-style-type: none"> <li>Instigate internal update for all staff and students regarding H&amp;S</li> <li>Instigate update with staff regarding new changes in regulations regarding corporate manslaughter</li> <li>Update management and board on changes</li> </ul>	Legal Manager	Date

## ANNEX B: SOME KEY REFERENCES

There are numerous publications on risk, amongst those most relevant to higher education and governance are:

Hefce, (2005), *PricewaterhouseCoopers, Risk Management in Higher Education*. A useful summary of risk management practice. At [www.hefce.ac.uk/pubs/hefce/2005/05\\_11/](http://www.hefce.ac.uk/pubs/hefce/2005/05_11/)

Hefce, (2001), *Risk Management: a Guide to Good Practice for HEIs*. Although now seven years old, still a useful summary of standard practice in risk management. At [www.hefce.ac.uk/pubs/hefce/2001/01\\_28.htm](http://www.hefce.ac.uk/pubs/hefce/2001/01_28.htm)

Hefce, *Good Practice Checklist for Assessing Risk Management in HEIs, HEFCE Audit Service, Guidance for Auditors and Risk Coordinators*. A guide for internal auditors of HEIs with a useful - although perhaps slightly intimidating - list of questions to consider. At [www.hefce.ac.uk/finance/assurance/guide/risk.asp](http://www.hefce.ac.uk/finance/assurance/guide/risk.asp)

Hefce, *Risk Prompt List for HEIs*. Some examples for HEIs in how to undertake a basic risk analysis and relate to mitigating actions. At [www.hefce.ac.uk/finance/assurance/guide/risk.asp](http://www.hefce.ac.uk/finance/assurance/guide/risk.asp)

CIPFA, (1999), *An Introductory Guide to Risk Management in Further and Higher Education* at [www.cipfa.org.uk](http://www.cipfa.org.uk)

Management Consultants Association, (2007), *The Upside of Risk: Improving Performance in the Public Sector*. A useful review of current developments in risk governance and management in the public sector. At [www.mca.org.uk/MCA/Publications/ExecutiveReport.aspx](http://www.mca.org.uk/MCA/Publications/ExecutiveReport.aspx)

HM Treasury, (2004), *The Orange Book: Management of Risks - Principles and Concept*. A basic introduction to many general concepts of risk management -perhaps more detail than is needed for most governors, but a good reference resource for those who want more background. At [www.hm-treasury.gov.uk/media/3/5/FE66035B-BCDC-D4B3-11057A7707D2521F.pdf](http://www.hm-treasury.gov.uk/media/3/5/FE66035B-BCDC-D4B3-11057A7707D2521F.pdf)

Institute of Risk Management (IRM), *Risk Management Standard*. Provides a generic model for undertaking the risk management process: more of a manager's tool but may also be of interest to governors. At: [www.theirm.org/publications/documents/Risk\\_Management\\_Standard\\_030820.pdf](http://www.theirm.org/publications/documents/Risk_Management_Standard_030820.pdf)

## ANNEX C: SUGGESTED ANSWERS TO GOVERNORS' DILEMMAS AND CASE STUDIES

### A) GOVERNORS' DILEMMAS

#### Dilemma 1 (page 10)

It may be worth referring to much of the material outlined in this volume! Your colleagues may need reminding of their overall responsibilities towards risk and what they need to look for in terms of risk assurance. One way forward would be to ask the clerk or secretary to the board to provide a briefing on this issue, perhaps including looking at good practice in other HEIs or elsewhere.

Another way of dealing with the issue would be to try and link it with a governing body effectiveness review. In addition to occasional full effectiveness reviews, some HEIs produce an annual review of how effectively the board and its committees have performed, and where this is done you would expect to see consideration given to the adequacy of risk assurance.

Finally, this may also be an area for further governor training. Where there is a system of governor appraisal of some form, perhaps you could raise it as a matter for review.

#### Dilemma 2 (page 16)

Of course, your concerns should be about the 'big picture' and you should not be trawling over the detail. Overall, some of the issues you might want to see in place include:

- Is there any evidence of a satisfactory project management framework, and what are the project management arrangements?
- Has the project been fully appraised and risks assessed? (Who did this, with what degree of rigour, and has it been considered at a senior enough level)?
- Is there a project board/reporting committee to oversee the project?
- Is the project predominantly consultant/contractor led? Who is leading on the client side? ie coordinating internal arrangements and client needs?
- Is there any evidence of previous experience and learning being reinvested in this project?

Too often there is little additional internal resourcing of major projects, and various associated tasks are expected to be undertaken by existing staff alongside 'the day job'. As a result the HEI needs to ensure that it must maintain project responsibility and not hand these over to either the external consultants or even the principal contractor.

#### Dilemma 3 (page 22)

Possible evidence includes:

- Looking at your strategic planning process and the setting of key objectives: how much does this process focus on pushing forward, developing new business, reaching new improved standards or new service levels? Or is it predominantly 'business as usual'?

- What new initiatives are being brought forward, by whom, and what tends to happen to these? Are they positively received, or are they greeted with caution? Are reports inevitably sent back for more information, or sidelined because of potential risks?
- What does the governing body's schedule of delegation tell you about internal controls - are they stifling initiative? Does this tell you how it might feel to try to progress a new initiative?
- What can potential partners or external stakeholders tell you about how your HEI approaches risk concerning collaboration? Do you have any feedback mechanisms from staff that might give any indication of satisfaction or dissatisfaction with business development?

#### **Dilemma 4 (page 30)**

Possible issues include:

- Clarity in what is expected of service providers, and their awareness of these roles.
- Evidence of effective planning (both within and across departments) with consistent information provided by all parties.
- Clarity in terms of management responsibility for all critical services on a 24 hour basis.
- An impact analysis of the likely consequences if key services and products are disrupted.
- Whether there been any assessment of (in business continuity terms) the 'maximum tolerable period of disruption'?
- The extent to which more general strategies are making services more or less critical. For example, centralising key services to achieve efficiencies can increase dependency on them.
- Where there have been service failures, have lessons been learned and applied consistently throughout the HEI?

#### **Dilemma 5 (page 35)**

Possible issues include:

- Are board reports focused on key risks? The board should not be directly concerned with more operational issues, except receiving assurance that active risk processes are in place.
- Can a summary overview be better presented? eg a traffic light system showing, or reporting by variation - only reporting when there is a significant change in situation.
- Does an overload of information indicate a misunderstanding of risk responsibilities amongst managers, or an over cautious approach?
- Is effective delegation of responsibilities in place or not?
- Does this show a lack of coordination of key issues, eg no shared reporting perspectives from different services?



## B) SUGGESTED CASE STUDIES ANSWERS

### Case Study 1 (page 36)

In effect, the key issues here are as outlined by the internal auditors report in the case study. There is some evidence of rudimentary project management, and initial project appraisal, but this was quite weak and there was insufficient consideration of how and where the project sat in relation to the University's wider business context and situation.

The governing body might have required:

- Greater sensitivity analysis of key financial and business planning performance standards across the wider business plan - there were already some indications of being close to the margins in key areas (hence the cash flow pressures).
- More robust initial risk appraisal undertaken through a more capable project management framework, and a subsequent review following various project amendments.
- Risks were identified but it is not clear how they were to be effectively managed.
- A stronger project client role input throughout with clearer project approval mechanisms and (staged) reporting requirements with regard to variations and contingencies.
- A more proactive commitment to internal review and learning from lessons for future projects.
- A more proactive approach to public relations and local publicity.

### Case Study 2 (page 38)

Clearly a risk once again became a real issue, and some losses resulted, but there is also much more evidence of an effective more balanced risk process. You might note for instance:

- An element of partnership working and some risk sharing.
- A comprehensive risk assessment with evidence of risk management being applied.
- A consideration of this project in the wider business context - looking at the impact in relation to wider financial and operational activities.
- A relatively smaller scale project than in case study 1 (£5m of staff time).
- Some effective contingency planning.

Overall it appears the governors took a measured and considered risk, although additional issues that might be relevant include:

- A consideration of what other options and/or partners existed to develop and launch this project - ConNet had some risks.
- Consideration of how some of the 'spent' resources might be recovered through alternative delivery mechanisms (other than ConNet) once problems occurred.
- A review of lessons learned.
- A more proactive approach to public relations and local publicity.

## Case Study 3 (page 40)

Again, the case study itself provides an insight and some issues are fairly self evident, but of course, only here in hindsight! Issues for governors include:

- No systematic assessment of risk or of project appraisal.
- No effective process of governing body approval or reporting with little evidence of this being within delegated approvals.
- Poor or non-existent in-project review mechanisms.
- Ineffective or non-existent post-project review.

Governors should have required:

- A systematic risk assessment/management process - this seemed to be almost totally absent.
- More effective and managed, delegated authorities in line with managed risk assessments.
- Reporting, auditing and review of systems related to what was almost by definition a key risk as a new area of business development.
- A more effective management response to what was rapidly becoming a critical issue.

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With a career as a senior manager within a number of social housing organisations and in two separate periods within higher education, Eric is currently senior lecturer in Business Strategy at the University of Huddersfield. He has a particular interest in board governance, and over the past four years has provided board level training on a range of related issues, including guidance and training for a number of audit and risk committees. He has also experienced governance more directly from the board perspective having been a board member of a regional housing association and now as trustee to a local charity.



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