DE MONTFORT UNIVERSITY

Risk Management Policy: Update November 2006

Framework, Procedure and Governance Requirements

1   Background

1.1   In the last 10 years there has been increasing emphasis on risk and the management of risk exposures. This has been driven by increasing demands for better governance.

1.2   Turnbull and the Combined Code is the accepted standard in both the private and public sector. The guidelines of Turnbull identify that an organisation's internal control systems should be built upon recognition of:

- The risks faced by the organisation; and

- The organisation's appetite/capacity to accept and manage risks.

1.3   HEFCE issued an Accounts Direction in November 2000, followed by risk management guidelines in May 2001. The Accounts Direction stated that institutions are required to ensure that effective risk management:

- Covers all significant risks;

- Produces a balanced portfolio of risk exposure;

- Is based on a clearly articulated policy and approach;

- Requires regular monitoring and review;

- Is integrated into normal business procedures;

  and

- Is managed by an identified individual and involves the demonstrable commitment of senior governors, academics and officers.

1.4   This paper sets out the updated policy and framework that DMU operates in order to ensure compliance with the HEFCE Accounts Direction.

2   Risk Management: Strategy and Policy

2.1   Definition of Risk

"…the threat or possibility that an action or event will adversely or beneficially affect an organisation's ability to achieve its objectives"

It is important to note that the definition effectively includes both the "upside" opportunity and the "downside" threat.

2.2   DMU's Risk Management Strategy

To ensure fit-for purpose, flexible and continuously improving processes for effective risk management and internal controls.

2.3   DMU's risk management process seeks:

(a)   to support the business and **not** add a layer of (mechanistic) bureaucracy

(b)   to codify best practice that already exists within DMU

(c)   to establish the responsibility of individual officers and committees, including the overall responsibility to be exercised by the Board of Governors

(d)   to integrate reporting within existing systems and processes

(e)   to embed the process on an on-going basis

(f)   to focus on all **significant** risks as a minimum.

2.4   DMU's Risk Management Policy

DMU is expected to:

- Establish clear objectives for its operations;

- Identify and evaluate significant risks to the achievement of its objectives;

- Establish the boundaries for risk taking and apply appropriate responses to risk;

- Incorporate risk responses into its internal control systems;

- Monitor the effectiveness of the system of risk and internal control management; and

- Provide an annual assurance regarding the extent of compliance with the risk management policy

2.5   DMU's Risk Appetite

DMU's general approach is to be risk averse. It will seek to recognise risk and mitigate, where possible, the adverse consequences. However in pursuit of its strategic objectives the University may, at times, choose to accept an increased degree of risk exposure. The University will bear the additional exposure if strategically justified, but only on the basis that the potential benefits and risk are fully understood, and that sensible risk mitigation measures have been agreed and established.

3   Risk Management: Framework

3.1   Effectively the DMU framework consists of a "plan-do-check-improve" cycle to the management of risk.

3.2   The "plan" element comprises the following steps:

- Understanding the business environment;

- Establishing clear and realistic objectives;

- Identifying and evaluating risks in respect of achieving the objectives, and

- Identifying actions to manage these risks.

3.3   The "do", "check" and "improve" elements contribute to the sustaining of the framework (reference section 4 of this paper).

3.4   DMU recognises that there is great value in aligning/embedding its risk management practices with its corporate and strategic planning, and performance monitoring processes.   The linkages between strategic objectives and risk management considerations has already become a feature of the strategic risk register, and strategy and policy papers to the Board/Executive meetings now have risk assessment as a standard feature.

3.5   A revised monitoring system is being put in place for the beginning of the 2006/07 financial year to ensure that the University is on course to achieve its key strategic objectives as outlined in the Strategic Plan – "Preparing for 2010 and beyond". To ensure that the Board, Management and Faculties/Directorates have the Management information necessary to monitor the plan, a schedule of key performance information will be prepared and reported upon. This will enable more informed links to annual goals; it will also enhance risk management assessment given the increased scrutiny of key objectives.

3.6   The response to risk is the key final stage of the framework development. In most cases it is not possible (or affordable) to prevent, or entirely eliminate, risks, and it is rarely possible to design a risk response which will deliver a "cast-iron" guarantee. However, it is generally possible to establish a risk response that will provide a reasonable assurance.

3.7   Any organisation will have multiple objectives and multiple risks, and therefore there will be more than one way to respond to particular risks. The aim should be to have an integrated and structured portfolio of risk responses that do not exceed agreed boundaries for risk taking, and are net cost/benefit effective.

3.8   Ultimately, determining whether risk responses are fit for purpose requires an assessment of whether the net risk is acceptable, given the risk appetite/capacity of DMU.

3.9   It is critical to evidence and monitor the risk responses, and to ensure that they continue to support the stated objectives. The enhanced monitoring arrangements noted in 3.5 above, will greatly assist this important task.

3.10   It is also important to recognize that a risk based control framework will never be static or complete. Risk responses will need to be dynamic and adaptable to changing pressures, conditions and demands. DMU must therefore ensure that there is the right balance between "doing" and "talking/documenting". Documentation should be practical, appropriate and relevant.

4   Risk Management: Sustaining the Framework

4.1   The "do-check-improve" element of the framework will contribute to sustaining the framework. It demands that who/what/when/where/why/how questions are being addressed, and that DMU executive and senior management colleagues are ensuring that risk responses actually happen.

4.2   To be sustainable the framework also needs:

- The demonstrable commitment of the Vice Chancellor, the Senior Management Group and the Governing Body;

- To be integrated with existing roles, activities and processes of DMU;

- To be resourced, managed and effectively communicated to staff in DMU;

    and

- To demonstrate that it is a useful tool to support and improve the objectives and performance of the organisation.

4.3   An annual review of effectiveness is required to provide appropriate assurances, and allow for changes and improvements to be highlighted.

5   Roles and Responsibilities

5.1   DMU Board of Governors

    5.1.1   The Board of Governors have a key role in:

- Setting the tone and influencing the culture of risk management within the whole institution;

- Determining the appropriate risk appetite or exposure for the institution;

- Actively participating in major decisions affecting the institutions risk profile or exposure;

- Monitoring the management of significant risks to reduce the likelihood of unwelcome surprises;

- Satisfying itself that the less significant risks are being actively managed, possibly by encouraging a wider adoption of risk management; and

- Reviewing, at least annually, the effectiveness of DMU's approach to risk management.

5.1.2   The Board received a formal presentation on risk management arrangements at its December 2005 meeting; the role of the Board was a key element of that presentation. As a consequence the Board approved a number of developments to further enhance its engagement in the risk management process.

5.2   Vice Chancellor and Strategic Management Group

The Vice Chancellor and colleagues in the Strategic Management Group (SMG) are responsible for ensuring that risks are identified, assessed and responded to. In particular they are responsible for

- Implementing the policies on risk management and internal controls;

- Ensuring that the risk based approach to internal control is communicated to staff, embedded in the business procedures, and responsive to emerging risks;

- Assigning accountability/ownership for managing key strategic risks;

- Ensuring that appropriate responses to risk are being applied;

- Ensuring that there is adequate training, guidance and resources to support the risk management process;

- Reporting the result of the risk management monitoring/assessment to DMU Audit Committee and the Board of Governors;

- Accounting to Audit Committee for any significant weakness or risk incidents via a regular performance monitoring/management report.

5.3   Faculty Management Board (FMB) and Operational Review Group (ORG)

FMBs and ORGs will review risk management arrangements on a quarterly basis. Faculty and departmental risk registers are maintained and are communicated up to the senior executive. These registers, together with the high level risk register are linked to the strategic objectives of the university.

5.4   Audit Committee

Audit Committee is responsible for ensuring that the process by which risks are identified, prioritised, and managed is effective. In particular, Audit Committee oversees the annual review of the risk management process and report to the Board of Governors on effectiveness of DMU's internal controls (including risk management) by way of a formal annual report. This report is aligned with the existing report on operating internal controls that is required for sign off of the annual accounts in November/December each year. Risk Management is

considered at every Audit Committee meeting. Updates to the Strategic Risk Register are highlighted, and opportunity is given for Audit Committee to seek management representation in respect to risk responses. In summary, there is continuous assessment and monitoring by the Audit Committee.

5.5 Internal Audit

Internal Audit will:

- Upon request by the Vice-Chancellor's Group, explore particular risks in further detail. This might be either to explore factors that would contribute to the risk materialising and/or to consider alternative approaches to managing risks;

- Conduct ongoing reviews of how DMU's strategic and operating risks are being managed in practice;

- Contribute to the annual review of effectiveness; and

- Upon request, contribute to the training and guidance of DMU staff.

5.6 External Auditors

DMU's external auditors will also be requested to contribute to the annual review of effectiveness and report to Audit Committee, if further independent assurance is deemed to be required.

5.7 Risk Management Sponsor

In line with the HEFCE Accounts Direction the process requires a sponsor. The risk management sponsor is responsible for promoting the process and for its overall co-ordination. The Director of Finance is the current DMU sponsor.

6 Documentation and Reporting

6.1 It has been noted that documentation is important to provide evidence of good practice in terms of risk management. However it has also been stated that there is a need to ensure an appropriate balance between documenting and actually implementing ("doing").

6.2 Documentation should be kept practical, relevant and appropriate; this will be best achieved by integrating with existing reporting mechanisms. However the documentation must be meaningful and support the risk management process. In terms of the balance it is important:

- To have explicit and frequent conversations about risk

- To capture key discussions about risk acceptance

- To be able to demonstrate what is in place (or not) to respond to significant risks

6.3   As noted in 3.5 existing documentation/reporting processes will be strengthened in 2006/07 as a result of the revised monitoring arrangement for DMU's new strategic plan.

6.4   An annual independent appraisal of the effectiveness of risk management at DMU is required. This is now aligned to existing reporting, via Audit Committee to the Board, on the effectiveness of internal control systems. The report results in:

- An opinion regarding the appropriateness and effectiveness of the risk based control framework in place
- Recommendations for actions to strengthen or improve the framework.

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