

UNIVERSITY OF WARWICK

For the meeting of the Risk Management Group to be held on 22 October 2008

Internal Audit of Risk Management

Attached is the draft report from the Internal Audit undertaken on the University Risk Management process last term. The attached version of the report highlights a small number of changes recently proposed by the Deputy Registrar's Office (additions underlined, deletions struck through), though it should be noted that the final report will be agreed shortly.

Also attached is the response to the report from the Deputy Registrar's Office.

The Risk Management Group is invited to consider the report and its recommendations as well as whether any further additional comment on the findings of the risk management internal audit should be made.

UNIVERSITY OF WARWICK

Internal Audit

Review of Risk Management

1. Introduction and Scope

The University has been operating a formal Risk Management procedure since 2001/02. Internal Audit were initially involved in the set up of this process and the formulation of the risk register. Responsibility for the arrangements for risk management fell into Internal Audit's remit until January 2006 when operational management of this area was passed fully to the Senior Assistant Registrar (Governance) in liaison with the University Secretary~~Head of Governance Support Services~~. Consequently, this is the first time that Internal Audit has had sufficient distance from the risk management process to be able to provide an independent opinion of the processes in place.

Available resource (consultancy days provided as part of the brokerage agreement) from the University's insurance broker, Marsh, has allowed the University to commission a 'free' review of the current arrangements for risk management. This review is currently underway and feedback should be provided to the Audit Committee at the June 2008 meeting. This report is not intended to duplicate the results of that review. Instead, it has been based on the completion of the 'Good practice checklist for assessing risk management in HEIs' published by HEFCE. Completion of this checklist was achieved from an Internal Audit review of the risk management arrangements currently in place, from discussion with the Head of Governance Support Services (previously the Senior Assistant Registrar), and from queries raised during meetings of the Risk Management Group. The completed checklist can be found in Appendix 1.

2. Key Points Arising from the Review

2.1 Progress to Date

The risk management arrangements operating at the University are generally satisfactory; they meet the University's current requirements. However, there is scope for greater embedding of risk management procedures throughout the institution. Whilst the key risks of the organisation are identified and discussed at a senior level, and there are procedures in place for using a bottom-up methodology for ensuring all risks are identified, there is a lack of 'buy-in' to the process at lower levels of management, possibly due to a lack of training and explanation of the advantages of using risk management in decision making. The senior management team must therefore take a decision on whether they consider the existing arrangements to be adequate for the institution's needs or whether benefits could be gained by extending the application of risk management to all levels of the organisation.

2.2 Integration of Risk Management

Departmental risks are identified on an annual basis as part of the 5-year planning process. These are reviewed by senior management and any significant risks would be identified and considered for inclusion in the University risk register. However, outside the key risks, there is no systematic identification of the significant risks attached to new initiatives, projects, etc, or **formal** consideration of how these link to corporate objectives. Similarly, consideration of the University's key risks is not cascaded down through the organisation to a unit or project level. 'Buy in' from the bottom up is essential in helping to ensure that the University's key objectives, namely the Strategy, have optimal chance of successful accomplishment.

As a general rule, the principles of risk management should be applied to all decision making throughout the institution in order to establish that decisions taken help achieve the organisation's objectives, identify opportunities, and discount any courses of action that have a residual risk that exceeds the University's risk appetite.

From Internal Audit's experience of visiting departments and discussing their risk registers, there are still some training issues that need to be addressed. Whilst the use of SWOT analyses and assessment of strategic risks is a positive move forward, some departments still report confusion in the type of things that should be included on their risk register. For example, it has been suggested to members of Internal Audit that the Risk Register is simply to cover health and safety risks or purely controllable risks. Also, discussions with departmental management reveal that their perception of key risks sometimes does not match up with the information they have provided on their register. It is appreciated that there is adequate information about the completion of SWOT forms and risk registers on the University intranet, however, there is a need for this to be supplemented by additional training in order to achieve a fuller understanding of the risk management process throughout the organisation.

In providing any training, it is important to convey the message that risk monitoring and reporting is a dynamic process as events continually affect the likelihood and impact of risk; steps should be taken to avoid risk management being viewed simply as part of the annual reporting process.

2.3 Risk Appetite

The University does not have a formally stated risk appetite. Whilst a decision about an organisation's risk appetite may be considered fundamental to the risk management process, this can be very problematic to achieve. Knowledge of the level of risk that the organisation is willing to take is necessary for decision making; if the residual level risk exceeds the risk appetite, then the course of action under consideration should theoretically be rejected. However, the risk appetite of the organisation as a whole may be very different from the appetite to be applied at an individual project level. An additional problem lies in the quantification of the risk appetite. In financial decisions it may be easy to put a figure on acceptable losses that the organisation is willing to tolerate, however, this cannot be so easily applied when, for example, taking decisions on teaching quality. It should also be noted that, even when a risk appetite has been defined, this may not remain static; it may alter in line with external events impacting on the organisation.

Notwithstanding these limitations, it would still be a useful process for senior management to consider the organisation's risk appetite as this will focus attention during the decision making process on what level of risk is acceptable to the institution. 'Risk appetite needs to be considered not only for individual programmes/projects, but also across operational delivery areas and, in its totality, for the

overall portfolio of risks to ensure that an organisation's risks are appropriate, balanced and sustainable' (HM Treasury 'Managing your risk appetite: a practitioner's guide').

Consideration of risk management should be embedded as part of the decision making process at all levels within the organisation. This will be relevant whether deciding to take on a new project, setting up new partnerships, or introducing a new academic course. It should be used to help identify whether it is actually worthwhile to go ahead with a planned course of action or not and can also be used to set up tolerances which would identify when a project should be terminated. Risk appetite is about taking evaluated risks where the long-term rewards are expected to exceed any short term losses. This principle is particularly applicable when considering the achievement of the University Strategy.

2.4 Early Warning Indicators

There is very limited use of early warning indicators in the existing University procedures; currently, these indicators only really exist in the form of KPIs in respect of financial reporting, health and safety statistics, and staff/student surveys. The likelihood or impact of a risk may change for many reasons (e.g. changes in personnel or in external legislation). Early warning indicators are designed to identify potential changes before they happen and can take the form of exception reporting or quality surveys. Most importantly, there also needs to be an adequate escalation process in place to ensure any significant early warning indicators are promptly addressed by management.

Linked to the concept of early warning indicators is the use of 'horizon scanning'. This is a systematic activity designed to identify, as early as possible, indicators of changes in risk. At present, the University seems to give little formal consideration to this method of control. This technique is particularly important if an organisation perceives that it faces risk primarily from external factors rather than those within its internal control (e.g. changes in government funding policy).

2.5 Identification of Opportunities

In the HEFCE publication 'Risk management: A briefing for governors and senior managers', risk is defined as 'the threat or possibility that an action or event will adversely or beneficially affect an organisation's ability to meet its objectives'. Currently, the University still appears to be focused on the use of risk management as a mechanism for reducing and controlling threats rather than for identifying opportunities. The advantage of having an effective risk management process embedded into the organisation is that there should then be formal structures in place for identifying and evaluating potential opportunities. Once a course of action has been proposed, predicted rewards or losses arising from this action can be assessed and evaluated against the organisation's risk appetite. If the opportunity is to be taken, early warning indicators and tolerance limits should be used to monitor progress.

Horizon scanning can be used for the identification of opportunities as well as threats, and potential problems may be 'translatable' into opportunities if spotted early enough.

In order to assist staff 'buy in' to the risk management process, it would be useful to highlight any opportunities that have been identified by risk assessment. This could help convince management of the value of the process.

2.6 Strategic Partners

The University needs to consider its relationship with external partners. Where key risks are identified by other key stakeholders (e.g. DfES, JISC, funding bodies, etc), it is likely that these will be addressed and incorporated into the risk register as appropriate. However, there is limited investigation by the University into the significant risks of the institution as perceived by these key stakeholders. Similarly, there is limited, systematic investigation of the risk management arrangements of key external partners on which the institution significant places reliance (e.g. major suppliers, IT providers). Senior management should consider whether more resource should be directed at satisfying themselves that the risk management arrangements within these organisations are robust. This is particularly important if the University is dependent on the partner for delivery of goods or services which are vital for achievement of its objectives.

It should be noted that there are some risks with external partners that cannot be directly controlled by the organisation. In this instance, the only recourse if the risk is to be accepted, is to develop contingency plans (e.g. not relying on a single supplier).

2.7 Risk Register

The University has a Risk Status Summary Report which highlights the current key risks and any changes in the assessed likelihood, impact and overall status of each of these. This Summary is supported by the Risk Register which, for each of the key risks, provides greater detail on the risk, lists the risk holder, management measures in place to mitigate the risk, the residual risk scores, and any planned further actions to be taken.

It was noted in the Risk Management Group meeting of 3 March 2008, that more detail could be provided in the Risk Register, including names of those responsible for actioning management measures and timelines for further actions to be achieved. This issue has been addressed, with the Register presented to the RM Group on 4 June 2008 incorporating more detailed information. However, there is still scope for improvements to be made to the Register, as follows:

- There is no use of the Gross/Inherent risk column. If the inherent risk is not identified, it is not possible to ascertain whether any control measures need to be put in place. If the gross risk is within the institutions risk appetite or if the management measures do not effect any real change in the overall risk status, it is probably not an effective use of resource to attempt to mitigate the risk;
- Although any movement in individual risk status is highlighted on the Summary Report, there is no explanation to justify this change. This makes it difficult to assess the validity and significance of any movements in the likelihood or impact scores;
- The risks in the Register are all high level ones and are useful when risks are discussed at a senior level. However, one way to develop risk management would be to also provide a list of sub-risks. These provide some detail of how the overall risks might materialise. For example, risk F1 in Warwick's Register (about reduced surpluses on commercial activities) actually incorporates sub risks such as "loss of market share" and "failure to control costs". A review of these and consideration of who was responsible for dealing with them might be a useful tool for the CRAG to consider. In general, analysing the Risk Register in this way could be very beneficial in terms of making it more useful as a tool for operational management.

This technique has been seen to operate successfully at another academic institution.

Conclusion

Overall the University's risk management system shows many instances of good practice and meets the key requirements set out in the HEFCE checklist. There is no suggestion that significant risks are not raised and reviewed as part of the risk management process. There is engagement with the process at the highest level, including reviews by [the](#) Council. The process is also well (though not universally) established at departmental level within the planning process.

There are, however, a number of areas for possible improvement:

1. Risk Management, as a formal process, is not widely used as a methodology by University managers. This is not to deny that risks are managed, just that a process is not specifically recognised for undertaking such management.
2. Embedding risk management throughout the University would entail a significant investment of time and effort and it is accepted that this might be a course management does not want to pursue at the current time. However, without some kind of further effort, it is difficult to see how risk management can become more widely used across the University.
3. Some consideration should be given to defining the University's risk appetite. This should assist in educating managers about the context in which they operate. We accept that completely defining a risk appetite for the University may be an extremely difficult process, but believe that some consideration of this issue would be beneficial.
4. Consideration must also be given to the results of the Marsh review and particularly any options it provides to integrate other related processes.
5. There is a need to consider possible measures which provide early warnings that a risk might materialise. Highlighting instances where the application of risk management has led to the identification of opportunities could also be useful in convincing staff of its usefulness.
6. There are possible improvements in the Risk Register itself, as identified in paragraph 2.7 above.

HEFCE Audit Service Guidance for auditors and risk co-ordinators

Good practice checklist for assessing risk management in HEIs

Good practice checklist for assessing risk management in HEIs

This good practice checklist has been produced as a guide for internal auditors of higher education institutions (HEIs). Its use is not mandatory. Other people may also find it useful, including risk managers, risk co-ordinators, senior managers, and budget holders.

The checklist cannot cover every aspect of how to assess risk management, but takes account of:

- the latest developments in risk management, as identified by the HEFCE Audit Service
- HEFCE's own risk management guidance (HEFCE 01/24, 01/28 and material on the web at www.hefce.ac.uk under 'Good practice/Risk management') and the annual Accounts Direction which introduced the requirement for HEIs to adopt risk management, Circular Letter 24/00. (There have subsequently been annual updates to the Accounts Direction; see circular letters 14/01, 18/2002 and 23/2002)
- the new Government Internal Audit Standards, which are effective from 1 April 2002
- the need for HEIs to share knowledge in areas where they have a common interest
- recent audits of the risk management arrangements at HEIs, undertaken by the HEFCE Audit Service.

The checklist is designed to promote good practice in risk management, and could be of value in the following ways:

- to help HEIs improve and embed their own risk management arrangements
- to help HE internal auditors in their own reviews of risk management
- to help HEIs maximise the benefits they achieve from risk management, for example by producing better, more credible information
- to help vice-chancellors/principals, audit committees and governing bodies assess the effectiveness of the HEI's internal control system
- to help improve the quality and credibility of risk management in the HE sector.

Where institutions complete the checklist in full, the HEFCE Audit Service may seek to rely on it as part of their periodic reviews of the institution's internal control arrangements.

The guidance is likely to evolve with experience of its use and with experience of risk management generally. The HEFCE Audit Service will therefore periodically update this guidance.

We welcome any comments on the use of the guidance, which should be sent to Paul Greaves (p.greaves@hefce.ac.uk) or Ian Gross (i.gross@hefce.ac.uk).

How to use the checklist

The checklist is divided into different sections. Each section has some key questions shown in bold, followed by supplementary questions. Most invite a Yes/No answer, with space provided to explain how that conclusion has been reached. This space may also be used to identify how the risk management arrangements might be developed or improved. Apart from section F, the initial 'overall' question in each section is best answered once the remainder of the section has been completed.

Institutions are not obliged to use the checklist at all or in any particular way, but we suggest it could be used as follows.

- For the internal auditor, risk co-ordinator or senior manager with responsibility for the risk management arrangements to conduct a quick review by answering the 'key' Yes/No questions, which are shown in bold. 'No' answers, or responses where the answer is only partially 'yes', imply that more could be achieved or that some of the supplementary questions should be considered.
- For the internal auditor and/or risk co-ordinator to 'walk through' the checklist in a workshop with relevant institutional staff, perhaps acting as the facilitator. This could be a full review of all the questions, or a more limited review of only the key questions plus supplementary questions where they are felt to be relevant.
- For the internal auditor, risk co-ordinator or manager to go through the key questions, or all questions, from specific sections only.
- To invite an auditor (external or internal) or a risk co-ordinator or manager or another independent person from another HEI to review the risk management arrangements using the checklist.
- This checklist could also be adapted to review the risk management arrangements in an individual function or area, such as an academic unit, administrative department, trading activity or related company.

Once the review is complete, apart from preparing an audit report where appropriate, the risk co-ordinator or manager could prepare a plan detailing the action to be taken in response. This could be presented to the senior manager (or committee overseeing this area) for their consideration and/or approval. The senior manager could then receive periodic reports on progress towards achieving the action plan. The exercise could be repeated in short form annually and more thoroughly, say, every three years. The checklist may be updated by the HEFCE, so the latest version should be obtained whenever the exercise is conducted.

When to use the checklist

The checklist may be used at any time but is probably best used at one of two points in the annual cycle:

- shortly before or around the financial year-end, to inform the internal auditors' annual opinion on the internal control system; or
- to accompany any review of the HEI's strategic plan.

Glossary

<i>Control risk self assessment:</i>	A self assessment method of providing assurance on the effectiveness of the controls used to manage risks (commonly known as CRSA)
<i>Early warning indicator:</i>	Information designed to indicate when the status of an identified risk has changed or needs to be reviewed
<i>Key risks:</i>	The (say) 10-20 high-level risks considered at an institutional level
<i>Residual risk:</i>	The risk remaining after mitigating actions are taken into account
<i>Risk appetite:</i>	The relative willingness to take on or accept individual or groups of risks
<i>Risk portfolio:</i>	The complete range of identified risks taken together as a group

[University of WarwickName of audit service]

Risk management review 2008, for the financial year 2007-08

	Elements of risk management (Key questions are in bold)	Is this element clearly in place?	Evidence / Knowledge / Comments / Assessment / Ideas for improvement of current process
A	<i>Identification and prioritisation of risks</i>		
1	Overall, has the institution identified and prioritised its risks to a sufficient standard, bearing in mind how far its risk management processes have come?	Yes	<p>The institution has formulated a Risk Management Policy and Risk Management Procedure. These documents have been approved by <u>the</u> Council and are available for review on the University intranet.</p> <p>The University has been operating a formal risk management procedure since 2001/02.</p>
2	Has the institution identified and prioritised its high level key risks?	Yes	<p>A Risk Register of the University's key risks is has been formulated. The risks included on the Register and the <u>net/residual</u> impact/likelihood of each risk are reviewed by the Risk Management <u>GroupCommittee</u> which meets <u>three to</u> four times per annum.</p> <p>The Steering Committee annually considers the University's key risks as part of the approval of the University Risk Register and recommends these key risks to the Council. The Committee also consider the risk status summary of the University's key risks on a termly basis before consideration at the Council.</p> <p>The Risk Register is presented to Council and the Audit Committee for consideration and approval.</p>

	Elements of risk management (Key questions are in bold)	Is this element clearly in place?	Evidence / Knowledge / Comments / Assessment / Ideas for improvement of current process
3	Are the institution's key risks linked to its strategic objectives?	Yes	The risks detailed on the 2007/08 Register have been amended to better align with the objectives within the new University Strategy. The risks listed primarily focus on the key areas of strategic risk to the institution.
4	Did the key risk identification process include adequate participation from: <ul style="list-style-type: none"> a. The governing body and/or its committees b. VC/principal and senior management team c. Other senior managers d. Other staff as appropriate 	Yes Yes Yes Yes	<p>The Risk Register is agreed by <u>the</u> Steering Committee, <u>the</u> Council and <u>typically received by</u> the Audit Committee.</p> <p>The VC reviews the Risk Register <u>as do all University Risk Holders on a termly basis</u>. The Risk Management <u>Group Committee</u> includes members of the senior management team.</p> <p>All academic, administrative and commercial departments must undertake a SWOT analysis and risk assessment as part of the development of their 5-year plan and incorporate <u>the</u> outcomes of these exercises within their 5-year plan submissions for review by the relevant committee.</p>
5	Has the institution taken adequate account of the key risks identified by other key stakeholders, eg students, the DfES, the funding bodies and research councils, any partner organisations, JISC and other bodies on which the institution relies?	No	Some work has been done as part of the University Strategy on identifying possible partners in ventures and of the likely reaction of key potential suppliers of funds to specific activities by the University. There is thus some understanding of this area of risk, but it is not systematically examined as part of the risk management process.

	Elements of risk management (Key questions are in bold)	Is this element clearly in place?	Evidence / Knowledge / Comments / Assessment / Ideas for improvement of current process
6	Has responsibility for the <u>oversight</u> of individual key risks been assigned to appropriate managers? (Note that, ideally, responsibility for an objective should determine who has oversight responsibility for the associated risks. Where a risk cuts across several objectives, the responsibility should be assigned to the most appropriate person.)	Yes	University Risk holders are appointed. These are senior managers who have responsibility for monitoring and making an initial assessment of the status of an area of risk identified on the University Risk register and alerting the University to any significant change on a termly basis. The risk holder may not necessarily be empowered to take direct action to control the risk but should alert those individuals/bodies who can.
7	Does awareness of, and responsibility for, the institution's key risks follow the institution's objectives in a hierarchical way, eg the objectives are cascaded down to functions, academic units, teams, individuals, projects etc?	No	
8	Are risks prioritised? If so, is account taken of: <ul style="list-style-type: none"> • The likelihood of occurrence? • The impact if it does occur? • The timing of any impact (immediate or medium/long term)? • The potential value (financial or non-financial) of any impact? All of the above are best considered before assessing how the risk is mitigated.	Yes Yes No No	<u>The likelihood of a risk occurring is assessed on a three-year timescale, though the timing of impacts is not broken down any further as a matter of course. In 2007/08, the definitions of risk impact scores incorporated an approximation of financial value where it was relevant to use.</u>

	Elements of risk management (Key questions are in bold)	Is this element clearly in place?	Evidence / Knowledge / Comments / Assessment / Ideas for improvement of current process
9	<p>Outside the key risks, does the institution seek to identify the important risks attached to initiatives, functions/teams/academic units, projects etc?</p> <p>Where identified, are these other risks linked to the corporate objectives and high-level risks where appropriate?</p>	<p>No, <u>not consistently</u></p> <p>No</p>	<p><u>All University strategy projects are specifically encouraged to undertake a risk assessment and feed risk assessments into the Strategy Programme Manager.</u></p>
<i>B</i>	<i>Risk mitigation</i>		
1	Overall, has the institution considered the adequacy with which it mitigates its key risks, through control mechanisms?	Yes	On the whole this consideration has incurred. However, the mitigations are not specifically stated within the actual documentations. In particular there is no statement that management measures have mitigated the risk.
2	Are there any control risk self-assessment (CRSA) processes in place to provide assurance over any high-level or lower level risks?	Yes	These exist in some places, but they are not used systematically by departmental managers. If they were to be used more widely, there would need to be more training of managers in this technique. There are some central initiatives that do draw on this type of analysis. In particular Health and Safety reviews and <u>Strategic</u> Departmental Reviews.
<i>C</i>	<i>Residual risks and further action</i>		

	Elements of risk management (Key questions are in bold)	Is this element clearly in place?	Evidence / Knowledge / Comments / Assessment / Ideas for improvement of current process
1	<p>Overall, has the institution given sufficient consideration to the treatment of residual risk?</p> <p>a. For its key risks?</p> <p>b. For other risks?</p>	<p>Yes</p> <p>Yes</p>	<p>Although “Residual risk” is not spoken of as such. <u>Each Risk Status Summary highlights that the overall risk status scores are assessed on the basis of the residual risk taking into account any management measures already being undertaken.</u> Also, the risk reports do indicate what risks remain and recognise the inadequacy of some of the measures in the face of unmanageable risks, such as economic downturn.</p>

	Elements of risk management (Key questions are in bold)	Is this element clearly in place?	Evidence / Knowledge / Comments / Assessment / Ideas for improvement of current process
2	<p>For the key risks, have all the residual risks been formally considered for compatibility with the institution's stated risk appetite? And has the institution considered how residual risks should be mitigated?, eg should they be:</p> <ul style="list-style-type: none"> a. Tolerated/fully accepted without monitoring. b. Tolerated/fully accepted with monitoring. c. Subject to further consideration or kept under periodic review. d. Transferred, eg by insurance or to a third party. e. Subject to further action to contain the risk to an acceptable level. f. Subject to the establishment of an early warning indicator (key risk indicator). g. Terminated, ie the activity remains too risky to carry on. h. 	<p>No</p> <p>Yes</p>	<p>University has no formally stated risk appetite</p> <p>Management measures to mitigate each of the University's key risks are reported. The residual risk and any planned further action(s) are also detailed.</p>

	Elements of risk management (Key questions are in bold)	Is this element clearly in place?	Evidence / Knowledge / Comments / Assessment / Ideas for improvement of current process
3	Has sufficient consideration been given to the residual risks for other non-key risk areas across the institution as appropriate?	Yes	At a departmental level, this 'Management Measures' section on the Risk Assessment forms are intended to be used to identify what activities or management measures are being currently undertaken to minimise the likelihood of the risk occurring and/or its level of impact (or in the case of a new opportunity, to maximise the possibility and/or scale of success).
<i>D</i>	<i>Risk reporting and monitoring</i>		
1	Overall, does the risk management reporting process give the Designated Officer, senior management, audit committee and the governing body sufficient information on risk and control to be able to make the required statement in the annual accounts?	Yes	There is extensive available documentation. Reports, in tailored formats, are made available to the Vice Chancellor, Council, Senior Officers' Group and Audit Committee.
2.	Have formal risk management monitoring and reporting arrangements been put in place. a. For the governing body/audit committee? b. For the senior management team? Are these adequate?	Yes Yes Yes	
3	Are risk and risk management adequately addressed in: a. Governing body/audit committee papers? b. Senior management team agenda papers?	Yes Yes	

	Elements of risk management (Key questions are in bold)	Is this element clearly in place?	Evidence / Knowledge / Comments / Assessment / Ideas for improvement of current process
4	How much has the governing body explicitly considered risk-related issues in the last year?		<u>The Council considered a Risk Status Summary on a termly basis and associated items are included in the termly Audit Committee Report to the Council.</u>
5	Where appropriate, are early warning indicators for all the key risks reported to management: <ul style="list-style-type: none"> a. Within regular management information reports? b. Sufficiently frequently? 	No No	There are no such papers as part of the Risk Management Process. Early warning indicators do exist elsewhere, for example in respect of the CRAG. It is difficult to judge whether these things are done sufficiently frequently.:-
<i>E</i>	<i>Embedding risk management</i>		
1	Overall, has the institution embedded risk management into its planning and operational processes to a sufficient extent?	Yes/No	Risk Management has been embedded in planning, but not in operational procedures. Whilst most departments now complete a return as part of the annual planning process, there is little evidence that they use the risks as part of their everyday management routines.
2	Are there any controls shown as mitigating controls for the key risks, which, in the view of audit or management, are not currently fully embedded into the institution's business processes?	No	

	Elements of risk management (Key questions are in bold)	Is this element clearly in place?	Evidence / Knowledge / Comments / Assessment / Ideas for improvement of current process
3	Do the following documents adequately deal with risk management: <ul style="list-style-type: none"> a. Scheme of delegation. b. Financial Regulations. c. Budget holder guidance. d. Project management guidance? 	Yes Yes Yes Yes	Financial Regulations deal with the issue of risk Guidelines for preparing SWOT analyses and risk assessment forms are published on the University intranet. There is such documentation as part of the Strategy documentation, but not as part of more general project documentation. The University's weakness on project management have already been documented following Deloitte's report on project management in IT Services.
<i>F</i>	<i>Audit</i>		
1	Has internal audit changed its audit approach as a result of emphasis on risk management to reflect the latest good practice guidance and standards e.g. from the IIA (www.theiia.org then search using 'risk management') or the new Government Internal Audit Standards (www.hm-treasury.gov.uk then search using 'audit')?	Yes	The audit plan for the past 2 years has included review of key risks. Further revisions are planned in answer to the Holmes' Internal Audit Effectiveness Review .
2	Has internal audit conducted any audits on the key risks as part of its audit strategy? Have the issues arising from these audits been brought to the attention of the governing body, audit committee or senior management as appropriate?	Yes Yes	Staff recruitment, Giving, Health and Safety, Postgraduate recruitment etc As with any other audit report, any issues arising from audits of key risks are presented to senior management and the Audit Committee.

	Elements of risk management (Key questions are in bold)	Is this element clearly in place?	Evidence / Knowledge / Comments / Assessment / Ideas for improvement of current process
3	Do external auditors have involvement in the risk management process? Do they contribute to the feedback mechanisms?	Yes Yes	Yes, in so far as is consistent with their independent role. They make contributions to the debate at Audit Committee. On one occasion they undertook an independent review of the risk management process.
4	Do internal audit reports specifically report on controls versus risks?	No	
<i>G</i>	<i>Overall approach to risk management</i>		
1	Is the institution's overall approach to risk management, as assessed for the whole year and at the year-end, adequate for the business and its specific obligations?	Yes	The Statement of Control provided in the annual accounts incorporates a comment on the risk management processes operating within the University.
2	Has the institution applied sufficient resources to risk management and its development this year?	Yes <input type="checkbox"/> No <input type="checkbox"/>	<u>No assessment has been undertaken to determine this.</u>
3	Is the institution's governing body aware of its responsibilities with regard to risk management?	Yes	
4	Is there a group in the institution with an overview responsibility for risk management?	Yes	Risk Management Group
5	Is there an individual in the institution with an overview responsibility for risk management?	Yes	Senior Assistant Registrar (Governance) <u>in conjunction with the Head of Governance Support Services and the Deputy Registrar</u>
6	Is the institution's audit committee satisfied with the overall approach to risk management?	Yes	No dissatisfaction has been expressed

	Elements of risk management (Key questions are in bold)	Is this element clearly in place?	Evidence / Knowledge / Comments / Assessment / Ideas for improvement of current process
7	Has the institution clearly established what its high-level risk appetite is? Is this reflected in its high-level risk portfolio? Is the risk portfolio appropriately balanced?	No N/A N/A	The institution's risk appetite has not been defined. There is arguably a case for doing this.
8	Does the institution understand what its risk exposure is (it is usually at least the sum total of the residual risks identified)?	Yes	This understanding is most likely to be the result of the review of the key risks; it is not specifically defined and viewed as the overall risk exposure.
9	Has the institution used risk management to identify opportunities for risk-taking?	Yes <input type="checkbox"/> No <input type="checkbox"/>	<u>Not as a consistent part of the risk management process.</u>
10	Does the institution have a formal risk register? Is there an adequate process for reviewing the risk register and its contents?	Yes Yes	
11	Where appropriate, has the institution identified relevant early warning indicators for its key risks? Do these get reviewed at a high enough level within the institution?	No N/A	
12	Has the institution adequately considered both financial and non-financial risks, eg, reputation, fraud, health and safety, business continuity?	Yes	

	Elements of risk management (Key questions are in bold)	Is this element clearly in place?	Evidence / Knowledge / Comments / Assessment / Ideas for improvement of current process
13	<p>Does the institution's culture recognise the value of risk management?</p> <ul style="list-style-type: none"> • Is there governing body commitment? • Is there senior management commitment? • Is there middle management commitment? 	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes/ No</p>	<p>There is commitment across the top of the organisation – not only in formal risk management policies and procedures - but also in the organisation's planning and business assessment systems. The University has diversified its income over many years and has needed to evolve processes, which underpin its diverse businesses.</p> <p>There is less evidence of commitment among departmental management, who can see risk management as just a bureaucratic distraction and do not make the effort to make use of it for management purposes.</p>
14	<p>Is the role of internal audit in the risk management process adequately understood by governors, managers and auditors?</p>	<p>Yes</p>	<p>Internal audit are now conducting an independent review and are no longer responsible for managing the risk managementinvolved in the process, except through membership of the Risk Management Group. [See page 2 of response.]</p>
15	<p>Does the risk management process inform decision-making within the institution?</p>	<p>Yes</p>	<p>However, this does tend to happen indirectly. The University Strategy process did ascertain the risks and decide to formulate actions to deal with them.</p>
16	<p>Is the institution sufficiently aware of HEFCE guidance and expectations in risk management, to help ensure those expectations are met?</p>	<p>Yes</p>	

	Elements of risk management (Key questions are in bold)	Is this element clearly in place?	Evidence / Knowledge / Comments / Assessment / Ideas for improvement of current process
17	Does the institution and its internal audit service adequately consider risk management in its assessment of the internal control arrangements at bodies on which it relies, e.g. joint ventures, related companies, and collaborating partners?	No	There are some instances of this – notably with the subsidiary companies. It also happens through the Teaching Quality unit in respect of Franchised Contracts for teaching.
18	Has the institution established different approaches to risk management to suit the different ways it operates its business? For example, does it offer a menu of options from within a standardised framework?	No	

MEMO

To: Jane Harrison, Internal Audit

From: Deputy Registrar

CC: Yvonne Salter Wright, Head of Governance Support Services
Faye Emery, Senior Assistant Registrar
David Walker, Head of Internal Audit

Date: 14 October 2008

Response to the Internal Audit of Risk Management

I am writing to respond formally to the draft report received following the Internal Audit of Risk Management undertaken in the Summer Term. I do not believe there are any particular points of contention within the report and the recommendations outlined are accepted.

It is worth highlighting that, as you are aware, there are a number of structural changes occurring within the Deputy Registrar's Office and, with an increased number of team members in the DRO actively engaged in the risk management, work has already begun to further enhance and embed risk management and, in particular, further integrate it with business continuity, insurance, health and safety as well as the work undertaken by Internal Audit. The Risk Management Group will be considering proposals for changes at its next meeting. This report and the findings of the risk management integration report undertaken by Marsh have informed the proposals made and will also be considered at the next RMG meeting.

While the theoretical principles and practice of risk management highlighted in the report are acknowledged, the key challenge for the University is assessing how risk management can most effectively and practically be applied in the context of the University acknowledging that the main purpose of risk management is to ensure the achievement of the University Strategy. Additionally, it is important to undertake an assessment of the risk management process itself and whether current or future developments would provide value for money in its broadest sense.

Within section 2 of the report, there are a number of general points which are addressed below in addition to the specific recommendations within the conclusion for which brief individual responses are given.

Mr Ken Sloan
Deputy Registrar
The University of Warwick
Coventry CV4 8UW United Kingdom
Tel: 024 7652 3713 (PA)
Tel: 024 7657 4700 (Office Manager)
Email: deput.registrar@warwick.ac.uk

General Points Arising from the Review (section 2 of the report)

Training

The report refers to some level of misunderstanding over risk registers in departments and highlights that increased opportunities for training need to be offered if risk management is to be further embedded in operational management. This point is valid and will be considered as part of the risk management review. Steps have already been taken to increase the individuals engaged in the process and it is expected that with the appointment of an Assistant Registrar (Information Security, Business Continuity, and Risk Management) further training and communication mechanisms will be developed. It would, however, be helpful to share information regarding which departments Internal Audit visited where risk management issues were discussed so that follow-up meetings can be arranged. It would also be useful to know if you had any more detailed comments on the type of training or information that people thought would be of benefit, or that you felt would be most effective in securing buy-in.

Additionally, it is felt that the Internal Audit team can play a greater role in disseminating good practice relating to risk management when meeting colleagues in both academic and administrative departments. The Risk Management Policy states the role of Internal Audit as:

“Internal Audit has a significant role in assessing the effectiveness of the University’s internal controls and advising the Audit Committee as to the effectiveness of the University Risk Management Policy and Procedure as part of that process. The Internal Audit’s reporting to the Audit Committee will include the controls in place in relation to risk management. **Internal Audit will also assist in communicating to departments the University’s Risk Management Policy and Procedure and good practice in relation to risk management.**”

Increased liaison between teams responsible for Internal Audit, Risk Management, Health and Safety, Business Continuity and Insurance also will provide further benefits to the understanding of colleagues in academic and administrative departments if communication from these areas is more consistent and cohesive.

Identification of Opportunities

This seems to be one of the most positive uses of Risk Management and certainly one which could potentially help to achieve buy-in and interest more broadly within the University. It is acknowledged that we have not developed our use of RM as a tool to assist us to identify and assess opportunities, with the exception of some CRAG activities, as well as we should to provide maximum benefits from the risk management process.

Risk Appetite

See response below within recommendation.

Early Warning Indicators

See response below with recommendation.

Strategic Partners

Consideration of the University’s relationship with external partners, and any delegation of risk management responsibilities, does need to be examined more closely. Progress has already been made in some areas such as estates and IT, but further work will be undertaken in this regard.

Recommendations

1. Risk Management, as a formal process, is not widely used as a methodology by University managers. This is not to deny that risks are managed, just that a process is not specifically recognised for undertaking such management.

Consideration of the development of further training and mechanisms of communication of risk management will be considered in conjunction with individuals from a range of relevant areas, including the Internal Audit team. Risk Management has recently been discussed at a meeting of the new Senior Officers Management Team with a view to enhancing operational as well as strategic risk management.

2. Embedding risk management throughout the University would entail a significant investment of time and effort and it is accepted that this might be a course management does not want to pursue at the current time. However, without some kind of further effort, it is difficult to see how risk management can become more widely used across the University.

The report makes some useful points about the benefits of integrating and embedding risk management within the decision making process and at all levels of the University and recognises some of the work that has been done in this regard. In particular, the lack of buy-in at lower levels of management and the lack of systematic identification of risk attached to new initiatives is highlighted. The issue of further integration and embedding risk management will be explored within the internal Risk Management review, in addition to the associated items raised within the Marsh review report. We strongly agree that risk management needs to be seen as an active management tool rather than only as a form-filling exercise as part of annual reporting. It is important to note, however, that there has been work to embed risk management into the training and project management for those projects being pursued specifically under the banner of the University Strategy and this does not seem to be fully reflected in the Internal Audit Report.

As highlighted above, we will need to consider the provision of any additional resources allocated to the development and embedding of Risk Management at the University against other priority areas.

3. Some consideration should be given to defining the University's risk appetite. This should assist in educating managers about the context in which they operate. We accept that completely defining a risk appetite for the University may be an extremely difficult process, but believe that some consideration of this issue would be beneficial.

Again, the theoretical requirement for establishing a risk appetite is acknowledged, though a definition enshrined in a policy statement alone will not be effective. General parameters of strategic risk (and associated rewards) will continue to be considered, however, particularly in the context of an ambitious strategy and a constrained budgetary position. Enhancements in the clarity of reporting risks and associated key performance indicators will aid in decision-making and support active consideration of the University's risk tolerance.

This will be considered as part of the wider review of Risk Management. From the feedback received from Marsh on Risk Appetite and liaison with colleagues at other HEIs, it appears that trying to precisely define 'risk appetite' is a problematic issue across the sector.

4. Consideration must also be given to the results of the Marsh review and particularly any options it provides to integrate other related processes.

As already mentioned, a review of our current Risk Management arrangements was already well underway and the findings and recommendations of the Marsh review have been considered as part of this process.

5. There is a need to consider possible measures which provide early warnings that a risk might materialise. Highlighting instances where the application of risk management has led to the identification of opportunities could also be useful in convincing staff of its usefulness.

It is acknowledged that key performance indicators must be linked more closely to the consideration of risk. There has been progress in developing a structure for performance indicator reporting and further consideration will be given to how this is integrated with the risk management process and whether any further formal risk status indicators are required. It is important to state, however, that University Risk Holders obviously consider a range of information, supplemented by intelligence from senior officers and relevant senior managers, when making an initial assessment of the risk status of the risks for which they are responsible as well as potential new opportunities under consideration.

6. There are possible improvements in the Risk Register itself (as identified in paragraph 2.7 of the Report)

Thank you for your detailed comments on the Risk Register, which we will consider. The Risk Register is already quite a detailed and lengthy document and we need to consider its purpose in the context of those who are being asked to read and comment on it, as well as its potential for use by groups such as the CRAG which is mentioned in the report.

In conclusion, we have a small number of suggested amendments to the wording of the report itself which will be highlighted in the attached but we hope that this response adequately fulfils your requirements at this stage. We look forward to liaising with you in future with the aim of further embedding and integrating risk management at the University.

Ken Sloan
Deputy Registrar

Governance\Shared\risk management\2007-08\IA of RM\RM IA response from DRO