A GOOD PRACTICE GUIDE TO RISK MANAGEMENT WITHIN THE FURTHER EDUCATION SECTOR
Risk can be defined as the combination of the probability of an event and its consequences. In all types of undertaking, there is the potential for events and consequences that constitute opportunities for benefit (upside) or threats to success (downside).

Risk management is a central part of any organisation’s strategic management. It is the process whereby organisations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.

The Institute of Risk Management: A Risk Management Standard
With the further education sector going through a period of significant change and uncertainty, bringing both challenge and opportunity, fit for purpose risk management arrangements are more important than ever.

This guide has been developed to support college management in ensuring your risk management arrangements are fit for purpose and will adequately support the achievement of your objectives into the future.

Outlined as an appendix to this guide are a number of key questions for your governing body to enable them to gain assurance over the adequacy of risk management arrangements.

I would like to thank those of you who have contributed to the research for this guidance. Over 100 responses were received to the risk management questionnaire, building a current picture of risk management within the Further Education sector and enabling the identification of good practice that already exists in colleges across the country.

I would also like to thank our steering group volunteers from within the sector and the project team from PKF (UK) LLP who have authored the guidance and brought both their risk management thought leadership and extensive knowledge of working within the Further Education sector.

DAVID PULLEIN
CHAIR OF THE COLLEGE
FINANCE DIRECTORS’ GROUP
## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>THE BENEFITS OF RISK MANAGEMENT</td>
<td>2</td>
</tr>
<tr>
<td>TONE FROM THE TOP</td>
<td>4</td>
</tr>
<tr>
<td>RISK POLICY</td>
<td>5</td>
</tr>
<tr>
<td>RISK APPETITE</td>
<td>8</td>
</tr>
<tr>
<td>THE RISK MANAGEMENT CYCLE</td>
<td>10</td>
</tr>
<tr>
<td>RISK MANAGEMENT DOCUMENTATION</td>
<td>25</td>
</tr>
<tr>
<td>A VIEW FROM PKF</td>
<td>28</td>
</tr>
<tr>
<td>APPENDIX A: GOVERNING BODY – KEY QUESTIONS</td>
<td>29</td>
</tr>
<tr>
<td>APPENDIX B: FURTHER READING</td>
<td>32</td>
</tr>
<tr>
<td>APPENDIX C: EXAMPLE RISK REGISTER</td>
<td>33</td>
</tr>
<tr>
<td>APPENDIX D: ACKNOWLEDGMENTS</td>
<td>35</td>
</tr>
</tbody>
</table>
Risks can be generated from a college’s internal and external environment and therefore risk management is concerned with both internal and external risk as shown in the diagram.
INTRODUCTION TO RISK MANAGEMENT AND ITS BENEFITS

Any organisation will face risk as a matter of routine. The only way for an organisation to avoid risk entirely is to not operate.

As a college, you will have defined a vision and the strategic objectives you wish to deliver. The level and nature of the risks you face will fluctuate over time and your success will depend upon your ability to respond to that risk environment in your governance and management of the college.

THE BENEFITS OF RISK MANAGEMENT

Beyond the regulatory requirement for risk management and the need to safeguard the college’s investments and assets, there are also a number of additional benefits which can be derived from an effective risk management framework:

Greater assurance to stakeholders
An effective risk management framework can usefully map the key challenges facing a college and the corresponding mitigating controls and action plans. This provides useful internal assurance to management, the governing body and other stakeholders.

Better decision making
Risk management techniques and effective reporting of risk enables management and the governing body to achieve a greater understanding of the real impact of the decisions they make.

More effective use of resources
An assessment and mapping of the controls in place to mitigate the college’s key risks offers an opportunity to remove any duplication in control or to reduce control in areas of low importance. An effective risk management framework should also lead to the effective use of assurance resources (e.g. by directing internal audit to areas of greatest importance and value).

Improved innovation
Defining the college’s risk appetite as part of an effective risk management framework can help a college to articulate its areas of planned development and can empower management and staff to take more (measured) risks in areas that will bring significant reward.
THE ROLE OF THE GOVERNING BODY AND SENIOR MANAGEMENT

As with any governance process, risk management is most effective when led strategically from the top. Whilst a successfully embedded risk management framework will have both top-down and bottom-up characteristics, implementation is best achieved at a strategic level in the first instance.

It is therefore imperative that the governing body approves a college risk policy and has sufficient understanding of risk management to strategically direct the risk management activities of the college over time. The governors’ responsibilities for risk management should be clearly articulated. Similarly, the responsibilities of the management team in advancing the risk management framework should also be defined.

It is often the case that the administration of the risk management process is delegated to a ‘risk champion’ within the management team.

Designating a risk champion is an effective method of ensuring clear responsibility for coordinating the college’s risk management framework and ensuring its development over time. However, care should be taken that responsibility for the management of the risks themselves is not taken away from the wider management team.

It is usually the role of the college audit committee (or similar) to seek assurance over the adequacy and effectiveness of the risk management framework. Responsibility for the strategic oversight of the risks themselves lies with the wider governing body.

In 77% of colleges, management responsibility for driving risk management falls to the finance director (or equivalent)
GOOD PRACTICE RISK POLICIES

The governing body approved risk policy will state the college’s overall approach to risk management. It is the first step in developing and recording an effective risk management framework.

Good practice risk policies within the sector typically include the following sections/considerations as a minimum:

Policy statement – the overall approach and commitment to risk management.

Risk appetite – the risk attitude and appetite of the college.

Roles and responsibilities – the respective roles of the governing body, the audit committee, the management team, college risk champions and staff.

Internal control and assurance – the links between risk management and the system of internal control, and the role of internal and external audit.

Monitoring and review – arrangements for the further review of the risk management framework and its effectiveness.

Risk strategy – it is good practice for colleges to define (whether within the risk policy, within a separate risk strategy document, or elsewhere) the following:

- A process for identifying and categorising risk
- A methodology for evaluating risk (e.g. a risk scoring matrix)
- Plans for risk management training topics and priorities
- Processes for monitoring and benchmarking risks

REPORTING LINES

A key part of developing the Risk Policy is establishing effective and clear lines of reporting. These roles and responsibilities should include the following:

MANAGEMENT TEAM AND STAFF

- It is essential there are mechanisms in place for managers across the organisation to take risk management responsibility in their area and be empowered to manage or escalate significant risk.

- Ensuring that identified risks are ‘owned’ by an individual manager will provide a clear line of responsibility for risk.

- All staff should be informed of their responsibilities with regard to risk management. This should include identifying that all staff have a responsibility to report potential risk areas to management, for example this may be a loose handrail which may cause a health and safety hazard or the identification of a recording error which may affect learner record evidencing.
SENIOR MANAGEMENT TEAM

- Colleges often apply the same framework at both strategic and operational levels, with links and escalation processes in place between operational risk registers and the strategic risk register.

- Operational level risk management will be the responsibility of managers across the college, reporting to senior management team or central risk management group.

- Generally, an established senior management team, or a specially constructed risk management group will consider strategic risks on a regular basis. This is often administrated by a single risk champion.

AUDIT COMMITTEE AND GOVERNING BODY

- The audit committee will obtain both management and independent assurance of the adequacy and effectiveness of the risk management framework.

- Regular review of the risk management policy and presentation of an annual risk management report is generally undertaken by the risk champion and proposed for submission to the governing body by the audit committee.

- In some colleges, strategic level risks are allocated to relevant committees, to promote detailed consideration of each key risk at a governing body level. In other colleges this is performed entirely through the meetings of the governing body.

- Regular reporting of risk between the senior management team and the governing body will enable risk management to inform the ongoing operation of the college.

In our experience, the approach to the identification of risk management responsibilities varies dependent upon a college’s size. Larger colleges may identify a specific risk group and risk champions, whilst others may complete risk review and reporting through the college’s management team and line management responsibility.

Whichever approach the college employs, there should be clear roles and responsibilities which involve all levels of staff and management across the college, with the governing body retaining responsibility for the management of risk.
The College as a well managed college is prepared to take measured risks when the risks involved are understood. Through this model, the College aims to carefully manage change and innovation.

The College and the Governing Body are committed to taking such measured risks where it is felt they are the most appropriate solution to moving the College forward, for example a major capital building scheme, provided the overall total risk exposure does not place the College in a vulnerable position.

Xaverian College, Manchester
The risk appetite of different organisations in the sector will vary greatly. For example, newly established private training companies may be willing to take significantly more risk than a more established college in order to pursue growth, in the knowledge that there is a higher likelihood that the business may fail to achieve its objectives.

Risk appetite can also be variable across different areas of a business or over time. For example, an established college may be prepared to take more risk in a new curriculum area that they are looking to develop, or may accept greater risks at particular times (for example when undertaking a significant capital project).

Understanding and agreeing the risk appetite of the college will enable informed and consistent decision making.

Where colleges have defined a risk appetite, many have made an overall statement broadly defining their risk appetite, providing a high level guide to management and the governing body, but retaining reasonable flexibility.

Whilst an overall statement provides broad direction to the college, it will also be supported by the operational elements of the risk management framework (for example, the risk scoring methodology should address risk appetite) and by the monitoring and review of risks (for example, discussions at governing body and senior management level, over the level and acceptability of key strategic risks).

The use of ‘target risk’ can provide a mechanism for considering risk appetite on a risk by risk basis and can support decision making and achieving value for money in risk mitigation. The concept of ‘target risk’ is explored further in the next section.

**RISK APPETITE MATURITY**

The following diagram shows how a college may utilise risk appetite at various points within the risk management cycle in order to achieve risk appetite maturity:

<table>
<thead>
<tr>
<th>STRATEGIC RISK APPETITE</th>
<th>INDIVIDUAL KEY RISK APPETITE</th>
<th>KEY RISK INDICATORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>An overall statement of risk appetite derived from the strategic planning process which may be a stand alone policy or integrated into the strategic documentation of the college.</td>
<td>Identification of a target risk value and related action to achieve this target risk, per key risk.</td>
<td>Identification of key performance indicators per key risk in relation to the residual, inherent and target risk scores and planned activity and timescales.</td>
</tr>
</tbody>
</table>
| Consideration to the requirement to monitor or implement wider control dependent upon timescale to achieve target risk appetite, difference between inherent and target risk and external and internal environment factors. | Reporting key risk indicators and performance against these to the governing body on a regular basis.
The risk management cycle is generally defined as the process of identifying, evaluating and mitigating/controlling risk in order to ensure that a college achieves its objectives.
RISK IDENTIFICATION

The process of identifying risks will involve consideration of a wide range of factors including the internal and external environment, current strategy and operational activity and also planned changes and new initiatives.

WHO SHOULD BE INVOLVED?

Comprehensive risk identification is achieved by the involvement of a number of levels of staff from across the college. This will include the governing body, executive and management teams.
HOW CAN RISK IDENTIFICATION BE ACHIEVED?

Risk identification underpins a college’s corporate objectives. A useful starting point can be an analysis of the college’s corporate plan, balanced scorecard objectives or other means of evaluating strategic performance.

In order to identify risks in the internal and external environment, management tools can provide an effective structure. Some commonly used tools include:

SWOT analysis – considers an organisation’s internal strengths, weaknesses, opportunities and threats. Generally risks will be shown within the weaknesses and threats sections of the analysis upon completion.

PESTLE analysis – considers the political, economic, social, technical, legal and environmental factors which may impact upon an organisation. Risks will be determined by considering impacts and potential changes such as a change in inflation (economic factor), demographics within the areas the college operates and/or attracts students (social factor) or change in legislative responsibility (legal factor).

Brainstorming – utilises open discussion and challenge to identify and gather all potential risks to the organisation.

Facilitation – this involves a structured approach to bringing together thinking and knowledge from inside the organisation, using internal or external facilitators. This facilitation may also incorporate the use of the wider management tools shown above.

RISK ENVIRONMENTS

Colleges must ensure that they are identifying risks which may be generated from both the internal and external environment in order to deliver comprehensive risk management.

Internal risk – this is the risk which is generated by a college’s internal activity or inactivity. For example, this may be a failure to provide quality services.

Internal risk is controlled by the internal control framework within an organisation and is a type of risk over which management have much greater power to mitigate and manage than with external risk.

External risk – this is risk which is generated by changes in the external environment. For example, this may be the loss of local employers due to changes in the economic climate, a significant change in inflation or reduction in grant funding availability.

External risk is much more difficult for a college to control as it needs to be anticipated, and control and mitigating action is often reactive as opposed to preventative.
59% of colleges update their risk register on a quarterly basis and all at least annually.

Types of Risk

Risk occurs at all levels within a college and therefore risk identification must include consideration to all levels of risk.

Strategic Risk – this is the risk associated with the achievement of future business plan objectives including strategic objectives. This will include new initiatives and funding streams as well as the development of current services and funding streams.

Operational Risk – this is the risk associated with ongoing operational procedures and systems. This will include systems such as payroll, management information and human resources.

Project Risk – this is the risk associated with the successful completion of a project in order to deliver its strategic and operational objectives effectively, efficiently, in line with agreed resources and to deliver identified benefits. Project risk may occur in relation to the development of a new service, product or provision, the introduction of new systems or significant changes to existing systems.

Project risk will be a short term consideration in comparison to strategic and operational risk with the relevant strategic and operational elements of the risk moving into the above risk areas upon completion of the project.

Horizon Scanning

As internal and external environments change over time, the college must continue to understand its internal and external risks. Horizon scanning is the process of ongoing review of the internal and external environment for any activity or inactivity that may generate previously unidentified risk.

In our opinion, horizon scanning activities should be performed on a continuous basis. More sophisticated risk management arrangements will provide a method to integrate horizon scanning from all areas of the college back into the risk management cycle. For example, as a team meeting agenda item, or from ongoing training and development activity.

Examples of potential changes in the external environment may include SFA and YPLA changes in strategy and funding availability, changes in the economic climate or the entry of a new provider into the sector/local area.
RISK EVALUATION

The process of risk evaluation involves assessing the probability and impact of identified risks at both an inherent (gross) and residual (net) level in order to quantify and categorise risks and apply meaningful control and mitigation strategies.

**Gross risk evaluation**
Gross risk is considered to be the risk to the college before any control or mitigating action is applied. It is necessary to quantify gross risk in order to understand the potential impact upon the college, should controls or mitigating action not be effectively applied.

**Control/mitigating action evaluation (management control activity)**
Control and mitigating action is considered to be any action taken by management and the governing body to manage risk and support the achievement of the college’s objectives. Controls include the policies, procedures and other activities designed and implemented by management.

**Net (residual) risk evaluation (where we are now)**
Net risk is considered to be the remaining risk, following management applying relevant control and mitigating action in line with the college’s defined risk appetite.

**Target risk evaluation (where we want to be) or (future net risk position)**
When evaluating net risk, colleges may find that it is not in line with the defined risk appetite of the college. Where this occurs, new controls and action to achieve these should be planned. Once implemented, these controls will achieve the defined risk appetite of the college.

Target risk can therefore be considered as the defined risk appetite which the college’s governing body considers an acceptable level of risk exposure.

Colleges should be aware that where the current residual risk does not meet target risk, these risks may be under or over controlled/mitigated in comparison to the defined risk appetite set by the governing body.

Dependent upon the difference between current net risk and target risk and in consideration to the overall gross risk, the college may wish to implement interim arrangements for the monitoring of the risk. In severe cases of under mitigation/control, a separate interim risk management strategy may be necessary, whilst new controls are being implemented.

---

62% of colleges identify inherent (gross) and residual (net) risk, although only 8% identify target risk

---

<table>
<thead>
<tr>
<th>Gross risk evaluation</th>
<th>Controls evaluation</th>
<th>Net risk evaluation</th>
<th>Target risk evaluation</th>
<th>Assess evaluated risk against target risk</th>
<th>Scoring matrix</th>
</tr>
</thead>
</table>

---

A GOOD PRACTICE GUIDE TO RISK MANAGEMENT WITHIN THE FURTHER EDUCATION SECTOR

14
91% of colleges apply a probability/impact scoring matrix to evaluate risk

36% of colleges currently apply a risk scoring matrix which is classified using 3 levels of impact by 3 levels of probability or smaller, 15% a matrix which is 4 by 4, 26% a 5 by 5 and 12% a 6 by 6 or larger

RISK SCORING MATRICES

It is usual risk management practice for probability to be multiplied by impact in order to quantify risk and enable the comparative mapping of key risks.

Scoring matrices allow the two dimensional plotting of risks, using probability and impact as axis. The number of defined scores on each axis can vary considerably. However, consideration should be given to how easy the scoring matrix is for staff to apply and balance this with the need to ensure that risks are classified in a meaningful manner to the college overall.

Evaluated risks are mapped into a scoring matrix in order to enable comparison between risks and to facilitate focused monitoring and review.

Very low scoring gross risks will usually be discarded for risk register purposes unless there is a clear indication that these may increase over time.

For the purposes of this illustration, the following diagram indicates a classification utilising four defined scores per axis:
DEFINING RISK

Dependent upon the scoring matrix adopted, colleges should provide definitions for the scoring mechanism used within the matrix.

Probability

Probability will usually be defined on a similar basis across the sector. The example matrix provides scoring for between unlikely to occur and highly probable. The following are example definitions for scoring probability:

<table>
<thead>
<tr>
<th>Probability</th>
<th>Score</th>
<th>Example definition</th>
</tr>
</thead>
</table>
| Highly likely| 4     | • The event is expected to occur in most circumstances  
• Expected to occur on a (time) basis  
• There could be a history of regular occurrences at the college, i.e. on an annual basis  
• If new event, likelihood of occurrence regarded as almost inevitable |
| Probable     | 3     | • There is a strong possibility the event or risk will occur  
• Expected to occur on a (time) basis  
• There may be a history of frequent occurrences at the college  
• Everyone with knowledge of issues in this area knows this could happen  
• None or few effective measures to reduce likelihood can be and/or have been taken |
| Possible     | 2     | • The event might occur at some point in time  
• Expected to occur on a (time) basis  
• There could be a history of casual occurrence at the college  
• Most of the team with knowledge of this area know that the risk might occur  
• Measures that reduce likelihood have been taken but are not fully effective |
| Unlikely     | 1     | • Highly unlikely, but it may occur in exceptional circumstances  
• Expected to occur on a (time) basis  
• No or very limited experience of a similar failure  
• If it has happened, sufficient controls now in place |

Impact

Impact measures will be defined on a basis which is relevant to the college and the impacts it deems most relevant. Definitions may use measures such as financial, legal, reputational, asset loss or regulatory intervention in order to quantify the potential impact of risk and would usually incorporate consideration to all key measures for the college. Whichever basis is utilised, this should be meaningful and comprehensive to all college staff.
The following are example definitions for scoring impact:

<table>
<thead>
<tr>
<th>Impact</th>
<th>Score</th>
<th>Example definition</th>
</tr>
</thead>
</table>
| Catastrophic | 4     | • Financial implications are in excess of XX% of budget  
• Health and safety impact could result in multiple loss of life or severe permanent disabilities  
• Complete loss of assets  
• Interruption greater than one month and critical systems unavailable for longer than one day  
• Prolonged national media campaign or third party action and widespread news profile  
• Unable to deliver more than 50% of the college’s agreed strategic targets  
• SFA/YPLA intervention                                                                 |
| Major      | 3     | • Financial implications are in excess of XX% of budget  
• Health and safety impact could result in extensive injuries or long term illness  
• Significant loss of assets  
• Interruption less than one month and critical systems unavailable for longer than one day or a series of incidents  
• Short term national media campaign  
• Unable to deliver 25 to 50% of the college’s agreed strategic targets  
• SFA/YPLA intervention                                                                 |
| Moderate   | 2     | • Financial implications are in excess of XX% of budget  
• Health and safety impact could result in minor injuries or short term illness  
• Minor loss or damage to assets  
• Interruption less than one week and critical systems subject to a series of incidents  
• Local media campaign  
• Unable to deliver 5 to 25% of the college’s agreed strategic targets  
• Board and/or principal intervention                                                                 |
| Minor      | 1     | • Financial implications are in excess of XX% of budget  
• Health and safety impact could result in minor personal injury  
• Little damage to assets  
• Interruption less than one day and critical systems subject to minor incidents  
• Local media unsubstantiated article  
• Unable to deliver 0 to 5% of the college’s agreed strategic targets  
• Director/Management team intervention                                                                 |
USING A RISK SCORING MATRIX

Risk scoring matrices can be used in order to illustrate and make judgements upon the evaluated risk scores.

The example matrix provides a traffic light system representing where high (red), medium (amber) and low (green) level risks may fall.

Completion of a matrix for inherent and residual risk and comparison of these will provide insight into the effectiveness of the college’s risk management practice and their reliance upon internal control.

The risk matrix may also be used to identify where risk has increased, decreased, remained static or been added as a new risk over time in order to focus board and management review.

Colleges may determine that a risk with a high impact is more significant than a risk with a high probability, for example the risk of a natural disaster occurring which directly affects the college. Or that a risk with a high probability but low impact is more significant, for example the risk of errors in payments to suppliers, or that both impact and probability are equally significant.

Colleges should discuss and agree with their governing body the relevant application of the risk scoring matrices in order to account for their policy with regards significance of impact and probability.

RISK MITIGATION AND CONTROL

Risk mitigation and control can be considered to be any action taken by management and the governing body to manage risk and support the achievement of the college’s objectives. Controls include the policies, procedures and other activities designed and implemented by management.

- Treat, tolerate, transfer, terminate, take
- Current control framework
- Most effective control framework for target risk
- Further risk mitigation
- Control framework suitable
- Redesign for efficiency/effectiveness
RISK MITIGATION/CONTROL STRATEGIES

In order to identify effective controls/mitigations, the college must first determine the strategy they wish to employ in order to manage the identified risk effectively. There are five approaches to managing risk – treat, tolerate, transfer, terminate or take the risk. These may be defined as:

Treat – this involves accepting the risk but applying relevant control/mitigating action to reduce it to a risk appetite approved by the governing body.

Tolerate – this involves accepting the risk without putting in place any controls to manage the risk, as it is considered to be of a tolerable level for the college, in line with approved risk appetite.

Transfer – this involves handling the risk elsewhere, either totally or in part, such as outsourcing the provision of services or the use of insurance. Please note that the college will retain ultimate and certain levels of responsibility for risk management regardless of whether provision is outsourced elsewhere.

Terminate – this involves eliminating the risk entirely by ceasing the activity or changing the strategy of the college.

Take – this involves recognising that there are positive consequences (opportunities) to some risks should these risks be taken. Colleges should be aware of the need to identify and manage any wider risks which may be associated with this strategy. For example, diversifying services due to wider emerging opportunities would fall into this category.

AN EFFECTIVE AND EFFICIENT CONTROL FRAMEWORK

Following identification of a relevant risk mitigation/control strategy, management should review the control framework and consider whether this achieves the governing body defined risk appetite.

Colleges should note that an over control of risk, above and beyond the defined risk appetite, will result in inefficient risk management and may lead to control failure in itself, for example, staff circumvention of overly bureaucratic or complex procedures.

Where the control framework is not deemed to be in line with the target risk or risk appetite, action should be planned in order to achieve the most suitable control framework for the efficient and effective management of risk.

Types of control include authorisation, preventative or detective and monitoring controls.

Management controls include policies and procedures, IT systems’ physical and logical access restrictions, authorisation processes and financial regulations, delegation of authority and governance arrangements, segregation of duties, organisational structure and reporting lines, management reporting and human resource and performance management.
MONITORING AND ASSURANCE

Effective risk monitoring provides the governing body and senior management with assurance upon the adequacy and effectiveness of control and mitigating action in managing the identified risks in line with the college’s defined risk appetite.

Management checks and assurance

Continuous improvement

Independent assurance

Ultimately, management are responsible to the governing body for the system of internal control within the college and should therefore ensure that there are adequate checks in place and adequate assurances provided to the governing body.

Independent assurance may be provided from sources including internal audit, external audit and regulatory reviews which will further inform the governing body.

MANAGEMENT CHECKS AND ASSURANCE

Management assurance will include any activity undertaken by management to monitor the operation of controls. For example, this may include a review of performance indicators, budget monitoring and review and the performance management of staff.

The purpose of management checks and assurance is to ensure that controls thought to be in place are operating effectively.
Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Chartered Institute of Internal Auditors, UK and Ireland

The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements and this is achieved by the expression of an independent opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

International Standards on Auditing (ISA 200)
INDEPENDENT ASSURANCE

Independent assurance will usually provide a view on the effectiveness of the internal control framework; internal audit specifically will provide an independent assessment of a college’s risk management, governance and control arrangements to ensure that these are operating effectively and efficiently.

Internal audit activity is usually planned in consideration to the college’s view of risk and will focus upon the college’s highest areas of risk across all of its activities. Internal audit may take differing approaches dependent upon the maturity of controls. Should new controls be developed, internal audit may support the implementation of these controls by ensuring that they are effective and implemented on a practical basis from inception. For more mature controls, it may be that an effectiveness review is necessary to ensure that procedures continue to reflect current practice within the college, are most effective and efficient for meeting the college’s requirements and reflect best practice.

External audit is required to provide an opinion the financial statements of the college.
EMBEDDING

Risk management can only be considered effectively embedded once it becomes an integral and intrinsic part of a college’s corporate strategy, decision making and operational activity.

APPLYING A CYCLICAL APPROACH

A successful risk management approach must be cyclical in nature, in order that management and the governing body can continually monitor, re-evaluate and manage its key risks.

Mechanisms will be in place to maintain the momentum of the risk management cycle. If the risk management framework is well designed and suits the structure of the college then risk management will quickly become embedded, require little central intervention and continue to be effective in application.

In the early stages of a new or revised risk management framework, it will be necessary to facilitate the risk management process and guide users. This will be supported by a programme of training to ensure that existing staff and those joining the college are provided with the necessary support to fulfill their roles.

A regular review of the overall risk management framework will be required to ensure that it continues to meet the needs of the college and is further refined and continually improved over time.
Certain techniques for embedding risk management can help support the college in developing a culture and awareness of risk management, enabling learning from experience and continuous improvement of risk management arrangements and understanding of risk.

There are a number of tried and tested techniques we have noted within the sector, for helping to improve risk management awareness and integrate risk management activities in the day to day business of the college and the work of its management. Examples include:

- providing risk management awareness training to staff, relevant to their roles.
- including reference to risk management within job descriptions.
- explicitly minuting risk discussions held during management team meetings.
- linking governing body agenda items and papers to the college’s strategic risks.

Whilst these can be useful, they are typically indicators of an embedded risk management framework and a commitment to embedding risk management, rather than key drivers. The key to successfully embedding risk management lies with the design of the core framework and ensuring that users engage with and understand the benefits of risk management.

Colleges should be wary of creating an overly bureaucratic approach to risk management which does not recognise the cultural approach of the college and tries to create a risk management language separate to that of the college’s usual approach.

AWARENESS AND LEARNING

A well embedded risk management framework allows colleges to anticipate and plan for emerging risk. It also allows for learning from organisational and sector experience to occur.

The inclusion of sufficient management and governing body focus within the risk management cycle upon horizon scanning for new and emerging risks; review of college risk failures; and knowledge transfer and benchmarking from the further education sector and beyond will support the college in continuing to achieve its objectives.

Despite all their efforts, only 22% of colleges believe that risk management is very well embedded within their organisation.
Colleges will produce risk management documentation to support their risk management approach and reporting requirements. In addition to the risk policy and strategy, key documents are likely to include:

- a risk register or series of risk registers
- a risk action plan (if not included within the risk register)
- an annual risk management report

**TYPES OF RISK REGISTER**

The risk register will be the output from the evaluation of risk and drives achievement of the risk appetite and any action to reduce the likelihood that risk will be realised.

**Strategic risk register** – this will identify key strategic risks to the college. The risk policy will determine the level of scoring for a strategic risk to qualify for inclusion within the register. This level should be set to ensure that review and monitoring of the register is not overly bureaucratic and cumbersome but is comprehensive enough to ensure that all risks which require monitoring are reviewed effectively so as not to expose the college to strategic risks being realised.

For example, the college may monitor risks rated as red/high in a formal strategic risk map at governing body level and lower level risks as part of ongoing management review.

**Operational risk registers** – these will identify key operational risks to the college within the specific academic and support divisions/departments. The risk policy will determine the frequency of management review dependent upon the level of risk identified following evaluation. Management should take care to ensure that all cross divisional/departmental risks are identified and included either in a specific register, within the register of a relevant division/department or if relevant then within the strategic risk register.

**Project risk registers** – these will record details of all risks identified at the beginning and during the life of a project. Project risk registers should be maintained throughout the life of a project and the document will change regularly as the project progresses.
DOCUMENTING A RISK REGISTER
A college’s risk register and action plan format are central to the successful application of risk management. A user-friendly format promotes adoption with intended users.

As a live document that prompts debate as opposed to reflecting past discussions, the risk register will be intuitively easy to follow and simple to update. Regular review will enable its content to be continually changed and updated to effectively reflect the college’s risk management position.

Experience in the sector tells us that college risk registers often fail to become live documents because they cater only to a narrow audience. The most common example of this is a risk register which articulates the views of the senior management team (who are often the authors), but which is too detailed to engage the governing body and too strategic to engage the wider management team. A series of registers or a risk register which can be layered and manipulated may better meet the needs of a broader audience.

We have included an example risk register within Appendix C for information purposes.

HIGH LEVEL REPORTING
High level reporting to the board and senior management team is approached differently from college to college. The most common approaches are by reporting the strategic register or to report the highest scoring risks from the strategic and operational risk registers.

Currently only 20% of colleges review their risk registers once or more per month.
GUIDE

RISK MANAGEMENT
A VIEW FROM PKF

This guide has been produced to support the college management team in ensuring that your risk management arrangements are effective and fit for purpose, in a challenging and changing environment.

Our intention has been to provide a balance between risk management theory and practical application so that you can achieve the benefits of effective risk management.

Our recent risk questionnaire asked colleges to describe the two greatest risks facing their organisation. The most cited risk, by almost three quarters of respondents, related to funding cuts and changes in funding. The other most common responses also related to financial and viability concerns, including learner numbers, property strategies, financial health, and changes in government policy.

In contrast, risks such as quality, competition and student success rates, which have historically featured as key risks within the sector, are less of a focus to colleges at present. These were cited by less than 10 per cent of respondents in each case.

The cuts and refocusing of available funding are clearly wide and challenging issues for providers in the sector. However, whilst the current climate brings significant challenges to colleges, it also brings opportunities. Many colleges are planning to pursue less risk averse strategies in order to subsidise their core provision. Colleges will need to be certain that they are effectively managing risk in line with their culture, strategy and structure, in order to support the continuing achievement of their objectives.

We are working closely with our college clients, helping them to develop their risk management strategies and assess and evaluate their responses which range from cost saving measures, plans for income diversification, to changes in curriculum design. Each action that is taken brings its own risks, and inaction brings possibly the greatest risk of all.

Effective risk management will help your college to make those decisions. It will empower management to act incisively, with common purpose, and it will enable governors to provide the necessary oversight and strategic direction to the college. Ultimately it will help ensure that your college is best placed to meet its long term objectives and meet the needs of its learners.

DAVID MCINTYRE
HEAD OF BUSINESS RISK SERVICES (EDUCATION)
PKF (UK) LLP
KEY QUESTIONS FOR GOVERNING BODY CONSIDERATION

Do the governors receive regular risk management training?

Are the risk management responsibilities of the governing body and its committees clear?

Has the governing body approved the college’s risk policy?

Has the governing body determined the college’s risk appetite?

Have governors been involved in identifying and evaluating the key strategic risks to the college?

Do governors debate the risk implications when making key decisions at governing body and committee level?

Does the governing body receive regular risk reporting from management?

Does risk reporting include consideration of emerging or changing risks?

Does internal audit perform an annual review of the college’s risk management arrangements?

Are you adequately informed on developments within the college and sector developments which may impact upon the risk profile of the college?
KEY QUESTIONS TO INFORM GOVERNING BODY ASSURANCE

Is there a programme of induction and regular training in place to ensure that managers across the college have an adequate knowledge of risk management and how it is applied within the college?

Do college management view risk management as a means to improve effectiveness?

Is there a risk management framework and strategy in place which follows established risk management principles and supports the agreed risk policy?

How is the college’s risk appetite communicated and applied across the college?

Have management from across the college been involved in identifying and evaluating risk?

How are risk management responsibilities structured within the college?

Do risk management responsibilities match the college’s culture and support management in making effective decisions?

Is there regular risk management reporting from across the college, which presents a true picture of the risk profile of the college?

How are management ensuring that they pick up on new risks quickly enough?

Is the adequacy and effectiveness of the risk management framework reviewed on a regular basis and do those reviews allow for the continuous improvement of the college’s risk management approach?

Does the college utilise lessons learnt from within the college or from the wider sector to inform the further identification of risks? (e.g. risk benchmarking).
Risk management is a universally accepted management tool, used by organisations across the world and across all sectors. A host of further information is available to anyone wishing to learn more.

This guidance has been developed specifically to meet the needs of the Further Education sector. The following non-sector specific sources provide a wider view of risk management and have been considered in the production of this guidance:

**The Institute of Risk Management (IRM)**
“A structured approach to Enterprise Risk Management (ERM) and the requirements of ISO31000”
www.theirm.org/documents/SARM_FINAL.pdf

**HM Treasury**
“The Orange Book: Management of Risk – Principles and Concepts”
www.hm-treasury.gov.uk/d/orange_book.pdf

**Committee of Sponsoring Organisations of the Treadway Commission (COSO)**
“Embracing Enterprise Risk Management”
### EXAMPLE RISK REGISTER

<table>
<thead>
<tr>
<th>KEY RISK</th>
<th>INHERENT (GROSS) RISK EVALUATION (IxP)</th>
<th>RISK RANKING</th>
<th>CONTROL/MITIGATING ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Learner numbers are not achieved</td>
<td>(3x4)</td>
<td>12</td>
<td>Communication strategy to engage local and wider potential learners</td>
</tr>
<tr>
<td></td>
<td>(major impact x highly probable probability)</td>
<td></td>
<td>Monitoring and review procedures</td>
</tr>
<tr>
<td>RESIDUAL (NET) RISK EVALUATION (IXP)</td>
<td>RISK RANKING</td>
<td>PLANNED ACTION</td>
<td>TARGET RESIDUAL RISK (IXP)</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>--------------</td>
<td>----------------</td>
<td>---------------------------</td>
</tr>
<tr>
<td>(3x3) (moderate impact x possible probability)</td>
<td>9</td>
<td>Develop social networking strategy to attract learners</td>
<td>(2x2) (moderate impact x possible probability)</td>
</tr>
</tbody>
</table>
ACKNOWLEDGMENTS

David Pullein  
Chair, College Finance Directors Group

Wanda Ford  
Mid Cheshire College

Lynn Forester-Walker  
Ludlow College

Chris Lang  
Cambridge Regional College

Liz Hurst  
Somerset College of Arts and Technology

Tony Lawlor  
City College Norwich

Jane McCann  
Blackburn College

Will Melia  
King George V College

Ann Rowswell  
Luton Sixth Form College

Alan Riley  
Kirklees College

David Rothwell  
Nelson and Colne College

Robert Russell  
Association of Colleges

Jillian Taylor  
City College Birmingham

David McIntyre  
PKF (UK) LLP

Nicola Higginbottom  
PKF (UK) LLP

Chris Mundy  
PKF (UK) LLP
CONTACTS

BUSINESS RISK SERVICES

NORTH
DAVID MCINTYRE
DDI: 0161 819 3657
Email: david.mcintyre@uk.pkf.com

NICOLA HIGGINBOTTOM
DDI: 0161 819 3318
Email: nicola.higginbottom@uk.pkf.com

SOUTH
RICHARD WEIGHELL
DDI: 0207 065 0397
Email: richard.weighell@uk.pkf.com

CHRIS MUNDY
DDI: 0207 065 0556
Email: chris.mundy@uk.pkf.com