



GOVERNANCE SEAN MCGING & DON WALKLEY

MANAGING RISK

Actuary Sean McGing and governance consultant Don Walkley provide an overview of what school governors and Heads need to know about the oversight and management of risk.

RISK is inherent in any activity; it is a part of life. When it comes to personal safety, however, all of us evaluate some activities as riskier than others!

In terms of organisational wellbeing, risk may be considered in relation to actions that may cause harm or detriment to an individual, group or the entire organisation; or it may be considered in relation to actions, or inactions, that avoid or miss opportunities that may advance the growth and development of individuals or the organisation.

There are numerous definitions of risk. One simple definition is that risk is ‘the chance of something happening that will have an impact on objectives’ (Maqsood 2011). This definition implies that risk may be considered either as a threat or loss, or as an opportunity.

How risk is defined can determine the approach taken to risk management. Whatever definition of risk is adopted by a school, it is therefore important that the Board and Principal agree, understand, and work with that definition. Schools must also ensure that risk is understood by all staff, using an enterprise-wide approach, and that there is a comprehensive risk framework established to both minimise and manage risk.

Risk framework

There are numerous approaches within organisations to the management of risk, each with its own particular emphasis. In this article, we focus on an approach that is both all-encompassing and which

involves the entire enterprise, including all staff and at all levels of governance. Known as ‘enterprise risk management’, it is an approach that draws on concepts of risk from current literature and well established practice.

Enterprise risk management is centered on six key components, captured within what is known as a risk framework:

1. Risk appetite statement

A risk appetite statement articulates what level of risk will, or will not be tolerated by the organisation. For example, what are the expectations on risk management expressed by debt levels, program creativity or school image (CSM 2009)? A risk appetite statement should also make reference to identified, significant risks as per an enterprise risk register (see below).

2. Risk policy

The risk policy sets out the rationale for and the principles to be followed in managing risk. It informs the development of a risk management plan and its related implementation procedures.

3. Risk management plan

The plan sets out how the risk policy is to be implemented in the school, including:

- The process to be adopted for identifying, assessing and managing risks (and related opportunities)
- Who has responsibility for each aspect or level of risk management

- Who reports on risk management, to whom and when
- Strategies to detail how risk management will be a whole of enterprise approach.

4. Risk register

The risk register is the primary tool to document and assess risks (CSA 2009). It incorporates risk identification (a list known as a risk library), risk analysis (including estimating the likelihood of an event occurring and the potential consequences), and risk action evaluation (prioritising risk treatments). Possible categories in a school risk register include finance, operations, environment, education, student welfare, occupational health and safety, governance, information technology and property.

5. Delegations manual

The manual is a compilation of all position statements highlighting the delegated responsibilities to individuals and groups within the organisation, such as Board roles and responsibilities and position descriptions for the Principal and members of the school leadership team. The manual also sets out the financial delegations throughout the organisation.

6. Code of conduct

The code sets out expected behaviors deemed appropriate to the smooth and efficient operation of the organisation, and applies to everyone – from staff to Board members.

There are two significant guidance statements or documents that should be considered when developing a risk framework: the ASX Corporate Governance Principle 7, to recognise and manage risk (ASX 2010); and the AS/NZS ISO 31000 global risk management standards (AS/NZS 2009). Both of these documents provide a clear reference and a sense of expectation in the management of risk. In particular, AS/NZS ISO 31000 guides organisations to create a framework for risk management which highlights: the importance of commitment; the development of an implementation plan; processes to monitor and review; and action for ongoing improvement of the risk framework.

Whose responsibility?

Who has responsibility for the oversight and management of the risk framework in schools?

A key governance responsibility of the school Board or Council is firstly to ensure the risk framework is established, and then to subsequently maintain oversight of its implementation. In turn, it is the responsibility of the Principal to ensure the risk framework is implemented throughout the school.

The Committee of Sponsoring Organisations of the Treadway Commission (COSO 2009) highlights four areas that contribute to Board oversight with regard to enterprise risk management:

1. Understand the entity's risk philosophy and concur with the entity's risk appetite
2. Know the extent to which management has established effective enterprise risk management of the organisation
3. Review the entity's portfolio of risk and consider it against the entity's risk appetite
4. Be apprised of the most significant risks and whether management is responding appropriately.

While the Board and Principal have clear roles in oversight and implementation of the risk framework, it is important that all school staff both understand and take appropriate responsibility in managing risk.

Getting started

The process to establish, implement and monitor a risk framework should commence with a discussion between the Board and the Principal in order to:

- Establish shared understandings about risk
- Develop an agreed approach to managing risk
- Create a schedule of associated tasks to ensure effective implementation and monitoring of the risk framework.

Our advice is to allow time to get to know the school's risk environment and carefully consider the risk appetite of the organisation. It is important that risk management does not become an unnecessary barrier to opportunity and growth.

Often when Principals and Boards are presented with ideas and proposals, the immediate reaction is to discuss the uncertainties and risks. What impact might the proposed activity have on school finances? Does the proposed activity involve travel to new destinations? Are there any safety concerns associated with the activity?

Prudent practice suggests that a risk assessment of the proposed activity be undertaken and include consideration of how the proposal fits with the school's risk appetite as documented in the risk appetite statement. This encourages a balanced response, which allows questions such as: Does the proposal offer an opportunity not yet explored by the school? If the level of risk is within the school's risk appetite, then where can

school outcomes be improved? Could the implementation of the proposal lead to stronger long-term financials through greater student numbers, better academic performance through improved engagement and new learnings and/or an improved reputation from greater public awareness of school activities?

Boards and Principals must avoid falling back on risk management as an excuse to avoid tough decisions. A risk framework is therefore one of the best supports to have in place to ensure organisational decision making remains strategic. ■

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