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## Developing risk management governance at a not-for-profit — a case study

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### Case study — Siena College

Siena College Ltd<sup>1</sup> is an independent Catholic secondary school for girls in Camberwell in Melbourne, founded in 1940 by the Dominican Sisters. Some sense of the level of risks that may arise can be gleaned from the following college statistics.

- There are around 730 students and 100 staff members.
- Revenues, mostly comprising school fees and grant income, are \$12 million per annum.
- There are school buildings, including a chapel, and lands to be maintained.
- In 2011, there were 162 external learning activities (excursions), of which two were overseas.

Best-practice risk management is driven from, and integrated with, strategy.<sup>2</sup> The College's strategy is firmly based on its mission, vision and values, which drive its risk management starting point of retention and enhancement of its Dominican charism — the spiritual orientation, mission and values.

### Board addressing risk governance

The board put the issue of risk management on the table when it set its strategic plan for 2009–13. A Risk Management Working Group (RMWG) was formed, of which the author was appointed chair. The RMWG-drafted terms of reference were to:

- draft a risk management policy; and
- draft a risk management plan to implement the risk management policy, covering risk identification; the assessment of risk importance, size and likelihood; risk mitigation and management; and the reporting and monitoring of effectiveness.

### The risk management governance development process

The steps taken by the RMWG in carrying out its terms of reference were as follows.

#### *Develop an understanding of risk*

All members of the RMWG developed an understanding of the concepts of risk management, including risk, risk management framework, policy and plan.

#### *Establish a risk management methodology — principles, guidelines and implementation*

We agreed to adopt the principles and guidelines in ASX Corporate Governance Principle 7 and to implement them in accordance with ISO 31000.

#### *Set principles for developing and implementing risk management*

We agreed that it was most important for Siena College to keep a sense of perspective in developing and implementing risk management. We undertook to:

- develop a risk management culture among the school staff, based on common sense and doing the right thing;
- avoid overcomplicating matters and spending too much time and scarce resources on risk management systems and related documentation; and
- start with a solid but relatively limited base for a risk management system, to be enhanced over time.

#### *Assign responsibilities and ownership*

The director of staff and administration was assigned responsibility by the principal for the practical implementation of the risk management policy and plan when approved.

#### *Draft a risk management policy*

We developed a draft risk management policy based on a policy for a not-for-profit organisation, originally supplied by Don Walkley,<sup>3</sup> covering the rationale, definitions of risk, risk management, the risk management framework and risk management plan, guiding principles, procedures and responsibility.

#### *Identify risks*

We reviewed and customised a risk analysis working template, also supplied by Don Walkley. We identified the main sources of risk at Siena College.

#### *Assess and analyse risks*

We carried out the following initial risk identification and assessment:

- risk discussions in the board and also in the finance and the building and grounds committees; and
- for the other major risk categories, a high-level risk analysis was conducted by the RWMG.

We refined our risk analysis template to incorporate the risk categories (ie, sources of risk) in the WA Department of Education school framework.<sup>4</sup>

The director of staff and administration completed a more detailed risk assessment for an external learning activity, directly involving the school staff with responsibility in this area. For each individual risk it identified:

- the risk impact;
- existing measures to mitigate the risk;
- an assessment of the likelihood of the risk;
- an assessment of the consequences of the risk; and
- an overall risk assessment indicating if action is required.

### ***Initial risk appetite — VRQA Minimum Standards***

We agreed that, for the first couple of years, we should limit the scope of the risk management system to those risks that might prevent the College from achieving the Victorian Registration and Qualifications Authority (VRQA) Minimum Standards, as outlined by the Catholic Education Commission of Victoria Ltd.<sup>5</sup>

This provided an objective prioritisation of the risks requiring mitigation and maximised the efficient use of scarce resources.

### ***Create risk register***

We agreed that the large number of risks to be managed at Siena, as for any other school, demands the use of tools to organise the risk information and to automate some of the risk monitoring and associated actions. The College now uses risk management software provided by Periscope Consulting<sup>®</sup>,<sup>6</sup> populated with an initial set of around 50 risks.

### ***Benchmark the risk management framework***

Through informal contact with other schools, the RWMG found that the sector has limited practical experience with implementing risk management to date. As such, the ability to benchmark was hampered.

### ***Develop implementation timeline***

We set a timeline with associated tasks to track our progress.

### ***Risk categories, risk appetite and risk consequence***

The largest element of the risk management process is the risk analysis.

Starting with the template from the WA Department of Education, we selected the following risk categories:

- student achievement targets;
- safety of people;
- financial loss;
- charism, reputation and image;
- operational efficiency and governance; and
- service interruption at school.

A key element was to determine the consequence of the risk, which we defined as:

- insignificant;
- minor;
- moderate;
- major; or
- catastrophic.

We created a risk consequence table, which effectively became our proxy for risk appetite.

### ***Risk — threat v opportunity***

Working through the risk management process opens up the realisation that risk is two sided. Most risks can be either threats or opportunities — the latter can sometimes be hard to find, but it is important to look for them to ensure that management and board decisions are based on the full facts and a balanced assessment.

In a school setting, there are project, operational and financial risks in considering a new capital works program to improve facilities. But there are also opportunities — or the risk of *not* taking an action. For example, if the school does not enhance certain facilities, the opportunity to improve learning outcomes is lost, and there may be a risk over time of a decline in reputation — possibly resulting in lost current and future students, and the associated financial pressure accompanying that loss.

### ***Recommendations made to Siena College Board***

The RWMG recommended, and the school board approved, the draft risk management policy, the draft risk management plan, and the establishment of a risk management committee to replace the RWMG.

### ***Learnings and outcomes***

The key learnings from the Siena College case study were:

- the value of taking time to understand risk management and its language at the start;

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- pre-existing risk management framework material should be leveraged, such as ASX Corporate Governance Principles and ISO 31000;
- open and willing hearts and minds made for a great cooperative team and dynamic communication;
- diversity of backgrounds and perspectives in the RMWG enhanced decision making; and
- the value of deliberately avoiding too much detail to conserve resources — it is good to maximise efficiency, but difficult to achieve at times.

Key outcomes achieved by the RMWG were as follows.

- The importance of having a positive risk culture was recognised. There was an associated effort to embed that as part of normal “doing” at the College.
- The process has increased understanding and oversight of the College’s risks and has reduced fear of the unknown.
- The board was pleased with and thankful for the RMWG’s work.
- We established a basis from which further learning and improvement can follow as implementation proceeds.

## The actuarial angle — skills for risk management

### *My personal experience and reflections as an actuary*

In summary, in the classic approach of an actuary, I saw the case as a problem to be solved by:

- collecting and analysing data — what a school does and how it does it;
- identifying and analysing in a systematic way:
  - the risks that could arise at a school;
  - how likely they are (probability and frequency);
  - the consequences of the risk (the size of a claim, both quantitative and qualitative); and
  - if risks arose, what the cumulative impact would be (the sum of frequencies multiplied by claims);
- determining business response/management action:
  - the action required to avoid or mitigate these risks; and
  - the controls and procedures that should be added or changed;
- monitoring the effectiveness of the controls, new risks and changes in the level of risks;

- using feedback based on the results of monitoring to amend actions and/or refine controls to further mitigate risks; and
- throughout the process, using sound business acumen and communicating well with relevant stakeholders:
  - have a holistic view, and think wide and deep;
  - consider materiality;
  - prioritise by importance and consider urgency;
  - listen, share, think, understand, consider, balance; and
  - be pragmatic.

### *“Actuarial” and actuaries’ other skills for risk management*

Jules Gribble (2003)<sup>7</sup> identified the following core attributes of effective actuarial practitioners. Many of these are, of course, found in other professionals, and all are highly desirable in a risk manager.

- **Cognitive:** Make decisions, articulate reasoning, think through issues, analyse.
- **Expertise:** Technical understanding and skills for required analysis; knowledge.
- **Actuarial judgement:** Identify and frame the problem and determine a legal, ethical and practical solution that draws on sound actuarial theories, principles and techniques.
- **Innovative and flexible:** Identify, use or create new tools and techniques to solve problems, identify potential impacts of innovative approaches, be adaptable.
- **Rigorous and holistic:** Thorough, disciplined, rigorous and systematic detailed analysis; evaluate implications and relate detail to the big picture; consider materiality; focus on key drivers, assumptions and issues.
- **Strategic:** See issues in context; understand the interplay of external and internal factors on actions and decisions; deal with ambiguity and change; see the long-term horizon.
- **Integrity:** A clear set of particular ethical values that can be of particular interest to stakeholders; act with integrity and consistency in complex and challenging situations.
- **Personal management:** Understand one’s own limitations; seek support/advice when it is needed; plan tasks; monitor performance; reflect on practice; learn and develop.
- **Influence and interpersonal skills:** Identify where others are coming from and understand their point of view; get others to your point of view; foster collaborative approaches.

- **Communication:** Communicate clearly and appropriately through written and oral communication, particularly in relation to risks and possible options and consequences.
- **Business acumen:** See business implications in issues and decisions and articulate the possible risks and benefits for stakeholders; identify the key issues and implications.

## Conclusion

Actuaries have powerful risk management skills from our education and also from our day-to-day work experience. These are as applicable to the not-for-profit sector as to insurance and financial services.



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## About the author

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## Footnotes

1. Siena College Ltd, 815 Riversdale Road, Camberwell, Victoria 3124. See [www.siena.vic.edu.au](http://www.siena.vic.edu.au).
2. See McGing S, “Weaving enterprise risk management into strategy” (2012) 18 *Risk Management Today* 286.
3. At Governance, Boards & Directors; see [www.governanceboardsdirectors.com.au](http://www.governanceboardsdirectors.com.au).
4. Government of Western Australia, Department of Education, Audit and Risk Management, *School Risk Reference List*, 2010 and current (Excel workbook), at [www.det.wa.edu.au/audit/detcms/professional-standards-and-conduct/audit-and-risk-management/risk-management/sample-school-risk-reference-list.en?oid=com.arsdigita.cms.contenttypes.FileStorageItem-id-10807742](http://www.det.wa.edu.au/audit/detcms/professional-standards-and-conduct/audit-and-risk-management/risk-management/sample-school-risk-reference-list.en?oid=com.arsdigita.cms.contenttypes.FileStorageItem-id-10807742).
5. Catholic Education Commission of Victoria Ltd, *Guide to Meeting the Minimum Standards for Registration for Catholic Schools*, July 2008.
6. See [www.periscopeconsulting.com.au](http://www.periscopeconsulting.com.au).
7. Gribble J, *Actuarial Practice and Control: Objectives and Capabilities*, Research Paper No 105, Centre for Actuarial Studies, University of Melbourne, March 2003, at [www.economics.unimelb.edu.au/ACT/html/no105.pdf](http://www.economics.unimelb.edu.au/ACT/html/no105.pdf).