MANAGER’S GUIDE TO RISK MANAGEMENT

SUPPLEMENT TO MASSEY MANAGER INDUCTION WORKBOOK

NAME:
INTRODUCTION

Risk management is an essential element of good corporate governance and management in tertiary education institutions. Universities have for a long time managed risk effectively, pursuing greater entrepreneurship, and exploiting new opportunities, while at the same time protecting their reputation and long-term financial viability.

Risk management is an integral part of strategic and operational processes at Massey University. The managers of risk are the Council, management and staff – all of us.

Purpose

The purpose of this workbook is to provide you with an introduction to risk management and how to practically apply this to your new role.

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What is risk?

Massey University defines risk as the effect of uncertainty on objectives.

Risks, like objectives, can exist on a number of different levels. Table 4.1 outlines examples of risks at different levels.

<table>
<thead>
<tr>
<th>Level</th>
<th>Objective</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>To be a world class university</td>
<td>Competition with other institutions</td>
</tr>
<tr>
<td>College</td>
<td>To attract and retain world class academic staff</td>
<td>Profile of College not sufficient to attract world-class research and teaching staff</td>
</tr>
<tr>
<td>Departmental</td>
<td>To maintain and improve rating of PBRF scale</td>
<td>Research output may be limited by excessive workload or limited resources.</td>
</tr>
<tr>
<td>Personal</td>
<td>To be recognised as a first class academic</td>
<td>Capability and competency</td>
</tr>
</tbody>
</table>

What is risk management?

Risk management is defined as coordinated activities to direct and control an organisation with regard to risk.

Risk Management at Massey is based around the following five fundamental activities:

- Governance responsibilities
- Risk identification and risk analysis
- Risk control
- Risk treatment
- Performance monitoring and risk performance assurance

Risk management

- Complements the University’s strategic planning processes
- Is used in conjunction with investment decision making
- Supports innovation by identifying and managing the risks attached to new initiatives.
- Provides upward assurance from the business activities and administrative functions at departmental level, through to senior management.
- Provides sufficient information for Council to attest to external stakeholders (e.g. TEC)

Risk management is not

- A mechanism for avoiding risk
- The management of insurance
SECTION ONE: RISK MANAGEMENT AT MASSEY UNIVERSITY

The Risk Management Framework provides the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continuously improving risk management processes throughout the University, so it can be effectively applied to:

- the University’s day to day operation
- the annual planning process
- investment and strategic analysis

Key elements of the Framework include the Risk Management Policy, the risk management process (based on the AS/NZS ISO 31000:2009 Risk Management standard), governance responsibilities and risk management awareness and education.

The relationship between the Principles (prescribed in the standard), framework and risk management process are shown below:

What are the benefits?
Risk management creates and protects value, through contributing to the achievement of objectives and improvements in organisational performance. It is recognised as an iterative process, integral to all organisational processes which when undertaken enables continual improvement in strategic decision-making and innovation, as well as helping to protect the organisation from adverse events.

When used well it enables the University to take on activities at a higher level of risk (and therefore potentially a greater benefit).
How does it fit?
Risk management as a process operates across all levels of the University

- Governance: Policy and legislative compliance framework, committee structures and all iterations of University reporting
- Strategic initiatives and planning
- Business as usual operations

Risk Management is closely aligned to strategy and compliance. The University is committed to embedding sound risk management processes at all levels of the organisation to support strategic planning and enable the University to achieve its strategic vision.
Risk Governance

The Audit and Risk Committee of Council oversee and review risk management at Massey University. This includes oversight of the external and internal audit programmes, periodic review of risk related policies and controls, legal compliance, and operational and strategic risk. The internal and external auditors report directly to the Audit and Risk Committee as required.

Senior Leadership Team (SLT) have responsibility for overseeing key risk management controls, including but not limited to: financial and management accounting, property, insurance purchasing, contractual liabilities, emergency management and business continuity, people related, and other operational risks, as well as the assessment of strategic risks within their area.

The Risk Management Committee is a sub-committee of SLT and operates as the key advocate for risk management at Massey and has specific risk management responsibilities as defined in its Terms of Reference.

The University Risk Manager supports the application of risk management at Massey University. The role involves the following:

- To advise Council of risk management issues and concerns
- The design, development and continuous improvement of the risk management framework
- Supporting managers in the application of the risk management policy and process in the form of advice, tools and training.
- Assisting in development and maintenance of risk registers for Colleges, Campuses and Divisions. (Specialised software is available for this task)
- To manage the internal control and compliance frameworks, and programme of internal audit for the university.

Your role and responsibility in relation to risk

Risk Management is a governance tool, and a management responsibility.

All members of the University community have a role to play in the identification and management of risk, however risk management processes are primarily a line management responsibility since risk is inextricably linked with operational activity. Managers need to understand and actively manage those aspects of risk that threaten the organisation’s goals, which fall within their areas of influence and control.

The following section gives practical guidance on how to make risk management work for you in achieving your goals and the goals of the University.
SECTION TWO: MAKING THE PROCESS WORK FOR YOU

Actively managing the effect of uncertainty on your objectives (risk management) will support you in making the right decisions and achieving success in reaching your goals.

Key activities to integrate risk management into your business as usual operations:

(1) Familiarise yourself with the Risk Management Policy and process

(2) Recognise that skill in risk identification and analysis; risk control and risk treatment will require commitment, practice and experience

(3) Plan to use risk identification and assessment to support strategic and operational planning, project management, and business case development.

(4) Review any risks already identified in your area: You may need to discuss this with the College Business Manager or AVC/PVC and review the risk register for the College or Department. Ensure you are aware of any controls that are planned or in place, and take proactive steps to manage any risk rated as high or extreme.

(5) Ensure that key operational controls, which manage risk, are operating as efficiently and effectively as possible.

(6) Monitor identified risks and their associated controls. Escalate identified risks that high or extreme impacts to Senior Management.

Applying the Risk Management Process to your work

Applying the risk management process involves:
- Developing your approach
- Implementing the risk management process

Developing your approach
During this step, consider how you will integrate the process into the way you manage your department, how will you communicate and consult with your staff throughout, and how do you intend to monitor and review the process.

Example: Risk management will be a key component of the activities outlined below. The departmental risk register will be an agenda item at executive/team meetings at least quarterly. As part of the annual planning process a risk identification workshop will be held and attended by departmental staff to ensure we capture risk from all perspectives. The risk register developed from this exercise this will be provided to staff and updated at least quarterly. New risks will be identified as new initiatives are scoped or projects undertaken that may affect the goals of the department. Larger departments should utilise the risk register application provided by the Risk Management Office to capture risk information and provide risk reporting.

Implementing the process
The risk management process can be integrated into key activities, in the following ways:
Strategic and Operational Planning: Review risk register as part of the annual planning process.

Business Case development: The Business Case Templates includes a risk assessment requirement.

Commercialisation initiatives: The Business Case Templates for this initiative includes a risk assessment requirement. Commercialisation initiatives are inherently high risk and will require ongoing risk oversight.

Project Management: Good project management methodology involves active management of risks and issues.

The Risk Management Office can provide assistance and advice including facilitated risk assessment workshops to support any of these activities.

The process in detail
The following diagram is taken from the AS/NZ 31000:2009 standard, and explanation of each component is provided below.

Fig 2.1: The risk management process

Communication and consultation
Communication with stakeholders (both internal and external) should take place at all stages of the risk management process.
Consultation and communication helps to ensure that risks are appropriately identified and assessed, taking into consideration the different viewpoints and expertise of stakeholders. It can also assist down the line in implementing treatment plans and gaining support and understanding for a particular course of action.

An output would be including your risk register as an agenda item at your executive, team or project board meetings

**Establishing the context**
The purpose of defining the context is to consider the external and internal environment you work in and the impact this has on achieving your goals. Internal context relates to anything inside the organisation that could influence the management of risk. Examples include: strategic objectives, technology, policy, capability, culture, decision making processes.

External context can include: social and cultural, technological, political, economic, and regulatory factors that are the risk drivers impacting on the University.

The output of this stage is a list of key objectives, relationships and challenges.

**Risk Assessment**
Risk assessment identifies all events (good or bad) that may impact on the achievement of key goals. The process involves working with your staff to identify potential risks, assigning a risk rating to each risk in accordance with the risk assessment criteria.

The output of this stage is a list of key risks and a brief description of the risk, as well as an assigned risk rating for each.

During this step you need to determine what existing controls are in place to reduce the likelihood of the risk occurring or that will reduce the consequences of such a risk.

The process involves: identifying existing controls for each of the key risks and; assessing the effectiveness of controls

For some risks there may be more than one control. The following are examples of risk controls:

- Delegations of Authority
- Segregation of duties
- Policies and procedures
- Security processes
- Management reporting - Formal review procedures
- Preventative maintenance - Quality assurance programmes
- Accreditation programmes
- Staff training - Supervision
- Strategic and business planning
- Early warning systems (see glossary)
Procedures to reduce or control consequences

- Contingency planning
- Emergency preparedness plans
- Public relations procedures
- Rehabilitation programmes

The output of this stage is an assessment of the effectiveness of controls on the risk, based on the control assessment criteria.

Risk Treatment
For risks that remain high and extreme after risk assessment, risk treatment involves selecting one or more options for modifying risks, and implementing those options. Once implemented, these treatments provide or modify the controls. It involves a cyclical process of: assessing a risk treatment; deciding whether residual risk levels are tolerable; if not tolerable, generating a new risk treatment, and; assessing the effectiveness of that treatment. Options for treatment may include: removing the risk source, changing the likelihood, avoiding the risk, sharing the risk (contracting, insurance).

The output is a risk treatment plan that documents the evidence from the risk management process and specifies the treatment action plan.

Monitoring and review
The purpose of risk monitoring and review is to ensure the ongoing management of risk – as a department responsibility and for specific identified risks. The process involves determining any residual risk, assigning responsibilities, and completion dates – at the department and specific risk level. This may also involve a periodic audit, or management review, at departmental level. E.g. reconciliation of financial accounts, or physical check of assets.

The output would be a decision re the extent of the ‘treatment’ required.

Useful resources for Massey managers:

Policy Guide: Contains all Massey approved policies (Massey > Staffroom > Policy Guide)

Risk Management website: Contains management information and tools (Massey > Staffroom > Shared Services > Risk Management)

Emergency Management website: Contains information about emergency management at Massey (Massey > Staffroom > Shared Services > Risk Management > Emergency Management)
**RISK ASSESSMENT CRITERIA**

Qualitative measures of **consequence or impact**

<table>
<thead>
<tr>
<th>Level</th>
<th>Risk Descriptor</th>
<th>Consequence</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Insignificant</td>
<td>• No injuries or financial loss less than $100k</td>
</tr>
</tbody>
</table>
| 2     | Minor           | • Financial losses between $100k and $500k from single incident/event  
              • Some adverse public reaction |
| 3     | Moderate        | • Financial losses between $0.5m and $1m from single incident/event  
              • Injury to individual  
              • Reputation damage  
              • Loss of business efficiency, failure to meet legal/regulatory requirements,  
              and/or potential litigation.  
              • Incident/Event reduces attainment of primary objectives |
| 4     | Major           | • Financial losses between $1m and $5m from single incident/event  
              • Serious harm Injury to individual(s)  
              • Serious institutional reputation damage  
              • Litigation  
              • Incident/Event impedes achievement of primary business objectives |
| 5     | Catastrophic    | • Financial losses greater than $5m from a single incident/event  
              • Death of individual(s)  
              • Severe reputation damage e.g. widespread adverse media coverage,  
              • Significant litigation (including class action) and/or prosecution, with potential  
              public enquiry  
              • Incident/Event prevents achievement of primary business objectives |

Qualitative measures of **likelihood**

<table>
<thead>
<tr>
<th>Level</th>
<th>Descriptor</th>
<th>Likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Almost certain</td>
<td>Is expected to occur in most circumstances i.e. within next 12 months</td>
</tr>
<tr>
<td>B</td>
<td>Likely</td>
<td>Will probably occur in most circumstances. i.e. once every 3 years</td>
</tr>
<tr>
<td>C</td>
<td>Possible</td>
<td>Might occur at some time i.e. once every 10 years</td>
</tr>
<tr>
<td>D</td>
<td>Unlikely</td>
<td>Could occur at some time i.e. once every 100 years</td>
</tr>
<tr>
<td>E</td>
<td>Rare</td>
<td>May occur only in exceptional circumstances, but is not expected to occur</td>
</tr>
</tbody>
</table>

Qualitative risk analysis matrix – **level of absolute risk** (i.e. without controls)

<table>
<thead>
<tr>
<th>Likelihood</th>
<th>Consequences</th>
<th>Insignificant 1</th>
<th>Minor 2</th>
<th>Moderate 3</th>
<th>Major 4</th>
<th>Catastrophic 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>A (certain)</td>
<td></td>
<td>H</td>
<td>H</td>
<td>E</td>
<td>E</td>
<td>E</td>
</tr>
<tr>
<td>B (likely)</td>
<td></td>
<td>M</td>
<td>H</td>
<td>H</td>
<td>E</td>
<td>E</td>
</tr>
<tr>
<td>C (possible)</td>
<td></td>
<td>L</td>
<td>M</td>
<td>H</td>
<td>E</td>
<td>E</td>
</tr>
<tr>
<td>D (unlikely)</td>
<td></td>
<td>L</td>
<td>L</td>
<td>M</td>
<td>H</td>
<td>E</td>
</tr>
<tr>
<td>E (rare)</td>
<td></td>
<td>L</td>
<td>L</td>
<td>M</td>
<td>H</td>
<td>H</td>
</tr>
</tbody>
</table>

**CONTROL ASSESSMENT CRITERIA**

Control is a measure that is modifying risk. Examples include a process, policy, device, practice or other action.

Controls are established to manage identified risks to an acceptable level, and to further strengthen:

- Reliability and integrity of information
- Compliance with policies, plans, procedures, laws, and regulations
- Safeguarding of assets
- Economical and efficient use of resources
- Accomplishment of established objectives and goals for operations or programs

If a risk can affect the achievement of an organisation’s objectives, a control is then anything that reduces either the likelihood of the risk occurring or the impact of the risk should it occur.

To determine the managed risk level or rating, use the criteria below to firstly select the control weighting, and then assess this against the absolute risk level.

**Qualitative Measure of Control Effectiveness**

<table>
<thead>
<tr>
<th>Control Weighting</th>
<th>Level of protection/mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>Controls functioning all the time. Policies, procedures are in place and continuous improvement programmes exist to improve efficiency and effectiveness.</td>
</tr>
<tr>
<td>Good</td>
<td>Controls generally functioning all the time. Policies, procedures are in place. Control culture and control awareness exist but there is room for improvement.</td>
</tr>
<tr>
<td>Adequate</td>
<td>Barely enough for day-to-day operations. Policies and practices may exist but not well disseminated or documented. However, generally controls are functioning. Control culture and awareness not strong, control practices not embedded in business processes yet.</td>
</tr>
<tr>
<td>Inadequate</td>
<td>Control breaches are common. Non-compliances not detected promptly. Lack of commitment to establishing controls. Lack of monitoring and reporting.</td>
</tr>
<tr>
<td>Non-existent</td>
<td>Lack of defined controls. Lack of effective implementation of controls. Poor past track record e.g. write-offs were huge.</td>
</tr>
</tbody>
</table>

**Effect of Controls on Risks**

<table>
<thead>
<tr>
<th>Control</th>
<th>Extreme Risk</th>
<th>High Risk</th>
<th>Moderate Risk</th>
<th>Low Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>L</td>
<td>L</td>
<td>L</td>
<td>L</td>
</tr>
<tr>
<td>Good</td>
<td>M</td>
<td>L</td>
<td>L</td>
<td>L</td>
</tr>
<tr>
<td>Adequate</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td>L</td>
</tr>
<tr>
<td>Inadequate</td>
<td>E</td>
<td>H</td>
<td>M</td>
<td>L</td>
</tr>
<tr>
<td>Non-existent</td>
<td>E</td>
<td>H</td>
<td>M</td>
<td>L</td>
</tr>
</tbody>
</table>
## RISK RELATED INFORMATION YOU NEED TO KNOW

<table>
<thead>
<tr>
<th>Delegations of Authority</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>This document details the delegations of authority in place at any time for the following: financial commitments, contract signing, human resource delegations, student related delegations, engagement of solicitors, use of the University seal, establishment of research centres, space allocation and other general delegations. It details what activity can be undertaken by way of management level, and which activities are able to be sub-delegated to agents of the manager.</td>
<td>Delegations of Authority Document, available in the Policy Guide</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>University Policies and Procedures</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff are obliged to read and understand University policies, procedures, rules and regulations relevant to their employment and should comply with lawful and reasonable management instructions and University policies, procedures, rules and regulations. (from Staff Conduct Policy) Updates and changes to Policies and procedures are routinely communicated to Heads of Department via email notification from the Risk Management Office. Please make your staff members aware of these Policy updates as required.</td>
<td>All approved University Policies and Procedures are available online in the Policy Guide (staffroom).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Emergency management and business continuity planning</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers must ensure that there are appropriate emergency plans in place for their departments. This should include ensuring departmental contact lists are up-to-date, and that there are emergency shutdown procedures in place for critical areas e.g. laboratories, and that Business Continuity Plans are in place to enable critical research, teaching and support activities to continue after a disruption.</td>
<td>Campus Emergency Response Plans. Business Continuity Planning Toolkit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Legal awareness</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Massey University is committed to meeting legal and business compliance obligations and ensuring it conducts its business lawfully and responsibly. The risk management office completes an annual online legislative review in Q4. The results are used to inform senior management and Council of any non-compliance issues affecting the University. If you are a level 4 manager you will be asked to attest compliance with a select range of legislative obligations such as Health and Safety in Employment Act 1992 and the Privacy Act 1993. The process is an opportunity to refresh your awareness of legislative obligations and actively manage any non-compliance risk.</td>
<td>Legislation Watch Legislative Guides for Employee’s Annual legal compliance review (online)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Risk Management</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers with budgetary responsibilities are also responsible for the prudent management of accounts under their control. Critical to this is the need to ensure that segregation of duties is in place for all financial transactions, adherence to password protection, and regular monthly reviews of financial transactions.</td>
<td>Finance Website Staff training</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contract Management</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsibility for oversight of contracts is assigned to specific Contract Managers. If you are a level 4 manager you will have specific responsibilities for contracts in your departments. Familiarisation with the Contract Management Process at Massey, and where to go for assistance on contract matters will assist you manage this complex area.</td>
<td>Contract Management Policy and Procedures</td>
</tr>
</tbody>
</table>
MANAGER’S ACTION LIST

Review departmental risk register prior to annual planning (June and September)

Review any sub-delegations of authority that are in place for your area, and ensure you review these in the DelegationPoint system at least annually

Participate in the annual legislative compliance review (usually October – December)

Keep up to date with changes in policy and procedures and advise your staff of any policy changes that may impact on their work (as required)

Identify and Review the key controls in place which manage identified risks

Identify risk control ‘gaps’, and take action to address these omissions.

Attend a ‘Risk Management for Managers’ session provided by Risk Management

Include ‘Risk” as a discussion topic on your Executive Team meeting

Ask for assistance from Risk Management when preparing a Business Case, or scoping a new project.

Prepare a Business Continuity Plan for your department

Prepare and maintain a emergency contract list for departmental staff and key stakeholders.
FURTHER INFORMATION

Contact:

Anne Walker, Risk Manager  A.K.Walker@massey.ac.nz, or

The Risk Management Office at riskmanagement@massey.ac.nz

Resources at Massey

Policy Guide: http://policyguide.massey.ac.nz/

On-line risk management resources for managers are available at www.massey.ac.nz in the following location: Home < Staffroom < Shared Services < Risk Management

Other resources


NZS/AS 3806-2006 Compliance programmes

AS/NZ 5050:2010 Business continuity - Managing disruption-related risk
Appendix I: Glossary of Terms

For the purposes of the AS/NZS 31000:2009 Standard, the definitions below apply:

Risk: effect of uncertainty on objectives

Risk management: coordinated activities to direct and control and organisation with regard to risk

Risk management framework: set of component the provide the foundations and organisation arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization.

Risk Owner: Person or entity with the accountability and authority to manage a risk

Risk management process: systematic application of management policies, procedures and practices to the activities of communicating, consulting, establishing the context and identifying, analyzing, evaluating, treating, monitoring and reviewing risk.

Risk assessment: overall process of risk identification, risk analysis and risk evaluation

Control: measure that is modifying risk. Note 1: include any process, device, practice or other actions that modify risk. Note 2: May not always exert the intended or assumed modifying effect.

Risk treatment: Process to modify risk. Note 1: Can involve avoiding the risk, accepting the risk to pursue an opportunity, removing the source of risk, changing the likelihood or consequence, sharing risk, and/or retaining the risk by informed decision. Note 2: May also be known as “Risk Mitigation”.

Appendix II: Case studies

The following case studies have been drawn from those prepared by HEFCE (Higher Education Funding Council of England). These and other best practice material are available from their website http://www.hefce.ac.uk/

Introduction
To compile these case studies, HEFCE have drawn on a range of experiences at a number of higher education institutions. They are not based on actual events at any one institution. The case studies are in two pairs: case study 1 should be read alongside case study 2 and case study 3 should be read alongside case study 4.

• Case study 1: University of Southshire – building a new Learning Resource Centre
• Case study 2: University of Westshire – increasing income by offering distance learning
• Case study 3: Northshire College – exploiting the results of research
• Case study 4: Eastways College – developing a research concept into a commercial proposition

Case study 1: University of Southshire – building a new Learning Resource Centre
1. The University of Southshire estates strategy called for a major strategic investment in a new Learning Resource Centre. The opportunity was being taken to reconfigure a major part of the campus, with the result that the total cost of this project was budgeted at $33 million. The project was clearly set out in the estates strategy, but before proceeding the initial details were considered by the board of governors.
2. The board asked that all steps should be taken to minimise the risks arising from this project. Accordingly the senior management team made sure that the university bought in expert advice: a firm of accountants developed a tax reduction approach, a competition was used to select a major architectural practice, and external project managers and planning consultants were brought in at an early stage.
3. The director of estates made sure that a full risk register was developed, with inputs from the safety officer, the head of internal audit, and the trade unions.
4. The design was approved by a project steering group, and a tender was drawn up and let in accordance with the university’s standard financial regulations.
5. The project was financed in part by a Funding Council grant ($4 million), cash from reserves ($3 million), $1 million in donations from alumni, and the balance through a loan from the university’s bankers ($25 million).
6. The contract to build was let using the university’s normal tendering arrangements, with a full Bill of Quantities. Tenders came in within budget and work started on time.
7. After six months, the university obtained additional capital funding that enabled it to substantially increase the number of workstations and computing facilities that could be incorporated into the building. Unfortunately, when a full assessment was carried out it showed that there would have to be a substantial redesign, particularly of ventilation equipment, all of which would have to be completed quickly if this additional funding was not to be lost. Despite a comprehensive value engineering exercise, the total projected cost rose by $2 million to $35 million. In the mean time student recruitment had been more
difficult than anticipated, with the result that the university had to draw on more of its cash reserves than it had planned. The director of finance approached the bank, who were only prepared to provide additional funds at a prohibitive rate, because of concerns about the university’s cash flow. Given the need to get the building completed on time and the lack of alternatives, the additional loan was agreed.

8. When the contractor submitted the final account for the project, the university was surprised to see additional costs of nearly $1 million. It emerged that this was the result of a substantial volume of unplanned minor variations submitted by subcontractors and passed on to the university.

9. Unfortunately, shortly after practical completion, part of the concrete structure suffered a catastrophic failure and collapsed. While the building was being repaired, it was not possible to fit it out, with the result that it was not available for the beginning of term.

10. At the end of the year, the external auditors informed the university that it was in breach of the Financial Memorandum with the HEFCE. When the HEFCE was informed, it requested a formal review of the circumstances. This established that there had been:

- Inadequate formalisation of project management controls.
- An inadequate risk assessment process – with no involvement of the finance department, design team or end users.
- A lack of consultation by the project team with the end users in agreeing the building design.
- Inadequate contingency planning.
- Insufficient thought about the approach to capital procurement.
- No interim reporting to the governing body.
- The review concluded that the project had provided poor value for money.

11. As a result the university received a great deal of unhelpful publicity, particularly from the local paper which ran a campaign alleging continuing waste and extravagance. Eventually the local MP asked the National Audit Office to investigate and it severely censured the senior management team of the institution.

Case study 2: University of Westshire – increasing income by offering distance learning

1. The University of Westshire examined ways of increasing its income. It identified potential from developing its distance learning offerings. With this in mind it negotiated a commercial deal with an internet service provider, ConNet.com, whereby Westshire delivered bespoke modules which were then marketed and delivered by ConNet.

2. To deliver the required modules, an initial assessment suggested that the institution would have to commit significant academic time worth some $5 million. Nevertheless, the potential returns were thought to be substantial. Since this represented a major strategic shift and risk to the institution, the outline proposal was put to the governing body. Although enthusiastic, a number of governors were concerned about the potential risks. Accordingly they asked the officers to commission a full risk assessment.

3. A well known international consultancy was commissioned. Its report identified four main areas of risk:
   - Student experience risk (which might arise from the way the education packages were supported).
• Financial risk (if demand was insufficient).
• Managerial risk (senior management team being overstretched).
• Reputational risk (arising from the other risks and the link with ConNet).
4. These risks were addressed through: a system of peer reviews of educational support for each module; some detailed market research (backed up by test marketing); the recruitment of an additional senior manager; commissioning a due diligence examination of ConNet; and the creation of a separate joint venture with a distinct identity.
5. With these controls in place, its overall assessment of the project was that there was a medium/high risk attached to the project, but that there was a real possibility of very high returns. For the university this represented a strategic investment, and the governing body reviewed the risk of the revised proposal in the context of the other risks it faced. The university had been extremely prudent over the previous few years and had a relatively low risk profile. Accordingly, the governors decided to approve the project by a clear majority. In order to further mitigate the risk, they asked for independent audit assurance of progress after 18 months.
6. After a successful launch the university looked forward to receiving the financial rewards it expected.
7. Unfortunately, other elements of ConNet were adversely affected by a range of incidents, including a major legal challenge in another country connected with some material that was hosted, a fall in its stock exchange valuation, and problems with a fixed cost service it had introduced.
8. As a result, ConNet decided to cease trading. Students that were signed up to the distance learning programmes complained and, despite a clear legal opinion that there was no direct claim against the university, Westshire decided that it had to support the commitments of its joint venture.
9. However, following the due diligence examination of ConNet at the outset, Westshire had been aware that there were some risks that ConNet faced. As a result it had developed a contingency plan and had incorporated appropriate escape clauses in the various contracts. The contingency plan required further expenditure by the university, which meant that at the end of the second year of operation it still had not made any surplus from this activity. This was picked up by the local press who reported it as a significant loss and focused on the disquiet it was causing within the academic community.
10. The university commissioned an independent report to examine events. The report concluded that the university could have adopted a more prudent approach, but that that would have led to a lower rate of return on its investment; and that at the time of the investment the university had acted in good faith and taken all reasonable steps to mitigate the risk to a reasonable level. This report was shared with the HEFCE who accepted it and concluded there was no need for any further action.

Case study 3: Northshire College – exploiting the results of research
1. Northshire College’s Professor of Fabrics had developed a concept for creating one-off fabric designs based on small liquid crystals. These meant that the design could be changed after a garment had been created, by applying specific high energy magnetic fields. The idea had been fully developed in a series of academic papers supported by a large number of drawings, plus a technical feasibility study. The college was asked to invest resources to develop the idea into a more commercial proposition.
2. If the idea could be developed into a practical application, the possible financial returns were significant: soft market research had established a potential worldwide market. A major manufacturer had indicated that if prototype development were successfully
completed, it would be prepared to reimburse the full cost of initial development, and make subsequent royalty payments, in return for full rights. The market research suggested that this might offer the college an income of about $200,000 a year.

3. The professor needed two years’ paid leave of absence, some space, a postgraduate researcher, secretarial support, and about $40,000 of equipment. Over the proposed development period, costs were estimated at $120,000.

4. This project fitted well with the college’s strategic plan which required a year on year increase in non-public funding sources. The principal therefore agreed to commit the resources necessary, using funds in the college’s development budget.

5. After two years the various investments were made, well within budget, although progress was less than the professor would have liked. The senior management team was briefed by the professor on the potential of the project. It was agreed that the deadlines would have to be extended.

6. Three years after the project started, the trade papers carried an announcement from Threads R Us that it had developed SmartCloth, a fabric based on semi-conductors which could be ‘connected’ to a PC and would then absorb any colour or design put on it.

7. Some six months later the professor announced that his prototype was ready and began marketing it to various manufacturers. The research team also started to develop improved versions. However, after 18 months, the Professor had to admit that there was no commercial interest since SmartCloth had made his idea obsolete.

8. Everyone agreed that it was very unlucky, the team was disbanded, but the college was encouraged when the department received a rating of 4 in the Research Assessment Exercise.

9. Four months later, because of changes to the funding formula, the college was forced to make two staff in Fabric Studies redundant. One of them complained to the Funding Council that this redundancy was solely because of the mismanagement of the college’s commercial investments and subsequent losses. Council auditors were asked to review what had happened.

10. After a six month review, and some unpleasant publicity, the auditors reported. They suggested that there were major lessons that could be learnt, notably that:
   • The college had not properly identified the costs of the development.
   • There was no formal development contract with the potential private sector partner.
   • The actual accumulated losses were over $150,000. This amounted to over $400,000 if support costs and overheads were properly costed.
   • No patents had been taken out.
   • Governors had not been informed.
   • There had been no assessment of risk.
   • There was no investment appraisal.
   • There had been no project control.
   • Public money had been lost.

11. Following adverse publicity, the college found its recruitment was sharply down, the trade union branch passed a vote of no confidence in the management, and negotiations over a possible investment by an alumni broke down.
12. Following a referral from an MP, the National Audit Office looked at the Funding Council report and decided that a more detailed investigation of the college was needed. This resulted in a public report that criticised the governors, the senior managers, the systems and the oversight exercised by the Funding Council. The principal took early retirement, four governors resigned, and the director of finance was suspended while an investigation into alleged irregularities was carried out. After another year, it was announced that the college was merging with the nearby large teaching university.

Case study 4: Eastways College – developing a research concept into a commercial proposition.

1. Eastways College’s Professor of Computing had developed a concept for compressing all the data needed to store a feature length film on to a normal floppy disk. However, the idea existed only as a couple of algorithms and a proof that such a concept was possible. The college was asked to invest resources to develop the idea into a more commercial proposition.

2. If the idea could be developed into a practical application, the possible financial returns were enormous – soft market research had established a significant worldwide market. A major software house indicated that if prototype development were successfully completed, it would be prepared to reimburse the full cost of initial development, and make subsequent royalty payments, in return for full rights. The market research suggested that this might offer the college an income of about $1 million a year.

3. The professor needed two years’ paid leave of absence, some computing laboratory space, five postgraduate researchers, an office administrator, secretarial support and about $40,000 of equipment. Over the proposed development period, costs were estimated at $400,000.

4. The college’s risk assessment indicated five major risks:
   • Relatively small damage to its reputation if the work failed to deliver.
   • Damage to its reputation if the work delivered profits to the professor that were perceived as excessive.
   • Possible cost over-runs (assessed as no more than 20 per cent of cost).
   • A delay in producing the desired product (with an associated loss of income of $30,000).
   • The potential infringement of existing intellectual property rights.

5. As well as the possible impact of the risk, the college assessed the probability of these five risks occurring as, respectively, low, low, medium, high and low.

6. Nevertheless, it decided to mitigate all of these risks, by:
   • Requiring a detailed project plan from the professor with key milestones and regular reports to the senior management team.
   • Signing a development contract with the software house on the basis of specialist legal advice.
   • Reviewing its income-sharing arrangements and establishing an upper limit for its staff.
   • Commissioning a consultancy review to ensure that it was not infringing any existing intellectual property rights.

7. With these controls in place, its overall assessment of the project was that there was a medium/high risk attached to the project, but that there was a real possibility of very high returns. For Eastways College this represented a strategic investment, and the governing body reviewed the risk in the context of the other risks it faced. The college had been extremely prudent over the previous few years and had a relatively low risk profile. Accordingly, the governors decided to approve the project by a clear majority. In order to further mitigate the risk, they asked for independent audit assurance of progress after 18 months.
For the first 12 months the various investments were made, well within budget and progress was on target. After 18 months, however, one of the research team left and there was difficulty in getting a suitable replacement. The senior management team agreed that additional resources should be put into the project, paying higher salaries to assist recruitment and approving an additional researcher post. By month 24 the project was back on target.

Three years after the project started, the trade papers carried an announcement from Softmicro.com that it was marketing a revolutionary distribution mechanism for feature films based on very high file compression rates, with download times over the internet of about a minute. At that point, the college’s commercial partners indicated that they were withdrawing from the project. The college concluded that there was now no possibility of a successful outcome, and decided to close the project down, with an estimated lost investment of about $300,000.

Four months later, because of changes to the funding formula, the college was forced to make two staff in Media Studies redundant. One of them complained to the Funding Council that this redundancy was solely because of the mismanagement of the college’s commercial investments and subsequent losses. Council auditors were asked to review what had happened.

After a three-month review, and some unenviable publicity, the auditors reported. They suggested that there were lessons that could be learnt: notably that the college might have been able to monitor other commercial research more actively; could have ring-fenced the investment more (by forming a separate related company); and that it could have tried to share the risk at an earlier stage with a commercial partner. However, they recognised that this would have led to lower subsequent returns. They therefore concluded that, throughout the process, governors and senior managers had acted in good faith, behaved reasonably and taken appropriate action, and that the matter was therefore closed. Following a referral from an MP, the National Audit Office considered the Funding Council report and decided that there was no need to investigate further.
Purpose:

To ensure that Massey University meets its legal and business compliance risks and that it conducts its activities lawfully and responsibly.

Policy:

Massey University is committed to meeting its strategic intent as stated in the Road to 2020, and in order to do so must ensure it meets its compliance obligations to staff, students and wider community stakeholders.

Massey University is a separate legal entity that has legal obligations in its own right. Equally the University faces liability for any breaches of those obligations, of which there are many in the modern context. Compliance with those obligations is therefore essential. Massey University is committed to the maintenance and continuous improvement of the compliance framework and processes, and the development of a compliance culture within the University.

The Council of Massey University has all powers, under provisions of the Education Act 1989, and Amendments, reasonably necessary to enable it to perform its function efficiently and effectively. The Council may elect to appoint committees and to delegate such powers. The Council of Massey University, through its Audit and Risk Committee, is responsible for approving the Compliance Policy, and overseeing the University’s compliance with legal, statutory, regulatory requirements, reporting obligations and Council approved regulations and policies.

The Vice-Chancellor (Chief Executive) manages the academic and administrative affairs of the University, in accordance with the Education Act 1989 and Amendments, and the delegations of Council. In turn, the Vice Chancellor may delegate through each level of the University to allow the University's affairs to be conducted. The Vice Chancellor is responsible for recommending for approval the University's Compliance Policy and approving the associated Compliance Programme and Register of Compliance Obligations, and for ensuring that these are aligned with Massey University’s strategic and operational goals and objectives and with relevant New Zealand legislation.

The Vice Chancellor, and the Senior Leadership Team, must ensure that sufficient resources are committed to compliance obligations to assure a reasonable opportunity that Massey University will meet its compliance obligations.

The Risk Manager, in conjunction with compliance specialists within the University, is responsible for coordinating the maintenance and promulgation of the Register of Compliance Obligations, for providing appropriate support and ensuring training for staff in compliance related matters; and for monitoring and reporting on compliance activities.

University policies and procedures and processes must reflect not only the legislative compliance requirements, but also compliance requirements where applicable in respect of mandatory or voluntary codes or sector standards.
Managers at all levels of the University must be made aware of their responsibility for the recognition and management of compliance risks within their area of influence and control and for reporting compliance.

Each staff member in the University is ultimately, in effect a delegate of the Council, through the office of the Vice-Chancellor. All delegated powers must be used and exercised appropriately. Each person, therefore must become aware of what the University should and should not do, and comply accordingly.

Massey University is committed to a compliance programme based upon the principles described in Australian/New Zealand Standard NZS/AS 3806:2006: Compliance Programmes, which are:

1. **Commitment**
   1.1 Commitment to effective compliance that permeates the whole organisation
   1.2 A Council approved Compliance Policy that is aligned to the University’s Road to 2020 Strategy, goals and objectives.
   1.3 Appropriate resources to develop, implement, maintain and improve the compliance programme
   1.4 The objectives and strategy of the compliance programme which are approved by the Vice- Chancellor and Senior Leadership team
   1.5 Compliance obligations are identified and assessed

2. **Implementation**
   2.1 Responsibility for compliant outcomes is clearly articulated and assigned
   2.2 Training needs are identified and addressed to enable managers and staff to fulfil their compliance obligations
   2.3 Behaviours that create and support compliance are encouraged, and behaviours that compromise compliance are not tolerated.
   2.4 Controls are in place to manage identified compliance obligations and achieve desired behaviours.

3. **Monitoring and Measuring**
   3.1 Performance of the compliance programme is monitored, measured and reported
   3.2 The University will be able to demonstrate its compliance programme through documentation and practice

4. **Continual Improvement**
   4.1 The Compliance programme is regularly reviewed and improved

**Definitions:**

**Compliance:** Adhering to the requirements of laws, industry and organisational standards and codes, principles of good governance and accepted community and ethical standards.

**Compliance Culture:** The values, ethics and beliefs that exist throughout an organisation and interact with the organisation’s structures and control systems to produce behavioural norms that is conducive to compliance outcomes.

**Compliance Failure:** An act or omission whereby an organisation has not met its compliance obligations, processes or behavioural obligations.

**Compliance Programme:** A series of activities that when combined are intended to achieve compliance.

**Register of Compliance Obligations:** A schedule of compliance obligations that have been identified by Massey University and are maintained by the Risk Management Office.
Legal Compliance Programme: The process of annual attestation of compliance with relevant New Zealand legislation.

Audience:

All staff

Relevant legislation:

As defined in the Law Guide (available on-line at http://staffroom.massey.ac.nz/)

Legal compliance:

As defined in the Law Guide (available on-line at http://staffroom.massey.ac.nz/)

Related procedures / documents:

NZS/AS 3806:2006 Compliance Programmes
Compliance Framework
Register of Compliance Obligations
Legal Compliance Procedure

Document Management Control:

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