ENTERPRISE RISK MANAGEMENT FRAMEWORK POLICY

THE MICO UNIVERSITY COLLEGE

1A Marescaux Road, Kingston 5

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A. BACKGROUND

The Lady Mico Charity in England, in 1835 founded The Mico, as one of the schools in the Caribbean to educate the children of ex-slaves. The Mico University College is the only surviving school. The land on which The Mico is located was owned by the Charity, however, in October 2000, these lands were transferred to The Mico Foundation, a duly registered company in Jamaica. The Mico Foundation not only owns the holdings at 1A Marescaux Road, it also owns and controls additional 'Mico properties' at 60 and 62-64 Arnold Road, 3-9 Manhattan Road as well as two lots on Red Hills. The Mico Foundation therefore

i) Collects rent for all these properties and is responsible for maintenance.

ii) Operates commercial enterprises on The Mico Campus, such as Heritage Café and The Mico INAFCA Museum.

iii) Operates all educational programmes that were not sponsored by the Ministry of Education, including all the courses offered by The School of Continuing Studies.

The Mico University College is therefore inextricably linked with The Mico Foundation. The University College pays rent to the Foundation, and The Foundation manages and maintains the plant. Many of the risks therefore facing the institution, especially the financial and hazard risks are closely bound with that of The Foundation.

B. INTRODUCTION

The Mico University College is cognisant of the fact that the nature of its operations has elements of unpredictability and therefore risk. As a consequence the institution has to be supported by a structure that allows it to achieve its mission in an every changing environment and context and to develop strategies for the delivery of satisfactory outputs, including compliance with applicable governance requirements and assurances to its stake holders.

It is important for the institution to develop a framework for Enterprise Risk Management that allows the institution through its routine activities to become more efficient in its operations, to mitigate against risks and allows for sustainable business operations. The framework must include the identification of risks, the determination of risk appetite and methods and processes to manage risks and seize opportunities related to the achievement of the institution's objectives including its viability. Effecting an Enterprise Risk Management Framework will allow the institution to protect, maintain and enhance value for its stakeholders, including employees, students, alumni, parents, the government and the society at large.

C. PURPOSE OF THE POLICY

The Enterprise Risk Management Framework Policy was formulated to ensure that in terms of enterprise loss, exposure does not impair the continuity value. The policy therefore articulates The Mico University College's values regarding Risk Management and defines the framework in which the institution's operations are structured and the strategies for the protection of the institution against adverse situations, and the optimal use of resources including personnel for carrying out the Risk Management activities. The policy also defines the roles and responsibilities regarding risk management.

D. POLICY OBJECTIVES

This policy aims to –

i) Outline a framework for better planning and more confident and rigorous decision-making regarding risks
ii) Better able identify opportunities and threats regarding risks
iii) Better allocate and use available resources to mitigate against risks
iv) Develop a more risk aware organisational culture through enhanced communication and reporting of risk
v) Provide a clear understanding by all staff of their roles, responsibilities and authorities for managing risk
vi) Improve compliance with relevant legislation
vii) Better corporate governance
viii) Continually improve stakeholder confidence and trust; and to –
ix) Allow the institution to remain viable.

~~F.~~E. SCOPE

This policy shall apply to the Executive Management, the Risk Manager and all the Faculties/Departments within the University College, but the Board of Directors shall have the overall responsibility to monitor and manage enterprise risk.

~~G.~~F. POLICY STATEMENT

The Mico University College shall constantly review its environmental circumstance in order to devise strategies for its business continuity including the transfer of some risks through insurance and to ensure that its Risk Registers are aligned both organisationally and functionally to its strategic plan. The Mico University College must also devise strategies to attract funding and to assure its stakeholders that the institution actively manages its financial, business and safety risks, to allow the institution to achieve its business objectives and financial health. The University College Risk Management process is to be constantly communicated for accountability and transparency and is also to be used as a management tool to facilitate the maximisation of opportunity at minimum risk.

~~H.~~G. MISSION AND VISION STATEMENTS

Mission

The mission of the Mico University College is to –

support national and regional development through well-educated populations by preparing students with the required knowledge, skills, attitudes and values in teacher education; and by promoting a culture of inquiry, learning and service through our talented and dedicated staff.

With respect to the Risk Management, The Mico's mission is to build overall capacity to cope with loss i.e. the disappearance of value.

Vision

The long term vision of the Mico University College is to –

be the 'University of Choice' in the Caribbean with distinction in teacher education, research and community service.

~~I.~~H. DEFINITIONS

Enterprise Risk Management (ERM)
"… a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

Source: COSO Enterprise Risk Management – Integrated Framework. 2004. COSO.

Financial Risk
Relates to the risk associated with financing and financial transactions.

Hazard Risk
is any contributing or originating factor that generates or supports a peril and may be moral or physical e.g. any biological, chemical,

mechanical, environmental or physical agent that is reasonably likely to cause harm or damage to humans, other organisms, property or the environment in the absence of its control including natural disasters or catastrophe

Hazard risks may also include liability or torts.

Operational Risk is a risk incurred by an organisation's internal activities. It focuses on the risks arising from the people, systems and processes through which a company operates. The operational risk to the institution is primarily the maintenance of the institution's integrity and reputation.

In the pursuit of the institution's objectives, operational risks will have to be kept within acceptable limits established by the institution – meaning that the institution accepts that its people, processes and systems are imperfect, and that losses will arise from errors and ineffective operations; however the loss as a result of correcting the errors or improving the systems must be significantly less than the benefit it receives.

Peril Actual cause of the loss or impairment e.g. fire, fraud, overdue collections.

Risk Is the level of uncertainty of the occurrence of a peril causing financial loss and is impacted by the frequency and/or severity of the peril and whether it is speculative or pure. Risks may be internal or external to the institution.

Risk Appetite Is the level of risk that the institution is prepared to accept. It represents a balance between the potential benefits of change and growth and the threats that change will inevitably bring. Risk appetite must be linked to the institutions strategic objectives.

Risk Management is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities.

Risk Tolerance The acceptable level of balance sheet stress. Risk tolerance has to be aligned with risk appetite. Operating within risk tolerances helps the entity to achieve its objectives.

Strategic Risk

Is linked to the positioning of the institution in relation to its environment, as well as, decisions regarding its strategic direction. It is also a risk that arises from the fundamental decisions taken by the Directors concerning the institution's objectives (business and non-business).

Business Risk – is the risk associated with the institution's products and services, including

- Economic risks affecting product sales and costs
- Competition and market forces
- Reputational

Non-trading Risk – is the risk that is not derived from the products or services supplied. For example, the risk associated with the long-term sources of financing and capital availability.

~~J.~~I. ROLES AND RESPONSIBILITIES

The Board of the Mico University College shall have ultimate responsibility for the management of the University College's risk; however, the institution's Executive Management shall have operational responsibilities to ensure that risks are kept to a minimum and that strategies are in place to address the consequences of risks when they occur. The University College shall consider engaging a Risk Manager to be the operational officer, if necessary.

In general the roles for the various categories of positions are as follows:

1. The Board

   The Board shall

   i) Have overall responsibility for the risk management of the institution
   ii) Ensure that risk management is embedded into all processes and activities
   iii) Set goals and define reporting relationships.
   iv) Have assessed the institution's appetite for risk, it strategies to cope with risks and its ability to bear the consequences of the occurrence of risks.
   v) Determine the types of risks and level of risk to be covered by insurance
   vi) Ensure that proper staffing is in place to adequately address the risks that might face the institution.

2. The Audit Committee

   The Audit Committee shall

   i) Receive reports from the Internal Auditor regarding the management of identified risks
   ii) Set annual audit programmes and priorities regarding risk management
   iii) Monitor progress with audit recommendations
   iv) Oversee risk management structures and processes
   v) Provide reports regarding the management of risks to the Board

3. The Executive Management Committee

   Executive Management shall –

   i) Ensure suitable persons are trained in Risk Management, and given appropriate tasks in the area and report regularly to the Committee
   ii) Develop a more risk aware organisational culture through enhanced communication and reporting of risk
   iii) Allocate appropriate resources to risk management
   iv) Ensure the mechanism for regular reporting of significant risks to the Board of Directors through its Audit Committee.

4. The Risk Manager

   The Risk Manager shall –

   i) Have responsibility for the implementation of the Risk Management Policy and Procedures including
      - Legal, contractual, regulatory and statutory compliance
      - Finance and Accounting controls, as well as, debt, solvency and liquidity
      - Safety and Security of personnel including dealing with accidents, injuries (real or imagined)
      - Property maintenance to reduce liability and address liability exposure
      - Engineering and Technological, to reduce exposure to risks
      - Administrative, Organizational management, to reduce exposure to risks
   ii) Ensure the identification and assessment the risks to the institution, as well as, the Faculty / Department and the impact on key objectives and other relevant areas
   iii) Formulate strategy based on risk appetite and determine risk attitudes and risk exposures
   iv) Review risk management activities and compile a risk register

v) Track Risk Management activity and keep the risk management context under review by formulation contingency plans for all significant risks with monitoring details

vi) Establish criteria for monitoring and benchmarking of risks

vii) Allocate appropriate resources to risk management

viii) Report to the Board of Directors through its Audit Committee.

5. The Bursar

The Bursar shall –

i) Be responsible for ensuring procedural compliance and controls to reduce exposure to financial risks

ii) Make regular and timely financial reports to keep Management and the Board of Directors informed.

6. The VP Administration

The VP Administration shall –

i) Be responsible for the management and control of the University's risk management strategy regarding Hazard Risks

7. Staff Members

Each staff members shall –

i) Become familiar with their roles and responsibilities regarding risks;

ii) Become familiar with the authorizations for managing risks.

~~K.~~J. FRAMEWORK AND GUIDELINES

1. Risk Management Plan

The University College shall formulate an annual Risk Management Plan, to identify, manage and control its exposure to risk, to ensure quality outputs and an enhanced reputation. The plan shall be approved by the Board of Directors before implementation.

2. Scope of Risk Management

The Risk Management Framework shall be concerned with all risks that threaten the financial viability of The Mico including natural, casualty, financial, economic and market, political and statutory, technological, professional behaviour and human activity.

3. Identification of Exposure to Loss

Exposure to loss is the sources of threats to The Mico and may include physical, social, financial, human, the business environment and the weather.

The University therefore shall –

a) Take the necessary steps to identify risks i.e. determine the areas of unpredictability and therefore circumstances that can affect the institution negatively. The risks may be identified through surveys, inspections, analysis of financial statements, past events and expert opinion.

b) Consider the following when identifying risks
   - Mission – the system, action, or decision which could impact the institution's mission
   - People – the failures which could impact the well-being of an employee or the public
   - Physical Assets – the actions/non-actions which could result in a loss or damage to physical asset (e.g. property)
   - Financial – the probability for loss of funds or unavailability of funds?
   - Reputation and Trust – could the institution suffer damage to its credibility with the public or other stakeholders?

c) Log all possible risks and develop and maintain a Risk Register, which identifies and profiles each risk. The Register may include – operational risks, inclusive of regulatory, risks, market risks and HR risks; strategic risks, including business risks; and financial risks including credit risks; economic risks and capital risks.

d) Develop criteria for monitoring and benchmarking of risks, to minimize the effects of risks to ensure the continued viability of the institution.

3.1 Strategic / Business Risk

The Strategic / Business Risks facing the University College may include, but not limited to the following:

a) Economic:
Economic conditions affect not only the government and its ability to fund the institution, but also students' ability to fund their programme of study. The risk will be especially significant in a recessionary environment.

b) Competition and Market Forces:
With increasing numbers of tertiary institutions both, locally and abroad offering comparable programmes, and more options, The Mico will have to distinguish itself in the marketplace to secure its niche. Mitigation of these risks will have to include product development, pricing and brand management.

c) Reputational:
The Mico must continuously improve the standard of its product and plant to maintain its reputation.

3.2 Operational Risk (academic)

The Operational Risks facing the University College may include, but not limited to the following:

a) Programmes:
Programmes that are expensive, not relevant, not accredited or recognised will pose signification risk to the University College. The institution shall therefore establish an ongoing and systematic process to plan, implement and evaluate educational programs, to ensure that all programmes remain relevant and accredited.

b) Technology:
Technological risks are associated with computer network failures. In addition, with increasing confidential data being stored electronically; loss or corruption of this information poses a threat. Technology risks also include catastrophe continuity and a failure to address redundancy and a failure to ensure backup.

Mitigation of some technology risks requires keeping current with the development in the field of information and communication, and ensuring that staff and students are exposed to the most up-to-date affordable technologies so that the institution can secure its position in the market place.

c) Staffing:

There have always been difficulties maintaining a cadre of qualified staff, difficulties in filling vacancies with qualified staff can interrupt business; in addition other staffing risks include industrial relations issues, human error and conflict management.

d) Research:

Research risks include

- Intellectual property infringement
- Research misconduct, such as falsification of data or results
- Wasteful research, where there has no cost benefit

e) Teaching Risk:

Teaching Risks include

- Poor teachers, who are unable to teach, or teach outdated, irrelevant or erroneous material
- Insufficient teaching recourses
- Improper assessments
- Students who never complete their studies, as the institution may be tempted to expedite their graduation at the expense of academic standards

f) Campus Life Risks

Campus life risks include

- Student / Staff Mental Health
- Acts of Intolerance
- General safety and security of students and visitors on and off campus
- Safety in sporting and social events, as well as, event disturbances

3.3 Operational Risk (non-academic)

The Operational Risks facing the University College may include, but not limited to the following:

g) Poor internal controls and systems :

Poor internal controls and systems contribute to inefficiencies and dissatisfaction among the stake holders. It may also lead to fraud placing the University College at serious financial and reputational risks.

h) Technology:

Technological risks affect both academic and non-academic areas alike.

i) Utilities and services:

Failure and interruptions in the delivery of power, water, transport and telecommunications, can interrupt operations.

j) Staffing:

Non-academic staffing risks are as meaningfully to the institution as academic staffing risks and therefore non-academic staff also has to be suitably qualified and trained for the jobs to the performed to ensure efficiencies.

Failure or interruption in the supply chain can disrupt operations

3.4 Hazards

a) The Hazards facing the University College may include, but not limited to the following:

- Poor maintenance of its facilities
- Improper storage of chemicals
- Improper use of machinery and equipment
- Dangerous operation of its vehicles

As indicated in the Occupational Safety and Health Policy

b) The Mico University College shall ensure that to mitigate against hazards :

- Adequate engineering steps are taken.
- Suitable administrative procedure are in place
- Proper equipment / clothing is used by its staff and students.

c) The Mico University College shall ensure that there are strategies in place to deal with emergencies (catastrophic natural events – hurricane, earthquake, fire; riots; pandemic).

d) The Mico University College shall ensure that its strategies will allow business continuity and a complete and quick recovery after a disaster

e) The Mico University College may be exposed to risks resulting penalties as a result of regulatory non-compliance, as well as, exposure to litigation. The Mico University College shall develop programme to ensure its compliance with the national regulatory requirements, and to reduce its exposure to litigation and liability claims.

3.5 Financial Risk

The Financial Risks facing the University College may include, but not limited to the following:

a) Limited income streams. The University College owns no real property, which can be leveraged.

b) Dwindling income flows from the government and other income streams, as well as, income flows being often past due

c) Incapacity of many students to pay for their tertiary education, and a culture of funding students who often do not repay.

d) Increasing operational costs

e) Procurement controls

f) Insufficient oversight and management of available funds including investment

g) Failure to leverage assets

h) Statutory fines and fees.

4. Assessing the Risks

The University shall –

a) Formulate strategic objectives, against which the institution shall determine, what risks, if any, may have an impact and impede the institutions achievement of its objectives and may have an impact on the institution being viable.

b) Determine the probability and impact of the each risk either through a quantitative or qualitative analysis.

Impact: (Degree/Severity)
The impact on key objectives on other relevant areas shall be determined using at least basic criteria.

- Negligible – Impact is easily and quickly corrected with little effort or time
- Low – short-term impact, easily corrected, without long-term consequences
- Medium – significant short-term impacts, significant time and resources to recover
- High – impacts are catastrophic and long-term, significantly affecting the mission

Probability		Impact			
		Negligible	Low	Medium	High
	Certain	Minor	Moderate	Extreme	Extreme
	Likely	Minor	Moderate	Significant	Extreme
	Possible	Minor	Moderate	Significant	Extreme
	Unlikely	Minor	Minor	Moderate	Significant
	Rare	Minor	Minor	Minor	Moderate

Probability (Frequency)

- Rare – possibility of an event occurring is improbable during the time period of interest
- Unlikely – possibility of an even occurring is unlikely during the time period of interest
- Possible – there is an even possibility of an event occurring exists during the time period of interest
- Likely – the possibility of an event occurring is more likely than not during the time period of interest
- Certain – the possibility of an event occurring is almost certain in the time period of interest

c) Develop procedures to rank the risks once they have been identified and the impact and probability established.

d) Align the risk in the Risk Registers both functionally and with the organisations strategic objectives.

e) Constantly monitor the environment for changes that affect the nature and/or the impact of the risk.

5. Risk Mitigation

5.1 Assessing the Institution Risk Appetite and Tolerance

The University shall-

a) Assess the institution's appetite for risks in terms of

- History, culture
- The environment (financial and otherwise)
- Organisational efficiency
- Probability and/or impact of each risk on the strategic objectives and function of the institution.
- Financial capacity

b) Determine the level and nature of risk that is acceptable

5.2 Risk Avoidance

The University where possible shall –

a) Take the necessary steps to remove the hazard, engage in alternative activity or, otherwise end a specific exposure.

b) Determination of retention levels, Adjust its programme requirements or constraints to eliminate or reduce the risk or loss. This adjustment could be accommodated by a change in funding, scheduling, technical requirements, or segregation of exposure.

Loss reduction may also involve a determination or retention levels, whereby the determination is done on the basis of balance sheet capacity i.e. (i) voluntary retention, (ii) unfunded retention, (iii) funded retention to replacement levels.

c) Assess which risks can be transferred or reassigned, i.e. institutional accountability, responsibility, and authority is transferred or reassigned to another stakeholder willing to accept the risk e.g. to an insurance company, by contract, "Hold harmless" Agreements

5.3 Determining Controls

The University shall –

a) Determine criteria for business continuity and ensure that risks will not hinder the institution continued viability.

b) Identify risk-mitigating controls for each identified risk by determining

- Any existing external requirements or standards that is applicable to address the risk.
- Any internal procedures or processes which could be implemented to address the risk. If necessary mandatory processes may be required.

c) Cost implementation of controls

d) Create a data tracking system

e) Set up a monitoring process to review all risks and evaluate the efficacy of the controls

f) Report at least biannually to the Board of Directors the status of the risks.

6. References and Regulations

a) <u>References:</u>

i) Occupational Safety and Health Policy, The Mico University College

ii) Investment and Cash Management Policy, the Mico University College

b) <u>Regulations:</u>

i) National Hazard Risk Reduction Policy for Jamaica -
Prepared for the Ministry of Land and the Environment for ODPEM.

ii) Corporate Governance Framework for Public Bodies in Jamaica
(September, 2011, revised October, 2012)

ADDENDUM I – ***Extract from the*** **Corporate Governance Framework for Public Bodies in Jamaica (September, 2011, revised October, 2012) ....PRINCIPLE 14: ROLE OF THE BOARD IN ENTERPRISE RISK MANAGEMENT**

Principle**:** *The systems of internal control should be based on an ongoing process to identify and prioritise the principal risks to the Public Body. Every Board should therefore put in place a formal Enterprise Risk Management (ERM) Framework, developed by the Ministry of Finance & Planning to manage risk across all functional areas and business units of the Public Body. The framework should be designed to identify, assess, monitor and manage risk. The risk profile of a Public Body may include operational, business, regulatory, market, credit, economic, capital and HR related risks. Any material changes to the risk profile of the Public Body should be reported to the Minister and Permanent Secretary.*

Recommended Practices:

1. The Board should ensure the implementation of the Enterprise Risk Management (ERM) Framework.
2. Information Technology should be employed as a critical component of the Enterprise Risk Management framework.
3. The Board should recommend the PB's appetite for risk and its ability to bear the consequences of the occurrence of risks. The Ministry of Finance & Planning & the Permanent Secretary of the Portfolio Ministry should review and endorse the Public Body's appetite for risk.
4. Where appropriate, the Board should appoint a Chief Risk Officer, who should report to the Board through its Audit Committee or other Committee for managing risks.
5. All staff members of the Public Body must be aware of the ERM framework and how it informs their day to day business activities.
6. The Board should delegate the responsibility of ERM. The Board should delegate the responsibility of ERM to a committee of the Board, preferably the Audit Committee. The Committee will be required to ensure a disciplined and systematic approach to improve risk management as risks will be identified, quantified and methodologies employed to minimize their impact.
7. Training in Risk Management should be part of the ongoing professional development programme for Directors.