

## APPENDIX 17 - RISK APPETITE, THRESHOLDS AND TOLERANCES

Risk appetite is the amount of risk the University is prepared to tolerate in order to achieve its strategic aims and objectives. Appetite is usually defined by setting quantitative and qualitative thresholds against which planned activities or currently identified risks can be assessed. This paper sets out:

- A risk appetite statement
- Impact and likelihood thresholds against which identified risks should be assessed
- Risk tolerance and requirements for mitigation strategies
- The process by which new risks should be assessed, or existing risks amended

### Risk appetite statement

*“The University has a responsible approach to risk management, seeking to recognise and manage exposure to risks. In pursuit of achieving its strategic aims and mission the University will, therefore, accept a degree of risk, commensurate with the potential reward. There will be occasions when taking calculated risks will be appropriate. The risk that the University is willing to take will be within agreed tolerances for risk appetite agreed by Court for key risk areas specified in the Corporate Risk Register. Assessments of risk will be considered with particular attention to the impact of the risk on the core activities of the University.”*

By necessity risk appetite is bespoke to each risk. The University’s overall risk appetite is indicated through decisions made by Court, Senate, committees and senior management. The level of risk appetite will be reviewed periodically by Court through the strategic planning process.

### Risk impact thresholds

The criteria that should be used when assessing the potential impact of a risk are set out below.

Impact rating	Quantitative	Qualitative			
	Financial	Reputation	Operations	Staff	Students
High	More than 5% of turnover	Extensive and negative coverage by national media. Government intervention. Lasting effect.	Major operational disruption. Services unavailable for a significant period of time.	Major impact on staff morale. Significant level of dissatisfaction and demotivation. Staff may leave as a result.	Major disruption. Exams cancelled. Work not assessed. Graduation delays.
Medium	2% to 5% of turnover	Picked up by local media. Possible league table impact or Government queries.	Requires concerted management attention. Disruption and potential short delays.	Widespread cause for concern. Moderate level of dissatisfaction and demotivation.	Widespread impact. Some disruption to classes/studies.

Low	0% – 2% of turnover	May be evident to those close to the area of interest or within the university.	Minor operational impact. Secondary system unavailable or process disrupted for a short period of time. Workarounds required to avoid delays.	Some cause for concern for staff. No lasting impact.	Some cause for concern. Minor disruption. No lasting impact on studies.
-----	---------------------	---	---	--	---

These guidelines are intended to aid the process of judging the potential impact/severity of a risk. They are not intended to be comprehensive or exact. In many cases the assessment of risk may require aggregating impacts of different types, and the overall assessment will, in all cases, require an element of judgement by management.

### External environment

Consideration should be given to the external environment when assessing risk. The political situation at present is volatile, especially in the context of the UK's relationship with the European Union. This has increased risks related to access to research funds and European collaborative projects, the attractiveness of Scotland to EU and international students and the tuition fee status of European students. This should be taken into account when assessing risks associated with activities in these areas.

### Risk likelihood

In addition to the potential impact of a risk, the likelihood that the risk will happen must also be assessed as follows:

- High: Very likely to happen
- Medium: Fairly likely to happen
- Low: Unlikely to happen

### Risk tolerance matrix

The matrix below should be used when assessing the level of control and monitoring that should be associated with a risk.

Likelihood	H	Medium	High	Extreme
	M	Low	Medium	High
	L	Insignificant	Low	Medium
		L	M	H
		Impact		

Risks categorised as extreme cannot be tolerated. Such risks require immediate action in order to remove the risk or significantly mitigate the impact or likelihood. Residual risk assessment should either indicate that the risk has been removed or has moved rapidly to a lower category.

Risks categorised as high require significant controls and mitigation strategies. Careful consideration should be given to the tolerance of a risk remaining in this category. Residual risk assessment should indicate a trend towards a lower category.

Risks categorised as medium require controls and mitigation strategies. With appropriate strategies and monitoring in place it is acceptable for a residual risk assessment to show that the risk has either moved down a category or remains in the same category. A risk in this category moving to a higher category is a cause for concern

Risks categorised as low require monitoring. There does not need to be a specific mitigation strategy in place.

Risks categorised as insignificant do not require specific monitoring and should not appear on the Corporate Risk Register.

The tolerance for a risk is also related to the potential rewards, either financial or reputational. Therefore, there is a possibility that a risk with a high categorisation is tolerable as the rewards related to the risk are also high.

### **Risk assessment process**

#### Court

The Court sets the overall risk appetite for the University. It is responsible for ensuring that a system of risk management, evaluation and review is established, including control and accountability.

### Audit and Risk Committee

The Audit Committee is responsible for assessing the adequacy and effectiveness of risk management control and governance arrangements and reporting its conclusions to Court.

### Executive Board

The Executive Board is responsible for ensuring that the University's risk management, evaluation and review process is effectively applied, taking into account the University's risk appetite. This is both to support the achievement of the University's strategy and to ensure that risks connected to core University operations are appropriately managed.

At each Executive Board meeting there is a standing agenda item on risk. It is the responsibility of Executive Board members to raise new risks under this item or flag up existing risks where there is a concern that they may be moving into a higher category.

If possible, an assessment (or re-assessment) of the risk should be undertaken in advance of the Executive Board meeting, using the tolerances and thresholds set out above, to allow discussion and agreement of the risk categorisation. Where a risk is particularly high profile, or difficult to assess, it will be considered further by SMT or Court if required.

In addition, the Executive Board will undertake a fuller review of the Corporate Risk Register on a quarterly basis. This will involve a re-assessment of the categorisation of risks; progress on mitigating actions; and monitoring of residual risk.

### Schools, divisions, departments and individuals

All staff are responsible for ensuring that consideration of risk is part of the normal operation of the University. All Schools, divisions and departments will have processes in place for identifying and monitoring risk and, where appropriate, flagging up risks to the Executive Board for inclusion in the Corporate Risk Register. Each individual member of staff has a responsibility for bringing any risk to the attention of their Head of department or division.