

European Schools

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WRITTEN COMMUNICATION

Guideline on Risk Management in the European Schools

BOARD OF GOVERNORS OF THE EUROPEAN SCHOOLS

Meeting on 1, 2 and 3 December 2015

OPINION OF THE BUDGETARY COMMITTEE

This document was presented for information at the last meeting of the Budgetary Committee, held on 3 and 4 November 2015. The following conclusion was made:

The Budgetary Committee took note of the efforts made to introduce an action plan to mitigate risks in the European Schools. The Committee encouraged seeing risk management in the European Schools as an effective management tool.

INTRODUCTION

Necessity of a Risk Management System

The implementation of a Risk Management System Risk Management is a legal requirement for the European Schools defined in the Financial Regulation¹ and the Internal Control Standards². According to Article 19 (6) FR the authorizing officer shall put in place, in compliance with the principles set up in Article 18 bis and the minimum standards adopted by the Board of Governors and having **due regard to the risks associated** with the management environment and the nature of the actions financed, the **organisational structure and the internal management and control procedures** suited to the performance of his/her duties. Article 18 bis FR specifies that an effective internal control shall be based on international best practice and include, in particular (b) **an appropriate risk management and control strategy**. Risk Management is also governed by Internal Control Standard 7 (ICS7), in which the director is required to analyse risks related to the main activities of the School and to take appropriate action to address them.

Apart from the legal necessity, it is widely recognized that a structured Risk Management System improves strategic decision-making, helps achieving the organization's objectives, increases operational effectiveness and optimizes resource allocation. Risk Management helps an organization get to where it wants to go and to avoid pitfalls and surprises.

History

In previous years, the Court of Auditors and the Internal Audit Service of the European Commission (IAS) have repeatedly stressed the importance of implementing a Risk Management System in the Schools.

A first attempt has been taken in November 2013; IAS has facilitated a Risk Management Workshop and important risks have been documented. Unfortunately, this initiative has not followed up further.

Purpose of these guidelines

Risk Management is a process and to be embedded into the day-to-day planning and decision-making. In order to emphasize this thinking, the idea is to **perform a structured and continuous** identification of the most significant risks and to ensure these are managed appropriately and in line with management's "acceptable risk level".

In this guideline, the framework for the Risk Management of the European Schools is defined, common risk vocabulary is explained and the structured process of risk identification, assessment, risk handling and reporting is defined.

The guideline is applicable in the Office of the Secretary-General (OSG) and the 14 Schools.

¹ Financial Regulation, Ref.: 2014-12-D-10-en-1

² Internal control standards and code of professional standards, Board of Governors, Ref.: 2007-D-29-en-2

The Approach

The European Schools' Risk Management approach is based on the internationally recognized COSO Enterprise Risk Management Framework³. This framework defines essential Risk Management components, discusses key Risk Management principles and concepts and provides clear guidance. It has however been adapted to the needs of the European Schools, their activities and particularities.

³ The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of five private sector organizations with the dedication to provide thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud prevention.

DEFINITIONS AND CONCEPTS

What is a risk?

A risk is defined as any event or issue that keeps an organization from achieving its objectives. Lost opportunities are also considered as risks.

A clear and comprehensive definition of the objectives is, hence, a prerequisite to any Risk Management. Risks derive from the general or specific objectives of the European Schools defined in the mission, aims and educational principles, but also from the budget or from objectives that are more implicit as the protection of pupils and staff, safeguarding of assets and information.

Note that “lost opportunities” are also considered as risks. This type of risk relates to the development and modernization of the organization and its activities, i.e. the adaption to new circumstances and expectations. If the organization is not capable of cutting across traditional boundaries and implementing change, the risk that it becomes less effective, less esteemed and eventually obsolete increases.

What is Risk Management?

Risk Management is defined as a continuous, proactive and systematic process of identifying, assessing and managing risks in line with accepted risk levels, carried out at every level of the organization.

Risk Management is not a new concept. Every manager naturally reflects on problems that could affect his/her activities and aims. However, the approach set out in this guideline aims at making Risk Management a systematic and structured exercise. Risks are identified, carefully assessed, then prioritized and actions are defined to reduce them to an acceptable risk level. The most important risks are documented in a risk register and regularly monitored. Each of these steps is explained in detail on the following pages of this guideline.

How does Risk Management add value?

Risk Management is an integral part of the management process at all levels of the Schools and the OSG. By applying it in the day-to-day practice, it contributes to:

- Enhancing the strategic decision making process
- Dealing with uncertainty effectively
- A better resource allocation
- A better management and protection of staff, assets and information

Who should perform Risk Management in the European Schools?

Anybody who performs an activity for the European Schools is part of the Risk Management System. He/she should - as part of the day-to-day decision-making - identify, assess and manage risks. Risk Management is a social process involving all levels of employees. A single person cannot look after it, but it should become part of the Schools culture.

Within this overall framework, different actors intervene at different hierarchical levels:

- The **Directors (=Authorizing Officers)** at the Schools and the Authorizing Officer in the OSG are ultimately responsible for the implementation of a Risk Management Culture. His/her role includes “setting the tone” for Risk Management, sponsoring any Risk Management exercise, assigning responsibilities, defining an acceptable risk level and risk responses.
- The **Bursars /Administrators** of the Schools with their profound knowledge of all processes and their responsibility for administration, human resources and buildings are the ones who support the Authorizing Officer in implementing Risk Management in the Schools on a day-to-day basis.
- Management, especially the **Deputy Directors** in the Schools and the **Head of Units** in the OSG, but also **all members of staff** as the experts are responsible for managing risks related to their activities and objectives.
- The **Internal Control Coordinator** supports the management in setting up a coherent and effective Risk Management. The role involves facilitation, support and monitoring rather than directly managing risks per se.
- **Internal auditors (IAS)** perform independent regular assessments and make recommendations for improving the effectiveness of risk management, control and governance processes.

THE 5 KEY STEPS IN A RISK MANAGEMENT PROCESS

The risk management process is divided into five steps, as shown in the following diagram:



Identification of objectives

“What are the main objectives of the Schools and the OSG? What should be achieved?”

Effective Risk Management is impossible without a clear vision about the objectives and aims of the organization. Objectives are defined at different levels of an organization and differ with respect to their grade of detail. At the European Schools, general objectives and aims shall be defined at top level for the entire organization. These shall be translated into more specific ones on School, section and department level. On a very detailed level, they are found in the budget. All these build the fundament of the subsequent Risk Management Process.

Risk Identification and Assessment

“What can go wrong? What would be the impact on the School and the system of the European Schools? How likely is it to be happen?”

1. Risk categories:

Risk Management refers to all different domains of the Schools’ and Offices’ activities and covers many types of risks, deriving from both internal and external sources.

To ensure a broad risk analysis, 9 risk categories have been defined. These serve to identify different type of risks but also to categorize them.

These are **the risk categories:**

- Strategic risks: External risks, that may affect the system of the European Schools or a single School such as changes in the macroeconomic or political environment;
- Operational risks: Risks arising from the day-to-day activities of the Schools and the Central Office. It covers risks related to health, safety and security in the daily operations (pupils, employees, IT etc.).
- Fraud risks: Risks arising from illegal acts, such as bribery, misuse or waste of EU funds, misappropriations of assets, money laundering. It also covers fraudulent reporting on financial and nonfinancial results.

- Financial risks: Risks arising from financial procedures and budget allocation that could affect the achievement of the objectives (e.g. payment of an unjustified invoice due to missing controls, lack of funds to achieve objectives);
- Staff risks: Risks arising from the human resources employed (e.g. lack of staff, competence, regular absence of staff due to illness);
- Pedagogical risks: Risks arising from the pedagogical mandate of the School (e.g. shortfall to keep up with pedagogical developments, due to mistakes in the correction of final-secondary examinations the recognition of the European Schools' exams is in danger);
- Regulatory risks: Risk arising from the legislative framework within which the Schools operate (e.g. legal issues arising from the employment of local and seconded staff unclear or insufficient knowledge of the legislation);
- Governance risks: Risks that may arise from the governance structure of the organisation (e.g. unclear responsibilities and reporting lines, inadequate supervisory arrangements, inadequate delegation of powers, etc.).
- Reputational risks: These are events that would have an important impact on the reputation of the European Schools (e.g., discharge of the year-end accounts refused in the Board of Governors).

2. Risk description

A clear risk description is essential to decide about an appropriate handling of risks.

At the European Schools, the description of the risk should answer the following questions:

- (1) How would the occurrence of the risk affect the activities of the School or the OSG? What would be the consequences? (potential CONSEQUENCE)
- (2) What is the reason for the risk? (REASON)

Examples:

- Demission of pupils shortly before start of school year (REASON)
=> Less hours can be given to teachers, less teachers are needed, advance notice to teachers not possible, additional HR costs (CONSEQUENCES)
- Inability to find competent teacher for certain subjects and language sections (REASON)
=> Teaching quality suffers, set standards cannot be met (CONSEQUENCES)
- New pupils arriving shortly before start of school year (REASON)
=> a class needs to be split into two, new recruitments are necessary upon short notice (CONSEQUENCES)

- Complaints from parents lead to a legal process (REASON)
=> damage to the reputation of the European Schools, condemnation to a financial penalty (CONSEQUENCES)

3. Risk assessment

There are two main parameters to **assess a risk**:

- Impact, i.e. how significant might the consequence be?
- Likelihood, i.e. how likely is it to happen after consideration of countermeasures?

At the European Schools, impact and likelihood are assessed with the help of five categories (see table). Further information and help how to interpret the categories is given in Annex A.

Score	Impact	Likelihood
1	Very low	Very unlikely
2	Low	Unlikely
3	Medium	Likely
4	High	Very likely
5	Very high	Almost certain

Each category is also assigned to a score (1-5), arriving at a 5x5 scoring matrix. By multiplying the values for impact and likelihood, the risk level is determined. The risk levels are translated into traffic lights and determine the significance of the risk and its monitoring level.

The traffic lights are defined as followed:

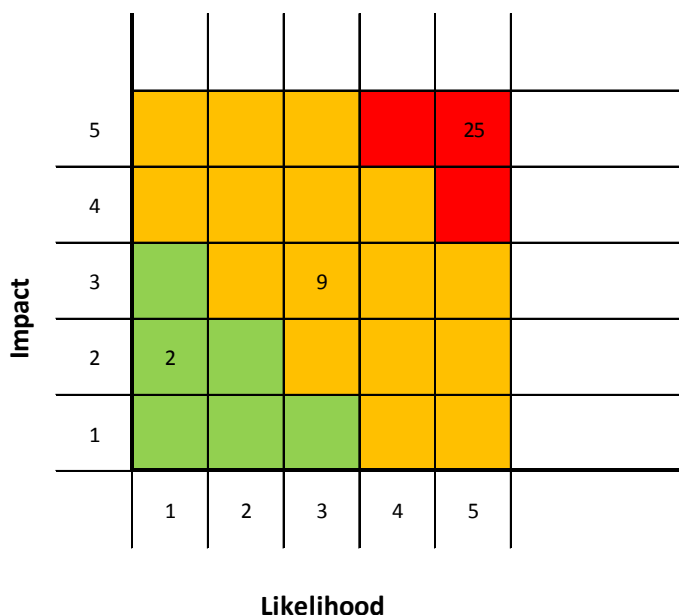
Risk level	Traffic light	Monitoring level
1 - 4	Green	The risk is under control and represents no immediate threat or impact. Annual monitoring.
5 - 19	Orange	Medium risk needs managing and monitoring but there is no immediate threat, which would have a significant impact.

20 - 25	red	High-level risk should be constantly monitored.
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4. Risk map

The risk map is a graphical presentation of the risk assessment and serves to prioritize risks and to highlight those, which could significantly affect the ability to accomplish defined objectives.

The horizontal axis shows the likelihood from very unlikely (score 1) to almost certain (score 5). Ditto is shown on the vertical axis for the impact.



Definition of a risk response

How will the risk be managed? Which countermeasures have been / will be taken? To what extent can the risk be accepted?

Each risk must have a defined response. There are four possibilities to “respond” to a risk. These are the four T’s:

- (1) **Treat / reduce** the likelihood and/or impact of the risk by implementing or improving controls or taking other relevant action, notably of preventive action. This is the most common risk response. It implies the definition of an action plan clearly stating the countermeasures to be taken, the responsible staff member and the deadline for its implementation.

- (2) **Transfer** or share the risk with a third party (for example by outsourcing or using an insurance company).
- (3) **Take / accept** the risk is a strategy usually applicable to risks with low impact and/or low likelihood.
- (4) **Terminate / Avoid** the risk usually implies a withdrawing from a certain activity. With respect to the European School's activities, this is rarely possible.

Implementation of a risk response

What actions are needed to address the risks? Who is responsible for the implementation and by when?

A clear action plan, which indicates the concrete measures to be taken, the responsible staff member and the timeline, is necessary for effective Risk Management.


Documentation, monitoring and reporting

Each School and the OSG is required to document the most important risks in a risk register.

The following template has been created for this purpose.

- STRICTLY CONFIDENTIAL -

Name of the Organisation: _____



N°	Risk Category	Risk Title	Risk Description	Risk Owner	Impact	Likelihood	Risk level	Risk Response	Action Plan		
									Description	Owner	Deadline
- to be defined -					Low	Almost certain	10	- to be defined -			
- to be defined -					- to be defined -	- to be defined -	0	- to be defined -			
- to be defined -					- to be defined -	- to be defined -	0	- to be defined -			
- to be defined -					- to be defined -	- to be defined -	0	- to be defined -			
- to be defined -					- to be defined -	- to be defined -	0	- to be defined -			

Risks may evolve; new risks may occur and action plans may be implemented. It is therefore essential – apart from the day-to-day risk management - to monitor the risks on a formal and regular, half-yearly basis. It is foreseen that one update of the risk register is done together with the preparations of the Annual School Plan and presented to the Administration Boards in January/February of each year. A review should then take place shortly before the summer holidays to reflect on any new incidents, information or developments that have come up. This exercise should be a joint exercise carried out by the heads of unit for the OSG, the Directors and the Bursar at the Schools and any other staff member who is needed to identify and assess risks.

The risk registers should be sent to the Internal Control Coordinator for aggregation on a central level and for discussion with the Secretary-General and the Deputy Secretary-General.

STEPS FOR IMPLEMENTATION

This guideline shall come into practice as of January 2016.

A first, initial risk register per School and the BSG shall be prepared for the Administration Boards which take place in January/February 2016 and which require a presentation of the main risks.

The generic risk register, which is provided together with this guideline, can serve as a basis for the first identification of risks. Schools shall discuss whether they regard the described risks as valid for their School and, if so, assess their possible impact and likelihood. They should, nevertheless, also discuss whether other risks, not mentioned on the generic risk register, could affect the School.

As outlined at the beginning of this document it is the Internal Control Coordinator's task to support the implementation of an effective Risk Management System. Hence, she is available to moderate a workshop to identify and assess critical risks and to help with the clear documentation.

ANNEX A: Assessment of risks – Guidance to interpret the categories for risk assessment

Impact	1	2	3	4	5
	Very low	Low	Medium	High	Very high
Financial	Losses approx. <0,1% of the budget	Losses between 0,1 – 0,3% of the budget	Losses between 0,3% - 1% of the budget	Losses between 1-5% of the budget	Losses >5% of the budget
Or					
Operational Extent	A very low number of transactions (e.g. <5%)	A low number of transactions (e.g. 5% < x < 20%)	Moderate number of transactions (e.g. 20% < x < 50%)	A high number of transactions (e.g. 50% < x < 75%)	Major transactions (e.g. > 75%)
Or					
Operational Reputation	Incident would result in minor, local negative publicity.	Incident would result in minor negative publicity in one country	Incident would result in negative publicity affecting more than one School	Incident would result in important negative publicity (one or more schools and countries affected)	Incident would result in a significant negative publicity for the whole European School system (more than one country)
Or					
Legal / regulatory compliance	Inquiry by internal stakeholders	Inquiry by external stakeholders (CoA, EC)	Inquiry by major external stakeholders (CoA, EC, regulators, third parties, local court, etc.)	Scrutiny by external stakeholder (CoA, EC, regulators, court, etc.)	Significant actions necessary, e.g. budget revision, administrative sanctions, penalties

Likelihood	1	2	3	4	5
	Very unlikely	Unlikely	Likely	Very likely	Almost certain
Percentage likely to happen	0-5%	5 - 10%	10-30%	30-70%	>70%