In the past, risk has been viewed negatively as something to be avoided or eliminated. There is now increasing awareness that successful risk taking leads to a competitive advantage and a maximization of stakeholder value. This document provides an overview of how internal vision can be more quickly and effectively realized through adopting the enterprise risk management philosophy and strategy.

The overview is organized into these sections:

1. Organization Stewardship
2. Responsibility for Risk Management and Internal Control
3. Internal Control Defined
4. Enterprise Risk Management Defined
5. Components of Enterprise Risk Management
6. Goals of Enterprise Risk Management
7. **Organization Stewardship**

Sound stewardship is the backbone of the University of Alaska’s (UA) core values:

**UA Values:**

**U** nity in promoting communication and collaboration.
**A** ccountability to our students, faculty, staff, alumni, and the diverse peoples of Alaska.

**L** eadership for Alaska's people and institutions.  **E** xcellence in our programs and services.  **A** ccessibility for all Alaskans.  **D** edication to serving community needs.  **S** tewardship of our resources.

In addition, each MAU mission statement articulates its vision and values. These mission statements can also be effective leadership tools as well as a compass for strategic planning and decision-making. Following are the University of Alaska Mission Statements:

P01.01.010. University of Alaska Mission Statement.

The University of Alaska inspires learning, and advances and disseminates knowledge through teaching, research, and public service, emphasizing the North and its diverse peoples. (10-06-00)

P01.01.020. University of Alaska Anchorage Mission Statement.

The mission of the University of Alaska Anchorage is to discover and disseminate knowledge through teaching, research, engagement, and creative expression.

Located in Anchorage and on community campuses in Southcentral Alaska, UAA is committed to serving the higher education needs of the state, its communities, and its diverse peoples.

The University of Alaska Anchorage is an open access university with academic programs leading to occupational endorsements; undergraduate and graduate certificates; and associate, baccalaureate, and graduate degrees in a rich, diverse, and inclusive environment. (09-18-07)

P01.01.030. University of Alaska Fairbanks Mission Statement.

The University of Alaska Fairbanks, the nation’s northernmost Land, Sea and Space Grant university and international research center, advances and disseminates knowledge through teaching, research and public service with an emphasis on Alaska, the circumpolar North and their diverse peoples. UAF – America’s Arctic University – promotes academic excellence, student success and lifelong learning. (06-08-06)

P01.01.040. University of Alaska Southeast Mission Statement.

The University of Alaska Southeast is an open enrollment, public university that provides postsecondary education for a diverse student body. UAS promotes student achievement and faculty scholarship, lifelong learning opportunities, and quality academic programs. (03-09-01)

The most efficient and thorough method to accomplish organizational vision, values, goals, and objectives is by assessing and managing risks through the establishment and maintenance of effective internal controls. This is a fluid process due to the ever-changing nature of risk.

1. **Responsibility for Risk Management and Internal Control**

An increased emphasis has been placed upon the role and responsibility of senior management to control the operations of an enterprise, whether it is a publicly-held corporation or a higher education institution. Internal controls are developed for the purpose of enabling management to achieve the goals and objectives set forth in the organization’s mission statement. They are the product of risk assessment and are utilized to help manage the institution’s risk.

To assist senior management with internal controls, the System office of Risk Services and the Department of Internal Audit are charged, through Board of Regents Policy (05.09 and 05.03) as follows:

“The risk management and environmental health and safety program will be established and maintained under an enterprise-wide philosophy, whereby safety and risk control are incorporated into all facets of the organization and its programs; i.e. Enterprise Risk Management. The president is charged with the responsibility to provide for and require sound and proactive business, operations, and program practices in order to safeguard human, property, financial, and other resources of the university. The goal of the RM/EHS program will be to facilitate the accomplishment of the university’s primary missions of instruction, research, and public service at a reasonable cost with minimal disruptions and adverse events.”

“Internal auditing is an independent appraisal activity established within the university to examine and evaluate its activities to meet the needs of the board and executive management. Internal audits may include financial, performance, operational and compliance audits. The mission of the internal audit department is to assist the board and management in the effective discharge of their fiduciary and administrative responsibilities by providing analysis, appraisals, counsel, information and recommendations concerning activities reviewed and by promoting effective controls for the recording and reporting of operational activities and for the custody and safeguarding of assets.”

**Risk management roles and responsibilities** – Everyone in an entity holds some level of responsibility for enterprise risk management. Some key roles are listed below. (The list below is from Austin Community College District – 2008[[1]](#endnote-1))

**Board of Regents**

Support the design and operation of risk management

Understand key objectives and related risks

Monitor the process

Provide oversight for risk management activities

**President**

Endorse risk management objectives and its implementation

Support risk management leaders in their roles

Communicate the value of risk management processes to the entity’s community

**Officers**

Design the framework

Assess the entity’s risk management capabilities

Consider how the officers conduct business in light of the framework component

Identify risks in areas under their responsibility

**Internal Auditor**

Work with management to design the framework

Offer ideas and suggestions

Educate the entity about risk and facilitate discussions

Provide periodic monitoring of the process and its outcomes

**Functional leaders**

Ensure key functional areas are involved in the process, providing their thoughts on risk as encountered in their daily activities

Aid in the implementation

1. **Internal Control Defined**

Internal control is broadly defined by COSO as a process, effected by an institution’s board of trustees, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

* Effectiveness and efficiency of operations
* Reliability of financial reporting
* Compliance with applicable laws and regulations

Internal controls help the institution achieve its strategic and operational goals while preventing loss of assets and resources.[[2]](#endnote-2) In 1992, COSO issued an Internal Control framework identifying five interrelated components necessary for effective internal control. Those same components were subsequently incorporated within the broadened framework of enterprise risk management.

1. **Enterprise Risk Management Defined**

Enterprise risk management is defined by COSO as a process, effected by an entity’s board of directors, management and other personnel, applied in a 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.

The primary benefits provided by having a risk management process established include the following:

* Help align risk appetite and strategy
* Enhance risk response decisions (management’s selection of risk response: *avoidance, reduction, sharing, acceptance* )
* Reduce operational surprises and losses
* Identify and manage multiple and cross-enterprise risks (inter-related impacts and integrated responses)
* Seize opportunities
* Improve deployment of capital
* To have a formal, documented method to demonstrate that risks are identified, ranked, any mitigating controls are considered, and the high-risk areas are dealt with or that management accepts the risk
* To be able to present the consolidated risk assessment (or risk register) to the Board of Regents for their awareness
* To have the risk assessment results available for use during strategic planning sessions and operating reviews
* To facilitate development of the annual audit plan based on risks identified by the campuses and demonstrate the linkage of the audit plan to the high-risk areas
1. **Components of Enterprise Risk Management**

There is a direct role between the objectives set forth in the mission statements, which are what the entity strives to achieve, and enterprise risk management components, which represent what is needed to achieve them. There are eight interrelated components of enterprise risk management that are integral with the management process[[3]](#endnote-3):

1. **Internal environment** – Management sets a philosophy regarding risk and establishes a risk appetite. The internal environment sets the basis for how risk and control are viewed and addressed by an entity’s people. The core of any business is its people – their individual attributes, including integrity, ethical values, and competence – and the environment in which they operate.
2. **Objective setting** – Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity’s mission and are consistent with its risk appetite.
3. **Event identification** – Potential events that might have an impact on the entity must be identified. Event identification involves identifying potential events from internal or external sources affecting achievement of objectives. It includes distinguishing between events that represent risks, those representing opportunities, and those that may be both. Opportunities are channeled back to management’s strategy or objective-setting processes.
4. **Risk assessment** – Identified risks are analyzed in order to form a basis for determining how they should be managed. Risks are associated with objectives that may be affected. Risks are assessed on both an inherent and a residual basis, with the assessment considering both risk likelihood and impact.
5. **Risk response** – Personnel identify and evaluate possible responses to risks, which include avoiding, accepting, reducing, and sharing risk. Management selects a set of actions to align risks with the entity’s risk tolerances and risk appetite.
6. **Control activities** – Policies and procedures are established and executed to help ensure the risk responses management selects are effectively carried out.
7. **Information and communication –** Relevant information is identified, captured, and communicated in a form and timeframe that enable people to carry out their responsibilities. Information is needed at all levels of an entity for identifying, assessing, and responding to risk. Effective communication also occurs in a broader sense, flowing down, across, and up the entity. Personnel receive clear communications regarding their role and responsibilities.
8. **Monitoring** - The entirety of enterprise risk management is monitored, and modifications made as necessary. In this way, it can react dynamically, changing as conditions warrant. Monitoring is accomplished through ongoing management activities, separate evaluations of enterprise risk management, or a combination of the two.
9. Goals of Enterprise Risk Management

Simply put, enterprise risk management provides a framework for minimizing risk across an institution while maximizing opportunities. We have been used to managing risks in silos when, in reality, most risks overlap. The enterprise risk management framework supplies a holistic approach to managing risks which provides a clearer picture to administrators resulting in better decision making in the strategic planning process. Risk management should become part of the university’s culture rather than being viewed as an activity for which only a select few individuals are responsible. It should be embedded into the philosophy, practices, and processes of all university administrators.

1. Austin Community College District – 2008 ‘Introduction to Risk Management, Office of Internal Audit’ [↑](#endnote-ref-1)
2. Internal Control – Integrated Framework, The Committee of Sponsoring Organizations of the Treadway Commission. [↑](#endnote-ref-2)
3. Enterprise Risk Management – Integrated Framework, The Committee of Sponsoring Organizations of the Treadway Commission. [↑](#endnote-ref-3)