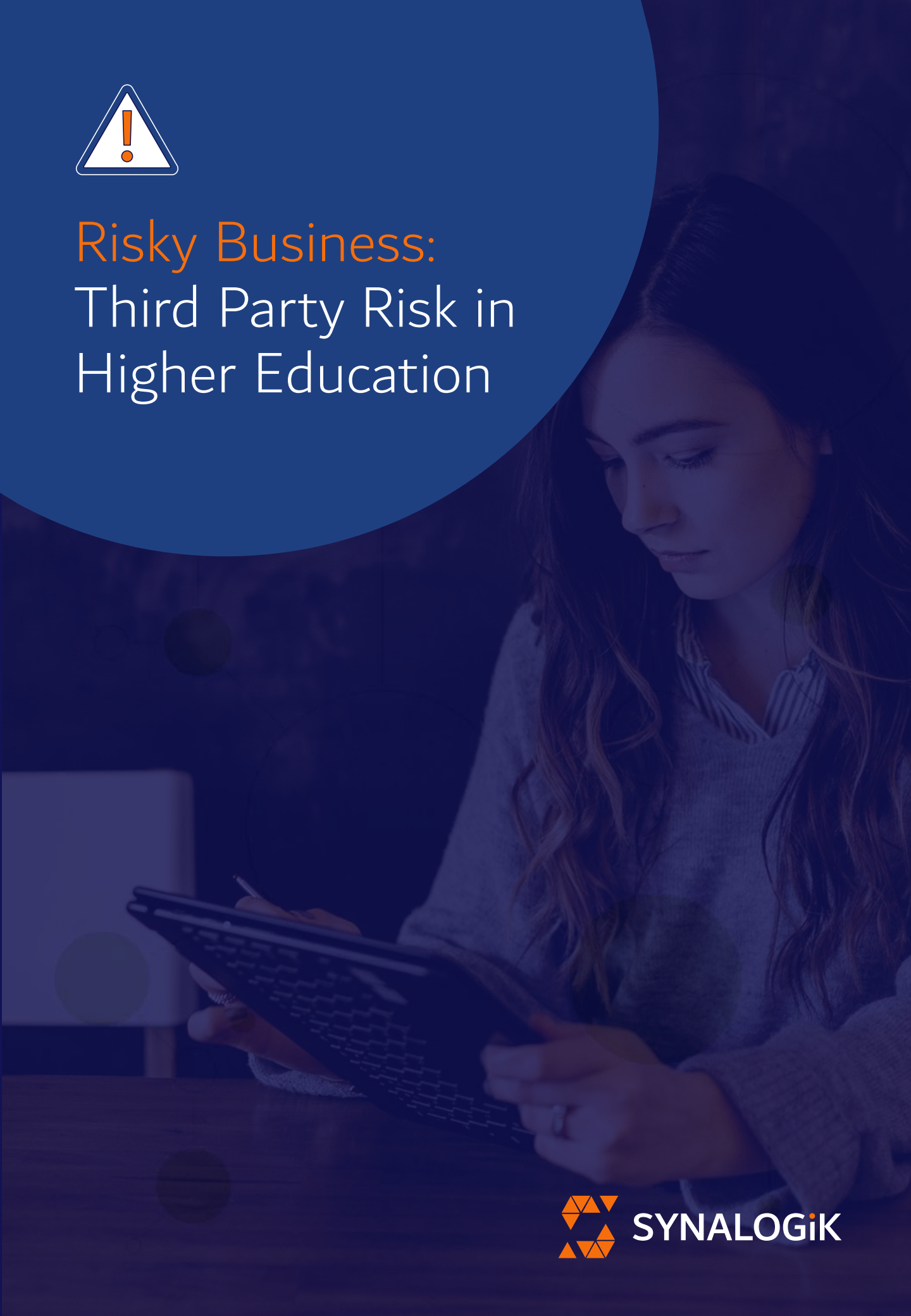
Risky Business:
Third Party Risk in Higher Education



SYNALOGiK

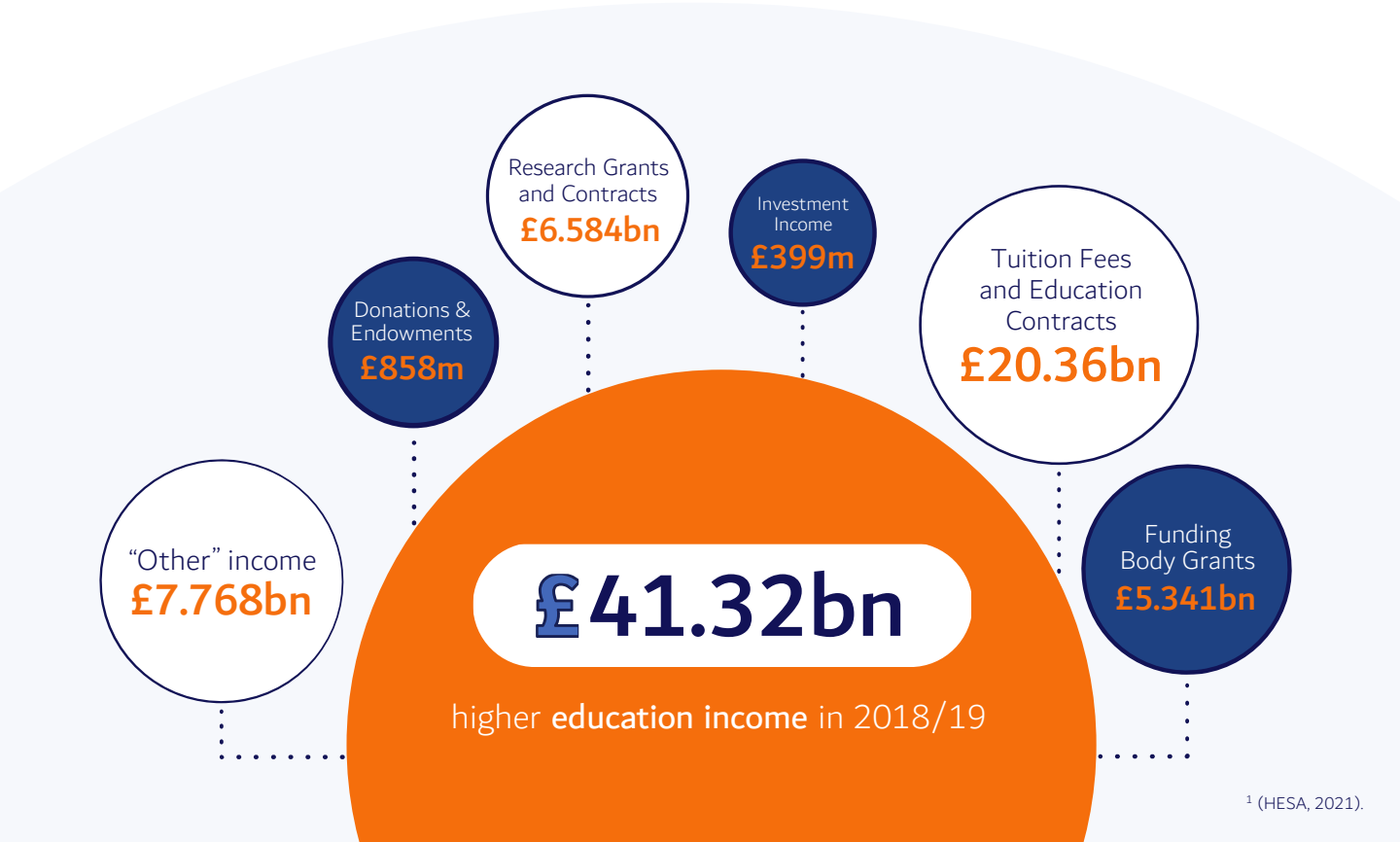
The higher education sector is a significant contributor to local and national economies.

Operational expenditure for the sector for the financial year **2018-2019** was

£14.2bn

Academic Staff costs	£8.731bn
'Other' Staff costs	£2.306bn
'Other' operating costs	£2.930bn
Depreciation	£293m

Income across all **196 higher education** institutions was recorded at **£41.32bn** and ranged in source from tuition fees, donations, endowments, philanthropic donations and 'other' routes[1]. These headline figures from HESA illustrate a substantial flow of cash through higher education institutions and show significant reliance on transactions with third-parties.



[1] (HESA, 2021).

Given the substantial financial transactions that the HESA data describes, it seems clear that universities are deeply embedded in local and national economies. The size of the income and expenditure figures also suggests that Higher Education institutions are exposed to substantial third-party risk. That risk could be posed from: prospective students paying for services; the source of an altruistic donation; a charitable cause; any vendor or supplier; or a staff member acting favourably in the award of a university contract.

Looking at these figures, there can be no doubt that **higher education institutions hold a considerable third-party risk.** It was only in February of this year, that there was widespread interest in the UK media who reported that

£52m of tuition fees had been paid in cash[2].

In reality, the report suggested, no one really had a clear view of the source of these funds, which gave rise to obvious concern around money-laundering risk.

What is the source of these funds?

Who are these individuals applying and paying for courses and are they linked to nefarious associates?

[2] (Times 2021).

The risk associated with third-party relationships

In today's global business environment, most organisations rely on a complex network of **external service providers, distributors, partners, suppliers, customers and other entities.**

As critical as these relationships are, an organisation's widespread reliance on third-parties comes with substantial risk relating to regulatory scrutiny, compliance issues, data privacy and reputation[3]. Key organisational aims should be to increase integrity, reduce vulnerabilities and reduce corruption risks within the organisation[4]. Without a comprehensive third-party risk management programme, organisations will find themselves over-exposed. It is for this reason, that boards and senior leadership teams are taking a greater interest in the risks associated with third-party transactions[5].

[3](Warren, 2014). [4](Safta, 2018). [5](Beale, 2017).

The median company uses **3,000** vendors.

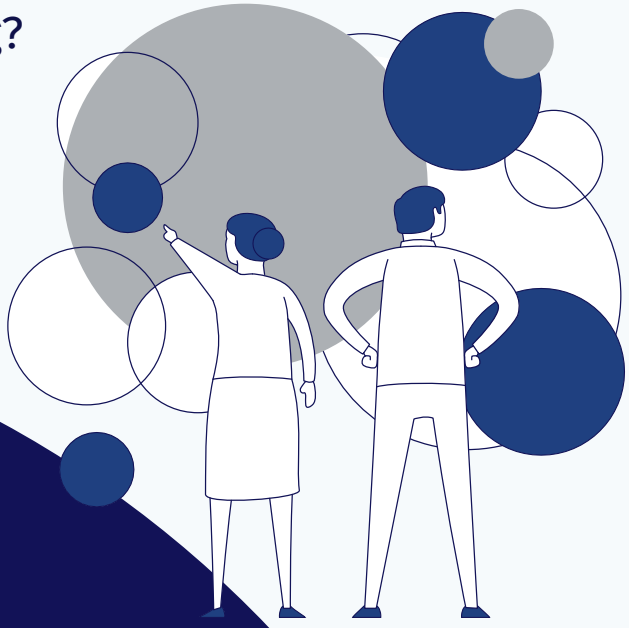
With each and every one of those third parties comes a myriad of risks that has the potential to disrupt your requirement to uphold the highest of public sector standards.

Each third-party relationship poses a threat to the policies and procedures the university holds relating to anything from anti-corruption and bribery through to human-trafficking. Despite the professional approach, how do universities truly have assurance that the supplier isn't able to supply their goods and services at a competitive price, at the human cost of forced labour or human trafficking for example?

As a minimum, any disruption to service from third-parties is likely to impact student services, costs and revenue. Any breaches of those all-important policies designed to protect organisational integrity are likely to impact reputation and brand for the longer term[6]. That is a cost we simply cannot afford.

[6](Beale, 2017).

What is the industry saying?



A recent cross-industry survey of chief audit executives conducted by the ILA Research Foundation (IIARF) and Crowe Horwath LLP found that many large organisations are **concerned about their vulnerability to third-party risk.**

A majority **(82%)** said they devote less than **20%** of their internal audit resources to the issue, and more than three-quarters **(78%)** said they had either "some concern" or "high concern" about difficulties in monitoring third-party risk management practices[7].

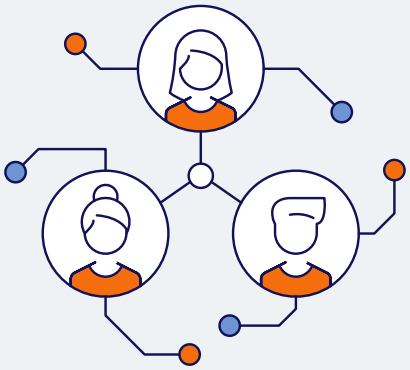
[7](Warren, 2014, p.37).

Deloitte[8] draw a casual link between the efficacy of third-party risk management programmes and business success; the better the programme the more successful the organisation. Gartner (2019), however, found that **eight in ten businesses** discover issues with their suppliers following the due diligence and onboarding process. That's after onboarding, whilst they are supplying you with goods and services.

Venminder[9] found that **only thirty-eight percent** of organisations had a fully established third-party risk management programme. The remaining sixty-two percent either had no processes, some in development or were attempting to implement.

Surely then, this third-party risk problem is a problem worth solving?

[8](Deloitte 8th February 2021). [9](Venminder 2021).



Organisations with immature third-party governance programmes have increased vulnerability due to decreased visibility[10]

The costs of resolving a quality incident involving a third-party is **5.1% higher** when compared to resolving an incident without third-party involvement, and it is likely to take **4.1% longer** to resolve.

Therefore, it is a clear contention that improving the quality of supplier due diligence in the first instance, developing monitoring capability and improving ongoing management, could lead to significant savings and return on investment[11]

We need to know and understand our **third-party relationships** from the outset and throughout the lifecycle of our contractual commitment.

[10](Beale, 2017). [11](De Koker and Harwood, 2015).

The challenge

Whilst all of this seems logical, there are the inevitable challenges associated with increasing the quality and proactivity of third-party risk management processes.

Universities need to identify and assess the available data relating to their third-parties, deliver a fast, comprehensive assessment of risk and draw the accurate inference or insight from the information they are presented with;

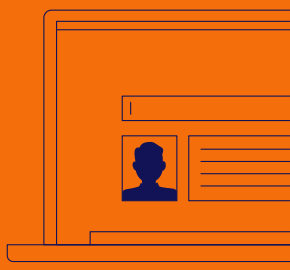
all whilst avoiding the substantial cost associated with vast swathes of analysts, researchers or due diligence specialists.

The solution

Synalogik have already developed a third-party risk management tool. Our software, Scout®, searches for data relating to **companies, people, postal and email addresses, telephone numbers and vehicles.**

The data is rapidly aggregated from a variety of disparate data sets (consented, financial or open source) in to one consolidated report which can be risk-assessed based on the individual users risk appetite. Scout® intuitively allows the user to re-search any new information that has been identified in the first search, saving precious time. Whilst this resolves the first problem relating to knowing-your-customer or knowing-your-third party, we've gone one step further to solve the issue that Gartner highlighted. What's the point of running snapshot in-time due diligence if the following week the director of the business goes to court for fraud and we don't know about it for the lifetime of the contract?

To combat that problem, in addition to all the snapshot in time searches, Synalogik have created functionality to run these queries in bulk, overlay risk assessments and crucially, to monitor commercial entities for the lifetime of contractual agreements.



When thinking about the maturity of third-party risk management, the commercial monitoring function tells you proactively when something changes. Three directors of your supplier left the business? Scout® will tell you. Supplier submitted annual filings late? Scout® will tell you. Supplier suddenly changes address? Scout® will tell you. The operational challenges around the monitoring of your third-parties, that Gartner identified, evaporate; we are being proactive and managing our third-party risk, not reacting to that costly, reputation sapping event we didn't see coming.

So, in partnership with industry and higher education, are we doing enough to understand the operational, third-party risk challenges in the university sector? Perhaps. Do we have the tools, now, to support an increase in efficacy of third-party risk management in the higher education setting?

Yes, we can do that, right now, and the evidence for doing so is compelling.

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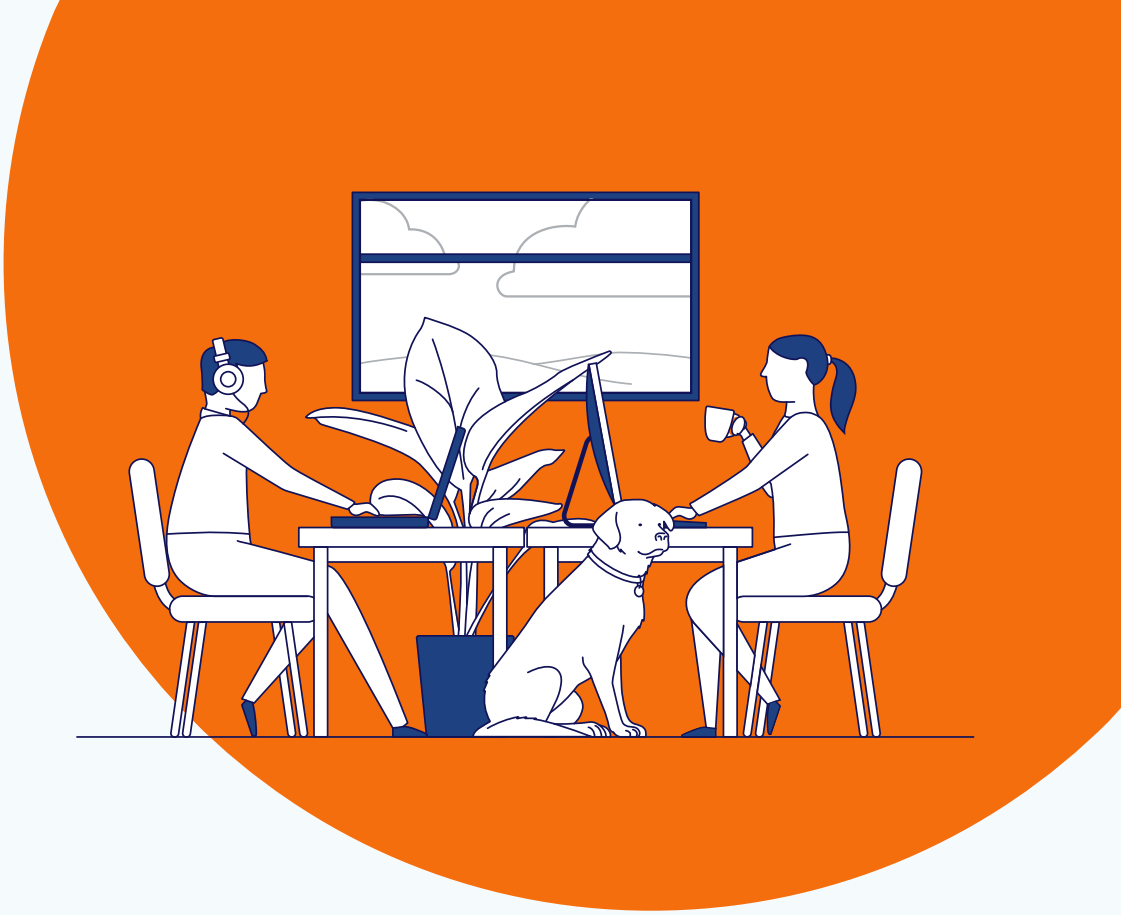

Contact us

To find out how we can help you limit your exposure and mitigate third-party risk, get in touch today.

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