

Meeting	Agenda Item	Reference No
14/03/08	21	HEFCW/08/22

1 Issue

This paper invites Council to approve the latest update of its corporate risk register and also to approve an updated *Risk Management Policy and Guidelines*. Both of these items will have been considered by the Audit and Risk Committee at its last meeting on 10 March 2008.

2 Corporate Planning Implications / Rationale for paper

There are no specific corporate or operational plan implications arising from this paper. The 'Corporate Governance and Compliance' section of HEFCW's Corporate Strategy and Corporate & Operational Plan states that Council has adopted a risk-based approach to internal control, designed to provide reasonable assurance that it will achieve its corporate objectives and overall mission.

3 Recommendations

The Council is invited to:

- i. approve the latest iteration of the corporate risk register; and
- ii. approve the updated *Risk Management Policy and Guidelines*.

4 Timing for decisions

The corporate risk register is presented to Council following consideration by the Audit and Risk Committee. Due to timing of the meetings, this paper has been sent in parallel to that submitted to the Audit and Risk Committee for its meeting on 10 March. Any substantial issues arising from the Committee's meeting will be raised by exception at the Council meeting.

5 Council members' interests

No Council member has declared any further interests to those set out in the Register of members' interests which are of specific relevance to the matters covered in this paper.

6 Further information

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7 Background

7.1 The Council has remitted its Audit and Risk Committee to review the adequacy of the structures, processes and responsibilities for identifying and managing key risks facing HEFCW. This includes reviews by the Committee at each of its meeting of the latest update of HEFCW's corporate risk register, the outcomes of which are reported to the next meeting of Council.

7.2 A revised risk management process was introduced late in 2007. Its key features are as follows:

- All Teams assess risks in relation to each Team objective, including all appropriate corporate and operational plan objectives. Assessments about the level of risk are made against a standard risk matrix and set of exemplars.
- Management Board scrutinises each Team's risk register on a regular basis, to ensure consistency of approach and to consider the range of residual risks identified by Teams as being significant (i.e. risks rated 'red' or 'yellow' on the matrix).
- Management Board considers the totality of significant risks coming out of Team risk registers, which then go forward to comprise the corporate risk register. Thus, the corporate risk register to contain details of all significant risks across the organisation at a particular point in time. Minor risks ('green' risks) to remain on Team risk registers only.
- Management Board submits the latest corporate risk register to each meeting of Audit and Risk Committee (three times a year). This includes a commentary on the current distribution of corporate risks; details of the number of minor risks currently being managed by Teams; and an assessment of how the risk environment might change in the near future.
- Council receives at its next meeting a report on the outcomes of the Committee's latest risk review.

7.3 It was agreed that, once the new developments had settled in, they will be reflected in an updated version of HEFCW's *Risk Management Policy and Guidelines*.

8 Corporate risk register

8.1 Since the Audit and Risk Committee's last review in October 2007, the corporate risk register has changed as follows:

- seven of the eight significant (corporate) risks remain on the corporate risk register unchanged;
- one risk (re: institutions being unable to obtain degree awarding powers) now has been downgraded to a minor risk following a reassessment of the risk environment (risk downgraded from M/M to L/M); and

- seven new / newly identified risks have been added to the corporate register.

8.2 A map showing the change in the distribution of corporate risks since October 2007 is attached at **Annex A**. A summary of all 177 of the residual risks currently identified in Teams' risk registers, both significant and minor, is attached at **Annex B**. The corporate risk register is attached at **Annex C**.

8.3 The 14 significant risks (R1-R14) of the corporate risk register break down as follows:

(i) *'Red zone' - top priority for action*

- 0 'dark red' risks (risks identified as requiring urgent remedial action and rigorous monitoring). No change since the October 2007 review.
- 2 'light red' risk (risks requiring controls to mitigate the risk and/or contingency plans to address the consequences, and also close monitoring):

R1: 'Funding from the Assembly is insufficient to be able to sustain levels of funded activity (in the HE sector)'.

No change from the October 2007 review. Existing controls are fairly limited and, it is judged, do not reduce the risk sufficiently. Further action identified is the move over the next three years (to 2011) towards a more explicit focus on financial sustainability in respect of allocation of funding and strategic dialogue with institutions.

R10: 'Inability to complete development and implementation of Reward Policy'.

A new risk. At the time of writing, a response is awaited to the revised pay remit submission of 11 January.

(ii) *'Yellow/Amber zone' - medium priority for action*

12 'yellow' risks (risks requiring controls in place to mitigate the threats and/or contingency plans to address the consequences).

Six of these risks also featured on the corporate risk register at the October review (viz. R2, R3, R6, R7, R8 and R9).

In addition, six new risks have been added to the register:

R4 - 'Lack of flexibility in profile above baseline funding'.

A newly identified risk. The likelihood is assessed as low, but the impact high. Available controls are limited, and currently no further actions can be identified which might strengthen them further to reduce the risk.

R5 - 'Sector unable to meet requirements of equalities legislation'.

A newly identified risk. There are a number of preventative controls in place, but it is judged that the risk rating remains significant at M/M.

Currently no further actions have been identified which might further strengthen the controls.

R11 – ‘Internal Audit not independent (actual or perceived)’.

A newly identified risk. There are existing mitigating controls and contingency plans, but the risk rating remains M/M. Further actions identified to improve controls include proposals for future arrangements for internal audit, post HEFCW’s new organisational design, will be put to the Committee’s meeting on 10 March.

R12 – ‘Current telephone system failing due to age.’

A newly identified risk. There are existing mitigating controls and contingency plans in place, but the residual risk rating is H/L. Further action is to investigate the purchase of a replacement system.

R13 – ‘DCELLS reorganisation take time to embed.’

A new risk. The available controls to reduce this risk are limited, and the resulting risk rating is M/M.

R14: ‘Significant loss of skills / experience...’

A newly identified risk. Several Teams had identified this risk on their own risk registers. Management Board took the view that the risk would best be captured as a generic risk on the HR risk register. A number of mitigating controls and contingency plans appear to reduce the risk, though the rating remains high. A proposal to help control the risk further is to review the notice period for senior grade staff.

8.4 A total of 163 minor risks (combinations of low and medium probability and impact) currently are being managed across the organisation. They break down into:

- 119 L/M - low probability, medium impact – risks. (‘light green’ - tolerate; keep watching brief.)
- 11 M/L – medium probability, low impact – risks. (‘light green’ - tolerate; keep watching brief)
- 33 L/L – low probability, low impact – risks. (‘dark green’ - tolerate; no further action required.)

Council is invited to note the changes to the distribution of risks since the October 2007 review (Annexes A and B), and to approve the latest update to the corporate risk register (Annex C).

9 Commentary on the distribution of corporate risks and forecast of future developments

9.1 Council is invited to note the following commentary on the distribution of risks and also a forecast of the likely developments in the near future (next six months or so):

- R1 (Assembly funding): This remains one of the two most significant risks we identify currently. It is likely to remain an issue for the foreseeable future.

- R10 (pay remit): Along with the above, this is the only other 'red' risk on the register. It is a risk which might be reduced relatively quickly, depending on the nature and timing of the Assembly Government's response to HEFCW's revised pay remit submission.
- R11 (internal audit arrangements): Subject to the Committee's view on the alternative internal audit arrangements, it may be that the rating of this risk can be revised downwards by the next review.
- R12 (telephone system): This risk will reduce significantly if it proves feasible to purchase a replacement system.
- R13 (DCELLS reorganisation): This risk is likely to require particularly close monitoring during the first months of FY 2008-09 as the new DCELLS organisational structure is implemented.

9.2 In relation to the remaining, minor risks currently identified in Teams' risk registers, it is not anticipated at this stage that there will be any developments over next six months or so that will lead to an increase in the severity of the risk ratings which would warrant migration to the corporate risk register.

Council is invited to note the current distribution of corporate risks and likely developments in the immediate future.

10 Revised Risk Management Policy and Guidelines

10.1 The current Guidelines were drafted in February 2006. They have been amended specifically to reflect the revised risk management processes, and also more generally to improve clarity. The revised Guidelines, shown with tracked changes, are attached at **Annex D**. The main proposed adjustments are as follows:

- A more explicit policy statement (section 1.)
- Further clarity on roles and responsibilities (section 4.). This includes a proposal that reviews by Management Board of the corporate risk register take place at least three times a year, ahead of each Audit and Risk Committee meeting.
- A more detailed explanation of each stage of the risk management cycle (section 5.)
- Rewording, and in some cases repositioning, some sections to improve clarity.
- Where appropriate, addition of references to the Director of Finance and Corporate Services and the Director of Strategic Development.
- A proposed revised, simplified model risk register, to identify only residual risks (see Annex B to the revised Guidelines). The distinction between

'inherent' and 'residual' risk ratings in the current approach has caused some confusion. Given that it is the residual risk rating, and potential additional actions required to strengthen controls, which are the most critical aspects of the process, it is suggested that a simplified register will aid Teams in their assessment of risks.

Committee is invited to approve the updated Risk Management Policy and Guidelines at Annex D

11 Financial implications

There are no financial implications arising from the recommendations in this paper.

12 Communications implications

This paper has been assessed as disclosable, as have all previous versions, and therefore will be posted in full on the Council's website. The updated versions of the register and the revised *Guidelines* also will be posted on the HEFCW intranet.

13 Diversity and Equal Opportunities implications

In accordance with HEFCW's Equality Impact Assessment Guidance, the revised *Risk Management Policy and Guidelines* will be assessed for any potential impact on each equality strand (disability, gender, race, religious belief or sexual orientation etc.) and also for any Welsh language implications.

14 Risk Assessment

RISK	ACTION TO ADDRESS RISK
HEFCW in breach of HM Treasury's Risk Management Assessment Framework and risk guidelines.	HEFCW has in place formal processes for identifying and regularly monitoring risks, at both a corporate and operational level, as outlined in its <i>Risk Management Policy and Guidelines</i> .
HEFCW not compliant with its own <i>Risk Management Policy and Guidelines</i> .	Regular monitoring and review of risks facing HEFCW at both a corporate and operational level. These include regular reviews by Teams, Management Board, Audit and Risk Committee and Council.
HEFCW's risk management policies and procedures do not adequately reflect its commitment to a fully-embedded, consistent corporate approach to risk management.	Implementation of the revised risk assessment and management processes outlined at paragraph 7.2. Close scrutiny of the new arrangements by Management Board, Audit and Risk Committee and Council.