For discussion

Corporate Risk Register

Disclosable

Cyngor Cyllido Addysg Uwch Cymru
Higher Education Funding Council for Wales

Meeting	Agenda Item	Reference No
12/03/10	9	HEFCW/10/18

1 Issue

1.1 This paper invites Council to approve the latest update of its corporate risk register. This item will have been considered by the Audit and Risk Committee at its meeting on 10 March 2010.

2 Corporate Planning Implications / Rationale for paper

2.1 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) to note changes made to the corporate risk register,

(ii) approve the latest update to the corporate risk register and the distribution of those risks,

(iii) note the commentary on the current distribution of risks and on likely developments in the immediate future.

4 Timing for decisions

4.1 The corporate risk register is presented to Council termly, 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

5.1 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 meetings of the latest update of HEFCW's corporate risk register, the outcomes of which are reported to the next meeting of Council.

7.2 The last review of the corporate risk register by Council was at its meeting in October 2009. That review reflected the revised process agreed at earlier meetings. The revised arrangements placed stronger emphasis on the role of risk registers at Team level, so that the corporate risk register focuses only on the most significant risks facing HEFCW. The process can be summarised as follows:

- All Teams assess risks in relation to Team objectives, 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;

- The Directors' registers, and that of the CEO, are amalgamated into one;

- The two Directors sign off each Team risk register;

- Management Board scrutinises each Team's risk register on a regular basis, to ensure consistency of approach and to consider the range of risks identified by Teams as being significant (i.e. risks rated 'H/H,H/M,M/H,M/M or L/H" on the matrix);

- Management Board considers the totality of significant risks coming from Team risk registers, which then go forward to comprise the corporate risk register. Thus, the corporate risk register contains details of all significant risks across the organisation at a particular point in time. Minor risks remain on Team risk registers only.

- Management Board considers the risk registers termly, prior to each Audit and Risk Committee.

- 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 details of the outcomes of the Committee's latest risk review.

- Any risks deemed high probability but low impact (H/L – yellow) no longer appear on the corporate risk register, thus changing the risk appetite and increasing the tolerance.

7.3 The arrangements have now settled in and are reflected in the HEFCW's *Risk Management Policy and Guidelines*

7.4 At the last meeting of the audit and Risk Committee, the Chair asked the executive to consider if the mitigation of the risks could be expressed more quantitatively on the risk matrix, for example through the calculation of a probability-impact score. This might allow the reduction in risk to be calibrated which would enable members to assess the effectiveness of the controls in mitigating the inherent risk. The Chair also suggested that the inherent and residual risks be recorded on the registers.

7.5 Further clarification was subsequently sought from the Chair who submitted some exemplars. Management Board then discussed the issue, and took the view that the current system and guidelines were adequate to allow management to focus their attention on the key risks they need to give management attention to. Officers considered that a move to a system of scoring might suggest a degree of precision which was not present. Officers also felt that there was a danger that the inclusion of all inherent risks, with no controls in place, as the starting point, would further weaken the focus on the key risks remaining after mitigation.

7.6 Notwithstanding these initial discussions, Management Board agreed that further work should be undertaken by officers to gather information about the successful approaches to risk management with the aim of proposing further refinement to the process.

8 Internal Audit

8.1 As reported at the last Council meeting, in late 2008 an internal audit report was issued on Risk Management which focussed on the extent that Risk Management was embedded in HEFCW.

8.2 As a result of its findings, the report contained 5 recommendations which in turn were translated into a Management Implementation Plan progress on which was considered at Audit and Risk Committee.

9 Corporate Risk Register

9.1 The latest update to the corporate risk register, incorporating the significant risks from the latest reviews of Team risk registers, as reviewed and amended at the Management Board meeting in February, is attached at **Annex A**. A map showing the distribution of corporate risks in October 09 and February 10 is available at **Annex B**.

9.2 Since the last review in October 09, the following changes have been made to the risk register.

- Some risks on the corporate risk register have been updated to reflect minor changes and updates made to the Team registers, including the loss of corporate risks when the Team registers have re-graded the level of risk.

- Since October 2009 four corporate register risks have been removed due to the re-grading of the classification, these are:

  004/09 – Failure of WAG (DCELLS) to develop and support European/International policy and priorities for HE,
  007/08 – Failure of ITT sector to complete reconfiguration effectively with efficient use of transitional funding,
  013/08 – Sector responds inadequately to economic downturn,
  020/09 –Widespread loss of staff due to effects of pandemic flu.

- 025/10 and 026/10 are new risks reflecting recently recognised additional risks in the areas of *Reaching Higher* targets for Welsh Medium provision, and the establishment of the Coleg Ffederal.

- 023/09 has been re-graded upwards since the last version of the register as the risk is considered to be more acute. 011/08, 016/08 and 017/08 have been re-graded downwards as the perceived risks have diminished.

- The net change since the October review is a decrease of risks from 19 to 17. Four were lost from the last version of the register and 2 have been added.

The Council is invited to note changes made to the corporate risk register.

10 Commentary on Distribution of Risks

10.1 A summary of all the risks currently identified in Teams' risk registers, both significant and minor, is attached at **Annex C**. Exemplars /definitions to support risk assessment are attached at **Annex D.**

10 The total number of risks currently identified on Team risk registers is 139. These break down as follows:

Significant (corporate) risks

The 17 significant risks that comprise the corporate risk register break down into:

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

- 1 'dark red' risk (risks identified as requiring urgent remedial action and rigorous monitoring).

  008/08: Funding from the Assembly is insufficient to be able to sustain current levels of funded activity particularly in the light of possible consequences for the budget arising from the economic downturn. No change from October 09.

- 4 'light red' risks (risks requiring controls to mitigate the risk and/or contingency plans to address the consequences, and also close monitoring):

  005/08: Sector fails to meet *Reaching Higher* targets of increasing proportion of Research Council income to 4.5% by 2010/11, and research income from other external sources by 60% by 2007/08, and by 100% by 2010/11.
  No change from October 09.

  006/08: "REF processes expose relative weaknesses in research performance in Wales."
  Wording of risk revised but level of risk not changed since October 09.

  021/09: "Likelihood in reduction of future running costs' budget and continuing approval to transfer elements of running costs to programmes budget."
  No change since October 2009.

023/09: “Failure to maintain confidence of Assembly Government, broadly in Council.”
Level of risk increased from October 2009

(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).

Minor risks

A total of 122 minor risks (combinations of low and medium probability and impact, and high probability and low impact) currently are being managed across the organisation. They break down into:

- H/L – high probability, low impact – (‘yellow' – tolerate; keeping watching brief) – **1** risks
- L/M - low probability, medium impact – (‘light green' - tolerate; keep watching brief) - M/L – medium probability, low impact - (‘light green' - tolerate; keep watching brief) – **94** risks
- L/L – low probability, low impact – (‘dark green' - tolerate; no further action required) – **27**

11 Forecast of Likely Changes to Risks

11.1 Officers have forecast the likely changes to corporate risks in the near future.

- There is a likelihood of cuts in Assembly budgets impacting on HEFCW running costs budget and funding for the HE sector.

- There will be the need to actively, and intensively, engage with the Assembly Government to deliver the aspirations outlined in *For our Future.*

- There will be continuing general impact of recession on institutional financial health including on pay negotiations and on estates.

- The impact of the Ministers review regarding educational expenditure on services which are not core to teaching and research and the impact of this on future funding for and existence of, UK funded bodies.

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

12 Financial implications

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

13 Communications implications

13.1 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 internet.

14 Diversity and Equal Opportunities implications

14.1 In accordance with HEFCW's Equality Impact Assessment Guidance, any revisions to the *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.

15 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 *Risk Management Policy and Guidelines*.
HEFCW not compliant with its own *Risk Management Policy and Guidelines*.	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. Response made and actions undertaken as a result of the internal audit report. Close scrutiny of the new arrangements by Management Board, Audit and Risk Committee and Council.