

### Risk Management Review

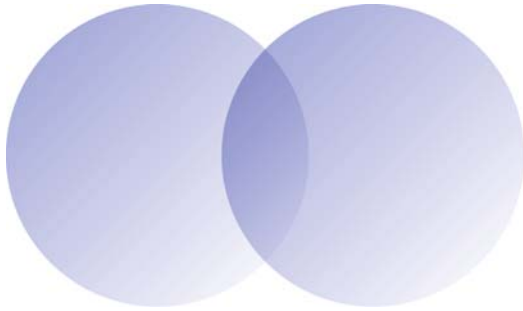
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	<b>STRATEGIC RISK REVIEW</b>	<b>Version</b> DCC001.v1 <b>Issue Date:</b> 07/11/2011
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REFERENCE DOCUMENTS	
<b>Document Title:</b>	
Strategic Risks (2011/12)	
Risk Management Handbook (December 2010)	
Project Management Manual (June 2011)	
Project Management Handbook (November 2007)	
Partnership Toolkit (March 2011)	
Partnership Risk Register (September 2011)	
The Derby Plan 2011 - 2016	
Handbook to Risk Management & Partnerships (December 2010)	
Handbook to Environmental Risk Management	
Contract Procedure Rules (June 2009)	
Chief Executive's Office Strategic Services and Transformation Business Plan 2011 – 2014, (2011/12 edition)	
Audit and Risk Management Business Plan 2011 – 2014 (2011/12 edition)	
Anti-Fraud Group minutes, Friday 9 <sup>th</sup> Sept 2011	
Corporate Anti-fraud Working Group - Terms of Reference	
Anti-Fraud Action Plan	
ISO International Standard 31000 Risk management - Guidelines on the principles of implementing risk management (2007)	
BSI British Standards BS31100 - Risk management : Code of practice (2008)	
The Institute of Risk Management – Risk Guidance Paper Appetite & Tolerance (September 2011)	
The Institute of Risk Management – A risk management standard (2002)	

STAKEHOLDER INTERVIEWS	
Name	Position
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## Section 1 – Introduction

The application of risk management must be cost effective with clear benefits being seen. It must be an intrinsic part of an organisations strategic planning, service delivery and project management framework. It must support bold, positive risk taking and be responsive to the emerging risks an organisation, its employees, stakeholders and customers face.

To ensure that Derby City Councils Risk Management framework meets this criteria Zurich's Strategic Risk Practice were tasked with undertaking a strategic document 'desk-top' review. The review encompassed:

- Review of key documentation against industry best practice and guidance.
- Stakeholder meetings with key officers to ascertain the Councils current approach to risk management.
- Production of risk management health-check report, identifying existing best practice and where applicable challenging the current approach in a positive, constructive manner.

## Section 2 – Purpose

This 'health check' report highlights the progress made by the Council in developing and embedding its risk management arrangements and also sets out a number of recommendations for further developing and embedding these. In doing so it sets out areas that the Council may seek to improve on, in order to ensure that risk management is a practical and useful tool which supports the achievement of Derby City Council's corporate priorities.

## Section 3 - Assessment Process

The strategic risk review assessment was based on the analysis of key documentation and interviews with key personnel from Derby City Council. The criteria used is one of risk maturity, using the following graduated scale:

Enabled	Proactive governance / controls in place. Culture of positive and negative risk awareness, identification and application. Emerging risks scanning in operation.
Managed	Association wide approach but reactive / managed rather than proactive.
Defined	Strategies, policies and appetite defined but not universally adopted / implemented.
Aware	Some awareness, probably due to an individual employee.
Naïve	No formal approach.

#### **Section 4 – Position Statement**

Based on this review it is apparent that the Council has made excellent progress in developing and embedding a robust risk management framework. This includes:

- An approach to risk management, which is clearly aligned to the Councils processes and structure.
- A mature understanding of the value of risk management.
- A Risk Management Handbook which clearly articulates the need for and benefit of actively monitoring risks.
- A Risk Management Handbook which follows best practice and includes a clear approach to identifying, prioritising and managing risks.
- A supporting document portfolio which reflects the need for / benefit of risk management.
- Clearly defined objectives which illustrate the need to balance negative and positive risk management.
- Clearly identified Audit and Accounts Committee and Chief Executive to support, own and lead on risk management.
- Clear procedural and practical guidance which is in context with the Council and supports the achievement of its aim and objectives.
- Partnerships risk are defined and supported by a Handbook to Risk Management and Partnerships which clearly explains the relationship / interdependencies between the two functions.
- Project risks are defined and the need for the undertaking a full risk assessment prior to commencing any project is clearly articulated.
- The design and format of the Corporate Risk Registers is succinct yet at the same gives exacting detail.
- The risk management methodology follows best practice and includes a clear and simple approach to identifying, prioritising and managing risks. This includes clearly defined and consistent process to the application of risk management.
- The benefit of embedding risk across the Councils is clearly expressed.

In summary it is evident based on the findings of this review that Derby City Council has a mature risk management framework which is in context with its overall risk maturity. As highlighted above and based on the experience of the reviewers there are a number of applications which could be considered as sector leading best practice and Derby City Council must be complemented on adopting its approach to risk management.

The following sections of this report give a detailed explanation of the findings obtained and where applicable make suggestions / recommendations for their further enhancement.

#### **Section 5 – Way Forward**

Following the publication of this report it is recommended that a feedback session be scheduled. The value of this open dialogue is that it permits the detailed scoping and prioritisation of the recommendations made within in it, which if implemented supports the Councils attainment of a single / unified risk management approach which is understood and used by all employees.

## Section 6 – Executive Recommendations Summary

Based on the evidence gained the recommendations listed, which are shown in the order as they appear in the report rather than in priority order, which if implemented would further strengthen and add value to Derby City Council application of risk management.

Recommendation 1	To further enhance the Risk Management Handbook reflection needs to be given on its <b>overall purpose and size</b> , as there is a concern that the extremely useful / practical information contained within it is lost to the reader.
Recommendation 2	To build on the value of the Risk Management Handbook and to further aid in the embedding process it is recommended that guidance contained within this document is used to form a <b>series of separate aide-memoirs</b> .
Recommendation 3	Consideration is given to <b>continually horizon scan for emerging risks</b> . The value of which is that it aids in the identification and mitigation of both internal and external risks.
Recommendation 4	Thought to be given to the <b>assessment and formulisation of the Councils actual and desired risk appetite</b> .
Recommendation 5	To ensure the ongoing positive standing which the Council has with its customers and employees it is recommend that <b>awareness sessions are run explaining the positive and negative impacts of reputational risk management</b> .
Recommendation 6	It is recommended that to gain greater efficiency and improve utilisation <b>a single approach to risk management be adopted</b> .
Recommendation 7	To ensure that a continuous risk based improvement cycle is achieved thought to be given on implementing a <b>lessons learnt</b> register which is complied of proven mitigation actions.
Recommendation 8	To achieve greater consistency it is recommended that a <b>harmonisation of project and corporate risk practices</b> exercise be undertaken.
Recommendation 9	The Strategic Risk Group to undertake <b>a pragmatic, objective assessment of identified risks</b> , the value of which is that it gives the Councils added assurance that risks are being examining from a central objective perspective.
Recommendation 10	Consideration to be given on amending the Risk Management Handbook to reflect the need for Committee members to, where applicable <b>pro-actively challenge</b> the executive team and operational managers on the identified risks.
Recommendation 11	Risk management plays a pivotal role in achieving the Council vision and objectives. To ensure this is achieved it is recommended that <b>training sessions be developed</b> and run.
Recommendation 12	In order to operate effective risk identification process it is suggested that guidance is given to enable individuals to understand and <b>distinguish between a risk and an issue</b> .
Recommendation 13	It is recommended that <b>guidance on mitigation expectations and timescales</b> to be given to service managers.
Recommendation 14	Consideration to be given on adopting a simple subjective, <b>measurement criterion</b> , which might be considered, is that of time, cost and quality vs. overall value at risk.
Recommendation 15	To substantiate the relevance of reported risks it is suggested that reference is made in the Risk Management Handbook that only those risks which have <b>tangible / quantifiable evidence</b> as to their emergence are reported.
Recommendation 16	It is suggested that risks are viewed and considered in the round focusing on internal and <b>external emerging risks</b> .
Recommendation 17	To achieve greater consistency <b>project and strategic risk registers need to be aligned</b> the result being the consistent reporting / application of risk management across the Council.

## Section 7 – Review Findings

### A. Key Elements – Handbook / Methodology and Approach

Risk Maturity Ranking

Enabled

**Managed**

Defined

Aware

Naïve

**Risk Management Handbook** – The Risk Management Handbook is an extremely well written, comprehensive document. It defines the scope, context and value of risk management within the Council. Its attention to detail and technical description of the application of risk clearly demonstrates the authors understanding of the subject matter, for which he should be commended on. In addition to the technical requirements of a risk officer role, which are clearly evident here, there is a requirement to ensure the message of risk is clearly articulated and attainable to the reader. With this in mind, it could be argued that the amount of detail and the overall size of the handbook, 44 pages in total is overwhelming for its intended audience.

Associated with this and potentially a contributing factor is that the handbook encompasses the Council's strategy and policy on risk, as well as user guidance. Each element is a critical factor in establishing a mature risk management framework, but the benefit of each is being diluted by their inclusion in one document.

#### Recommendation: 1

Reflection needs to be given to the **overall purpose and size** of the Risk Management Handbook. A suggested approach is the defining of each section, .i.e. Strategy, Policy and Guidance. The benefit of adopting such an approach is that it will further enhance the value and readability of this document.

From the reviewers perspective it is refreshing to note the linkage between areas of risk and how risk management can help, which is presented succinctly in a very practical matrix, page 12. To further communicate / instil the value of risk management across the Council, this and similar guidance notes contained within the handbook could be used to form a series of short user-friendly aide-memoirs.

Furthermore, based on a review of the risk registers and interviews with stakeholders, it is apparent that there are inconsistencies in users understanding on the application of risk management. The net result from this is that potentially time and resources are allocated to mitigate perceived risks which in fact have no material impact on the Council and its customers. If the publication of a series of aide-memoirs is adopted it would aid the embedding and wider usage of risk management tools and techniques across the Council.

#### Recommendation: 2

To build on the value of the Risk Management Handbook and to further aid in the embedding process it is recommended that guidance contained within this document is used to form a **series of separate aide-memoirs**.

Expanding on this, the handbook sets out the context in which risks are to be managed, making clear reference to the positive and negative nature of risk. It makes explicit reference to the alignment of risk management, giving detail on the broad range of exposure areas. However, no reference is made for the need to continually horizon scan for emerging risks.

#### Recommendation: 3

To further strengthen the handbook it is suggested that reference is made to **continually horizon scan for emerging risks**, the value of which supports the embedding process and aids in the identification and mitigation of both internal and external risks.

**Risk Appetite** - The Risk Management Handbook details the Councils approach to defining and establishing risk management across the organisation, explicitly stating the potential drain on resources if risks are unmanaged. To further strengthen this consideration needs to be given on establishing and formulating the Councils risk appetite.

Defining risk appetite is crucial to how an organisation approaches risk. It is a key component in establishing tolerance and threshold levels, which if breached require the implementation of risk management treatments and business controls. From an organisational perspective there are a number of benefits to be gained by defining risk appetite:

- Explicit articulation of the attitudes to risk.
- It ensures an enhanced view of risk expenditure so that the cost of risk does not exceed the benefits.
- It enables Executives / Committee Members to exercise appropriate oversight and corporate governance by defining the nature and level of risks it considers acceptable (and unacceptable) setting boundaries for business activities and behaviours.
- It enables an organisation to increase its rewards by optimising risk taking and accepting calculated risks within an appropriate level of authority.

**Recommendation: 4**

Building on the Risk Management Handbook consideration needs to be given to the **assessment and formulation of the Councils actual and desired risk appetite.**

**Reputation** - When defining 'What is Risk Management' the handbook correctly relates it to public image. From those interviewed it is evident that the subject of risk reputation is currently a matter of discussion within the Council. Positive public perception of an organisation can positively affect its customer / community standing. Whilst the reviewer does not endorse the further expansion of the handbook by including additional detail on this topic, what is proposed is that cause and consequence of risk reputation is articulated to Council employees.

**Recommendation: 5**

To ensure the ongoing positive standing which the Council has with its customers and employees it is recommend that **awareness sessions are run the positive and negative impact of reputational risk management.**

**Consistency and Alignment** - An observation made whilst reviewing the documents provided is that there is a wide ranging series of detailed but disjointed guidance on risk management currently in operation. Whilst the reviewer advocates the use of risk management in all business functions it must be done from a unified approach which it is in harmony with the organisations corporate strategy.

**Recommendation: 6**

It is recommended that to gain greater efficiency and improve utilisation **a single approach to risk management be adopted.** The benefit of which would be greater consistency and standard of application across the Council.

**Lessons Learnt** - The process of risk reporting and communication is clearly defined. To underpin this activity and to give additional weight to risk management being an organisational active learning tool, greater reference could be made of the effective use risk reporting has on guiding positive behaviour, for example the use of mitigation plans. Based on this 'desk-top' document review it is apparent that mitigation actions are in place but the organisational learning derived from them could not be evidenced.

**Recommendation: 7**

To ensure that a continuous risk based improvement cycle is achieved thought to be given to implementing a **lessons learnt** register which is compiled of proven mitigation actions.

This approach has been adopted by other organisations with the collation and dissemination of proven mitigation actions, with the co-ordination being part of a central services / performance management team. Whilst it is accepted that if such a mechanism is not already in place the initial set up can be perceived as being another bureaucratic reporting tool, however, the benefits gained, both in terms of process improvement and longer term efficiency savings arguably outweigh the short term cost.

**B. Risk Ownership**

Risk Maturity Ranking	Enabled	Managed	<b>Defined</b>	Aware	Naïve
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**Risk Ownership** - A robust risk management framework is in place, which has been developed / steadily improved over recent years, being championed by the Head of Governance and Assurance and the Principal Insurance & Risk Officer. However, interviewees commented that to be able to harness its full potential greater consistency across the Council is now required. Based on the evidence provided it is apparent that some variation in application does exist, one area discussed was that of projects.

**Recommendation: 8**

To achieve greater consistency a **harmonisation of project and corporate risk practices** exercise is needed. It is suggested that part of this harmonisation exercise should entail merging / utilising best practice from existing project and corporate processes, the result being the consistent application of risk management across the Council.

**Regularly review the effectiveness of the Strategic Risk Group** – This Group has a key role in reviewing the Council's overall approach to developing and embedding risk management. It is therefore important that their role is formulised and that their responsibility encompasses an independent assessment role.

**Recommendation: 9**

This Group is perfectly placed to take an enhanced role **undertaking a pragmatic, objective assessment of identified risks**, the value of which is that it gives the Councils added assurance that risks are being examined from a central objective perspective. By undertaking an objective assessment the Group can assess interconnecting risks from a holistic Council position rather than the silo of individual departments.



**Committee Risk Ownership** - A key risk activity and a fundamental function of the Committee's role as guardians of Derby City Council is their ability to proactively challenge the Corporate Leadership Team on the identified risk. They must be given the opportunity and have the ability to satisfy them that board discussion and decision-taking on risk matters is based on accurate and appropriately comprehensive information.

Whilst the Council's Risk Management Handbook highlights their role no mention is given to this critical 'check and challenge' function.

**Recommendation: 10**

To reflect the pivotal critical role the Audit and Accounts Committee and the Strategic Risk Committee play it is recommended that the Risk Management Handbook and supporting documentation be amended to reflect the need for Committee members to, where applicable **pro-actively challenge** the executive team and operational managers on the identified risks.

Based on the information gained during the interviews it appears that there is some doubt as to the wider understanding of risk within the Council and that risk management is viewed, by some as a 'tick-box' exercise. Linked with this whilst the risk management process continues to be embedded across the Council, it is important that officers / member's understanding and ability to apply risk management is in tune with the strategic drive to become a proactive risk mature organisation.

**Recommendation: 11**

As documented in the Risk Management Hand book risk management plays a pivotal role in achieving the Council vision and objectives. To ensure this is achieved it is recommended that **training sessions be developed** and run.

It is important when undertaking risk management training that it is linked to actual objectives and current activity. A useful technique is to involve some interaction by getting attendees to work in groups to identify and score risks against their current priorities and to discuss how risk management links into the overall corporate and service planning process. In doing so this ensures that risk management is seen as a practical and useful tool rather than a theoretical exercise.

### C. Risk Identification

Risk Maturity Ranking                      Enabled      **Managed**      Defined      Aware      Naïve

**Risk vs. Issue** – The process for identifying and assessing risks is clearly outlined with excellent risk descriptors being used. One example of this and one from the reviewers experience is not commonly seen is the explanation of cause and consequence. However, the identification process can become clouded by the miss-understanding of a risk from an issue.

An example of this can be seen in the Strategic Risk Register; SR14, which states that, there is a major failure in the Council's IT infrastructure (software or hardware)'. In fact this is not a risk but a known issue which requires resolution.

**Recommendation: 12**

In order to operate effective risk identification process it is suggested that guidance is given to enable individuals to understand and **distinguish between a risk and an issue.**

### D. Risk Mitigation

Risk Maturity Ranking                      Enabled      **Managed**      Defined      Aware      Naïve

**Mitigation Plans** – Whilst current controls / mitigation are required on risk registers it is noticeable that this is not always detailed.

**Recommendation: 13**

**Guidance on mitigation expectations and timescales** to be given to service managers; this will aid them in clearly understanding the requirements / expectations in identifying, reviewing and developing timetabled mitigation action plans.

**Effectiveness of risk responses** – A Risk Management Handbook / framework should ideally include a measurement on effectiveness of risk mitigation. By including such an approach it gives greater emphasis and structure to the development of meaningful mitigation measures.

**Recommendation: 14**

A simple subjective, **measurement criterion**, which might be considered, is that of time, cost and quality vs. overall value at risk. This process would be applicable once the use risk registers has become common practice across the Council. Once achieved risk registers would then be enhanced with four additional fields; time, cost, quality and overall value at risk. Status would be defined in terms of red / amber / green (or RAG status) flags that help to monitor how effectively risks are being controlled.

## E. Monitoring and Control Mechanisms

Risk Maturity Ranking

Enabled

Managed

**Defined**

Aware

Naïve

**Risk Registers** – Whilst acknowledging the need to identify / report critical risks, the actual probability of those identified and reported on the Strategic Risk Register must be in context with the Council. Based on the data of this review there is no evidence to suggest the contrary, but to ensure validity it is recommended that each identified / reported risk go through a rigorous assessment, as all too often risks are reported because there is an expectation that they must be documented.

### Recommendation: 15

To substantiate the relevance of reported risks it is suggested that reference is made in the Risk Management Handbook that only those risks which have **tangible / quantifiable evidence** as to their emergence are reported, rather than those which are there because there is an expectation that they must be reported.

The value of undertaking such an exercise is that improved assurance can be gained that time and resources are being used to correctly to mitigate those risks which actually have a material affect on the Council.

**Identified Risks** – The Strategic Risk Register details the key risks facing the Council, but on review it appears the focus is somewhat introverted.

### Recommendation: 16

The Council has an established and robust mechanism for the identification of internal risks; however its focus on **external emerging risks** appears somewhat blinkered. It is recommended that risks are viewed and considered in the round, establishing a mechanism for the monitoring of the external risk environment. Not to overburden key individuals / service managers is it proposed that this function be undertaken by the Strategic Risk Group.

**Project Risks Registers** – Based on the evidence of this review the relationship between project and strategic risks appears to be disjointed, with the impact of the emergence of project risks not being reported on the strategic risk register.

### Recommendation: 17

To achieve greater consistency **project and strategic risk registers need to be aligned** the resulting benefit being the consistent reporting / application of risk management across the Council.