



Private and Confidential

## **Risk Management Review**

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## Section 1 – Introduction

As part of the on-going work with Derby City Council Zurich were commissioned to conduct a comprehensive review of their strategic risk management approach. This involved a desktop review of existing documentation (being previously reported on), processes and interviews with senior managers and key people across the Council, detailed below. These interviews were intended to encourage open discussion around the Council's existing risk management approach, framework and processes and to identify strengths and areas for improvement.

Prior to commencing the interviews and to gain a wider survey sample a questionnaire was issued, with the principle form of questions used being closed (please refer to Appendix A), the benefit of which is that it removes any ambiguity and enables objective data analysis.

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The data gained from both activities was used to compare and contrast with information gained from previous research. It is therefore suggested that this report be read in conjunction with the previously published report (November 2011).

This report is an outline of key findings from these interviews, with accompanying recommendations.

## 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, questionnaire and interviews with key personnel from Derby City Council. The criteria used is one a 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	Council wide approach but reactive / managed rather than proactive.
Defined	Strategies, polices and appetite defined but not universally adopted / implemented.
Aware	Some awareness, probably due to an individual employee.
Naïve	No formal approach.

## **Section 4 – Executive Summary**

There is clear evidence that work has been undertaken in terms of developing and embedding a robust / mature risk management framework across Derby City Council (DCC), but there is a consensus that to build on the excellent work already undertaken further work is required.

Although some of the baseline assessments may appear moderate, there is a great deal of evidence that improvements are already being made and higher maturity levels could easily be attained if the current momentum and desire for change is continued, which is very encouraging.

There are seven overarching themes for improvement:

1. Consistency of approach
2. Risk owner accountability
3. Improved communication and engagement
4. The defined requirements of a risk management process
5. Embedding a culture of proactive, constructive risk management challenge and learning
6. Timely risk mitigation, and
7. Harmonisation of programme / project and corporate risk management.

Within these key areas there are several suggested steps which could help DCC to embed a robust risk management process and attain higher levels of maturity.

## **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 – Review Findings

### A. Strategy and Policy: Do the risk management processes support the business effectively?

Risk Maturity Ranking	Enabled	<b>Managed</b>	Defined	Aware	Naïve
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When questioned, 'Has your business risk landscape changed since your last review 100% of questionnaire respondents and those interviewed answered 'yes'. To mitigate against the potential threats and to optimise the benefits this brings the Council has a clearly defined / mature approach to risk management, which is supported by the Risk Management Handbook. The guidance contained within it defines the scope, context and value of risk management within DCC. Whilst this document gives exacting detail its actual application is inconsistently applied.

Ownership of the risk management function rests with the Governance and Assurance Division. Whilst positive strides have been taken to develop risk management by this department the ownership of risk must be taken at strategic and operational level. There is clear evidence of this in the former, with 100% of questionnaire respondents confirming this; however it was less apparent in the later. Whilst it is accepted that risk management is applied robustly from a health and safety perspective across all functions, it generally tends to operate in isolation and does not underpin core functions, perhaps as well as it could do.

This is substantiated with the results of the questionnaire, in that when asked, 'Are employees at all levels engaged in the risk management process?' 71% of respondents said 'no'. When asked a supplementary question, 'Is sufficient attention given to control identification and evaluation?' 57% of respondents answered 'no' and when asked, 'Is there a clear link between objectives and risks at all levels?' 43% of respondents said 'no'.

#### Recommendation: 1

It is felt that risk management is not consistently applied to all organisational functions. Based on the willingness of those interviewed there is now an opportunity to align risk management more closely to these key processes to ensure linkages are more explicit.

#### Recommendation: 2

Risk owners should be held accountable for targets and controls, giving a stronger link to performance management.

#### Recommendation: 3

Operational employees are very risk-aware but there is some lack of strategic context. Continued communication of risk management throughout the Council should be considered, encouraging a move away from risk management purely being perceived as a health and safety issue.

Whilst a risk management approach is in place, of which 71% of questionnaire respondents confirmed being aware of, the commonality of use is less widespread, an example of this can be seen in project management, which will be discuss later in this report.

An observation made in the first report and one which has been further substantiated as a result of this supplementary review is that there is a wide ranging series of detailed but disjointed documents on risk management in circulation. Whilst the reviewer supports the use of risk management in all of the Councils functions it must be done from a unified approach, which supports organisational aims and objectives. This point is collaborated by the results of the questionnaire, which asked, 'Do you and your colleagues have a unified understanding of the concept of risk management, its language and the value it brings?' 57% said 'no'.

**Recommendation: 4**

Building on the recommendations previously made the Council needs to decide what it wants from its risk management framework. Once decided it needs to invest time and resources to ensure it continues to build on its current baseline position.

There is a general feeling that DCC is inherently risk averse, and that this should change, in order to take opportunities. Expanding on this, respondents were asked, 'Does everyone know what your risk tolerance levels are and risk appetite?' of which 86% replied, 'no'. This was further collaborated through the interview process.

The current operating environment presents many new opportunities and threats and as previously reported, defining risk appetite is crucial to how an organisation approaches risk, setting its tolerance and threshold levels, allowing for opportunities to be objectively risk assessed and taken.

**Recommendation: 5**

All policies / strategies should be written with due consideration of the risk management strategy and appetite before sign-off. This should ensure that decisions are made less in departmental isolation and that risk management becomes integral to all strategic and operational functions.

An area where the value of risk management is clearly understood is that of supply chain / partnerships. Those interviewed demonstrated a clear understanding of both the positive and negative risks associated with this activity and the adverse impact on the Council's reputation if not managed correctly. This was supported by the results of the questionnaire with 82% of respondents confirming that they explore risks associated with this practice and 71% understanding the impacts of reputation on the Council

**B. People:** Are your people equipped and supported to manage risk well?

Risk Maturity Ranking	Enabled	Managed	<b>Defined</b>	Aware	Naïve
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Embedding a sound risk management culture throughout the Council is seen as fundamental, however anecdotal information gained gives concern to the fact that in some parts of the Council there is a perception of blame associated with the identification / reporting of risk and that a solution must be known before a risk is reported.

**Recommendation: 6**

To reduce the impact of the realisation of any risk and to ensure a no-blame culture exists, it is recommended that all supporting risk management guidance and associated documents state that the open raising / communication of risk adds value to the Council and will not be condoned.

**Recommendation: 7**

Risks should not be presented as a fait accompli as this presents limited opportunity for discussion or challenge.

It was commented that the flow of information pertaining to an identified risk can become lost. Questionnaire responders were asked, 'Are the executive team / committee members informed of control failures and resolution?' 71% answered 'yes'. To a degree this demonstrates the flow of upward communication but it doesn't answer the question over any potential lack of down-ward communication.

**Recommendation: 8**

Consideration to be given to develop opportunities for all staff to contribute to risk issues (other than health and safety issues etc.).

As previously reported the process for identifying and assessing risk is clearly described in the Risk Management Handbook, however there appears to be some confusion over what constitutes a risk and an issue, with a mixture of both appearing in risk registers.

**Recommendation: 9**

Expanding on the current risk management training approach, it is suggested that refresher training to be given to managers and all associated employees, with risk management being included as part of the induction processes to embed a risk-aware culture.

**C. Processes: Do the risk management processes support the business effectively?**

<i>Risk Maturity Ranking</i>	Enabled	Managed	<b>Defined</b>	Aware	Naïve
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There are many new and emerging threats and opportunities and a real need for assurance that these are being properly managed is required. DCC achieves this through horizon scanning at a strategic level and in part through the reporting and constructive challenge of identified risks through COG. Whilst this group is taking a proactive approach, it could be argued that this approach is at odds with the review of the corporate risk register, which is done annually.

Senior management need to show the benefits of more risk-hungry approach to business areas, thus embedding risk management into all decision making and policy and strategy development.

**Recommendation: 10**

Whilst horizon scanning can be demonstrated at a strategic level it was less apparent at an operational level. The value of continually horizon scanning for emerging risks, both internally and externally must be communicated to all.

**Recommendation: 11**

The Council might benefit from interim reporting to the respective Committee(s) of any urgent risk issues.

As previously reported the process used within DCC is very exacting, being potentially to prescriptive, with its usage varying across the organisation. This imbalance of application is evident when reviewing risk registers, which as previously stated suffer from confusion over what constitutes a risk and an issue. Further to this whilst the process requires risk owners to detail current controls and mitigation actions it is evident this is not always followed, with many risks having 'on-going' mitigation actions or mitigation timeframes which have lapsed. However, when questioned, 'Do actions get implemented in a timely way' 71% of questionnaire respondents answered 'yes'.

**Recommendation: 12**

Continued communication of risk management through regular training and education is required which will help to embed the process of risk management operationally and strategically and assist informed risk decision-making.

At its fundamental core risk management is concerned with enabling positive behaviour to mitigate a risk. When asked, 'do you share good practice arising from good risk management' 57% of respondents answered 'yes'. Whilst there is no doubt that mitigation action is in place the organisational active learning derived from it could not be evidenced.

**Recommendation: 13**

It is suggested that to ensure organisational active learning is obtained consideration to be given to implementing a lessons learnt register which is compiled of proven mitigation actions.

**D. Projects: Do the corporate and project risk management approaches align?**

<i>Risk Maturity Ranking</i>	Enabled	<b>Managed</b>	Defined	Aware	Naïve
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The task of risk management within the context of a programme / project is to manage its exposure to risk by taking action to keep that exposure to an acceptable level, within the defined project costs. The risks associated with programmes / projects to achieve their intended business change are complex and interrelated. Evidence from this review demonstrates DCC understanding of these complexities, having in place a robust programme / project management structures.

In addition to programme / project risk registers clear lines of escalation are in place, with a highlight report(s) being used. The contents of which describe the risk giving a preferred options appraisal. As referred to in Section B, risks should not be presented as a fait accompli as this presents limited opportunity for discussion or challenge.

**Recommendation: 14**

Risk by its nature is subjective, to ensure an objective and balanced decision is made Committee members must be given the opportunity, where applicable to pro-actively challenge identified risks.

Based on both reviews the relationship between project and strategic risk management appears to be disjointed with separate guidance being in place and no alignment of risk registers.

**Recommendation: 15**

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

## Appendix A - Questionnaire

### What does Risk mean to you?

The questions below are designed to challenge your own understanding of Risk Management, its impact and the way in which you can mitigate negative risks and maximise the positives.

#### Strategic:

- Has your business risk landscape changed since your last risk review (consider both micro environment and macro environment)

Yes <input type="checkbox"/>	No <input type="checkbox"/>
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- Does risk influence your business strategy?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
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- Do you and your colleagues have a unified understanding of the concept of risk management, its language and the value it brings?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
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- Does everyone know what your risk tolerance levels are and risk appetite?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
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- Have you calculated the impacts / consequences on your business's reputation if your risk mitigation activities fail?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
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#### Business Planning:

- Are risks reviewed regularly as part of the business planning cycle?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
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- Is there a clear link between objectives and risks at all levels?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
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- Is risk an integral part of business / budget planning?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
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- Are both positive (upside) and negative (downside) risks taken in to account?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
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- Do you explore risks associated with your supply chain / partners?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
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- Do you consider the realisation of a single, seemingly isolated risk has on the wider business?

Yes  No

**Risk Management:**

- Are employees at all levels engaged in the risk management process?

Yes  No

- Is the risk management process used within projects?

Yes  No

- Is sufficient attention given to control identification and evaluation?

Yes  No

- Are there clearly defined procedures, responsibilities and reporting structures?

Yes  No

- Do actions get implemented in a timely way?

Yes  No

- Do you consider the interdependencies linked to your mitigation actions?

Yes  No

**Monitoring and Learning:**

- Do you share good practice arising from good risk management?

Yes  No

- Are the Executive Team / Committee Members informed of control failures and resolution actions?

Yes  No

- Would you say your department has a proactive approach towards management of risk?

Yes  No

