Audit Committee

26 May 2011

Review of Strategic Risk Management

Durham
County Council

Report of Corporate Management Team

Don McLure, Corporate Director, Resources

Purpose of the Report

1. The purpose of this report is to demonstrate the outcome of the review of the Council's strategic risk management framework by Zurich Municipal. It also provides evidence to support the Annual Governance Statement.

   Background

2. Zurich Municipal was commissioned by the Council to undertake an independent review of the Council's approach to business risk management. The purpose was to establish the effectiveness of the current business risk management arrangements, make recommendations for improvement, and stimulate discussion within the Council about how best to take risk management forward.

3. Corporate governance, inspection and regulation criteria demand that robust and demonstrable risk management and internal control mechanisms are embedded at all levels of the organisation. The Council's current Risk Management framework, process and methodology have been evaluated against best practice and Zurich's extensive experience. The work was completed in January 2011 in two parts by Alan Ross, a Strategic Risk Management Consultant with Zurich Management Services Limited. The first was a review of current risk management documentation used and held by the Council. The second involved spending two days on site interviewing key managers and officers involved in the risk management process. This report is a summary of the output from the work. A number of recommendations have been made and Appendix 2 contains a list of these. A more detailed report is available if required.

   Conclusion

4. Overall the Council's risk management arrangements are robust and effective, work well and are of benefit to the managers that use it. The recommendations in this report could be described as enhancements for further embedding risk management within the Council. In summary, the main conclusions of the review were:

- The Council is already working innovatively – taking opportunities – in a number of areas to deliver benefits for the people it serves.
- There is buy in and active engagement at a senior level. Senior managers see value in the process and understand its importance in decision making and the general running of the organisation.
- The risk management approach and process used within the Council is mature and well established. Officers do gain benefit from the process and the support of the risk management team, and others, in managing their significant risks.
- There is strong support for Officers and Members from the risk team and service risk managers. There is also recognition that the process must add value and must change to remain relevant to the needs of managers.
- Actions to manage the significant risks are identified and monitored to ensure they are carried out.
- Almost universally, and without prompting, the process and support received is described in positive terms. This is probably down to three broad factors:

  ➢ there is buy in and active engagement at a senior level.
  ➢ the level of support from the risk team and service risk manager.
  ➢ the desire to make the risk management process one that adds value to what the Council does, rather than act as a break.

5. In many ways the process used is fully effective but there are some improvements Officers would like to see, and during the interviews a number of themes emerged. These included:

- Maintaining a high profile for managing risks within the Council.
- Enhanced challenge and scrutiny from officers and Members of the risk information they see.
- Gaining greater confidence around how risks are managed in key programmes and projects.
- Improving how risk management is done within other key business processes, such as procurements and partnerships.

6. However, risk management is not an end in itself. Risk management should be about building resilience within an organisation – the ability to withstand change and uncertainty; the ability to come through uncertainty stronger; and the ability to recover from problems if they do arise. This is the key challenge in any risk management system and it should be the basis for considering any changes to the current system.

Next Steps

7. There are 13 recommendations in total. These recommendations are highlighted in bold in Appendix 2, and will be discussed by the Corporate Risk Management Group, and an action plan agreed on how

best to respond to them. Any appropriate changes will then be made to the relevant risk management documentation.

8. The report is not intended to set out a prescriptive list of recommendations but to create debate and discussion about how the Council could better approach risk management in the future. Nor should this report take anything away from the good progress that has been made over the years in developing an effective and value adding system of risk management.

9. Following on from the Health Check it is recommended that the CRMG consider the recommendations made in this report, and how to implement them:-

- If changes are made then the relevant documents should be updated as soon as reasonably possible to reflect any changes.
- An action plan to implement any changes should be agreed and then reviewed periodically.

Recommendation

Audit Committee to note the contents of the report.

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Appendix 1: Implications

Finance - Addressing risk appropriately reduces the risk of financial loss.

Staffing - Staff training needs are addressed in the risk management training plan.

Equality and Diversity - None

Accommodation - None

Crime and disorder - None

Human rights - None

Consultation - None

Procurement – None.

Disability Discrimination Act – None.

Legal Implications – None.

Appendix 2: Observations and Recommendations

1. If managers do not find the risk management process of benefit it will lose momentum. **New ways of keeping risk management relevant to managers should be explored.** This might include using CRMG in a different way to look at current topics in a bit more depth, or by inviting in 'expert' speakers.

2. Often risk management can become internally focused. **Care should be taken to ensure that key strategic risks arising from external causes are considered as part of the risk management process.**

3a. Each risk is assessed for its 'Gross risk'. This can become a theoretical or academic exercise and may not add value to the overall process. **Consideration should be given – along side recommendation 3b – to dropping this requirement.**

3b. Where risks are to be managed it is important to managers to have a clear idea of what the target is: the level of risk that will be accepted by the Council. **Consideration should be given to adopting a target risk score.**

4. Senior managers need assurance that the risks being reported to them are being addressed adequately. **Risk actions should be reported to CMT and the Audit Committee.**

5. **If recommendation 3b is adopted then senior managers should have the target risk score reported to them.**

6. A recognised weakness is the time taken for risk information to get from a service level, through CRMG to CMT, and then onto Members. **CMT should consider if it is possible to streamline this process to ensure the information Members receive is not out of date.**

7. Risk management information, as far as possible, should be open to all in the organisation. **Consideration should be given to publishing the current risk register for each Service on the intranet.** This may be used to encourage involvement from those not directly involved in the process.

8. Risk management is not entirely about what can go wrong. Often opportunities arise from risks, or opportunities may arise in how the Council can respond to risks. It is important that these opportunities for improvement or innovation are not lost. **Consideration should be given as to how these opportunities can be recorded and followed up.**

9. Significant projects within the Council do have risk registers in place. However it is not clear how programme risks are managed. **Consideration should be given as to how best to ensure risks relating to programmes are identified and managed appropriately.**

10a. Member engagement in risk management is important. Members should feel confident in their ability and responsibility to effectively challenge and scrutinise risk management information. **A short briefing session outlining these responsibilities and how to do it could be beneficial.**

10b. **As part of this briefing it may be useful to give Members a short toolkit outlining the process, their responsibilities and the key questions they should be asking when presented with risk information.**

11. When risk information is presented to Members in Key Decision reports it often contains information about what could be done to manage the risks. These actions are not always carried over into an appropriate plan, risk register or other document. **Consideration should be given as to how to ensure these actions are carried out.**

12a. The Council's partnership governance framework document is currently under review. **Consideration should be given as to how risks can best be managed in the significant partnerships the Council is involved in.** The first step in this is identifying what is a significant partnership. These could be identified using a simple risk grading system.

12b. Partnerships, procurements and the supply chain will be increasingly important for the Council and the delivery of core services. These may also be areas of higher risk. **Consideration should be given to developing a short toolkit to help managers to identify and manage risks in these important areas.**

13. Risk management and performance management are closely aligned, although often the two can be seen as separate or done without reference to the other. **Consideration should be given as to how performance and risk can be better aligned.** This might be done through updating risk registers as part of the regular performance clinics the Council runs.