

Committee(s):	Date(s):
Audit and Risk Management Committee	17th September 2013
Subject: Risk management update	Public
Report of: Chamberlain	For Decision

Summary

This report presents the Audit and Risk Management Committee with an update on the strategic risk register and the progress to date on the Risk Management Improvement plan

In accordance with the rolling review of risk, two strategic risks are considered in detail at this meeting of the Committee. These are SR1: Failure to respond to Terrorism and SR13: Public Order and Protest which are the subject of separate reports.

As part of the risk management improvement plan, Members are asked to review and comment on the proposals to amend the current risk matrix, to introduce an opportunity risk matrix and to introduce a more structured approach in describing risks, using the cause, risk and effect model. If agreed, the intention would be to introduce the new approach by April 2014.

An online risk management system is currently being investigated which would assist in the recording, management, and dynamic reporting of risks. The benefits of such a system include greater transparency, real time information with clear audit trail and better business intelligence regarding risk data.

The improvements that are being proposed as part of the improvement plan will result in the revised risk management handbook, containing greater clarity about the way in which the City Corporation is managing risks both at the strategic and departmental level.

The independent review of risk management is being undertaken by Zurich Municipal. The findings will be reported at the Audit and Risk Management Committee in October. Any recommendations from that review will be incorporated into the revised Risk Management Handbook.

Recommendations

Members are asked to:

- review the revised risk matrix for scoring likelihood and impact (Para 7);
- review the revised structured approach to describe risks (Para 8);
- note the development around introducing a risk management information system (Para 9).

Main Report

Background

1. The strategic risk register was last reviewed by the Audit and Risk Management Committee on 25th June 2013, by the Strategic Risk Management Group on 19th June 2013 and by the Chief Officer Summit Group on 8th July 2013.
2. Each risk has been reviewed and updated by the responsible risk owner, in accordance with the established risk management framework. The latest strategic risk register contains 13 Strategic risks and is appended to this report for review (Appendix 1).

Current Position

3. Following Members' recommendation, all strategic risks have control owners. The Risk Management Handbook has also been updated to define control owners as those officers responsible for coordinating the activity involved in managing the risk.
4. Updates to the Strategic risks, since last reported, are summarised below:
 - 4.1. SR1 (Failure to respond to a Terrorist Attack) and SR13 (Public Order and Protest): Additional controls have been added to capture the full extent of activities being undertaken to mitigate and control the risks, including the thematic workshops focusing on the potential impacts of civil disorder in the Square Mile. As a result, the Net Risk for SR13 has reduced to Green because of the reduction of its Impact score from 4 to 3. Both SR1 and SR13 are scheduled for review at this Committee in accordance with the rolling review of Strategic risks.
 - 4.2. SR11 (Pond Embankment Failure): Good progress is being made to manage this risk. Testing of the Telemetry system with the emergency plan and Hampstead Heath staff has been successful. The Ponds' Project Stakeholder Group continues to meet regularly to enable key groups to contribute to the detailed design of the scheme, working with the Strategic Landscape Architect appointed to champion the landscape. This risk, however, still remains at Red due to no changes in its Likelihood or Impact scores.
 - 4.3. SR14 (Longer term Financial Uncertainty): With the announcement of the 2015/16 funding settlement, which indicates an 8.2% reduction on non-police services, the Gross Impact score has increased from 3 to 4. Service based reviews are being undertaken to address the 2016/17 forecasting deficit and the Net Impact score has been increased from 2 to 3. The risk, however, still remains at Amber. SR3 and SR14 are being re-written in light of the DCLG technical consultation on the financial settlement 2014/15 and 2015/16.

5. To illustrate the current risk profile, the strategic risks have been plotted on the City's risk matrix, in accordance with the net scores from the impact and likelihood assessments (Appendix 1).
6. The risk management framework continues to help in identifying strategic risks, in accordance with the definition established in the Risk Management Handbook:

Strategic risks are those that are identified as having an impact on the achievement of the City Corporation's Strategic Aims or Key Policy Priorities.

One or more of the following four criteria must apply:

- The risk relates directly to one or more of the Strategic Aims or Key Policy Priorities.
- A departmental risk that has significant impact on multiple operations if realised.
- The risk has been identified as present for a number of departments.
- There are concerns over the adequacy of departmental arrangements for managing a specific risk.

Risk Management Improvement Plan

7. Revised risk matrix

7.1. Risk matrices are typically of arithmetical form with the risk scores being determined from the likelihood and impact scores. Although the current model has helped in establishing the initial risk framework, it is not in line with the typical industry formats.

7.2. The proposal to revise the risk matrix is shown below:

		Impact				
		Minor (1)	Significant (2)	Serious (4)	Major (8)	Extreme (16)
Likelihood	X					
	Very Likely (5)	5	10	20	40	80
	Likely (4)	4	8	16	32	64
	Possible (3)	3	6	12	24	48
	Unlikely (2)	2	4	8	16	32
Rare (1)	1	2	4	8	16	

- 7.3. This revised version determines the risk score using the multiple of the likelihood and impact scores, with the impact scores going up in factors of 2, resulting in a more logical framework to group and score risks. The revised matrix now distributes the risk scores more proportionally as the amount of red and amber blocks are equally distributed compared to the current version which has more emphasis on the Amber blocks. Other minor changes include the change in Likelihood risk descriptors from 'Insignificant' to 'Rare' and from 'Almost Certain' to 'Extreme'.
- 7.4. We are also investigating a web based risk management system to record, monitor and report risks. By using the revised risk matrix, which is more in-line with industry norms, we will also be more compliant towards the specifications of risk software providers. Thus expanding our options of providers to choose from and reducing our need to develop a costly bespoke system. Progress on system selection is noted in Para 9.
- 7.5. The revised matrix has also been used to derive an Opportunity risk matrix for the scoring of Opportunity risks. Opportunity risks are defined as uncertain events which could have a favourable impact on objectives or benefits (as defined by the Office of Government Commerce and the BSI ISO 31000:2009). Apart from the colour scheme (Gold, Silver and Bronze), the Opportunity risk matrix is used in the same manner as the revised risk matrix.

		Impact				
		Minor (1)	Significant (2)	Serious (4)	Major (8)	Extreme (16)
Likelihood	X					
	Very Likely (5)	5	10	20	40	80
	Likely (4)	4	8	16	32	64
	Possible (3)	3	6	12	24	48
	Unlikely (2)	2	4	8	16	32
Rare (1)	1	2	4	8	16	

- 7.6. Opportunity risk management is becoming an emerging element within the general risk management environment, as greater understanding has led to recognition that not all risks are bad. By adapting this model in our processes it will help to establish the City Corporation as one of the exemplars in risk management.

7.7. Members are asked to review the new risk matrices and provide feedback about its suitability. It is envisaged this new approach will be adopted by April 2014.

8. Revised structured approach to describing risks

8.1. This proposal is to introduce a three-part structured statement in the form of a cause, risk and effect model which will be used for the recording of both threats and opportunities.

8.2. Below, we provide a breakdown of the two new terms

- *Causes* are definite events or sets of events which give rise to uncertainty. Examples include the need to use an unproven new technology or the lack of skilled personnel. Causes themselves are not uncertain since they are facts or requirements, so they are not the main focus of the risk management process;
- *Effects* are unplanned variations from the objectives, either positive or negative, which would arise as a result of risks occurring. Examples include exceeding the authorised budget, or failing to meet contractually agreed performance targets. Effects are unplanned potential future variations which will not occur unless risks happen. As effects do not yet exist, and indeed they may never exist, they cannot be managed directly through the risk management process.

8.3. There are a number of benefits of this approach;

- It will help in clearly identifying the actual genuine risk, ensuring that attention is given where it is mostly likely to be effective;
- It assists in determining the types of controls required to manage the risks, either to stop the causes or reduce the effects;
- Better clarity is achieved relating to the appropriate risk and control owners; and
- A more consistent framework for recording risks at the departmental and project level.

8.4. Members are asked to review the revised approach to describing risks and provide feedback about its suitability. If adopted, this approach will be put in place by April 2014 using the new risk management information system.

9. Risk management information system

- 9.1. As departments are becoming more familiar with risk management, greater focus is being placed on the risk registers, which is resulting in an unavoidable administrative burden because the registers are currently collated manually, albeit with the use of spreadsheets. As a result, work has started to investigate various risk management information systems to reduce the burden, improve consistency and significantly improve the ability to provide dynamic reporting.
- 9.2. Further benefits that can be achieved from a risk management system include;
- Clearer oversight of strategic and operational risks;
 - Greater transparency and visibility of risk management;
 - Assurance that risk portfolios are actively managed and that risk management is robust;
 - Improving data quality and saving time (and expense) in administering risk registers;
 - Behaviour changes from gathering information to interpreting what it says and improving the ability to provide business intelligence for decision making;
 - Easier to share and communicate risk information;
 - Improved reporting of risk information and usage in other areas, e.g. risk-based audits; and
 - Real time information with clear audit trail.
- 9.3. In addition to the above, a risk system assists in capturing consistent data and can be adapted to work with the matrices for opportunities and threats. The system will also allow customised reports to be produced which can focus on specific areas of interest, for example, producing a report for the top financial risks of the City Corporation. This cannot be currently achieved due to the independent nature of the current risk registers on MS Excel.
- 9.4. Members are asked to note this development and will be informed of further progress in December.

Independent Review of Risk Management

10. Zurich Municipal have been commissioned to undertake a review of the effectiveness of our risk management arrangements. Interviews are currently being undertaken with select Members and officers to capture different perspectives on our current framework.
11. It is expected that all interviews will be completed by the end of August 2013 with Zurich Municipal presenting the final report to the Audit and Risk Management Committee October 2013.
12. Any recommendations from that review will be incorporated into the revised Risk Management Handbook.

Cyclical Review of Strategic Risks

13. A structured approach to reviewing the City's strategic risks has been adopted, in order to promote full coverage and review. The schedule of reviews for the Audit and Risk Management Committee is shown below:

Forthcoming reviews:		Date
SR1	Failure to Respond to a Terrorist Attack	17 th September 2013
SR13	Public Order and Protest	17 th September 2013
SR8	Reputation Risk	15 th October 2013
SR10	Adverse Political Developments	15 th October 2013
SR3	Financial Stability	28 th January 2014
SR14	Longer term Financial Viability	28 th January 2014
SR4	Planning Policy	5 th March 2014
SR5	Flooding in the City	5 th March 2014
SR2	Supporting the Business City	13 th May 2014
SR6	Project Risk	13 th May 2014

Previous reviews:		Date
SR9	Health and Safety Risk	25 th June 2013
SR11	Pond Embankment Failure	25 th June 2013
SR16	Data Protection Risk	25 th June 2013
SR2	Supporting the Business City	5 th March 2013
SR6	Project Risk	5 th March 2013
SR4	Planning Policy	5 th February 2013
SR5	Flooding in the City	5 th February 2013
SR3	Financial Stability	12 th December 2012
SR11	Pond Embankment Failure	12 th December 2012
SR14	Longer term Financial Viability	12 th December 2012

Conclusion

14. The Strategic Risk Register continues to be reviewed actively and updated by risk owners, in line with the requirements stipulated by the Risk Management Handbook. Strategic Risks are being added and closed as the risk environment changes, with the cyclical review programme of Strategic Risks being actively managed.
15. The proposal to include the revised approach to describing risks, the revised risk matrices, and the risk management information system will ensure our procedures remain ahead of current industry standards, by being at the forefront of changes within the risk management environment.

Appendices

- Appendix 1 – Strategic Risk Register

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