insight

QRMC NEWSLETTER

QRMC Risk Management

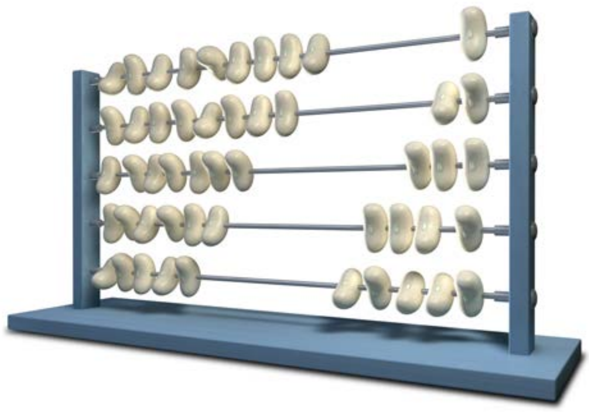
Issue 66 **June 2016**

Insight aims to provide useful information, links and tips in the areas of Risk Management, Occupational Health and Safety, Business Continuity Management, and other areas relating to management systems and corporate governance.

This issue:

- How Accountable are the 'Bean-Counters'?
- Is your Business Continuity Program risk focussed?
- Risk Normalisation

How Accountable are the 'Bean-Counters'?



WHS legislation across Australia imposes clear duties and obligations on business owners, managers and workers in relation to maintaining a safe workplace. Most managers with direct responsibility for staff, contractors or others have a sense of their role to ensure the workplace is safe, as well as an understanding that there could be personal consequences if they fail to do so. But what about the officers high up in the organisation, sometimes completely disconnected from the 'point of risk' workforce, but making decisions about budgetary allocations?

The positive duty of care requirement embedded within the model WHS legislation imposes a specific duty on 'Officers' and details the minimum due diligence requirements for compliance. Under the *Australian Corporations Act* an 'Officer' is defined based on their role and accountabilities, while the duty of care required by the 'Officer' under the WHS Legislation is to exercise due diligence to ensure the PCBU complies with its duties and obligations.

The discussion of resourcing as part of the due diligence requirements (Sec 27 of the *WHS Act*) draws the connection to those executive and management 'Officers' that determine or influence the budget allocated for WHS – and this would normally include the organisation's CFO and Senior Managers.

A review of some of the most prominent WHS incident investigations internationally points to financial factors – such as 'cost cutting' in the form of reduced personnel, restrictive training budgets, an inferior standard of supplies / services, or operational pressures for increased productivity – contributing to catastrophic events such as Deepwater Horizon, Bhopal, Piper Alpha, and locally Esso Longford.

Some of the financial pressure points include:

- Budget allocation for routine and preventative maintenance is often stretched, with the resulting quality of the service delivery being impacted. The failure of routine or preventative maintenance is regularly highlighted as a one of the first contributing factors identified in the majority of workplace incidents – be they of a catastrophic scale or a single fatality. Given this, it could be asserted failure to maintain key plant or equipment is also failure to exercise due diligence in ensuring WHS;

- Restrictive training budgets, or the operational inability to make staff available for training, has a significant impact on staff awareness or reinforcement of safe operating procedures, and more importantly what to do to maintain safety when there is a deviation from these SOPs;

- Procurement practices primarily based on cost efficiencies may have impacts downstream with inferior-products requiring more maintenance, having a shorter life-span and an increased likelihood of failure. The same principle could be applied in terms of service provision;

- Operational strategies to enhance productivity (such as restructuring, work intensification and outsourcing) often expose gaps in due diligence considerations in relation to ensuring safe staffing levels for ‘point of risk’ personnel, and conducting effective consultation and cooperation processes, resulting in an emergence of workplace stress. These are typical causal or contributory factors for workplace incidents; and

- The failure to effectively consider Safety in Design impacts at the start of a project often results in the need for additional capital expenditure, however as the cost of modification and after-market retro-fits exponentially grows, there is pressure to justify the expenditure and quantify the ‘return’. This leads to the inevitable risk of compromise between safety outcomes and funding allocation.

There is no doubt that current budgetary accounting practices directly and indirectly contribute to workplace incidents, and have the potential to undermine the management of WHS risks. The requirements of the *WHS Act* provide guidance for ‘Officers’ to ensure the organisation’s due diligence requirements are met, and to prevent incident, injury or illness. An organisation’s CFO along with its Senior Management team, share a ‘duty’ to ensure that the resourcing provided for WHS is ‘adequate’ to enable the PCBU to comply with its duty of care requirements.

Please contact QRMC if you would like to have your corporate governance and due diligence process evaluated.

Is your Business Continuity Program risk focussed?

Most Business Continuity Plans (BCP) include consideration of the Critical Functions within the organisation, including the need to identify them together with the necessary resources required to perform these critical functions and any available workarounds.

Two key issues to consider when formulating a BCP are:

1. Is the definition of a Critical Function clearly understood by all stakeholders?

2. Are Critical Functions prioritised when developing the BCP?

Most people have an inherent belief that what they do at work is important and adds value to the organisation they work for. This is especially true when it comes to Leaders, Directors and Managers. Often though, there is a lack of understanding of what is truly ‘critical’ to the organisation, and if non critical functions are incorrectly categorised, the resourcing and proper management of truly critical functions can be compromised.

During Business Impact Analyses exercises, it can be useful to avoid using the terms ‘Critical’ and ‘Non Critical’ functions, and instead use the terms ‘Critical’ and ‘Key’. This less confronting terminology allows participants to concede that whilst they may perform a key function for the organisation (e.g. strategic planning), it may not necessarily be critical to quickly restore following a disruption event.

Once the separation of functions is complete and the organisation has carefully identified its Critical Functions, these are usually included in a BCP ‘en masse’ without any real consideration of priority. In order to prioritise these Critical Functions, it is vital that they are assessed in terms of their risk to the organisation following a disruption event, given the effectiveness of existing work arounds. A Business Impact Analysis exercise is thus incomplete without a risk assessment component that facilitates the prioritisation of Critical Functions to enable the prioritised resumption of activities after a disruption event.

Using a risk methodology based on the organisation’s Enterprise Risk Management requirements, the prioritisation of Critical Functions becomes an objective exercise with each Critical Function being assigned a risk rating that facilitates prioritisation.

Please contact QRMC for more information.

Risk Normalisation

Risk management as business best practice, and the regular use of risk identification in the workplace, are now well-embedded in organisations across all industries. However, identifying and then managing risk only works properly if the people doing the identification realise something is ‘risky’.

An unfortunately common phenomenon can occur when workers and their managers are used to seeing certain risks regularly repeated in their workplace. Everyone gets used to the risk, considers it a normal part of the workplace, and tends to forget to develop, implement or monitor the controls to manage it.

In addition to seeing the risk regularly and becoming used to it, if work tasks are repeatedly carried out without any resulting severe consequence, this experience further entrenches the perception that the risk is normal and not requiring to be managed.

This process is known as “risk normalisation”, and can result in incomplete and inadequate risk management programs which don’t fully protect the organisation or its workers.

Strategies for addressing this pitfall include:

- Ensure your organisation’s risk management methodology clearly articulates the importance of regular revision and update
- Ensure that it’s not always the same staff members undertaking the risk identification process on each revision
- Consider having staff from an entirely different section of the organisation participate in the risk identification process of other sections, so that a completely fresh set of ears and eyes is brought to bear that may detect unquestioned assumptions
- Include risk identification within the scope of internal or external audits to further utilise the ‘fresh set of eyes and ears’
- Occasionally engage a specialist risk management consultant to conduct the regular risk management program review and update, again bringing a fresh and objective perspective to the review of your organisation’s risks.

Please contact QRMC for more information.

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