MODULE 5

RISK MANAGEMENT

PART OF A MODULAR TRAINING RESOURCE

RISK MANAGEMENT

INTRODUCTION

Identifying and managing risks, is an important part of business planning as it helps organisations to take informed and considered risks and assists with a strategic and consistent approach to managing risk across the organisation.

Risk management can be described as the culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects. It is important for business planning and developing a clear understanding of any threats to your organisation’s success.

This Module is designed to provide a practical overview of risk management and tools and templates to assist you manage risk within your organisation.

There are three key steps in managing risks including identification, assessment and treatment. These three elements are discussed below.

KEY DEFINITIONS

Term	Definition
Control	Strategies put in place to prevent or reduce the impact of a risk.
Risk	A probability or threat of damage, liability, loss or negative occurrence, which is caused by external or internal factors.
Risk management	The culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects.

RISK IDENTIFICATION

The aim of risk identification is to develop a comprehensive list of sources of risk and events that may have a *significant* impact on the achievement of your organisation’s objectives.

‘Comprehensive’ in this context means ‘well thought through’. It is more useful to carefully consider the most important risks than it is to list all things that could possibly go wrong. So think laterally about risk, but focus on things that are reasonably probable, and really matter.

EXAMPLE OF RISK TYPE IDENTIFIED FOR TRANSITION PERIOD

Risk type	Description
Financial risk	Risk to financial sustainability of the organisation due to loss or decline in revenue. Risk of insolvency.
Operational performance risk	Risk that the organisation will be unable to find new business to overcome the impact of the result of the Employment Services 2015 - 2020 RFT process.
Resourcing risk	Risk of reduction in staffing numbers due to staff leaving the organisation during a transition period.

There are many ways in which risks can be identified. As a starting point, it is useful to think in terms of the main categories of risk:

- STRATEGIC – for example, a competitor coming on to the market.
- COMPLIANCE – for example, responding to the introduction of new Deed requirements.
- FINANCIAL – for example, a decline in revenue following the recent RFT for Employment Services 2015—2020.
- OPERATIONAL – for example, breakdown or theft of key equipment.

It is also important to think of the size and complexity of your organisation and use a mixture of methods to suit your organisation. Commonly used methods include:

- INTERVIEWS/CONSULTATION – Interviews secure key stakeholders' views on the nature of risk. The benefit of this approach is the ability to educate the interviewee and gain their individual response, and secure a response from a stakeholder who may not be able or appropriate to attend a workshop.
- WORKSHOPS – The workshop enables a consensus view on the nature of risks. However, if used in conjunction with the above approach, it can provide a more sophisticated view on risk. Participants of the workshop should be chosen to ensure the right balance of views and personalities, thus securing an open and honest discussion where divergent viewpoints are encouraged to promote innovative thinking.
- OTHER PROCESSES – There is a variety of other processes to identify risks such as checklists, scenario planning, looking at risk history of other service organisations and audit reports (if available).

The most commonly applied tools are interviews and risk workshops, as the best way to comprehensively identify risks is to consult with people at all levels of your organisation.

RISK ASSESSMENT

Once you have identified the risks to your organisation, it is important to assess the risk by determining the likelihood that the risk will occur and the consequence if it does.

During this process it is important to consider controls or strategies you have in place to prevent that risk from occurring. Risk assessment will help you to prioritise the significance of risks, in order to determine whether you need to adapt your controls and strategies (see the next section).

The final risk assessment you prepare should indicate residual risk. This is the level of risk that remains after you have applied all of your controls and mitigation strategies. You may therefore start with a high-risk rating and revise it down accordingly as you decide what risk controls and mitigation strategies to implement.

At the end of this Module, there are some tools, which will assist in determining the consequence and likelihood of the risks occurring and a template for a risk-rating table.

MANAGING RISKS

Once you have assessed the risks and prioritised their significance, there are various approaches to managing each risk.

Approach	Description
Impact mitigation	Minimising the consequence of risks. This is effective for risks which, even if reduced cannot be avoided. The treatment is directed at coping with their impact and includes contingency planning, contract terms and conditions, disaster recovery planning and crisis management.
Risk acceptance	Occurs when the cost of the above methods are prohibitively high, and the organisation decides to accept the potential impacts of the risk. This would usually occur where the profit opportunity is high and the entity is sufficiently confident in managing the risk.
Risk avoidance	Extreme case of risk reduction, where undesired events are avoided by undertaking a different course of action.

Approach	Description
Risk reduction	Eliminating sources of risk or reducing the likelihood of their occurrence. For example, quality assurance procedures, reviews and inspections, preventative maintenance and day to day procedural and management controls.
Risk transfer/sharing	Shifting the responsibility (and hence the consequences) for the risk to another party e.g. insurance, partnering with a commercial entity and other contracts. This usually results in a cost (such as insurance premium) or a reduced return (profit sharing). This is also known as ‘risk sharing’.

DETERMINING MITIGATION STRATEGIES/CONTROLS

The third step in managing risk is determining the effectiveness of the mitigation strategies and controls, and adapting these if needed.

Controls are designed to limit a cause or a consequence related to the risk and may include such elements as procedures, processes, infrastructure, training, audits and culture.

A common way to identify if the control is effective is to ask the questions, “What does the control not cover?” and “Where are the weaknesses?” These questions provide an understanding of actions that may be warranted and are integral to rating the effectiveness of the control.

Examples of controls are:

Risk	Controls
Fraud	Delegations of Authority Policy Signatories on payments Staff training Reconciliation processes
Unable to find new sources of business during transition period	New strategic plan and business plan Cost optimisation strategy

RECORD

It is important to keep a record of risk, ratings and mitigation strategies/controls you have developed. The most common and most effective is a risk register. An example of a risk register is included in Tools and Tips at the end of this Module on page 7.

REPORTING

It is important that the organisation's Board be involved in contributing to and monitoring the risk register. Some Boards only want to view 'Very High' and 'High' risk items and some like to view the whole register. Some review the register annually, some quarterly and some every Board meeting. Consider your organisation's approach to updating, reporting and monitoring risk.

RISK REGISTER

Example of a risk register to help you capture your risks, assessment and mitigation strategies/controls.

Number	Risk	Description	Cause	Consequence	Control/Mitigation Strategy	Risk Rating	Responsibility
1	Insolvency	That the business cannot meet its debts when they are due and payable	Change in business	The organisation will close	New Strategic Plan and Business Plan Revised budget and cost optimisation	High	Board and CEO
2	Unable to source alternative revenue	Failure to source alternative revenue leads to poor management of staff redundancies or redeployment	Change in business coupled with inadequate response from management	Disruption to services for clients and/or a reduction in service level	New Strategic Plan and Business Plan Revised budget and cost optimisation HR Plan	High	CEO and HR

CONSEQUENCE AND LIKELIHOOD RATING TABLE

EXAMPLE CONSEQUENCE TABLE

Consequence and category	Insignificant	Minor	Moderate	Major	Severe
Impact on finances (funding)	0.1%–1.0%	1.1%–5%	5%–10%	10%–30%	> 30%
Loss of key staff	Disruption to services for a small number of clients and no reduction in service level.	Disruption to service for some clients and there is a minor reduction in service level.	Disruption to service for many clients and/or there is a moderate reduction in service level.	Disruption to service for many clients and/or there is a major reduction in service level.	Disruption to service for a significant number of clients and there is a severe reduction in service level.

LIKELIHOOD TABLE

LIKELIHOOD RATING

The number of times a risk may occur within a specified period either because of business operations or through failure of operating systems, policies or procedures.

Rating	Description	Occurrence
Almost Certain	Expected to occur in most circumstances	Multiple/12 months
Likely	Will probably occur in most circumstances	Once/12 months
Possible	Might occur within 1–2 year time period	Once/1–3 years
Unlikely	Could occur during a specified time period	Once/3–10 years
Rare	May only occur in exceptional circumstances	Once/>10 years

RISK RATING TABLE

Likelihood / Consequence	Insignificant	Minor	Moderate	Major	Severe
Almost certain	Moderate	Moderate	High	Very High	Very High
Likely	Moderate	Moderate	High	High	Very High
Possible	Low	Moderate	Moderate	High	High
Unlikely	Low	Low	Moderate	Moderate	High
Rare	Low	Low	Low	Moderate	Moderate