Implementing A Risk Management Framework

Dennis J Clark
Clark Corporate Consulting Pty Ltd

Room
Day, Date Saturday 26 February 2011
Time 11.00am – 12.00 pm
Session Outline

• Presenter
• Risk Management
• AS/NZS 4360 & AS/NZS ISO 31000
• Enterprise Risk Management
• Organisational Risk Assessment
• Business Continuity, Disaster Recovery & Crisis Management
Presenter

- Auditor - Epilepsy Foundation of Victoria Inc. & Chronic Illness Alliance Inc.
- Company Secretary – Kalkadoon Community Pty Ltd
- Company Secretary – Australian Association For Cognitive and Behaviour Therapy Ltd
- Risk Management – Vision Australia
- Risk Management – TEAMHealth
- Risk Management – Melbourne College Of Divinity
- Member – Department Of Immigration & Citizenship Audit Committee
Risk Management

- An Essential Element Of Good Governance
- Provides Comfort To Funding Bodies, Donors, Volunteers And Staff
- Provides Framework For Good Planning
- Allows Prioritisation Of Key Tasks
- Links To Quality Frameworks
- Increasingly Required For Compliance
Growing recognition of the importance of an holistic and more importantly simple risk management process resulted in the development of the generic standard for managing risks, AS/NZS 4360.

This diagram displays the key steps in undertaking a risk management exercise.

This part of the standard has been incorporated into a new Australian & International standard.
AS/NZS ISO 31000 Risk Management

5.2 Mandate & Commitment

5.3 Designing The Framework

5.4 Implementing Risk Management

5.5 Monitoring & Reviewing The Framework

5.6 Continual Improvement of the Framework

Risk Management Process Clause 6
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Enterprise Risk Management (ERM)

ERM Framework Context

Example of the defined levels of risk context

- Enterprise Level (defined cycle) (top 10 to 20 high & significant risks)
- Business Unit (defined cycle)
- Functional/Specific (as required)
  - OHS
  - IT
  - Security
  - Fundraising
- Major Projects/Contracts (as required)
Definition

“Risk - effect of uncertainty on objectives”

NOTE 1 An effect may be positive, negative, or a deviation from the expected.

NOTE 2 An objective may be financial, related to health and safety, or defined in other terms.

NOTE 3 Risk is often described by an event, a change in circumstances, a consequence, or a combination of these and how they may affect the achievement of objectives.

Risk can be expressed in terms of a combination of the consequences of an event or a change in circumstances, and their likelihood.
Definition

“Hazard - potential source of harm
NOTE Hazard can be a source of risk”
Key Concepts

- Vision/Mission
- Organisation Defined Strategy
  - Business Objective
    - Risks
    - Controls
    - Strategies
  - Business Objective
    - Risks
    - Controls
    - Strategies
  - Business Objective
    - Risks
    - Controls
    - Strategies
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Process

Communicate and consult

Establish Context

Identify Risks

Analyse Risks

Evaluate Risks

Assess Risk

Treat Risks

monitor and review

Process for Managing Risks
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Establish Context

- What Are Our Objectives?
- Strategic Plan/Business Plans?
- CEO PD?
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Risk Identification

- Initial presentation/meeting to set the scene
- Build the Risk Wheel
- Data collection
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Risk Identification

Brainstorm the risk issues. Develop the risk wheel for each context categories/ risk issues.

ISSUE

Compliance

The risk of non-compliance with environmental laws / regulations.
Risk Analysis

The need to consider two key attributes:

• Consequence
• Likelihood
## Risk Analysis

<table>
<thead>
<tr>
<th>CONSEQUENCE</th>
<th>LIKELIHOOD</th>
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<td>Rare E</td>
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<td>Minor</td>
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Risk Analysis

Determine Level of inherent risk

<table>
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<th>Likelihood</th>
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Score Descriptor:

- Likelihood:
  - A. Almost Certain
  - B. Likely
  - C. Possible
  - D. Unlikely
  - E. Rare

- Consequence:
  - 1. Negligible
  - 2. Minor
  - 3. Moderate
  - 4. Major
  - 5. Severe
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Risk Evaluation

Effectiveness of existing control environment to mitigate risk exposures

Opportunity for further risk reduction strategies

Effectiveness of Controls
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Risk Evaluation

Determine Level of residual risk

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</table>

Score Descriptor

Likelihood
- A. Almost Certain
- B. Likely
- C. Possible
- D. Unlikely
- E. Rare

Consequence
- 5. Severe
- 4. Major
- 3. Moderate
- 2. Minor
- 1. Negligible
Risk Appetite

Risk Appetite – “Amount and type of risk (3.1) an organization is prepared to pursue or take” (ISO 31000)
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Risk Treatment

Setting Treatment Risk Strategy

- ACCEPT
  - Accept the risk and do nothing

- REDUCE
  - CONSEQUENCE
    - Reduce either one or both
  - LIKELIHOOD

- SHARE
  - SPREAD
    - Spread the risk to a third party

- TRANSFER
  - Develop contingency arrangements
  - Insure for financial loss

- AVOID
  - Do not participate with the activity

OPTIONS

- ACCEPT
- REDUCE
- SHARE
- TRANSFER
- AVOID

CONSEQUENCE
LIKELIHOOD
SPREAD
TRANSFER
AVOID

Evaluate Risks
Identify Risks
Establish Context
Communicate and consult
monitor and review

Settling Treatment Risk Strategy

- ACCEPT
- REDUCE
- SHARE
- TRANSFER
- AVOID

Consequence
Likelihood
Spread
Transfer
Avoid

ACCEPT
REDUCE
SHARE
TRANSFER
AVOID

Consequence
Likelihood
Spread
Transfer
Avoid

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Treating risk will usually apply to situations where risks are beyond risk appetite.

- Accept
- Avoid
- Reduce
- Spread
- Transfer
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Risk Action Plan

• Key Is Risk Owner
• No Shared Risks
• Risk Owner Responsible For The Risk, Not Necessarily The Work
• Risk Owner Responsible For The Development Of Risk Action Plan
• Ongoing Refinement Of:
  – Risk Score
  – Risk Detail
  – Risk Controls
  – Risk Strategies
Risk Action Plan

• The Risk Action Plan Documents How Risk Treatment Options Are To Be Implemented
• The Action Plan Needs to Include:
  – Responsibilities
  – Schedules
  – Expected Outcomes
  – Budgeting
  – Performance Measures
  – Review Process
Traffic light systems are effective.
<table>
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<tr>
<th>RISK ISSUE</th>
<th>POTENTIAL RISK FACTORS (CAUSES)</th>
<th>POTENTIAL EFFECT(S) IMPACT(S)</th>
<th>CONTROLS AND FUTURE RISK STRATEGIES</th>
</tr>
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</table>
| FMIS Implementation | • Insufficient current resources and capability  
                      • Inadequate project management support  
                      • Limited technical skills – either OHIS, Oracle  
                      • Insufficient hardware functionality provided by OHIS | • Inefficient system  
                      • Project budget overrun  
                      • Accounts qualified  
                      • Inability to report on and manage financial performance  
                      • Unable to comply with required statutory reporting and compliance requirements. | CONTROLS  
                      • IS Governance Committee oversight  
                      • FMIS Steering Committee reporting  
                      • Oracle / OHIS technical working group  

STRATEGIES  
• Implementation Plan/ Scope -end March  
• Detailed Implementation Project Plan-end April  

RISK OWNER: Dennis Clark
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Organisational Risk Assessment

- Risk Management System
- Gather Background Material
- Develop Framework Documents
- Conduct Organisation Risk Assessment
- Prepare Organisation Risk Profile
- Governance Interface: Committee SubCommittee
- Develop Tailored Training Materials
- Develop Risk Systems Rollout Guide
- Prepare Organisation Risk Register
- Prepare Risk Management Plan
- Document Subsidiary Risk Systems
Organisational Risk Assessment

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- Organisation Risk Register
- Priority Areas For Risk Treatment
- Risk Treatment Strategies
- Risk Owners & Risk Action Plans
- Ongoing Reporting & Monitoring
- Risk Process & Outputs
- Risk Management Standard Options
Organisational Risk Profile

- 10 – 20 High Level Risks Linked To Organisational Objectives
- Charities Risk Wheel
Risk Issues For Charities

- Volunteers & Donors
- Financial Environment
- OHSE
- Government Policy
- Skills Shortage
- Compliance
- Society Priorities
- Image & Positioning
- Marketing
- Taxes
- Knowledge Management
- Health & Ageing
- Social Media
- Investments
Business Continuity, Disaster Recovery & Crisis Management

- Topical In Light Of Drought, Flood, Cyclone, Volcanos, Locusts, Pandemics, Air Disasters
- Interlinked Concepts
- Business Continuity Planning To Reduce Risk Of Business Disruption
- Disaster Recovery Planning To Overcome Significant Disruptive Event
- Crisis Management Plan To Cope With Onset And Duration Of Significant Disruptive Event
Contact Points & Research

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