



EFFECTIVE RISK MANAGEMENT PLANNING

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WHY IS RISK MANAGEMENT IMPORTANT?

Why is Risk Management important?





Risk Management Principles

AS/NZS ISO 31000:2009

- In 2009, Standards Australia introduced *AS/NZ ISO 3100:2009 Risk Management – Principles and Guidelines* (the ISO 31000 Standard) which is based upon the international standard for ‘Enterprise Risk Management’ or ERM.
- Risk Management planning will assist your organisation manage the key risks which may impact upon the ability of the organisation to achieve its goals and objectives within the economic, social and political climate in which the organisation operates.

Key Concepts: What is Risk Management?

The ISO 31000 Standard provides the following definitions:

- **Risk** - "an effect of uncertainty on organisational objectives"
- **Risk Management** - "coordinated activities to direct and control an organisation with regard to risk".

Risk management can therefore be described as a coordinated approach to managing key risks (uncertainty) which may impact upon the ability of an organisation to achieve its goals and objectives.

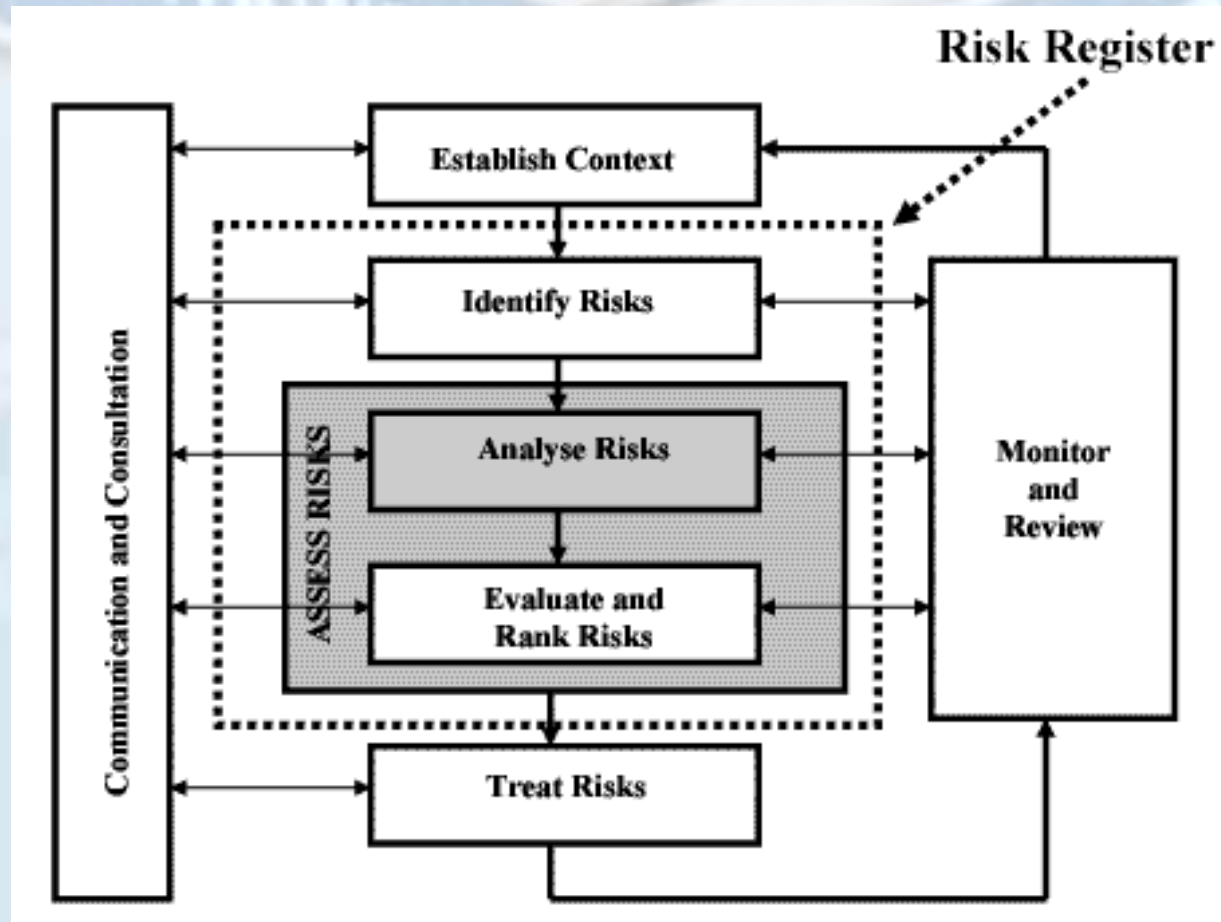
The Risk Management Process

The risk management process requires your organisation to take five key steps:

1. **Establish the context** – objectives, stakeholders, risk environment
2. **Identify the risks** – what can happen? How can it happen?
3. **Analyse the risks** – likelihood, consequences
4. **Evaluate the risks** – priority ratings
5. **Treat the risks** – options, responses, plans, controls, measures

The risk management process also includes **communication and consultation** with management, staff and stakeholders together with a process of **monitoring and review**.

Risk Management Process – Diagram AS/NZ ISO 3100:2009



Establishing the 'Context'

- What are the goals and objectives of your organisation?
 - Strategic Objectives
 - Operational Objectives
 - Financial Objectives
 - Social & Political Objectives

Risk Assessment

Risk Assessment means the overall process of:

1. **Risk Identification;**
2. **Risk Analysis;**
3. **Risk Evaluation.**

Risk Assessment is the process of determining the **consequences** and **likelihood** of a risk event.

Risk Assessment: Risk Identification

- Risk identification involves the structured examination of all elements of risk which are related to key business objectives and business units of the organisation. All risks will have a source and an effect.
- Risk identification involves consideration of four key questions:
 1. What can happen?
 2. How can it happen?
 3. What is the likelihood of it happening?
 4. What will be the consequences if it happens?

KEY RISKS

- **Strategic Risks** – Effectiveness of strategic planning:
 - Pricing model
 - Commission structure
 - Marketing/Branding
 - Databases/IT
- **Operational Risks** – business operations:
 - Safety – vehicles, open homes, client & staff functions
 - Reputation – social media, current affairs
 - Legal compliance – disclosure, PAMDA, Trade Practices
 - Client satisfaction – service levels
 - Ethics & Professionalism – confidentiality, misrepresentation
 - Knowledge & Skills – efficiency, authority to act, fraud

Risk Assessment: Risk Analysis

- Risk analysis involves measuring the impact of identified risks using a likelihood and consequence risk matrix.
- To assist the analysis process, a five point rating scale is adopted utilising a qualitative approach to measure likelihood and consequence.
- The term “likelihood” means the probability of an event occurring. The term “consequence” means the impact or outcome of the risk event.

Risk Assessment Matrix

RISK ASSESSMENT MATRIX

Level	Likelihood	Description
5	Almost certain	Event is expected to occur in most circumstances – Regular occurrence
4	Likely	Event will probably occur in most circumstances
3	Possible	Event might possibly occur at some time
2	Unlikely	Event could occur at some time
1	Rare	The event may occur only in exceptional circumstances

Level	Consequence	Description
1	Insignificant	Consequences dealt with by routine operations. Financial loss up to \$1K
2	Minor	Efficiency or effectiveness of some aspects of the enterprise threatened but would be dealt with internally. Financial loss up to \$10K
3	Major	The enterprise could be subject to significant review or changed ways of operating. Financial loss up to \$50K
4	Critical	Continued effective functioning of the enterprise threatened. Financial loss up to \$150K
5	Catastrophic	Survival of the enterprise threatened. Financial loss above \$150K

Risk Assessment: Risk Evaluation

- Risk evaluation involves the prioritisation of risks and an assessment of whether the identified risks are acceptable or unacceptable, based upon the organisation's risk attitude (sometimes called 'Risk Appetite').
- The level of risk is the combination of **likelihood** and **consequence**. The risk rating scales are detailed as follows:

Risk Rating

RISK RATING

Overall Risk Level	Insignificant	Minor	Major	Critical	Catastrophic
Almost certain	Moderate	High	Extreme	Extreme	Extreme
Likely	Moderate	High	High	Extreme	Extreme
Possible	Low	Moderate	High	Extreme	Extreme
Unlikely	Low	Low	Moderate	High	High
Rare	Low	Low	Moderate	High	High

RISK EVALUATION

Legend	
Extreme	Urgent action required as the potential could be devastating to the organisation.
High	Requires action as it has the potential to be damaging to the organisation.
Moderate	Allocate by specific application of resources, monitoring and reporting procedures.
Low	Manage by routine procedures. Unlikely to require specific application of resources.

Risk Treatments & Controls

- Prudent risk management planning involves ‘management’ of risk. Accordingly, consideration must be given to addressing risk once it is identified and assessed.
- Addressing risk involves implementing treatments and controls which respond to the risk in order to reduce the potential level of risk associated with an identified risk event.
- Effectiveness of Treatment & Control measured by the “Residual Risk” – risk remaining after implementation of treatments and controls

Risk Treatment Strategies

Risk treatment strategies will generally involve:

- **Avoiding the risk; - do not proceed with the activity (if possible)**
- **Accepting the risk;- proceed with the activity regardless of risk (not recommended)**
- **Treating the risk;- proceeding but with measures to control risk (recommended)**
- **Transferring the risk;- transfer risk to another party (insurance)**

Examples

- Professional advice & services (legal, accountants)
- Education and training (internal or external)
- Policies & Procedures – segregation of duties, authority limits, approval processes, lines of authority
- Audits
- Contingency & Risk Planning
- Insurance

RISK REGISTER

- A Risk Register is a log of all risks identified by the organisation, how those risks are rated and the treatments and controls which will be implemented to manage the risks.
- A Risk Register should record the “Inherent Risk Rating” and the “Residual Risk Rating”
- Any “Residual Risk Rating” of “High” should be addressed by implementing a Risk Management Action Plan.

RISK REGISTER

Operational Risk

Risk Description	Likelihood	Consequence	Inherent Risk Rating	Treatment/Control	Residual Risk Rating
Injury to staff: On-site visits, open homes, travelling	3	4-5	Extreme	Staff awareness training, staff to provide address and details to management, provide time of meeting time of return to office, mobile phone, obtain full details of client, buddy system, calendar/log	High
Reputation Adverse social media, current affairs exposure	4	3-4	High-Extreme	Staff awareness training, policies & procedures,	High
Legal Compliance PAMDA, TPA, misleading and deceptive conduct	4-5	3-4	Extreme	Staff awareness training, legal advice, insurance, policies & procedures, staff training	Moderate

Risk Management Plan

- Ensure the adoption of an integrated approach to risk management by the organisation as a whole;
- Minimise risks across all areas of operations through proactive management;
- Categorise risk criteria for structuring risk identification;
- Provide a set of consistent risk assessment criteria from which the likelihood and the consequences of identified risks can be measured and evaluated;
- Provide a structured approach to controlling and treating risk;
- Provide a structured risk management framework;
- Support the implementation of a risk management culture throughout the organisation;
- Assist the organisation achieve its goals and objectives.

The contents of this presentation are not intended as professional advice.
You should obtain independent legal advice before relying or acting on
any statements or opinions contained in this presentation.

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QUESTIONS???