Risk Management Primer
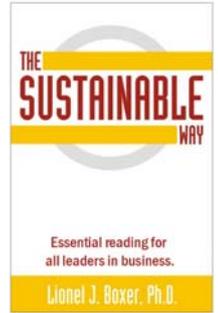
Introduction

This Risk Management primer is to help your identify key risks to your outputs, whether for collective or individual activity. It will help you to understand and minimise your risks, while taking advantage of opportunities as they arise.

Risk Management enables you to understand how failure may occur, determine if that is acceptable, and minimise the barriers to meeting your business objectives,

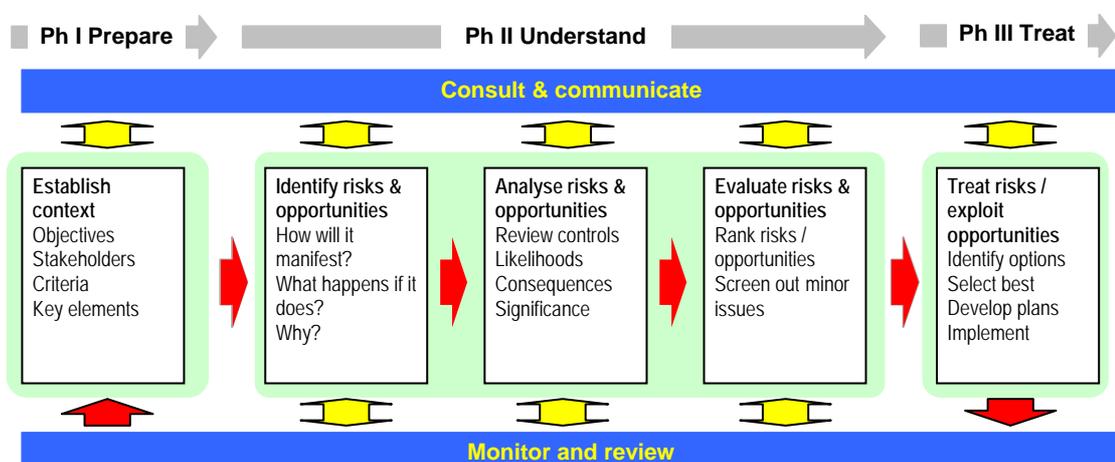Risk management should be part of all decision-making activities, including:

- policy development and advice
- outsourcing and outsourced services
- contract management, program delivery
- public events and
- enabling services.

Various source documents inform this guide. These are:

- AS/NZS4360:2004 – Risk Management (a published standard)
- Standards Australia SAA/NZS HB 221:2003, *Business Continuity Management*
- Standards Australia (risk management portal)

Risk is defined by AS/NZS4360:2004 as: "the possibility of something happening that impacts on your objectives. It is the chance to either make a gain or a loss. It is measured in terms of likelihood and consequence."

Risk Management Process (figure 1 *)

Ph I Prepare	Ph II Understand			Ph III Treat
Consult & communicate				
Establish context Objectives Stakeholders Criteria Key elements	**Identify risks & opportunities** How will it manifest? What happens if it does? Why?	**Analyse risks & opportunities** Review controls Likelihoods Consequences Significance	**Evaluate risks & opportunities** Rank risks / opportunities Screen out minor issues	**Treat risks / exploit opportunities** Identify options Select best Develop plans Implement
Monitor and review				

* figure 1 modified from Cooper, DF, Grey, S, Raymod, G & Walker, P (2005) *Project Risk Management Guidelines*, John Wily & Sons, West Susex, p. 15
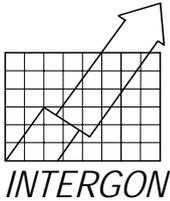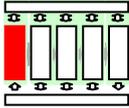

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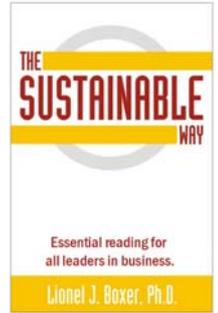
The steps involved in managing risk

A. Establish Goals and Context

(1) As shown in Figure 1, you do risk assessment in the context of your goals. Identification and validation of your goals is done first step.

(2) Then understand your context (to which the risk management process is to be applied) in which your organisation operates through a structured analysis of the process your organisation undertakes. From this define the parameters within which the risks to your outputs are to be managed. Context needs to be understood in terms of these considerations:

- strategic
- organisation and
- risk management

That is, the relationship between the organisation its environment needs to be understood. Using a structure such as SWOT or SOAR Factors that need to be understood include:

- financial
- operational
- competitive
- political (public perceptions / image)
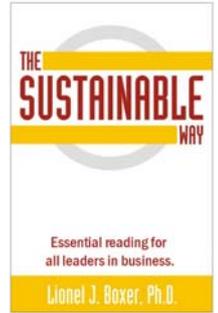- social
- client
- cultural and
- legal

(3) From the context determine the scope for risk management, which needs to provide understanding of:

- the organisation
- its capability and goals
- objectives and
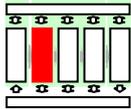- strategies.

For establish context form click here.

The steps involved in managing risk (cont.)

B. Identify risks - For risk identification form click here

Rigorously identify the risks most likely to impact your outputs and the **sources** and **impacts** or those outputs. Risk treatment strategies as the risk treatment strategies will be directed to

C. Analyse risks - For risk analysis form click here
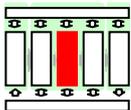
Identify those controls currently being used to deal with the risks identified in step B and assess effectiveness. With this assessment, use a risk analysis tool analyse the risks in terms of likelihood, consequence and current risk

D. Evaluate risks - For risk evaluation form click here
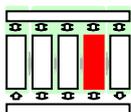
Ask the person who has respponsiblity for outcomes being achieved and the authority to install preventive measures whether or not current risks are acceptable or unacceptable. Document the record of how this decision was made and by who. Acceptable risks are to be monitored and periodically reviewed to ensure it remains acceptable. Unacceptable risks are to be treated as determined in step E (see below).

E. Determine the treatments for the risks - For risk treatment form click here
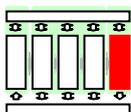
Sources identified in step B indicate the need for preventive treatments to take place, while impacts indicate reactive treatments.

The following categories of treatments can be applied:
- Discontinue the activity that generates it
- Reduce the likelihood of occurrence
- Reduce the consequence of occurrence
- Transfer the risk
- Retain the risk

With consideration of cost and effectiveness develop potential options according to the treatment strategy selected. Document the responsibilities, implementation timetable and monitoring for each strategy. Repeat step C and D for each option.
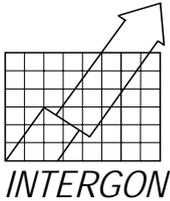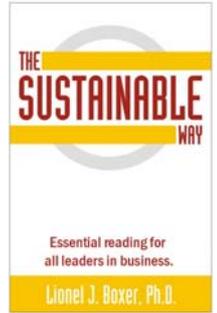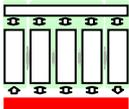
The steps involved in managing risk (cont.)

F. Monitor and report on the effectiveness of risk treatments

For each treatment strategy, assign a relevant person to monitor its effectiveness , to identify new risks as they arise, and treat these accordingly. These people have duties to report regularly on progress of risk treatments as well as provide feedback on the progress of the 'project / initiative' as determined in step E.

Templates to assist with risk assessment activities
Use these templates and work sheets for completing a risk management plan:
- Risk Matrix
- Identifying and analysing risks
- Risk Treatment Schedule
- Stakeholder Agenda Analysis
- SWOT or SOAR Analysis

Frequency of undertaking risk management
Risk management should be conducted and updated (it is a living document):
- If it has never been conducted
- At predetermined intervals
- Following major changes to processes

Risk management should answer these questions
Ask questions such as:
- How am I managing my risks?
- Are the treatment strategies effective?
- Are the risk levels appropriate?
- Are there any new risks and what are the implications for the business?

Documenting risk management
Retain written records of all documentation that captures:
- Your team's important ideas and insights regarding key risk when undertaking risk assessment, treatments and monitoring.
- Options and decisions.