RISK MANAGEMENT RESOURCES

March 2013

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CONTENTS

Introduction to Risk Management

Risk management creates value for a local government and its community and should contribute to the demonstrable achievement of objectives whether in strategic or project based initiatives or in normal operations.

These risk management resources provide an introductory description of risk management within the context of Integrated Planning and Reporting. More detailed information can be obtained from organisations such as Risk Cover WA and Local Government Insurance Services.

Risk management involves effectively managing business systems and processes to achieve an appropriate balance between realising opportunities for gain while minimising adverse impacts. It is an integral part of good management practice and an essential element of sound corporate governance.

Risk management processes should not encourage local governments to be 'risk averse'. Managing risk means balancing risk and reward. Risk management gives organisations the confidence to pursue opportunities with the knowledge that they have adequately managed and accepted the risks in a balanced way.

Risk management involves establishing an appropriate framework and culture, and applying a logical and systematic method to identify and manage risks by:

- implementing and communicating an organisational policy

- balancing risk and opportunity within organisational policies

- defining the organisation's risk appetite, tolerance and likelihood guidelines

- training elected members and officers to establish the context for assessing potential risks, and

- identifying, analysing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process in a way that will maximise the potential to achieve goals and objectives and minimise potential for harm or loss.

Managing risk requires all elected members and officers to use an interactive process consisting of steps that, when undertaken in sequence, enable a sound basis for decision-making and facilitates continuous improvement in performance.

To be most effective, risk management should become part of an organisation's culture. It should be communicated across the organisation and embedded into the organisation's philosophy, business practices and processes rather than be viewed or practiced as a separate activity. When this is achieved, everyone in the organisation becomes involved in the management of risk.
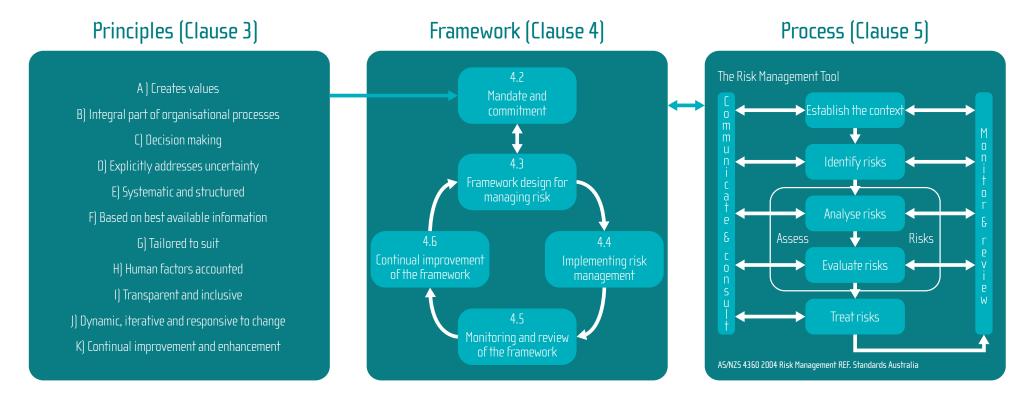
Key Point

Risk management does not stand outside of the local government's normal activities. Sustainable risk management is **built into** and **not built on** everyday tasks and duties. To ensure the process is managed, it must always be demonstrated in strategic planning and mandated in all operational functions and services.

Set the Organisational Risk Management Context

The risk management context defines the boundaries within which the risks are managed and sets the scope of the risk management assessment. The context needs to be aligned with the organisation's structure, capacity, strategic direction, and operational planning objectives.

Before the risk assessment is conducted, it is essential that the risk management context be clearly identified and a framework for managing risk be established. The below diagram outlines the governance aspects and the application framework and demonstrates the steps in a logical sequence.

Principles (Clause 3)

A) Creates values

B) Integral part of organisational processes

C) Decision making

D) Explicitly addresses uncertainty

E) Systematic and structured

F) Based on best available information

G) Tailored to suit

H) Human factors accounted

I) Transparent and inclusive

J) Dynamic, iterative and responsive to change

K) Continual improvement and enhancement

Framework (Clause 4)

4.2 Mandate and commitment

4.3 Framework design for managing risk

4.4 Implementing risk management

4.5 Monitoring and review of the framework

4.6 Continual improvement of the framework

Process (Clause 5)

The Risk Management Tool

Communicate & consult

Establish the context

Identify risks

Analyse risks

Evaluate risks

Treat risks

Assess   Risks

Monitor & review

AS/NZS 4360 2004 Risk Management REF. Standards Australia

AS/NZS ISO 31000 - Relationship between the principles, framework and process

Identifying Risks

The following definitions may assist in identifying risk:

Risk	The effect of uncertainty on objectives (may be positive, negative or a deviation from what is expected). *AS/NZS/ISO 31000 Level of Risk is measured by its consequence and likelihood.
Consequence	The outcome of an event or change in circumstances affecting the achievement of objectives.
Likelihood	The chance of something happening.
A Hazard	An object or activity which may cause a risk. (Now referred to as a 'risk source') - Interaction with the risk source is required to create a risk

Levels of Risk

Risks can be identified at different levels depending on what activity is being assessed.

Strategic Level Risks – Are associated with achieving the organisation's long term objectives. These risks can be of an internal or external nature. They are usually owned and managed by Council and/or the Executive Team.

In the context of Integrated Planning and Reporting, Strategic Level Risks may include:

- Risks associated with achieving the objectives of the Strategic Community Plan:

    - Effective engagement with the community

    - Equity in involvement

    - Transparency of process

    - Integration of informing strategies

    - Organisational acceptance of Strategic Community Plan.

- Risks associated with delivering the Corporate Business Plan:

    - Impact of new assets or changes to services

    - Aligning service delivery to meet organisational objectives

    - Resourcing and sustainability

    - Alignment of local government structure and operations to support achievement of objectives.

Operational Level Risks – Are associated with developing or delivering the operational plans, functions or activities of the local government. These risks have day to day impacts on the organisation. These risks are owned and managed by the person who has responsibility for the activity or function to the level of their delegated authority or capability.

In the context of Integrated Planning and Reporting, Operational Level Risks may include:

- Risks associated with the development or delivery of the Long Term Financial Plan:

    - Organisational capacity

    - Operational costs

    - Integration of other informing strategies, service delivery plans and project plans.

- Risks associated with the development or delivery of the Asset Management Plan:

    - Registration of assets

    - Integration with the long term financial plan, other informing strategies, service delivery plans and project plans

    - Council resourcing of asset maintenance and renewal.

- Risks associated with the development or delivery of the Workforce Plan:
    - External supply
    - Salary and conditions
    - Housing, transport etc.

Project Level Risks – Are associated with developing or delivering projects or discrete activities. Project risks should be managed at each stage of the project by the person who has responsibility for that project.

Tools for Identifying Risk

The following activities can be used to identify risks:

- **Get a clear picture of current risks:** Collect any information from available organisational systems or processes such as the financial and asset management systems, customer surveys or complaints register, staff surveys or issues, exit interviews, staff turnover rates, public liability / workers compensation claims history. This information will give you a snapshot of what potential risks of achieving objectives may already exist in the organisation.

- **Systems and Policies:** Financial, human resources and asset management systems, legislation and quality management policy and procedures are fundamental tools that guide an organisation to manage operational risk. These are underpinned by corporate governance principles and processes that should align to the Local Government Act 1995 and the Australian Corporate Governance Standards AS 8000 - 8004: 2003. AS/NZS 4801 (Managing Safety and Health) and as stated, AS/NZS /ISO 31000: 2009 (Risk Management).

- **A 'think tank' with stakeholders and experts:** Using as many subject 'experts' and key stakeholders as possible conduct 'what will stop us achieving our objectives' and 'what if' scenario based discussions. Prior to starting this discussion process collect any background or recorded history of the issue or topic, as well as gathering anecdotal information from those people who have experience in the area that is being assessed. This is also a way of obtaining the information on potential risk perceptions. This approach is a good way of driving a risk aware culture down through an organisation by using an inclusive and consultative methodology.

- **What can go wrong?** Assess what can happen, where, when, how and why it can happen. Remember to look at the worst case scenarios, looking at what may prevent you from achieving the relevant objectives and work back from there to identify strategies to address the risk. Recognise that this is only hunch and perception unless there are absolute subject experts in the discussion. This gives you a focus of what to look at, not the complete picture.

Recording Identified Risks

All risks identified at each level of the organisation need to be recorded. Risks relating to Integrated Planning and Reporting need to be recorded appropriately throughout the process.

If recorded on a formal risk register, the format should be universal throughout the organisation and where possible should be able to be electronically coordinated and prioritised.

Key Point

When identifying risks, local governments should ask three key questions:

1. What are we doing (is the activity strategic, operational or project level)?

2. What can go wrong?

3. Who is involved?

For each risk, you should also identify the possible causes. This will assist with the identification of risk controls and treatments.

Risk Analysis

Once risks have been identified and recorded, they need to be analysed against consequence and likelihood criteria. An analysis of existing controls should also be undertaken to assess the effectiveness of the current control mechanisms. This process allows for the identification of those risks which can be treated in the most cost effective way.

Risk Evaluation Criteria is the measurement tool that will be used to decide if a local government will need to treat, accept or monitor the risk. It is essential that the criteria be determined at the onset of the process. However, criteria can be refined and developed further as specific risks are identified. The criteria must be developed with reference to the local government's strategic objectives and remain consistent with the organisation's risk appetite and risk tolerance.

Existing controls are measures that are currently in place to reduce the consequence and/or likelihood of a risk. Controls can be rated in terms of their adequacy in managing the identified risk. They can be inadequate, adequate or excellent depending on whether they are doing more than, less than or merely what is reasonable under the circumstances to prevent or minimise the risk. Controls should be assessed individually and as a whole to determine if they are still relevant, in use and effective.

Risks are analysed to determine a 'level of risk'. This is the overall degree to which a risk will impact on the organisation should it eventuate (consequence) and the likelihood of this occurring, described in terms of frequency (likelihood). Risks are analysed taking into account whether there are existing controls in place.

Organisations may use Risk Reference Tables to guide their risk analysis. These tables provide classifications and definitions for risk consequences and likelihood. The following pages contain an example of consequence and likelihood tables as well as an example risk matrix used to determine level of risk.

Evaluating Risks

Local governments will need to use their Risk Acceptance Criteria to determine whether a risk is acceptable and who is responsible for determining acceptance of the risk. The greater the risk level, the more controls should be in place before the risk is accepted and the higher in the management chain responsibility for deciding acceptance of the risk should sit.

Page 7 contains an example of acceptance of risk criteria.

Risk Reference Tables
(This is a guide only and local governments should adapt as appropriate)
Consequence

Description	Financial Loss	Health	Reputation	Operation	Natural Environment	Compliance	Project
Insignificant	<Less than 2% of budget	No injuries or illness	Unsubstantiated, low impact, low profile or 'no news' item	Little impact	Little impact	Minor breach of policy or process requiring approval or variance	Small variation to cost , timelines, scope or quality of objectives and required outcomes
Minor	2 - 5% of budget	First Aid treatment	Substantiated, low impact, 'low news' item	Inconvenient delays	Minor damage or contamination	Breach of policy, process or legislative requirement needing attention or minimal damage control	5-10% increase in time or cost or variation to scope or objective requiring managers approval
Moderate	5 - 10% of budget	Medical treatment	Substantiated, public embarrassment, moderate impact, 'moderate news' profile	Significant delays to major deliverables	Environmental damage requiring restitution or internal cleanup	Breach requiring internal investigation, treatment or moderate damage control	10-20% increase in time or cost or variation to scope or objective requiring Senior Management approval
Significant	10 - 20% of budget	Extensive injuries or disabilities	Substantiated, public embarrassment, 'high impact news' profile, third party actions	Non-achievement of major deliverables	Minor breach of legislation / significant contamination or damage requiring third party assistance	Breach resulting in external investigation or third party actions resulting in tangible loss and some damage to reputation	20-50% increase in time or cost or significant variation to scope or objective requiring restructure of project and Senior Management or Council approval
Severe	>More than 20% of budget	Death or permanent disabilities	Substantiated, public embarrassment, very high multiple impacts, 'high widespread multiple news' profile, third party actions	Non-achievement of major key objectives	Major breach of legislation or extensive contamination and environmental damage requiring third party intervention	Breach resulting in external investigation or third party actions resulting in significant tangible loss and damage to reputation	>50% increase in cost or timeline, or inability to meet project objectives requiring the project to be abandoned or redeveloped

Additional categories can be added at an organisation's discretion although most outcomes and impacts on the organisation are covered in the above table.
Categories should be developed with reference to the organisation's strategic objectives.

Risk Reference Tables continued

Likelihood

Level	Description	Examples	Frequency
A	**Almost Cetrain**	Expected to occur in most circumstances	More than once per year
B	**Likely**	Will probably occur in most circumstances	At least once per year
C	**Possible**	Should occur at some time	At least once in three years
D	**Unlikely**	Could occur at some time	At least once in ten years
E	**Rare**	May occur, only in exceptional circumstances	Less than once in fifteen years

The Executive Officers and Council need to set their organisation's level of risk tolerance in consultation and once set, this becomes the set of criteria that all risks and hazards in the organisation are measured against.

It is critical to developing a risk aware culture that all staff are aware of the risk tolerance of the organisation and that it is taken into account in decision making at all levels.

Risk Matrix to Assess Level of Risk

Consequence / Likelihood	Insigniciant 1	Minor 2	Major 3	Critical 4	Extreme 5
Almost Certain A	H	H	E	E	E
Likely B	M	H	H	E	E
Possible C	L	M	H	E	E
Unlikely D	L	L	M	H	E
Rare E	L	L	M	H	H

Acceptance of Risk Criteria

E = Extreme Risk Only acceptable with excellent controls - Executive Management responsible.

H = High Risk Only acceptable with excellent controls - Executive Management responsible.

M = Medium Risk Only acceptable with adequate controls - Risk owner responsible.

L = Low Risk Only acceptable with adequate controls - Risk owner responsible.

Treat the Risk

The Risk treatment options may include all or some of the following (some may be mutually exclusive):

- Avoid the risk; decide not to do the activity where this is practicable (Note: some people may be risk-averse, and risk avoidance may be inappropriate, as it may lead to loss of opportunity).
- Change the probability of occurrence (Reduce the likelihood of the risk happening and reduce the loss and enhance benefits).
- Change the consequences to reduce the losses and improve the gains or likelihood of achieving objectives (Implement management controls).
- Transfer the risk by using other parties or by outsourcing (caution needed as accountability may still remain), obtain insurance, seek joint ventures, resource sharing, partnerships and inter-organisational structures.
- Accept the risk on the basis that you are doing all things that are reasonable and practical to address foreseeable risks.

Assessing Treatment Options

It is important to assess the risk treatment options available, the costs and the benefits. Generally speaking, the options should be practically balanced and costs should not exceed the benefits or gains.

Consider all the benefits and critical relationships of the strategy to other key objectives, as in some cases the achievement of strategic or community objectives may come at a price that the community or organisation may decide is worth the cost. Many risk treatments can be managed within the current budget by developing robust management systems, training personnel to be more efficient and effective in performance, and monitoring and auditing processes to ensure treatment plans are maintained.

Those risks that cannot be managed through the current budget allocations need to be captured on the relevant Risk Register.

Risk Treatment Plans

Once the risk treatments have been identified and ratified, the action plan must be compiled and actions delegated to the various individuals or departments who will need to address the risk treatments, manage relevant corrective action plans and report progress to the Executive and Council as required.

Risk Management Treatment Plans must detail the context and level of risk, the treatment strategy, responsibility for the treatment implementation, the date it is to be completed, and the review process and timeline.

Implementation of treatments by the responsible person as outlined in the plans needs to be linked to the individual's performance indicators and assessed through the performance appraisal system, as well as through the monitoring process.

Monitor, Review and Audit

Monitoring and Reviewing

Measuring the performance of risk management components against key performance indicators can demonstrate the effectiveness of the risk management systems and processes as well as identifying where and why objectives are not met.

Auditing the Process

A risk management systems audit and internal auditing of projects, performance and strategies can provide evidence of effective risk management. An audit can be performed to ensure that risk identification, treatment and actions plans have been implemented and are sustained through the life of the project or service.

Auditing can be conducted by internal staff or external bodies.

Risk Registers and Risk Treatment Plans

Strategic and Operational Risk Registers and treatment plans keep track of what has been identified and treated within the organisation.

Risks that need budget allocations, which cannot be met within the budgets, should remain on the register. This register is a key document for organisations when they are in the annual planning process as it keeps track of all outstanding risks that need to be funded.

It is vital that the risk management system the local government chooses to use is integrated into core business; coordinated, actions detailed for implementation with responsible persons identified, timelines established and closeouts monitored. The entire process needs to be linked to performance indicators and performance appraisals systems.

Communicate and Consult

At all stages of the process the appropriate stakeholders must be consulted and kept informed of developments, outcomes and actions. When assigning tasks or responsibilities they should be communicated in writing and a response received to indicate the responsible person has accepted them.

Summary

Risk management is an ongoing process which takes an organisation on a journey and becomes easier as it becomes part of the organisation's culture and a key part of all duties and functions. It is important that organisations are risk aware, rather that risk averse, and are able to make informed decisions based on a sound risk management process.

More detailed information is available from RiskCover (Insurance Commission of WA) and Local Government Insurance Services.

Model Risk Management Policy

Intent

The *City/Shire/Town* is committed to organisation-wide risk management principles, systems and processes that ensure consistent, efficient and effective assessment of risk in all planning, decision making and operational processes.

Definition of "Risk":

AS/NZS ISO 31000:2009 defines risk as "*the effect of uncertainty on objectives.*"

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative, or a deviation from the expected. An objective may be financial, related to health and safety, or defined in other terms.

Definition of Risk Management:

The application of coordinated activities to direct and control an organisation with regard to risk.

Principles – Framework - Process

The *City/Shire/Town* considers risk management to be an essential management function in its operations. It recognises that the risk management responsibility for managing specific risks lies with the person who has the responsibility for the function, service or activity that gives rise to that risk.

Council is committed to the principles, framework and process of managing risk as outlined in *AS/NZS ISO 31000:2009*.

The *City/Shire/Town* will manage risks continuously using a process involving the identification, analysis, evaluation, treatment, monitoring and review of risks. It will be applied to decision making through all levels of the organisation in relation to planning or executing any function, service or activity.

In particular it will be applied to:
- Strategic planning
- Expenditure of large amounts of money
- New strategies and procedures
- Management of projects, tenders and proposals
- Introducing significant change, and
- The management of sensitive issues.

Risk Management Objectives

- The achievement of organisational goals and objectives
- The ongoing health and safety of all employees at the workplace
- Ensuring public safety within the Council's jurisdiction is not compromised
- Limited loss or damage to property and other assets
- Limited interruption to business continuity
- Positive public perception of Council and the Shire / Town / City
- Application of equal opportunity principles in the workforce and the community.

Responsibilities

- Executives, managers and supervisors have the responsibility and accountability for ensuring that all staff manage the risks within their own work areas. Risks should be anticipated and reasonable protective measures taken.
- All managers will encourage openness and honesty in the reporting and escalation of risks.
- All staff will be encouraged to alert management to the risks that exist within their area, without fear of recrimination.
- All staff will, after appropriate training, adopt the principles of risk management and comply with all policies, procedures and practices relating to risk management.
- All staff and employees will, as required, conduct risk assessments during the performance of their daily duties.
- The level of sophistication of the risk assessment will be commensurate with the scope of the task and the associated level of risk identified.
- Failure by staff to observe reasonable directions from supervisors regarding the management of risks and/or failure of staff to take reasonable care in identifying and treating risks in the workplace may result in disciplinary action.
- It is the responsibility of every department to observe and implement this policy in accordance with procedures and initiatives that are developed by management.
- Council is committed morally and financially to the concept and resourcing of risk management.

Monitor and Review

The Organisation will implement a robust reporting and recording system that will be regularly monitored to ensure closeout of risks and identification of ongoing issues and trends.

Risk management key performance indicators, relating to both organisational and personal performance will be developed, implemented and monitored, by the *City/Shire/Town*.

Signed: _____   Name: _____

Chief Executive Officer

Date

Review Date

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NOTES

If you would like more information please contact us.

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