BSB40215 - Certificate IV in Business

Study Support materials for

BSBRSK401 - Identify Risk and Apply Risk Management Processes

STUDENT HANDOUT

BSBRSK401 Identify risk and apply risk management processes

This unit describes the skills and knowledge required to identify risks and to apply established risk management processes to a defined area of operations that are within the responsibilities and obligations of the role.

It applies to individuals with a broad knowledge of risk analysis or project management who contribute well developed skills in creating solutions to unpredictable problems through analysis and evaluation of information from a variety of sources. They may have responsibility to provide guidance or to delegate aspects of these tasks to others.

In this unit, risks applicable within own work responsibilities and area of operation, may include projects being undertaken individually or by a team, or operations within a section of the organisation.

Elements and Performance Criteria

ELEMENT	PERFORMANCE CRITERIA
Elements describe the essential outcomes.	*Performance criteria describe the performance needed to demonstrate achievement of the element.*
1. Identify risks	1.1 Identify the context for risk management 1.2 Identify risks using tools, ensuring all reasonable steps have been taken to identify all risks 1.3 Document identified risks in accordance with relevant policies, procedures, legislation and standards
2. Analyse and evaluate risks	2.1 Analyse and document risks in consultation with relevant stakeholders 2.2 Undertake risk categorisation and determine level of risk 2.3 Document analysis processes and outcomes
3. Treat risks	3.1 Determine appropriate control measures for risks and assess for strengths and weaknesses 3.2 Identify control measures for all risks 3.3 Refer risks relevant to whole of organisation or having an impact beyond own work responsibilities and area of operation to others as per established policies and procedures 3.4 Choose and implement control measures for own area of operation and/or responsibilities 3.5 Prepare and implement treatment plans
4. Monitor and review effectiveness of risk treatment/s	4.1 Regularly review implemented treatment/s against measures of success 4.2 Use review results to improve the treatment of risks 4.3 Provide assistance to auditing risk in own area of operation 4.4 Monitor and review management of risk in own area of operation

The Risk Management Process

Risk Management is "the systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysing, assessing, treating, monitoring and communicating" (AS/NZS ISO 31000:2009).

It is an iterative process that, with each cycle, can contribute progressively to organisational improvement by providing management with a greater insight into risks and their impact.

Risk management should be applied to all levels of an organisation, in both the strategic and operational contexts, to specific projects, decisions and recognised risk areas. Risk is 'the chance of something happening that will have an impact on objectives'. It is, therefore, important to understand the objectives of the organisation, work unit, project or your position, prior to attempting to analyse the risks.

A simple process

Risk analysis is often best done in a group with each member of the group having a good understanding of the objectives being considered.

1. **Identify the Risks:** What might inhibit the ability to meet objectives? E.g. loss of a key team member; prolonged IT network outage; delayed provision of important information by another work unit/individual; failure to seize a commercial opportunity, etc. Consider also things that might enhance the ability to meet objectives e.g. a fund-raising commercial opportunity.
2. **Identify the Causes:** What might cause these things to occur e.g. the key team member might be disillusioned with their position, might be head hunted to go elsewhere; the person upon whom you are relying for information might be very busy, going on leave or notoriously slow in supplying such data; the supervisor required to approve the commercial undertaking might be risk averse and need extra convincing before taking the risk, etc.
3. **Identify the Controls**: Identify all the things (Controls) that you have in place that are aimed at reducing the Likelihood of your risks from happening in the first place and, if they do happen, what you have in place to reduce their impact (Consequence). Examples include: providing a friendly work environment for your team; multi-skilling across the team to reduce the reliance on one person; stressing the need for the required information to be supplied in a timely manner; sending a reminder before the deadline; and provide additional information to the supervisor before he/she asks for it, etc.
4. **Establish your Likelihood and Consequence Descriptors:** The likelihood descriptors are fairly generic however the consequence descriptors may depend upon the context of your analysis. I.e. if your analysis relates to your work unit, any financial loss or loss of a key staff member (for example) will have a greater impact on that work unit than it will have on the organisation as a whole so those descriptors used for the whole-of-organisation (strategic) context will generally not be appropriate for the Faculty, other work unit or the individual. The idea is analogous to how a loss of $300,000 would have less impact on the organisation than it would for an individual work unit. You will need to establish these parameters in consultation with the head of the work unit.
5. **Establish Risk Rating Descriptors:** I.e. what is meant by a Low, Moderate, High or Extreme Risk needs to be decided upon from the outset.
6. **Add Other Controls:** Generally, any risk rated High or Extreme should have additional controls applied to it to reduce the rating to an acceptable level. What the additional controls might be, whether they are affordable, what priority might be placed on them etc is something for the group to determine in consultation with the Head of the work unit.

7. **Make a Decision:** Once the above process is complete, if there are still some risks that are rated as High or Extreme, a decision has to be made as to whether the activity will go ahead. Sometimes risks are higher than preferred but there may be nothing more that can be done to mitigate the risk i.e. they are out of the control of the work unit but the activity must still be carried out. In such situations, monitoring and regular review is essential.
8. **Monitor and Review:** Monitoring of all risks and regular review of the risk profile is a key part of effective risk management.

http://scu.edu.au/risk_management/index.php/8/

Risk management for directors

Risk management is a critical responsibility for the board. In order to discharge their duties, directors need to know and assess the nature and magnitude of risks faced by the organisation. They also need confidence that management has an effective framework in place to manage those risks.

We've developed *Risk management for directors: A handbook* to assist those on the governing body of an organisation to:

- gain clarity about the interaction of governance and risk management
- avoid confusion in the responsibilities of those with an oversight role and those with an implementation role
- achieve focus on embedding risk management within the strategic framework.

We do not advise directors on how to create an enterprise risk management system — this is the responsibility of management. Instead, our handbook assists your board to integrate its governance and risk management frameworks by equipping you with questions you can address to management to ensure that there is an effective risk management framework in place to manage the organisation's risks. It will help your board ensure it deliberations and oversight of management link the alignment of risk management practices with strategic objectives throughout the organisation.

http://www.governanceinstitute.com.au/knowledge-resources/guidance-tools/risk-management-for-directors/?gclid=CJTm6IzylM0CFQGbvQods3UACw

About risk management

What is risk?
The Australian Standard (see below) defines risk as the chance of something happening that will have an impact on [an organisation's] objectives. It is measured in terms of consequences [the outcome] and Likelihood [the rate of occurrence] and if the risk will have a positive or negative impact.

What is risk management?
Risk management is increasingly important for Boards, volunteers, paid staff and stakeholders of all services and is an essential component of good corporate governance. It is part of an organisation's culture, its philosophy, practices and business processes. It should not be viewed as a separate activity.

Risk management:
- Is a procedure to avoid any negative consequences and reduce potential legal liability.
- Seeks to address potential problem areas before they occur and creates a safer environment

- Is a process to test the effectiveness of measures to prevent events happening that may result in negative outcomes.

The Australian Standard AS/NZS 4360:2004
The Australian Standard provides a framework for establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk and sets out a systematic risk management approach.

Risks will vary from organisation to organisation depending upon the circumstances and the way the organisation operates. Risk management plans should be tailored to specific risks and operational practices, and should be reviewed regularly.

Who is responsible for risk management?
Managing risk is a shared responsibility of all members of an organisation.
Directors however, have a responsibility to lead and provide support.
Management of risk should be integrated into the management philosophy of an organisation

Why is risk management important for an organisation?

A level of risk occurs in all organisations. Governance principles and the Occupational Health and Safety Act 2000 require that organisations take reasonable measures to prevent loss, harm or injury to the organisation and all stakeholders.

Accident and injury can happen even with rigorous OHS planning, and the fact that an injury occurs does not mean that someone is liable if all reasonable steps have been taken to prevent or minimise the risk.

Non-government organisations may be exposed to risk when:
- They do not have a well functioning governance structure
- Management plans, policies and processes are inadequate
- Staff and volunteer roles and responsibilities are unclear
- They do not require service users to sign consent forms or waivers
- Equipment and facilities are not safe for intended use
- They have not implemented a comprehensive OHS plan
- Insurance is inadequate or inappropriate
- Operations are not regularly evaluated.

Implementing a risk management plan
Risk management should be integrated into an organisation's operations.
Organisations should develop a risk management policy and a plan for how the risk management process will be managed.

Risk management plans should describe the:
- Commitment and leadership from management
- Delegation of defined tasks to ensure accountability
- Reporting system – including progress reports, reports on extraordinary incidents and perceived risks
- Operating procedures

Risk management policy

Risk management policies should be brief, high-level documents that can be easily understood. A well drafted and regularly reviewed policy is a risk management tool in itself.
Policies are an organisation's first line of compliance and should be developed and treated as such.
A risk management policy should be drafted to clearly identify legitimate interests for which the organisation exists including:

- High quality service provision to meet the needs of the service users including people with disabilities, older people, children and carers
- The success and financial viability of the organisation providing these services
- The proper organisation and administration of the organisation
- The rights of older people, people with disabilities and carers to choice, self determination, independence, privacy and confidentiality.

External requirements and the public interest should also guide the policy and the following factors should be considered:

- The policy should be developed to clearly reflect the law and relevant standards (e.g. the NSW Disability Service Standards, the HACC National Service Standards)
- Where the system for the formulation, interpretation and enforcement of the policy works properly and effectively, that policy is essentially in the public interest
- A clearly expressed and well defined policy which provides for appeals, natural justice and procedural fairness, strengthens arguments that the organisation is operating in the public interest.

Risk management policies and plans are important. They document the steps an organisation plans to take to minimise and deal with actual and potential risks.

The Board is responsible for approving the documents and ensuring the plans are implemented within the organisation.

https://www.adhc.nsw.gov.au/__data/assets/file/0009/228753/969_ItsYourBusiness-Chapter6-RiskManagement_web.pdf

Analysing and evaluating risks

Once you have identified and created a list of possible risks to your business, you need to analyse and evaluate each one.

The most common way of analysing risks is to use a scale that rates each risk on:

- the likelihood of it occurring
- the consequences of it occurring.

Likelihood scale example		
Level	**Likelihood**	**Description**
4	Very likely	Happens more than once a year in this industry
3	Likely	Happens about once a year in this industry

Likelihood scale example		
Level	**Likelihood**	**Description**
2	Unlikely	Happens every 10 years or more in this industry
1	Very unlikely	Has only happened once in this industry

Consequences scale example		
Level	**Consequence**	**Description**
4	Severe	Financial losses greater than $50,000
3	High	Financial losses between $10,000 and $50,000
2	Moderate	Financial losses between $1000 and $10,000
1	Low	Financial losses less than $1000

Note: The scales above use 4 different levels; however, you can use as many levels as you need. Also use descriptors that suit your purpose (e.g. you might measure consequences in terms of human health, rather than dollar value).

Once you have established the likelihood and consequences of a particular risk, you then need to create a risk rating table for evaluating the risk. Evaluating a risk means making a decision about its severity and ways to manage it.

Use the following formula to calculate risk rating: ***Likelihood x Consequences = Risk rating***

For example, you may decide the likelihood of a fire is 'unlikely' (a score of 2) but the consequences are 'severe' (a score of 4). Using the tables above, a fire therefore has a risk rating of 8 (i.e. 2 x 4 = 8).

Risk rating table example		
Risk rating	**Description**	**Action**
12-16	Severe	Needs immediate corrective action
8-12	High	Needs corrective action within 1 month
4-8	Moderate	Needs corrective action within 3 months
1-4	Low	Does not currently require corrective action

Your risk evaluation should consider:

- the importance of the activity to your business
- the amount of control you have over the risk

- potential losses to your business
- any benefits or opportunities presented by the risk.

Once you have identified, analysed and evaluated your risks, you need to rank them in order of priority. You can then decide what methods you will use to treat unacceptable risks.

https://www.business.qld.gov.au/business/starting/starting-a-business/managing-risk/analysing-risks

Treating risks

Risk treatment involves working through options to treat unacceptable risks to your business. Unacceptable risks range in severity; some require immediate treatment, others can be monitored and treated later.

Before you decide which risks to treat, you need to gather information about the:

- method of treatment
- people responsible for treatment
- costs involved
- benefits of treatment
- likelihood of success
- ways to measure and assess treatments.

Once you decide how to treat identified risks you will need to develop, and regularly review, your risk management plan.

The following are different options for treating risk.

Avoid the risk

You may decide not to proceed with the activity likely to generate the risk, where practical. Alternatively, you may think of another way to reach the same outcome.

Reduce the risk

You can control a risk by:

- reducing the likelihood of the risk occurring - for example, through quality control processes, managing debtors, auditing, compliance with legislation, staff training, regular maintenance or a change in procedures
- reducing the impact if the risk occurs - for example, through emergency procedures, off-site data backup, minimising exposure to sources of risk or public relations.

Transfer the risk

You may be able to shift some or all of the responsibility for the risk to another party through insurance, outsourcing, joint ventures or partnerships.

Accept the risk

You may accept a risk if it cannot be avoided, reduced or transferred. However, you will need to have plans for managing and funding the consequences of the risk if it occurs.

https://www.business.qld.gov.au/business/starting/starting-a-business/managing-risk/treating-risks

Developing and reviewing your risk management plan

A risk management plan details your strategy for treating risks. It details information about:

- identified risks
- the level of risks
- your planned strategy
- the time frame for implementing your strategy
- the resources required
- the individuals responsible for ensuring the strategy is implemented.

Your final plan should include appropriate objectives, a budget and milestones on the way to achieving those objectives.

Reviewing your risk management plan

The business environment is constantly changing. The type of risks you face will change as your business develops and grows. Regularly reviewing your risk management plan is therefore essential for identifying new risks and monitoring the effectiveness of your risk treatment strategies.

https://www.business.qld.gov.au/business/starting/starting-a-business/managing-risk/develop-risk-plan