

Risk Management Toolkit Summary

Why risk management is important

Risk management is a critical activity that helps you understand and manage your risks (and opportunities)

Risk management will support you in achieving your strategic objectives, priorities and targets

Risk management should be an integral part of your business operations and support decision making.

Risk management process

Step 1 - Risk identification

Step 2 - Risk analysis

Step 3 - Risk prioritisation

Step 4 - Risk mitigation

Step 5 - Risk monitoring



Six risk categories

Strategic

Negative impact on strategic objectives e.g. mergers, diversification, loss of a key supplier, reputation issue.

Operational

Negative impact on day-to-day operations e.g. loss of a critical system, data loss, business interruption.

People

Negative impact on staff, volunteers and other people you interact with e.g. key person dependency, recruitment and retention, capacity and capability.

Legal/Regulatory

Negative impact on your ability to comply with the legal and regulatory landscape e.g. breach of data protection, non-compliance, legal action (tribunal).

Hazard

Negative impact on the organisation caused by a hazard of some sort e.g. fire, flood, health and safety incident.

Financial

Negative impact on your financials e.g. increased pension fund liabilities, negative movements in the interest rate, fraud, increase in supplier costs.

Step 1 – Risk identification

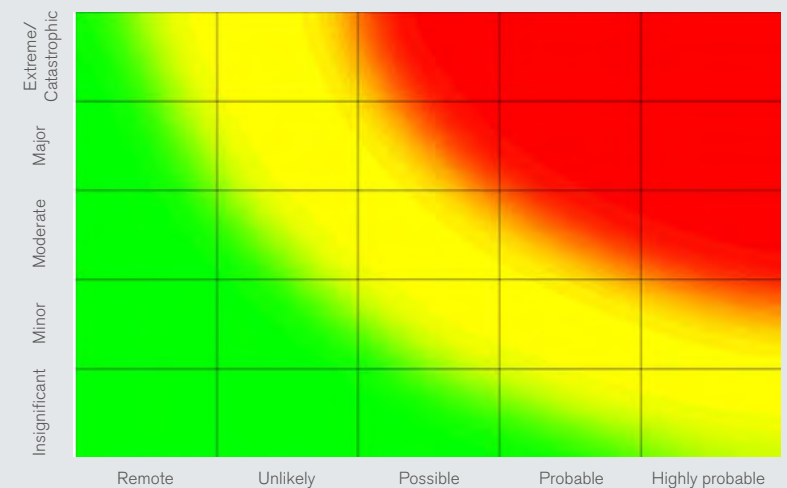
- Think about your strategic objectives and priorities
- Consider the six risk categories (see previous table)
- Brainstorm/workshop with colleagues (sharing perceptions)
- Examination of trends
- Analysis of last year's problems
- Information from similar organisations
- Awareness of new initiatives, agendas and regulations.

Step 2 – Risk analysis

| Background | Cause | Consequence |
|---|---|---|
| General background | What could trigger the event? | What could the consequences be? |
| <ul style="list-style-type: none"> ▪ What? ▪ Where? ▪ How? | <ul style="list-style-type: none"> ▪ How? ▪ Why? ▪ When? | <ul style="list-style-type: none"> ▪ How big? ▪ How bad? ▪ How much? |

Step 3 – Risk prioritisation

- How big an impact will the risk have on your organisation
- Assess each risk on an 'inherent' basis (before controls are implemented) and a 'residual' basis (after controls have been implemented)
- How likely is the risk to occur? (refer to Impact and Likelihood assessment guides on the next page)
- The risk matrix provides a focus to plot the residual risk scores (the impact x likelihood ranking = risk score)
- Those in the top right hand corner are the more pressing ones that will require most attention (see risk matrix/heat map below).



Step 4 – Risk mitigation

Assess current actions and controls - are they adequate or are more needed in line with the four T's approach (Tolerate, Treat, Transfer, Terminate)

Develop smart actions that will either reduce the likelihood of the risk occurring or minimise the impact should it happen.

Step 5 – Risk monitoring

Ensure risk reporting is part of performance monitoring

Determine frequency of reporting depending on risk scores

Focus on those risks above the tolerance line (top right hand corner of the heat map)

Delegate a group of individuals to be responsible for monitoring these risks e.g. Senior Leadership Team.

| Risk likelihood | | | |
|-----------------|-----------------|---------------------------|---------------------------|
| Scale | Description | Occurrence | Probability |
| 1 | Remote | 1-5% (1 in 20 years) | Exceptional circumstances |
| 2 | Unlikely | 6 -15% (1 in 6/7 years) | Few circumstances |
| 3 | Possible | 16 - 40% (1 in 2/3 years) | Some circumstances |
| 4 | Probable | 41 - 75% (1 in 2 years) | Many circumstances |
| 5 | Highly Probable | 76 -100% (1 in < 2 years) | Frequent circumstances |

| Risk impact | | | | |
|-------------|--------------------------|---|---|--------------------|
| Scale | Description | Service | Safety/People | Financial |
| 1 | Insignificant | <ul style="list-style-type: none"> No impact on service No impact on reputation Complaint unlikely Litigation risk remote. | <ul style="list-style-type: none"> No fatalities Minor impact on people's health. | 1 - 2% of turnover |
| 2 | Minor | <ul style="list-style-type: none"> Slight impact on service Slight impact on reputation Complaint possible Litigation possible. | <ul style="list-style-type: none"> No fatalities A small number of minor injuries requiring first aid. | 3 - 5% of turnover |
| 3 | Moderate | <ul style="list-style-type: none"> Some service disruption Potential for adverse publicity Complaint probable Litigation probable. | <ul style="list-style-type: none"> No fatalities Significant number of people affected requiring first aid. | 6 - 8% of turnover |
| 4 | Major | <ul style="list-style-type: none"> Service disrupted Adverse publicity not avoidable (local media) Complaint probably Litigation probable. | <ul style="list-style-type: none"> Significant number of people affected Hospitalisation required as well as medical treatment. | 9 -15% of turnover |
| 5 | Extreme/ Catastrophic | <ul style="list-style-type: none"> Service interrupted for a significant time Major adverse publicity (national media) Major litigation expected Resignation of senior management/board member Loss of beneficiary confidence. | <ul style="list-style-type: none"> Fatality/fatalities Large number of people affected Multiple serious or extensive injuries. | >15% turnover |

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