

ACT Insurance Authority

GUIDE TO RISK MANAGEMENT

February 2004



Insurance & Risk Management Strategies

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Introduction

This Guide to Risk Management for the ACT Government is designed to help you identify key risks to your outputs, whether for your Department, Agency, team or individual activity. Managing risk enables your organisation to achieve its potential with the least interference from a risk eventuating. Effective Risk Management also enables you to take advantage of opportunities as they arise.

Risk management applies to all ACT Government decision-making activities, including policy development and advice, outsourcing and outsourced services, contract management, program delivery, public events and enabling services. Risk Management enables us to minimise the barriers to meeting our business objectives.

Risk Management isn't just about decisions and behaviour that affect expenditure or expose the Territory to liability. Risk Management is about giving the best advice we can to Ministers and stakeholders.

A. About this Guide

This guide is based on Australian/New Zealand Standard AS/NZS 4360:2004 - Risk Management (the Standard) and describes how to meet the requirements of the Territory's [Risk Management Policy Statement](#). For further details on any aspects of Risk Management, please refer to

- a. the Standard (www.standards.com.au), and
- b. the ACT Government's [Enterprise-wide Risk Management Framework](#).

B. Definition of Risk

A risk is defined by the Australia/New Zealand Standard for Risk Management (*AS/NZS 4360:2004*) 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."

The effective management of risk enables you to maximise opportunities and achieve your outputs.

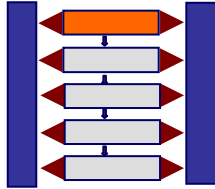
The Risk Management Process



AS/NZS 4360:2004

The steps involved in managing risk

A. Establish Goals and Context



As outlined in the Risk Management process, the risk assessment is undertaken within the context of your goals. The identification / validation of your goals is therefore a critical first step in the risk management process.

Effective risk management requires a thorough understanding of the context in which your Department or Agency operates. The analysis of this operating environment enables you to define the parameters within which the risks to your outputs need to be managed.

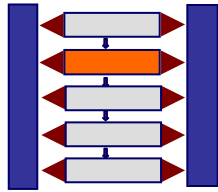
The context sets the scope for the risk management process. The context includes strategic, organisational and risk management considerations. According to the Standard, strategic context defines the relationship between the organisations and its environment. Factors that influence the relationship include financial, operational, competitive, political (public perceptions / image), social, client, cultural and legal. The definition of the relationships is usually communicated through frameworks such as the SWOT (Organisational strengths, weaknesses, opportunities and threats) and PEST (Political, Economic, Societal, and Technological).

The organisational context provides an understanding of the organisation, its capability and goals, objectives and strategies. According to the Standard, organisational context is important because:

- a) risk management occurs within the context of endeavouring to achieve the goals and objectives,
- b) failure to achieve the objectives is one set of risks that need to be managed, and
- c) the goals and strategies assist to define whether a risk is acceptable or unacceptable.

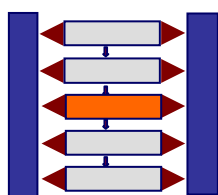
The risk management context defines that part of the organisation (goals, objectives, or project) to which the risk management process is to be applied.

B. Identify risks



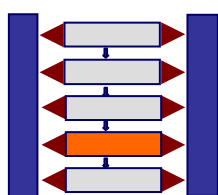
Identify the risks most likely to impact on your outputs, together with their sources and impacts. It is important to be rigorous in the identification of sources and impacts as the risk treatment strategies will be directed to sources (preventive) and impacts (reactive).

C. Analyse risks



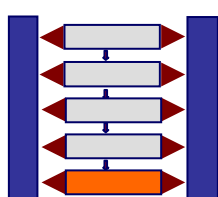
Identify the controls (currently in place) that deal with the identified risks and assess their effectiveness. Based on this assessment, analyse the risks in terms of likelihood and consequence. Refer to the [Risk Matrix](#) to assist you in determining the level of likelihood and consequence, and the current risk level (a combination of likelihood and consequence).

D. Evaluate risks



This stage of the risk assessment process determines whether the risks are acceptable or unacceptable. This decision is made by the person with the appropriate authority. A risk that is determined as acceptable should be monitored and periodically reviewed to ensure it remains acceptable. A risk deemed unacceptable should be treated (see below). In all cases the reasons for the assessment should be documented to provide a record of the thinking that led to the decisions. Such documentation will provide a useful context for future risk assessment.

E. Determine the treatments for the risks



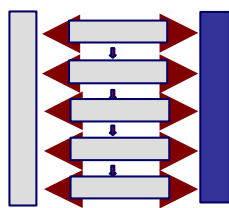
- Treatment strategies will be directed towards:
- i. Avoiding the risk by discontinuing the activity that generates it, (rarely an option when providing services to the public),
 - ii. Reducing the likelihood of the occurrence,
 - iii. Reducing the consequences of the occurrence,
 - iv. Transferring the risk, and
 - v. Retaining the risk.

Potential treatment options are developed according to the selected treatment strategy. The selection of the preferred treatment options takes into account factors such as the costs and effectiveness.

The determination of the preferred treatments also includes the documentation of implementation details (eg responsibilities, a timetable for implementation and monitoring requirements).

The intention of these risk treatments is to reduce the risk level of *unacceptable* risks to an *acceptable* level (ie: the target risk level). Use the [Risk Matrix](#) to determine the expected reduction in level of risk (expected consequence, likelihood and Target risk level) resulting from the successful implementation of the treatment.

F. Monitor and report on the effectiveness of risk treatments



The relevant manager is required to monitor the effectiveness of risk treatments and has the responsibility to identify new risks as they arise and treat them accordingly. Managers are also required to report on the progress of risk treatments at regular intervals. The person who has the responsibility for a risk treatment is expected to provide feedback on the progress of the 'project / initiative' as detailed in the 'monitoring' field of the treatment.

Frequently Asked Questions

Are there templates to assist the risk assessment activities?

The following templates and work sheets for completing a risk management plan can be obtained in the ACTIA [Risk Management Toolkit](#):

- Risk Matrix
- Identifying and analysing risks
- Risk Treatment Schedule
- Worksheet 1 – Stakeholder Agenda Analysis
- Worksheet 2 – SWOT Analysis
- Worksheet 3 – PEST Analysis

Where do I find the details required to undertake a risk assessment?

ACTIA has produced the [Risk Management Toolkit](#) to take you step by step through the Risk Management process, including completion of a Risk Management Plan.

When should I do Risk Management?

You are always required to manage risk. Managing risk in the ACT Government is about identifying and evaluating the risks to your

business and implementing treatments where appropriate. Your review of the risks should involve asking 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?

Your risk management plan is therefore always being updated.

When am I required to complete a Risk Management Plan?

Your own Agency or Department will set guidelines as to when you are required to complete a Risk Management Plan. However, risk assessment is usually a precursor to strategic and business planning, major procurement, projects and change programs. Risk Management is therefore an integral component of all daily business activities.

Should I use the templates provided with this Guide?

The templates provide a consistent approach to the identification of risks and their treatments within the ACT Government enterprise – wide risk management framework and are in accordance with AS/NZS 4360:2004.

What do I need to document?

It is important to keep on file all documentation that captures your workgroup's most important ideas and insights regarding key risk when undertaking a risk assessment, monitoring the risks and treatments. Records of options and decisions also need to be maintained. This documentation demonstrates the reasoning behind decisions and is essential for audit and review purposes.

What about Fraud and Integrity risks?

Fraud and integrity risks are to be considered as part of the overall Risk Management process as they form a subset of each agency's business risks. You should follow the same methodology used to assess any other kind of risk.

Fraud risks should also be considered in the risk management plans that are prepared for specific activities, programmes, procurements and contracts.

For further information on Fraud & Integrity risks please contact:
Mr Peter Roberts,
Specialist Adviser,
Industrial Relations and Public Sector Management Group,
Chief Ministers Department
Phone: 6207 8706

Who can I ask for further information and advice?

If you need general advice about risk management (including the materials provided), or require risk management training, please contact the ACT Insurance Authority:

Senior Risk Manager Peter Heal 62070302
Risk Manager David Ross 62070266
Website: <http://www.treasury.act.gov.au/actia>

Useful References

- Standards Australia SAA/NZS HB 143: 2004, *Guidelines for managing risk in the Australian and New Zealand public sector*
- Standards Australia SAA/NZS HB 221:2003, *Business Continuity Management*
- Standards Australia (risk management portal) This site includes details about the purchase of electronic and hard copies of their publications and products

Useful Sites

- The ACT Insurance Authority website provides up to date information for ACT Government Agencies and Departments on Insurance and Risk Management.
<http://www.treasury.act.gov.au/actia>
- The ACT Treasury Public Liability Insurance Risk Advisory website. This website provides advice to ACT community and small businesses on risk management and public liability issues. The site also includes a 'downloadable' risk management plan and an 'on-line' risk profile calculator.
<http://www.insuranceriskadvice.act.gov.au/>
- ACT Workcover
<http://www.workcover.act.gov.au>
- Comcare - The workers compensation insurer for the Territory
<http://www.comcare.gov.au/>

- The Australasian Institute of Risk Management
<http://www.airm.org.au/>
- The Association of Risk and Insurance Managers of Australia
<http://www.arima.com.au/>
- The Insurance Council of Australia
<http://www.ica.com.au/>
- Standards Australia Risk Management Portal
www.standards.com.au
- Risk Management Canada - Treasury Board of Canada Secretariat
<http://www.tbs-sct.gc.ca/rm-gr/home-accueil.asp?Language=EN>
- Risk Management United Kingdom Treasury Risk Portal
http://www.hm-treasury.gov.uk/documents/public_spending_and_services/risk/pss_risk_portal.cfm