Participant Workbook

An Introduction to Managing Risk

Community Waikato
He piko he kaainga

Contents

Introduction

Welcome to the Introduction to Managing Risk workshop.

Risk is a part of living in our society. A risk is anything that could jeopardise the achievement of your organisations key objectives or even its very existence.

The challenge is to treat risks in an appropriate and cost effective way to protect the organisation and its stakeholders.

Passion and commitment to the purpose may be the life blood of an organisation but these qualities do not always protect it from unwise decisions, mistakes or mismanagement.

Finding innovative and more effective ways to achieve your objectives involves taking risks. This means that organisations need to find the right balance between taking risks in an informed way, handling unwanted risks and being confident that it can accept the level of risk it faces in pursuing its purpose and objectives.

The aim of this workshop is to introduce a structure that will assist you and your organisation to think about and plan for managing risks.

Some definitions

What is risk?

A situation involving exposure to danger (Noun)

To expose (someone or something valued) to danger, harm or loss (Verb)

(Google)

The possibility that something unpleasant or unwelcome will happen

(oxforddictionaries.com)

What is risk management?

Coordinated activities to direct and control an organisation with regard to risk
(Standards New Zealand)

Risk management is the process of managing your organisations exposure to potential liabilities – it does this by identifying risks in order to prevent or reduce them.
(Volunteering Australia)

Starting with your organisation

Where have we come from? What kind of organisation are we? What is our legal structure and what does that mean for us? What do we do currently and where do we do it?

Finding the 'Right Balance'

The amount and type of risk an organisation takes will depend on a number of things including its size, resources, history and stage of development.

There is no 'one size fits all' risk management strategy. Each organisation needs to analyse its own circumstances and develop their own understanding of risk.

Be wary of 'cut and paste' – while it can be useful to see what other organisations have done and there will be some common aspects – your situation is unique.

Having confidence that the organisation can bear its level of risk

Taking risks on an informed basis

Treating undesireable risks

The Risk Management Process

Communicate and Consult

Who do we need to consider and include? What is their interest? How shall we involve them?

What does success look like?

Risk Assessment

Establish the context → **Identify** the risks → **Analyse** the risks → **Evaluate** the risks → **Treat** the risks

Monitor and Review

Have the risks and controls changed? Is our policy working? Are we adhering to our policy and procedures?

What does success look like for your organisation?

In what areas must your organisation be successful in order to achieve its purpose and objectives? There are some generic areas that are relevant to most organisations but there will also be factors that are specific to each organisation. Identifying what success looks like for an organisation is an important part of making decisions about risk and how much risk it can accept.

Think about;

- Financial Sustainability (income, control and expenditure)
- Safety and well-being of its people and those it engages with
- Reputation and brand
- Legal and regulatory compliance
- Quality service delivery

Establishing the Context

- ✓ Purpose and Objectives

- ✓ Stakeholders

- ✓ External Influences

- ✓ Internal Influences

Organisation Purpose and Objectives

What is the organisation trying to achieve – what is the vision and mission? What are the objectives of the organisation?

Our vision/purpose   (**why** do we exist?)

Our objectives   (**what** are we trying to achieve?)

Our mission and our values   (**how** do we work to achieving the vision/purpose?)

Stakeholder Analysis

- A stakeholder is "any group or individual who can affect or is affected by the organisation's activities" (Freeman, 1984)

- Stakeholders matter because the organisation is responsible and accountable to all stakeholders. By engaging the right people in the right way you can make a big difference to the success of what you want to achieve.

- Stakeholder support can ensure the long-term viability of organisations, as well as communities and nations.

- Stakeholders can be within or outside of to the organisation.

- Organisations don't choose their stakeholders – stakeholders choose themselves.

- Organisations need to work out what each stakeholder expects/wants from the organisation so that the organisation can involve them and consider their needs when thinking about risk.

- Organisations also need to work out the best way to communicate with each stakeholder group so that they can keep them appropriately engaged and informed.

- Stakeholders may include;

  - The individuals and/or groups the organisation serves and those who benefit from the work of the organisation
  - Members
  - Employees and volunteers
  - Volunteers
  - Trustees/Executive Committees
  - Funders, donors and contractors
  - Sector bodies or groups
  - Regulators and accreditors
  - Accountants and auditors
  - Insurance companies
  - Media
  - Local community

Stakeholder	What are the stakeholder's expectations of the organisation? (What does the organisation need to consider?)	What is the best way to communicate

External Issues and Influences

What external factors could create uncertainty for our organisation and its stakeholders?

External Factor	Potential Impacts

Internal Issues and Influences

What internal factors could create uncertainty for our organisation and its stakeholders?

Internal Factor	Potential Impacts

Risk Assessment

✓ Identify the risks

✓ Analyse the risks

✓ Evaluate the risks

Risk Identification

To make it easier to identify all potential risks to the organisation it can be useful to break the organisation down into different parts of its operation. This can help make sure that new or emerging risks don't get missed and avoid complacency around familiar and existing risks.

1. Financial and funding issues

2. Demand, resourcing and organisation structure

3. Partners and competitors

4. Technology and support systems

5. Political and legal requirements

Risk Analysis

Once all the potential risks to the organisation have been identified, they need to be analysed. This is the process of exploring and really understanding the risk.

At the end of the risk identification and analysis process the organisation wants to know:

- ✓ All the risks to achieving its purpose and objectives – and whether or not they are under the influence of the organisation
- ✓ The possible sources and causes of the risks and how they could happen.
- ✓ The people in the organisation who are responsible for the risks.

Questions that will assist you to explore each risk include:

- ☐ What could happen?
- ☐ How could it happen? What could lead to it and why?
- ☐ What would the impact of the event/circumstance happening be?
- ☐ What controls do we have in place to modify the risk?

Risk Evaluation

Not all the risks you identify will be significant but some may have a good chance of developing into a danger to the organisations on-going viability. Your organisation probably won't have the resources to deal equally with all potential risks so the next step is to rank them.

Risks can be evaluated by determining their *likelihood* of occurring and the potential *consequence* of the event or change in circumstances. This evaluation is not an exact science but is based on the 'best guess' or informed opinion of those completing the risk assessment process. For this reason it is important to involve as many people as possible in determining the significance of risks.

There are a number of different ways to define 'likelihood' and 'consequence'. The following example is from: *Running the Risk?   Risk Management Tool for Volunteer Involving Organisations – Volunteering Australia*

The likelihood of an event or circumstance can be classified as:

a. (Almost certain)   The event/circumstance is expected to occur in most conditions

b. (Likely)   The event/circumstance will probably occur in most conditions

c. (Moderate)   The event/circumstance should occur at some time

d. (Unlikely)   The event/circumstance could occur at some time

e. (Rare)   The event/circumstance may occur only in exceptional conditions

The consequence or impact of the event or change in circumstances occurring can be defined as:

1. (insignificant)   No action is required and/or low financial loss
2. (minor)   No further action is needed at present, but monitoring will be necessary to ensure that controls are maintained
3. (moderate)   Efforts need to be made to reduce the risk, but the costs of doing so need to be carefully considered
4. (substantial)   The activity should be halted until the risk has been reduced or sufficient control measures are in place
5. (intolerable)   The activity that gives rise to the risk should be prohibited

Level of Risk Matrix

(From: Running the Risk? Risk Management Tool for Volunteer Involving Organisations – Volunteering Australia page 12)

Consequences or Impact

		1 Insignificant	2 Minor	3 Moderate	4 Substantial	5 Intolerable
a.	Almost Certain	S	S	H	H	H
b.	Likely	M	S	S	H	H
c.	Moderate	L	M	S	H	H
d.	Unlikely	L	L	M	S	H
e.	Rare	L	L	M	S	S

(Row label on left: **Likelihood**)

Level of Risk

(purple)	Significant	Detailed research and management planning required
(red)	High	Senior management/ governance attention required
(yellow)	Moderate	Management responsibility must be specified
(green)	Low	Managed by routine procedures

While it is not as precise as a statistical ranking, it lets you prioritise the risks facing the organisation, from those that threaten its existence to those that are trivial. The main problem will arise when there are risks that have very severe consequences but occur infrequently (e.g.' earthquake or cyclone). These high severity/low frequency risks are the most unpredictable and embody the greatest threat to the existence of community organisations

You can use a **Risk Register** to record **all** the risks you identified, their likelihood, their probable consequences and the risk priority. Remember to review the risk register periodically, the likelihood and consequences of risks alter over time as circumstances change.

Risk Analysis and Evaluation

Completed by: Date:

	1.	2.	3.	4.	5.	6.	7.
No	Description of the risk – what could happen, causes, impact on the organisations objectives and likelihood	Description of existing controls	Effectiveness of control	Consequence rating (after taking existing controls into account)	Likelihood rating (after taking existing controls into account)	Risk rating	Who is responsible

Example Risk Analysis and Evaluation

Completed by: Bob (Manager), Ruth (Chair), Sam, Kiri and Brian (Staff and Contractor reps)   Date: 27 August 2015

No	1. Description of the risk – what could happen, causes, impact on the organisations objectives and likelihood	2. Description of existing controls	3. Effectiveness of control	4. Consequence rating (after taking existing controls into account)	5. Likelihood rating (after taking existing controls into account)	6. Risk rating	7. Who is responsible
1.	**Serious harm or death of a person – staff, volunteer, committee member, client or member of the community.** The Starlight House is a community resource and as such sees numerous people using its facilities on a daily basis. The Op Shop has a steady flow of customers. There are several physical hazards in the environment that could potentially cause harm. The nature of the services that the House provides to the community mean that there is also a potential for clients and members of the public to become upset/distressed and for staff/volunteers to need to deal with difficult sometimes volatile situations.	• Comprehensive health and safety policy (will require review to comply with the new legislation) • Hazard register and incident/accident reporting and investigation process • Frontline staff attend training to deal with challenging behaviour and situations and are refreshed annually • Staff with first aid training – a trained first aider is on-site at all times • There is currently a lack of buy-in from some staff/volunteers/community members to following safety procedures around the back steps • There needs to be signage for the back steps	Partially	Substantial	Likely	High	

#	Risk	Controls					
2	**Key people leaving the organisation.** This could be due to them moving on or as a result of stress or illness. Key people include governance and operations, and both paid and voluntary positions. There is significant reliance on the four paid positions in the organisation. If any of these people were to suddenly be unavailable the organisation would be very challenged to maintain service delivery.	• There is some information recorded in desk files about the key tasks of each role (these could do with some expansion to ensure current activity is somehow recorded i.e. Outlook) • Everyone has a role description • Emergency succession plans for key roles • People are connected to the organisation through the newsletter and individual communication • Volunteer recognition	Partially	Moderate	Moderate	High	
3	**Losing the MSD contract through poor performance or changing government priorities** – this would mean that we would not be able to continue the budgeting service and would have to significantly reduce the counselling services available. The loss of income would mean that we would have a significant decrease in the amount of resource available to cover overheads including the PR Advisory and Manager roles. Engaging and retaining contract counsellors would also be more challenging. The overall impact would be a significant reduction in the paid personnel of Starlight House.	• Ensuring that we meet contract requirements • Delivering all accountability requirements on time and to the standard required • Implementing audit recommendations • Ensuring our reports include all House activity and demonstrate the importance of the work of the House in the community • Managing the relationship with the contract manager by providing regular informative communication • Continual environmental scanning • Maintaining transparency and ensuring that there is thorough disclosure of any potential issues • Diversifying income streams • Contracting personnel to undertake key work • Create on-going funding strategy	Partially	Substantial	Moderate	High	

| 4 | **Failure to deliver services to people who require them.** There are a number of reasons why this may occur, including;

• Demand exceeding the ability to deliver.
• Non-performance or under-delivery of services.
• Contractors ending relationships suddenly.
• Not delivering on commitments. | • Referral process that includes consideration of resourcing.
• Monthly analysis of service delivery is completed and adjustments made if required.
• Other funding sources are regularly explored to secure resources for service delivery.
• Client targets (under contracts) are monitored monthly.
• Mechanisms in place to manage service quantity
• Relationships with funders are managed through communication and accountabilities.
• Funding spreadsheet tracks income and expenditure.
• Variance reporting needs to be completed monthly. | Effective | Minor | Moderate | Moderate | |

Risk Register

Area: Completed by: Date:

Reviewed by: Date:

No	Risk	Controls	Effectiveness of control	Consequence	Likelihood	Risk rating	Who is responsible

Date created: Review date:

Example Risk Register

Risk Priority	Risk	Existing controls	Effectiveness	Consequence	Likelihood	Rating	Responsibility	Monitoring
1	Serious harm or death of a person – staff, volunteer, committee member, client or member of the community	– Policies and Procedures – Training – Signage	Partial	Substantial	Likely	High		Monthly Reporting
2	Key people leaving the organisation	– Desk top files – Emergency succession plans for key roles – Communication and recognition	Partial	Moderate	Moderate	High		Monthly Reporting
3	Loss of MSD contract	– Active contract and relationship management – Continual environmental scanning – Diversifying income streams – Contract personnel – Creating a 'funding strategy'	Partial	Substantial	Moderate	High		Monthly Reporting
4	Failure to deliver services to people who require them	– Active management and monitoring of demand and delivery – Actively seeking other funding sources – Client targets are monitored monthly. – Mechanisms in place to manage service quantity – Active management of relationships with funders – Tracking income and expenditure. – Variance reporting to be completed monthly	Effective	Minor	Moderate	Moderate		Quarterly Reporting

Date created: Review date:

Risk Treatment

Once you have identified and prioritised the risks facing your organisation, you can start thinking about how to manage them. Risk treatment is the process of modifying risks by choosing one or more options for further reducing the level of risk. The resulting risk management framework should be in the form of a written document, approved at board level and adopted across the organisation.

Risk treatment involves doing things that change either the likelihood of the consequence occurring or the type or extent of those consequences.

It is important to consider as many options as possible for handling risks, and to look at the costs and benefits of each option, so that you can select the most appropriate and practical option for your organisation.

Common strategies for minimising risk

- ☐ **Avoiding** the risk (by deciding not to start or continue with an activity that creates the risk)

- ☐ **Removing** the source of the risk

- ☐ **Changing** the likelihood

- ☐ **Changing** the consequences

- ☐ **Sharing** the risk with another party or parties (partnerships or contracting)

- ☐ **Retaining** the risk by informed decision (and making appropriate provisions for dealing with the consequences should they arise)

- ☐ **Transferring** the risk (by getting a third party to perform the risky activity or taking out appropriate insurance)

Monitoring and Review

Documenting the results of the risk management process provides great information about the current state of the organisation and provides a basis for improvement but it does not ensure that necessary actions are completed.

Once the risk management framework is developed and has been approved by the board the next critical step is to identify who in the organisation will be responsible for ensuring it is implemented.

Processes for on-going monitoring of implementation and its effectiveness need to be developed and implemented.

Alongside the on-going monitoring, a regular review of the risk management framework at least annually (and whenever there are any changes in legislation or the organisations activities) is important to detect changes in the organisations context, the risks you face and the effectiveness of the controls you have in place.

Risk management frameworks are successful when they are built into the culture of the organisation. Everyone connected with the organisation is expected to play a part in controlling and minimising risks. It moves beyond being just a board function. New volunteers, board members and employees need to be made aware of risk management as part of their induction, and employees and volunteers should be encouraged to report potentially dangerous equipment, facilities or situations. Education, consultation and communication are essential elements in any implementation and monitoring of a risk management framework.
(From: Running the Risk? Risk Management Tool for Volunteer Involving Organisations – Volunteering Australia page 17)

Monitoring and Review Activities

Monitoring and review activities should be regularly applied to:

- ☐ All identified risk – with priority given to those risk with the highest potential exposure and where control effectiveness is low

- ☐ Assessing the success and reliability of the controls in place

- ☐ Checking internal and external issues and influences

- ☐ Assessing progress around the implementation of risk management plans

- ☐ Assessing activities where the organisation has intentionally exposed itself to high levels of risk

- ☐ Learning from past successes, failures and near misses

- ☐ Checking the effectiveness of the risk management framework

Sample Risk Management Policy Statement 1

From: Standards New Zealand – Guide for managing risk in not-for-profit organisations

The effective management of risk is central to *(the organisation)* achieving *(its purpose)*. This means that *(the organisation)* must have a current, correct and comprehensive understanding of its risks and that those risks are of a type and at a level that are desirable to *(the organisation)*.

By understanding its risks and treating its undesirable risks *(the organisation)* can provide greater certainty and security for its clients, its members, its cause, its employees, its volunteers and all its stakeholders. *(The organisation)* will be better informed, more decisive and function with increased confidence to achieve *(its purpose)*.

(The organisation's) aim is for high-quality risk management activities to be integrated with all its critical processes so that before events occur or there be a change in circumstances that might enhance or prevent *(the organisation)* achieving its purpose and objectives, the organisation is able to recognise and respond to the risk in a consistent, proactive way. Equally, if unintended events occur, *(the organisation)* will use systematic processes to learn the lessons from its successes, failures and near misses. In this way *(the organisation)* will drive operational excellence and organisational learning and growth.

Responsibility for managing (*the organisation's)* risks rests with the *(name key personnel responsible in the organisation)*. This includes accountability for ensuring that the necessary controls modifying (enhancing or reducing) the risks are in place and are effective at all times, and for ensuring that control assurance activities are also effective. Assurance of good governance will be achieved through the regular measurement, reporting and communication of risk management performance.

As a board, we will make certain that the necessary resources are available to ensure that the organisation's risks are managed effectively.

This policy is to be reviewed at least every two years.

Risk Management Policy

It is the responsibility of the Board to know the risks that are likely to affect the organisation and to monitor these and the management of them.

1.   The Board will identify, assess and rank risks to the organisation according to likelihood and potential severity.

2.   The Board will agree on prevention and mitigation measures and assign responsibility for matters requiring attention.

3.   The Board will agree on a timeframe for monitoring risks and action to reduce risk.

Policy approved by the Board

Created & approved June 2009

Reviewed annually

Next review February 2024

Notes, ideas and reflections