RISK MANAGEMENT TOOLKIT
Sample toolkit provided for educational purposes for students in Diploma of Management and/or HRM completing Risk Management Unit of study.

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Introduction

This toolkit has been developed to complement the tutorial on risk in your Diploma program. It provides you with an end-to-end process for managing organisational risk along with a number of useful templates. You should use as much or as little of these processes as suits the needs of your organisation and the risk at hand.

The Steps in Managing Risks

The tool kit follows the steps described in the Risk Management Standards (AS/NZS 4360: 2004).

```
<table>
<thead>
<tr>
<th>Establish Goals &amp; Context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identify Risks</td>
</tr>
<tr>
<td>Analyse Risks</td>
</tr>
<tr>
<td>Estimate Risk Level</td>
</tr>
<tr>
<td>Evaluate the Risks</td>
</tr>
<tr>
<td>Treat the Risks</td>
</tr>
</tbody>
</table>

Likelihood
Consequence

Monitor / Review

Stakeholder Consultation / Communication

AS/NZS 4360: 2004
```
The risk management steps are:
1. Establishing our Goals and context (i.e. our the risk environment);
2. Identifying our risks;
3. Analysing the identified risks;
4. Assessing or evaluating the risks;
5. Treating or managing the risks;
6. Monitoring and reviewing the risks and the risk environment regularly; and
7. Continuously communicating and consulting with stakeholders.

1. Establish Goals and Context

Environmental analysis

The purpose of this stage of planning enables you to understand the environment in which your business operates. That is, to thoroughly understand the external operating environment in which you operate and the internal culture of the organisation.

The analysis is undertaken through:
- establishing the strategic, organisational and risk management context of your business, and
- identifying the constraints and opportunities of your operating environment.

The establishment of the context and culture is undertaken through a number of environmental analyses that include:

a. A review of the relevant corporate documents and the previous year’s risk management and business plans,
b. The completion of the stakeholder agenda analysis (Worksheet 1),
c. SWOT Analysis (Worksheet 2),
d. PEST Analysis (Worksheet 3).

a. Review relevant corporate documents and previous year’s risk management and business plans (if any)

At a minimum, review and consider the following documents to inform your understanding of the strategic, organisational and risk management context of your business:

- Organisation Mission / purpose, values and priorities,
- The expectations contained within the Organisation’s Service Charter,
- The strategies underpinning your strategic and business plans, and
- Risk Management plans from the previous year most relevant to your business or activity/initiative.
b. An examination of the business scope
The use of Worksheet 1 enables you to understand the key outputs and processes for which your organisation / team is responsible and within which the risks can occur.

c. Stakeholder Agenda Analysis
Stakeholders and clients form an important component of your business context.
Their agenda can significantly influence your operations, priorities and effort. The use of Worksheet 1 will assist you to understand:
- The nature and range of your stakeholders,
- The nature of their agendas, and
- The impact of these agendas on your business – particularly, what are your vulnerabilities?

The completion of Worksheet 1 involves the following activities:
- List Stakeholders who have an impact on your business
- Identify each stakeholder’s agenda for your organisation
- Identify and list the strengths of your organisation in dealing with each stakeholder and their agendas.
- Identify your vulnerabilities with regard to the key stakeholder agendas. How might the agendas of these stakeholders slow the progress of your objectives?

d. PEST and SWOT Analysis
This is a good time to categorise the answers to your environmental analysis through Worksheet 2 the SWOT (Strength, Weaknesses, Opportunities and Threats) and Worksheet 3 the PEST (Political, Economic, Societal & Technological) frameworks. Review the answers on your worksheets and classify the relevant findings as:
- Strengths,
- Weaknesses,
- Opportunities, and
- Threats.

Also review your findings for the more broad environmental characteristics relating to:
- Political issues,
- Economic issues,
- Societal issues, and
- Technological issues.
c. Examine Business Goals
The purpose of this activity is to establish / reconfirm your business goals. It is against these goals that the risk assessment is undertaken. Therefore this stage of the process is critical. Worksheet 3 enables you to summarise information required to identify your goal. Once Worksheet 3 is completed, consider the following questions:

Given the agendas of the stakeholders, and the analysis of your SWOT issues:

- What are your key weaknesses?

- What are your opportunities?

- What are your business priorities?

- And most importantly, what is your business goal (against which the risk assessments will be undertaken).
2. Identify the Risks

Please make a number of copies of Template 1 prior to commencing this step.

Identifying the risks

Using the information you have gained from your context, particularly as categorised by the SWOT and PEST frameworks, identify the risks that are likely to affect the achievement of the goals of your business, activity or initiative. Please remember that a risk can be an opportunity or strength that has not been realised.

Key questions that may assist your identification of risks include:

- For us to achieve our goals, when, where, why, and how are risks likely to occur?
- What are the risks associated with achieving each of our priorities?
- What are the risks of not achieving these priorities?
- Who might be involved? (for example, suppliers, contractors, stakeholders)

The use of the following tools and techniques may further assist the identification of risks:

- Examples of possible risk sources,
- Checklist of possible business risks and fraud risks,
- Typical risks in stages of the procurement process,
- Scenario Planning as a risk assessment tool,
- Process mapping, and
- Documentation, relevant audit reports, program evaluations and/or research reports.

List all risks impacting on achieving your objectives in the column headed "The Risks" on Template 1.

Insert Risk Reference

Please ensure that each risk has a unique identifier. This reference is to be included in the 'Risk Ref' column on Template 1. You will notice that this unique identifier is transferred to Template 2 to form the reference for the identification of your risk treatments.

Identify the sources of the risks

This is a most critical stage in the risk assessment process. The sources are what need to be managed for pro-active risk management. The
clearer the sources, the better the outcomes of your risk assessment process and the more meaningful the management of risks.

The identification of the sources is straightforward. Focus on how the risk can eventuate or be triggered.

Your identified sources of the risk are noted in the column headed 'Source of the Risk’ on Template 1.

Your discussions on the sources of the risk need to be frank and honest. As noted earlier, the better the understanding of the sources, the better the risk management.

Identify the impact of the risk

Key questions to ask at this stage of the risk assessment process include:
- Why is this event a risk?
- What happens if the risk eventuates?
- How can it impact on achieving our objectives / outcomes?

The description of the impact of the risk is noted in the column headed 'Impact of the Risk’ on Template 1.

3. Analyse risk

Your current controls and their effectiveness.

This step of the risk assessment process requires that for each risk, you identify the current controls and their effectiveness in preventing the risk from eventuating or minimising its impact should it occur.

Once a control has been noted, assess its effectiveness – as
- I = Inadequate,
- M = Moderate,
- A = Adequate.

Insert the current controls and their effectiveness rating in the column headed 'Current Control Strategies’ of Template 1.

Please note that current controls that are not fully implemented will not be fully effective. The implementation of these controls may form the basis of cost effective treatment strategies to address unacceptable risks. Note these controls for consideration when developing treatment strategies.
Likelihood and Consequence

For each risk, you are required to define its profile using likelihood and consequences criteria. Please refer to the definitions of the likelihood and consequence contained in the Risk Matrix.

How serious are the consequences if the risk occurs?
Using the consequence criteria provided in the Risk Matrix, determine the consequences of the event occurring (with current controls in place). Note your response in the column headed ‘Consequence’.

What is the likelihood of the risk occurring?
Refer to the likelihood criteria (again contained in the Risk Matrix) to determine the likelihood of the risk occurring. As before, the assessment is undertaken with reference to the efficacy of the current controls. Please note your response in the column headed ‘Likelihood’.

What is the level of risk?
Please refer to the Risk Matrix to determine the level of each risk. The risk level is identified by intersecting the likelihood and consequence levels on the Risk Matrix. Note the risk level in the column headed ‘Current Risk Level’.

Complex risks may involve a more involved methodology. For example, a different approach may be required for assessing the risks associated with a significantly large procurement. Please liaise with relevant managers/departments if you are in any doubt as to the level of complexity you need to undertake.

4. Evaluate the risks

This step of the risk assessment process requires you to assess the level of risk as acceptable or unacceptable.

The decision of whether a risk is acceptable or not acceptable is taken by the relevant manager. A risk may be considered acceptable if for example:

- The risk is sufficiently low that treatment is not considered cost effective, or
- A treatment is not available, e.g. a project terminated by a change of government, or
- A sufficient opportunity exists that outweighs the perceived level of threat.
The assessment is included in Template 1 in the column headed ‘Acceptable/Unacceptable’ as an ‘A’ or ‘U’.

Where practical, the reasons for accepting a risk as acceptable needs to be documented by the person making the decision.

If the risk is acceptable
If the manager determines the level of risk to be acceptable, the risk may be accepted with no further treatment beyond the current controls. Acceptable risks should be monitored and periodically reviewed to ensure they remain acceptable.

If the risk is unacceptable
An unacceptable risk requires treatment. The processes required to identify the treatment options form the basis of the next discussion.

5. Treat the Risks

Identify options for treating the risk

The objective of this stage of the risk assessment process is to develop cost effective options for treating the risks. Treatment options are driven by outcomes that include:

- Avoiding the risk,
- Reducing the risk,
- Transferring the risk, and
- Retaining the risk.

Avoiding the risk - not undertaking the activity that is likely to trigger the risk.
Factors to consider the validity of this option include:

- What will happen if the activity is not undertaken?
- Is the risk level too high to proceed / continue with the activity?
- Is the cost of the required controls higher than the benefit of the activity?
- Will the failure of the activity have critical consequences for other areas of the business?

Reducing the risk - controlling the likelihood of the risk occurring, or controlling the impact of the consequences if the risk occurs.
Factors to consider for this risk treatment strategy include:
Can the likelihood of the risk occurring be reduced? (through preventative maintenance, or quality assurance & management, change in business systems and processes), or

Can the consequences of the event be reduced? (through contingency planning, minimizing exposure to sources of risk or separation/relocation of an activity and resources).

Transferring the risk totally or in part. This strategy may be achievable through moving the responsibility to another party or sharing the risk through a contract, insurance, or partnership/joint venture. Please be aware that a new risk arises in that the party to whom the risk is transferred may not adequately manage the risk!

Retaining the risk and managing it. Resource requirements feature heavily in this strategy.

For each risk, determine treatment options. These options are listed in the column headed ‘Potential Treatment Options’ in Template 2.

Cost/benefit analysis

The completion of a cost / benefit analysis of each treatment option provides a sound basis for selecting the best option to manage the risk. The following points will assist your analyses.

- Ensure your analysis is broad. Identify the resource implications of the proposed treatments. For example, will a new software system need to be funded, will additional people be required. What are the travel implications?
- Discuss the expected benefits from each option.

Decide which option provides the best cost / benefit outcome. List the agreed costs and benefits of the potential treatment in the column headed ‘Costs & Benefits’ in Template 2

Identify which potential risk treatment options will be implemented

Based on the options available, decide which potential treatment option/s should be implemented. There will often be more than one risk treatment for a risk. Please insert a ‘Yes’ or ‘No” in the column headed ‘Is the Treatment to be implemented’ in Template 2.
Determine the target level of risk

This step of the process involves you determining the target risk level resulting from the successful implementation of the preferred treatments and current controls.

The intention of a risk treatment is to reduce the expected level of an unacceptable risk. To this end, refer to the Risk Matrix to determine the target Consequence and Likelihood of the risk. Refer to the Risk Matrix to identify the expected target risk level. Note your target level in the appropriate columns of Template 2.

Assign Responsibilities.

Insert the name of the person/team responsible for implementing the treatment into the column headed ‘Responsible Person’ in Template 2. These responsibilities and the requirements of the treatments will usually be incorporated in team plans, performance agreements and individual action plans.

Timetable for implementation.

Insert the expected dates for the commencement and completion of the risk treatment in the appropriate column of Template 2.

6. Monitoring the risks

Risks and their priorities do not remain constant. The currency of identified risks needs to be regularly monitored. New risks and their impact on the business need to be established.

This stage of the treatment planning requires the description of how the outcomes of the treatment will be measured. Milestones or benchmarks for success and ‘warning signs’ for failure need to be identified.

This stage of the process also requires you to identify who will review the progress of the treatment and the frequency of review. Please enter these details in the column headed ‘Monitoring’ of Template 2.
Reporting the Risks

A framework needs to be in place that enables responsible officers to report on the following aspects of risk and its impact on business operations:

- What are the key risks?
- How are they being managed?
- Are the treatment strategies effective? – If not, what else must be undertaken?
- Are there any new risks and what are the implications for the business?

Risk management is an integral element of business management. However, for its successful adoption it is important that, in its initial stages, the reporting on risk management is visible through the framework.

7. Incorporation of preferred risk treatments into business plans

Unacceptable risks and their treatment strategies should be included in the organisation/department business plan/s.
## Worksheet 1 - Stakeholder Agenda Analysis

Our Goal

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Stakeholder’s agenda for organisation</th>
<th>Strengths in meeting agenda</th>
<th>Vulnerability resulting from the agenda</th>
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<tbody>
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</table>
Worksheet 2 – SWOT Analysis

<table>
<thead>
<tr>
<th>Internal Factors</th>
<th>External Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths</strong></td>
<td><strong>Opportunities</strong></td>
</tr>
<tr>
<td><strong>Weaknesses</strong></td>
<td><strong>Threats</strong></td>
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</tbody>
</table>
Worksheet 3 – PEST Analysis

Political

Societal

Economic

Technological
## Template 1 - Identifying and Analysing Risks

<table>
<thead>
<tr>
<th>RISK REFERENCE</th>
<th>THE RISK</th>
<th>SOURCE</th>
<th>IMPACT FROM EVENT HAPPENING</th>
<th>CURRENT CONTROL STRATEGIES AND THEIR EFFECTIVENESS</th>
<th>CURRENT RISK LEVEL</th>
<th>ACCEPTABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>WHAT CAN HAPPEN?</td>
<td>HOW CAN THIS HAPPEN</td>
<td></td>
<td>(A) – Adequate  (M) – Moderate  (I) – Ind adequate</td>
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</table>

**Date of Review** ..............................................................

**Name of Organisation** ..........................................................

**Compiled by** .................................................................

**Function Activity** ............................................................

**Reviewed by** ......................................................................
Template 2 - Risk Treatment Schedule and Action Plan

<table>
<thead>
<tr>
<th>RISK REFERENCE</th>
<th>POTENTIAL TREATMENT OPTIONS</th>
<th>COSTS &amp; BENEFITS</th>
<th>IS THE TREATMENT TO BE IMPLEMENTED (Y/N)</th>
<th>TARGET RISK LEVEL</th>
<th>RESPONSIBLE PERSON</th>
<th>TIMETABLE For implementation</th>
<th>MONITORING strategies to measure effectiveness of Risk Treatments</th>
</tr>
</thead>
<tbody>
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</table>
## Attachment 1 – Risk Assessment Matrix

**E** – Extreme risk – detailed action plan required  
**H** – High risk – needs senior management attention  
**M** – Medium risk – specify management responsibility  
**L** – Low risk – manage by routine procedures  

High or Extreme risks must be reported to Senior Management and require detailed treatment plans to reduce the risk to Low or Medium.

<table>
<thead>
<tr>
<th>People</th>
<th>Injuries or ailments not requiring medical treatment.</th>
<th>Minor injury or First Aid Treatment Case.</th>
<th>Serious injury causing hospitalisation or multiple medical treatment cases.</th>
<th>Life threatening injury or multiple serious injuries causing hospitalisation.</th>
<th>Death or multiple life threatening injuries.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation</td>
<td>Internal Review</td>
<td>Scrutiny required by internal committees or internal audit to prevent escalation.</td>
<td>Scrutiny required by external committees, or inquest, etc.</td>
<td>Intense public, political and media scrutiny. Eg: front page headlines, TV, etc.</td>
<td>Assembly inquiry or Commission of inquiry or adverse national media.</td>
</tr>
<tr>
<td>Business Process &amp; Systems</td>
<td>Minor errors in systems or processes requiring corrective action, or minor delay without impact on overall schedule.</td>
<td>Policy procedural rule occasionally not met or services do not fully meet needs.</td>
<td>One or more key accountability requirements not met. Inconvenient but not client welfare threatening.</td>
<td>Strategies not consistent with organisation’s brand. Trends show service is degraded.</td>
<td>Critical system failure, bad policy advice or ongoing non-compliance. Business severely affected.</td>
</tr>
<tr>
<td>Financial</td>
<td>1% of Budget or &lt;$5K</td>
<td>2.5% of Budget or &lt;$50K</td>
<td>&gt; 5% of Budget or &lt;$500K</td>
<td>&gt; 10% of Budget or &lt;$5M</td>
<td>&gt;25% of Budget or &gt;$5M</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Probability:</th>
<th>Historical:</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;1 in 10</td>
<td>Is expected to occur in most circumstances</td>
</tr>
<tr>
<td>1 in 10 - 100</td>
<td>Will probably occur</td>
</tr>
<tr>
<td>1 in 100 - 1,000</td>
<td>Might occur at some time in the future</td>
</tr>
<tr>
<td>1 in 1,000 - 10,000</td>
<td>Could occur but doubtful</td>
</tr>
<tr>
<td>1 in 10,000 - 100,000</td>
<td>May occur but only in exceptional circumstances</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Insignificant</th>
<th>Minor</th>
<th>Moderate</th>
<th>Major</th>
<th>Catastrophic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

High or Extreme risks must be reported to Senior Management and require detailed treatment plans to reduce the risk to Low or Medium.

Adapted from Standards Australia Risk Management AS/NZS 4360: 2004

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