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Risk Management

The most important thing

Risk Management

- Identify opportunities and new business models to disrupt industries
- Gain competitive advantage
- Optimise operations
- Improve business agility
- Ensure achievement of strategic objectives
- Improve decision-making at all levels

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History Lesson

Q. When were the rules of double-entry bookkeeping first published?

Q. When did the modern-day discipline of risk management begin?

Risk management is new.

- 50 years vs 500 years of development
- Multiple frameworks (ISO31000/COSO)
- Variety of approaches (inherent risk)
- Variety of methods (quantitative)
- No agreement on reports

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What is risk?

Risk - the effect of uncertainty on objectives

- An ‘effect’ is a deviation from the expected - can be positive or negative
- Objectives can have different **aspects** (ie financial, health and safety, and environmental goals) and apply at different **levels** (ie strategic, organisation-wide, project, product and process)

- Risk is often:
  - Characterised by reference to potential events and consequences, or a combination of these
  - expressed as a combination of consequences of an event and the associated likelihood of occurrence and exposure frequency

- Uncertainty is the state, even partial, of deficiency of information related to, understanding or knowledge of, an event, its consequence, or likelihood

- Reference - ISO Guide 73:2009 Risk Management - Vocabulary

AS/NZS ISO 31000: 2009
Risk management - Principles and guidelines

Eleven Guiding Principles	
Creates and protects value	Integral part of all organisational processes
Part of decision making	Explicitly addresses uncertainty
Systematic, structured and timely	Based on best available information
Tailored	Takes human and cultural factors into account
Transparent and inclusive	Dynamic, iterative and responsive to change
Facilitates continual improvement of the organisation	

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AS/NZS ISO 31000 – establishing a risk framework

Some considerations

- Define and endorse the risk management policy
- Align culture and risk management policy
- Determine key risk indicators
- Align risk management objectives with the objectives and strategies of the organisation
- Ensure legal and regulatory compliance
- Assign accountabilities and responsibilities
- Ensure that the necessary resources are allocated
- Communicate the benefits of risk management

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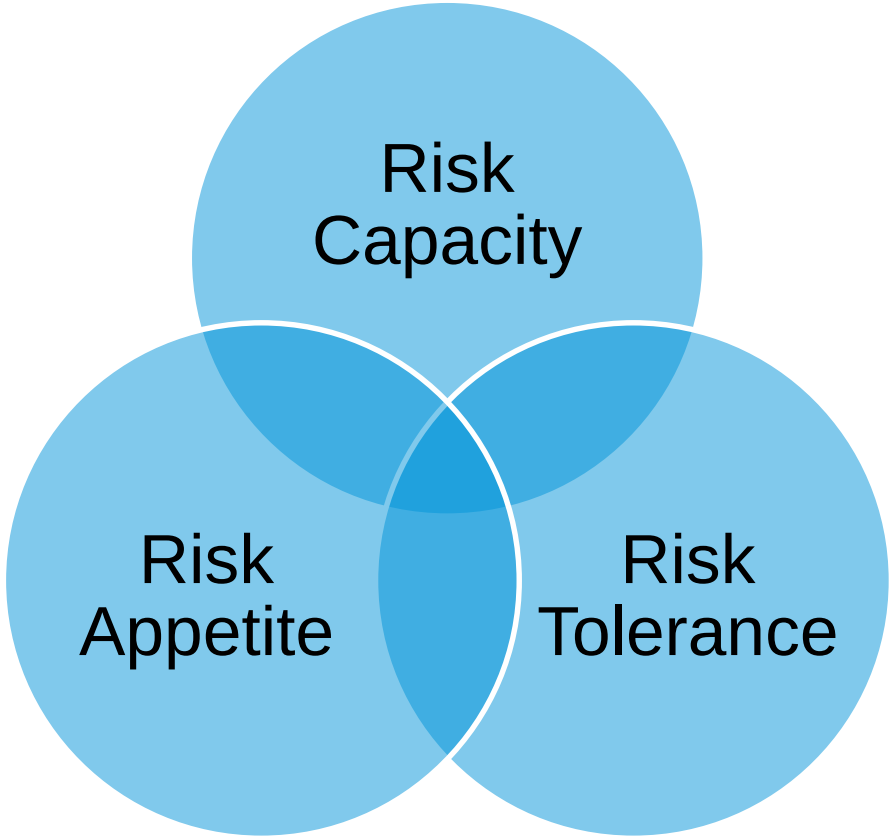
Risk appetite and tolerance

The purpose risk appetite and tolerance is to set clear boundaries and expectations in respect of risk-taking

The amount and type of risk that an organisation is willing to pursue or retain



An organisation's readiness to bear the risk in order to achieve its objectives

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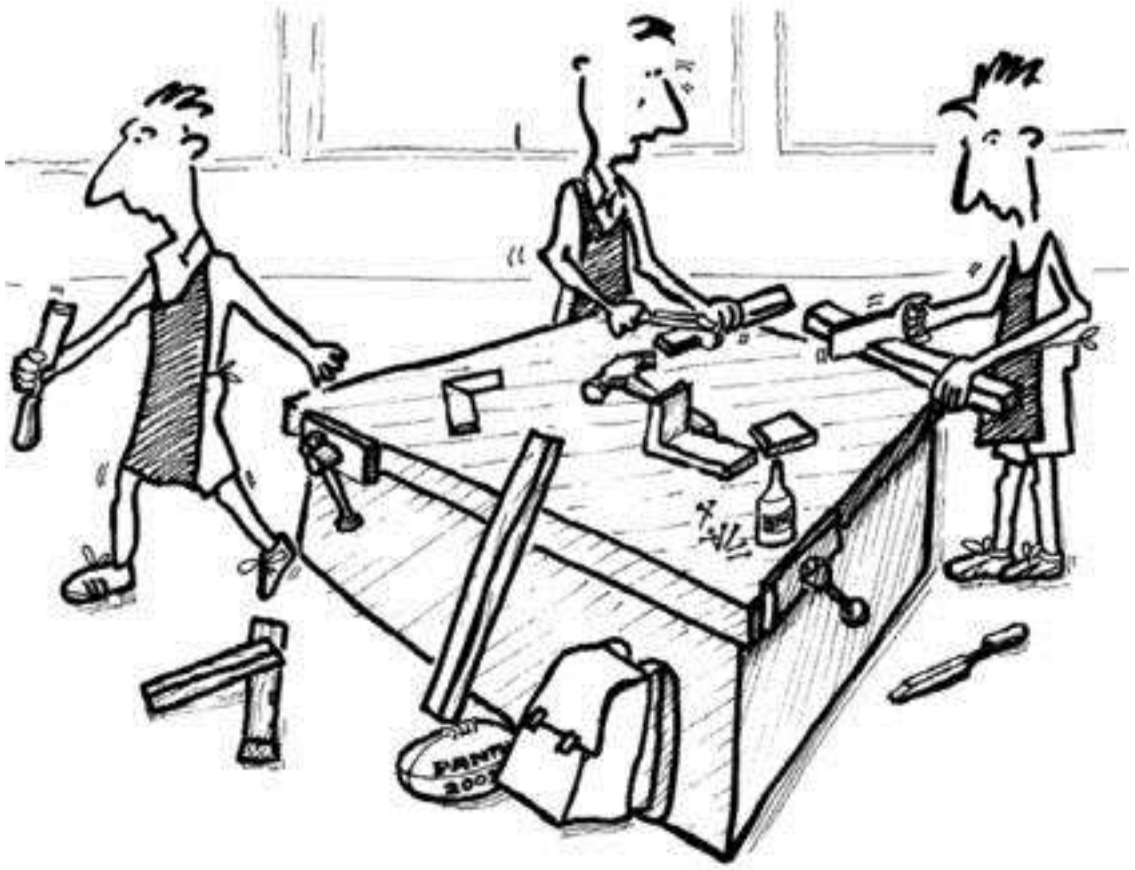
Risk Tools, Diagrams, Models and Artefacts



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Risk and organisational culture

Source: Institute of Risk Management (IRM) Risk Culture Framework

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Risk and organisational culture

Integrated risk management

- Source: PricewaterhouseCoopers

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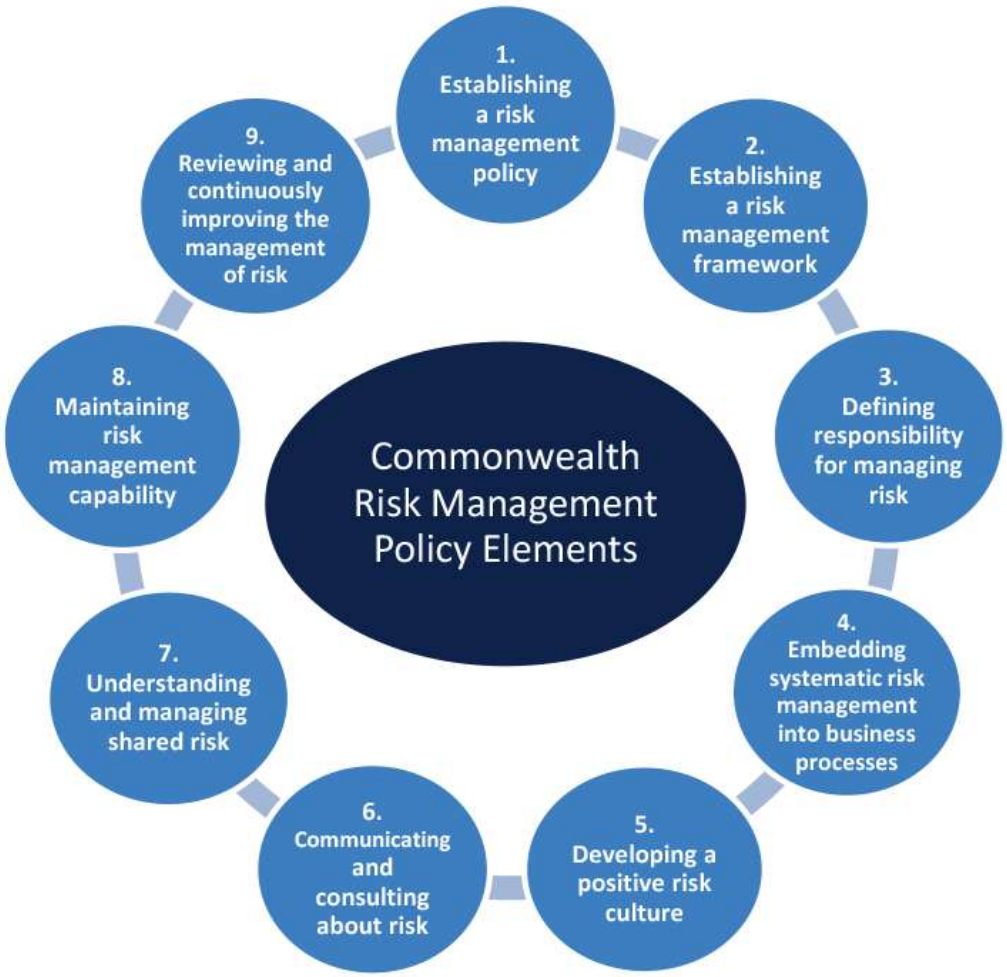
Risk management policy



Basic elements of risk management policy:

1. How is risk relevant to strategy and governance?
2. Major risk categories (financial, regulatory etc)
3. Articulation of risk appetite in broad qualitative terms
4. Strategies to manage risk (eg risk transfer etc)
5. How are risks evaluated, reported and monitored?

Source: Australian National Audit Office

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Discussion 1

How should you evaluate the effectiveness of a risk management policy?

Elements of a risk management policy:

1. How is risk relevant to strategy and governance?
2. Major risk categories (financial, regulatory …)
3. Articulation of risk appetite in broad qualitative terms
4. Strategies to manage risk (transfer …)
5. How are risks evaluated, reported and monitored?

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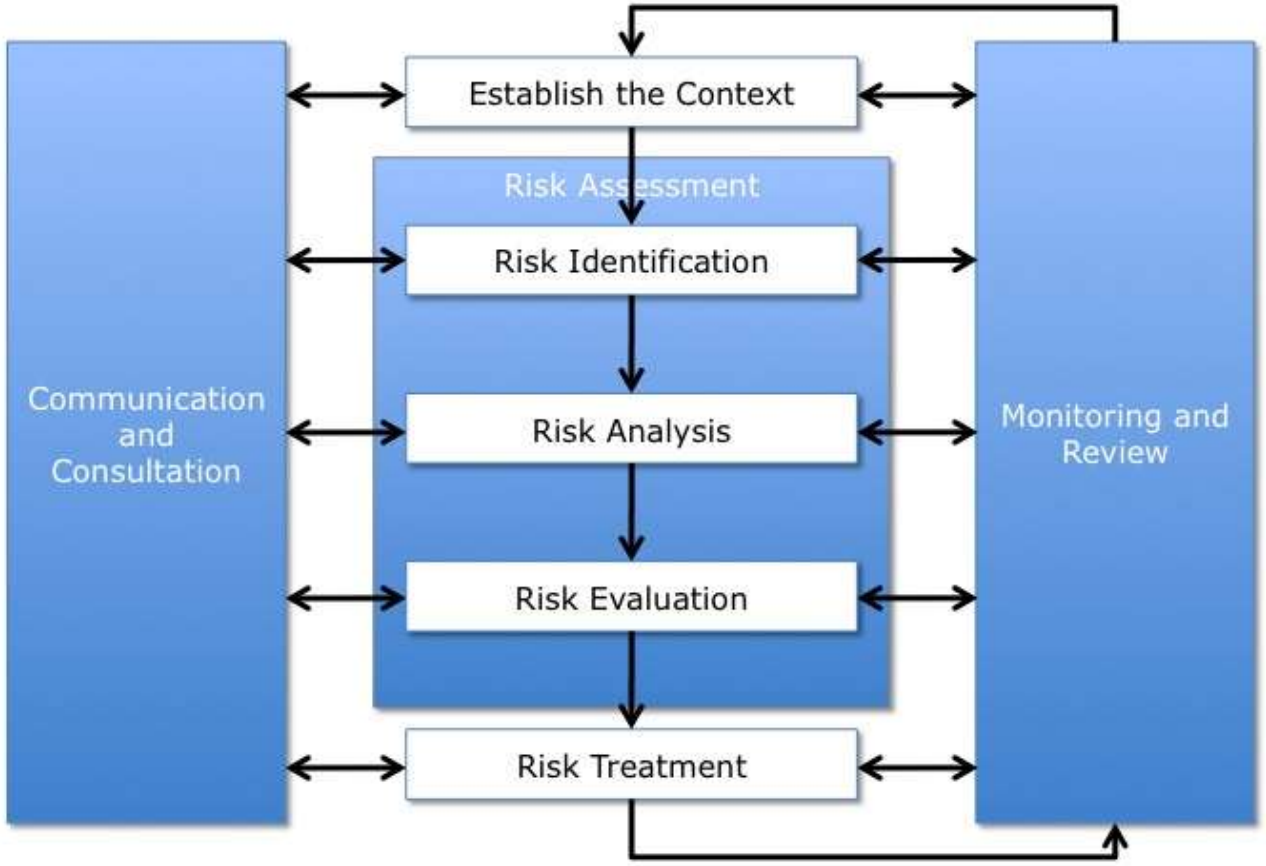
The risk management process



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Risk management procedure

- Source: VMIA, 2011, Risk Management Procedure – Template

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Risk treatment

… but there will always be some risk remaining …

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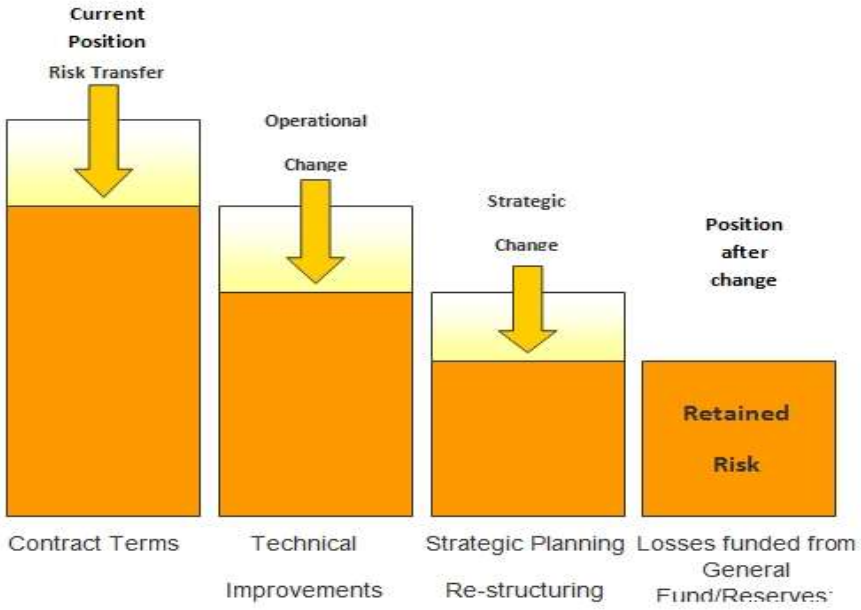
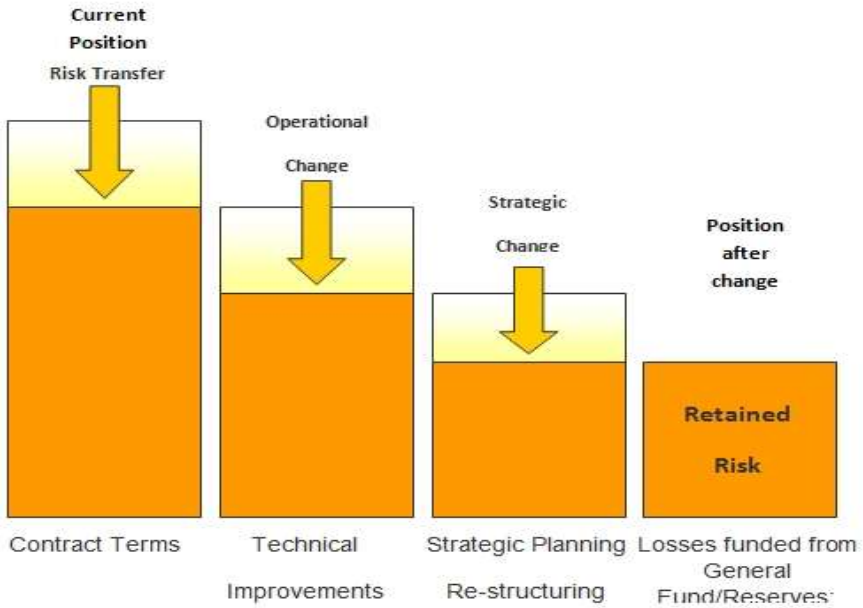
Residual risk

- The **key** question with risk mitigation is ‘how far should you go?’- having regard to cost and difficulty
- A residue of retained risk is an inevitable aspect of all risk management strategies and businesses



Discussion 2

Discuss the concept of retained risk – how would you identify and quantify it in practice?



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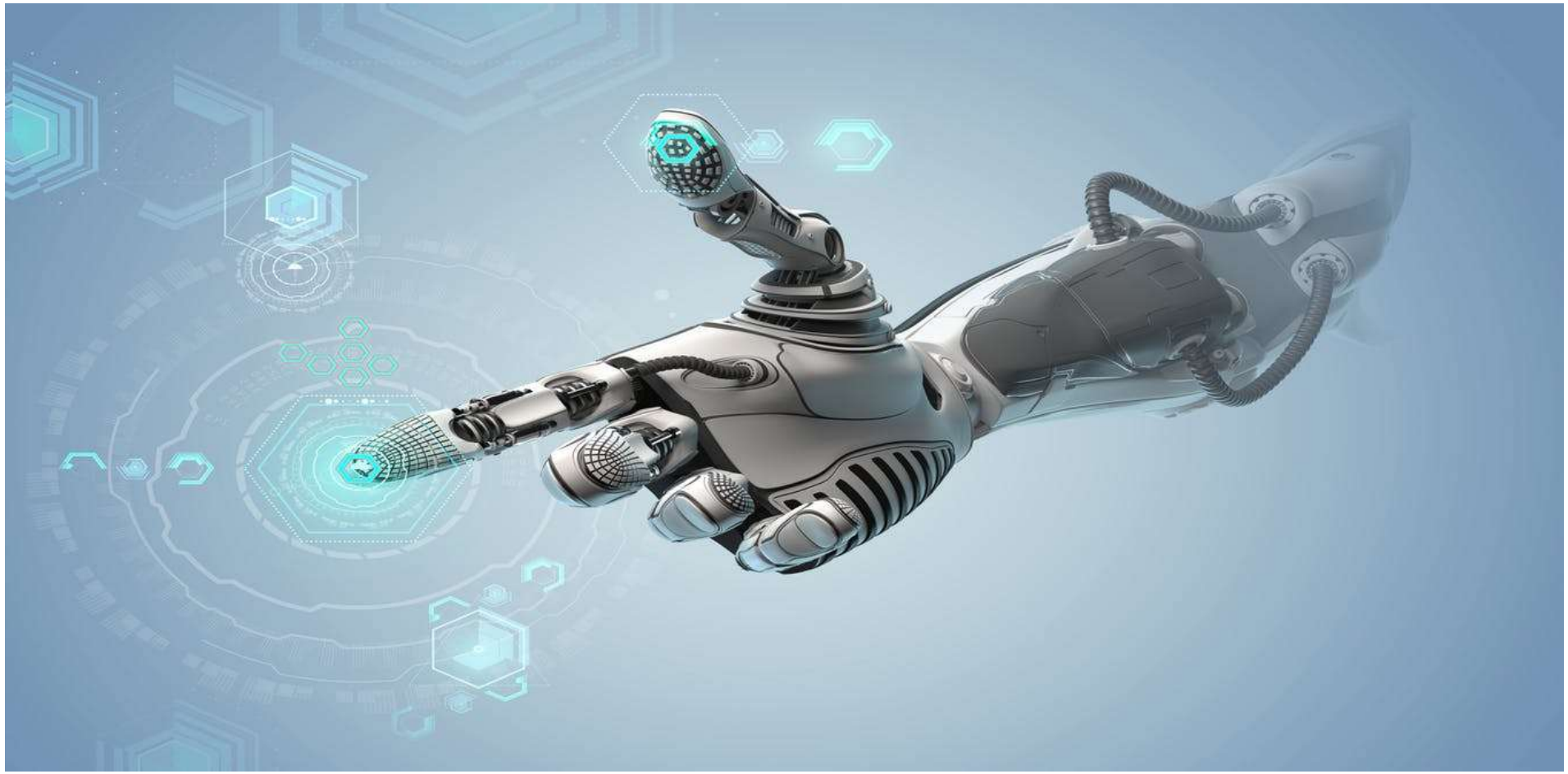
Emerging Risks



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Emerging risk areas

1. Globalisation
2. Technology: cyber and data
3. Reputational risk
4. Climate and natural catastrophe
5. Terrorism and geopolitical
6. Security

Globalisation

- Globalisation risk - a significant event that occurs in one place can have far reaching direct and immediate consequences to the rest of the world

- ‘Globalisation risk’ changes the impact arena, ie how many people will be affected by a risk event occurring and the speed of that impact (‘risk velocity’)

- Financial system is part of other systems and the potential for the financial system to exacerbate risks in other systems is largely ignored

see Berrutti P, ‘Systemic risks and the new age of stewardship and responsibility’

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Technology cyber risk and data security

- Cisco: Global IP traffic will increase nearly threefold over the next 5 years, and will have increased 127-fold from 2005 to 2021
- Businesses need to ask: ‘What risks are we taking putting our data in the hands of a third party?’
- Network interruption, degradation or failure – risks where production, distribution, financial transactions and client service depend on IT
- Data, IP and identity theft and associated crime
- Open and adaptive cultures must also address IT and data security needs

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Reputational risk

- Capability – competence/quality
- Market profile – how well known the entity is
- Corporate responsibility – are you ethical, prudent, solid, reliable and a good corporate citizen?
- Persona – the company's style, (eg a friendly, open, engaging and transparent organisation)?
- Brand – especially where brand is synonymous with the company's name (Volkswagen, Apple, BP)
- Industry – can be tarnished by association if it operates in an industry that loses support
- **Reputational** risk cannot be transferred, outsourced or laid off in any meaningful way

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Climate and other natural catastrophe risks

- **Climate** change - encompasses numerous distinct threats such as:
    - scarce water and arable land (food production)
    - increased exposure to tropical pests and diseases
    - more frequent and severe natural catastrophes (the biggest by far) which could affect:
        - Financial markets, eg insurance
        - Government policy, coastal development and levies to cover catastrophe costs
        - Supply chains and infrastructure affecting the ability to manufacture and supply goods

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Terrorism and geopolitical risk

- Effects of the terrorist attacks of 11 September 2001 in the US:
  - The US stock market closed for first time since the Great Depression in 1933
  - US$1.3 trillion spent on ‘war on terror’ up to 2012 and resultant US debt and deficit crisis
  - Rise of the Islamic State in Syria and Northern Iraq - a reminder that the risk of terrorism has not receded
  - Threat is global and because of its deeply cultural and religious roots, it will persist for many decades

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Security risk

- **Security** is defined as resistance to, or protection from harm
- Applies to any vulnerable and valuable asset:
  - **People assets -** abduction, assault, robbery, violence or injury or death. A priority at special events such as major sporting, political or corporate events
  - **Information assets -** loss, misuse or corruption of data that has a value to the organisation, not the information technology or processing systems
  - **Physical assets -** threats include hacking, disablement and unauthorised access to buildings or ICT systems

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Discussion 3

What do you consider the most important emerging risk for public sector organisations in Queensland for 2018?

Globalisation
Cyber
Reputation
Climate change
Terrorism
Security

Practical Risk Management

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Risk profiles and risk registers

- **Risk profiles**
  - Graphical representation and a quick reference of an organisation's risk exposure in a highly contextualised manner
  - Provide a means of communicating risk data that is accessible and relatable to other operations and activities and changes that are occurring in the organisation

- **Risk registers**
  - 'Shopping list' of items that need to be addressed here and now, based on the immediate challenges that the organisation faces
  - A control and assurance mechanism, especially for senior and middle management

OBJECTIVE – To travel from A to B in time for an important meeting

	Inherent assessment		CONTROLS IN PLACE	Residual assessment		ACTION PLANNED	TARGET DATE	OWNER
RISK	Impact	Likelihood		Impact	Likelihood			
Missing a train makes me late for the important meeting	High	High	Catch train one earlier than I actually need	High	Low	No further action planned		M.Y. Self
Severe weather prevents the train from running	High	Low	Cannot control	High	Low	Telephone conferencing facility to be installed as a contingency	August	A.N. Other
Engineering works make the train late	High	Medium	Check for engineering works and arrange flexibility with people I am meeting	Medium	Low	No further action planned		M.Y. Self

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Control assurance reporting

- **Focus** - whether key business processes and functions have sufficient assurance activities (eg checks, audits etc) that reflect their risk
- Risks of process and functions depend on:
  - the inherent hazard or complexity of the activity
  - whether a process or function be replicated or substituted
  - whether there are public outrage or reputation factors
  - whether the function or process has been outsourced
  - whether disruption has major downstream or upstream impacts

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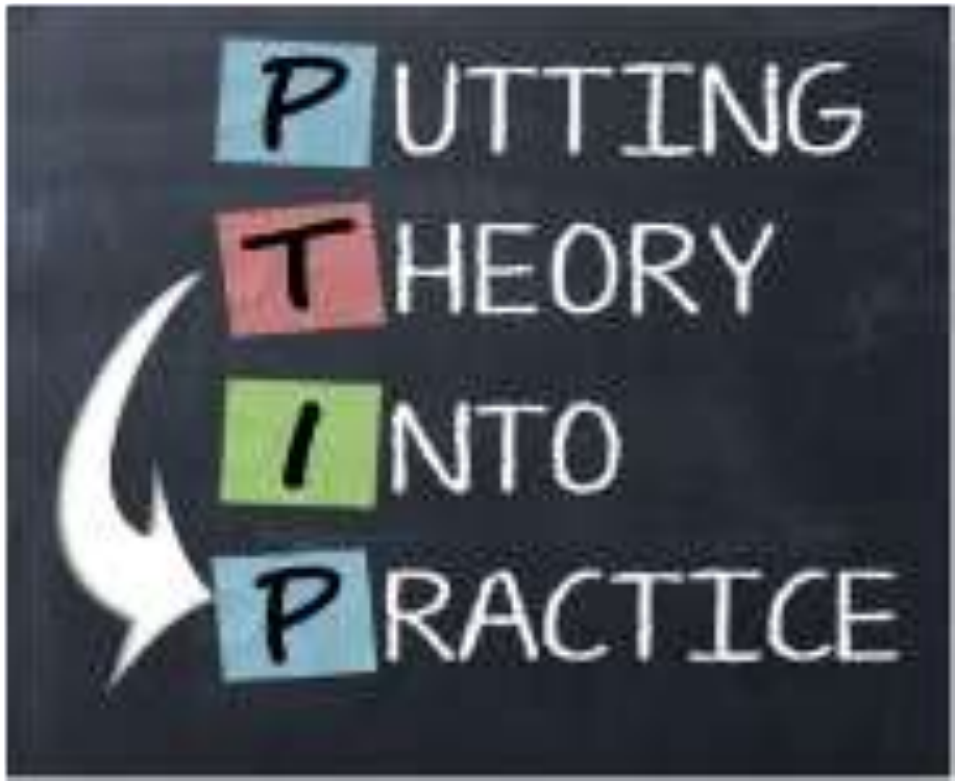
Putting it into practice

- Awareness and capacity building at all levels
- What resources can be dedicated to establishing a risk framework and how can its ongoing maintenance and evolution be resourced?
- Building an organisational risk profile, registers, data base etc – the core task
- Making the risk management framework permanent
- Risk management framework structure – bottom up, top down/central core, operations
- Establishing the basic risk infrastructure



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Typical gaps in risk management

- People: board, senior management, staff
  - Poor understanding of risks, controls and risk management
  - Poor levels of buy-in. Do not see ‘what’s in it for me?’
  - Anchored thinking – risk is bad, risk management is bad. Fail to see the value-add
  - Lack of understanding of roles and responsibilities
  - Poor/weak risk and control culture

- Risk management framework
  - Too theoretical and vague
  - Too compliance-focused – ‘Lets comply with AS/NZS ISO 31000!’
  - Too complex, full of lingo and difficult to understand

- Governance
  - No 3 lines of defence or clear delineation between the lines of defence
  - No effective risk management committee
  - Lack of board and senior management buy in and ‘tone from the top’

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Discussion 4

Where do you think there may be gaps in the risk management of your organisation?

Thank you

Visit **Governance Institute** at stand 5 to discuss the opportunity to engage strategically with Governance Institute and how it can benefit your career.

Contact

Emma Churchill

State Director, Queensland

emma.churchill@governanceinstitute.com.au

07 3229 6879

www.linkedin.com/in/emmachurchill

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