Introduction to Risk Management

(Theory & Practice)

DCU Risk & Compliance Officer

November 2015
Sections

1) Aims of presentation

2) What is Risk Management (RM)?

3) RM Cycle

4) Categories of risk

5) Risk Register

6) Risk Appetite

7) Tips for success

8) Why RM may fail

9) Summary & conclusion
Aims of this presentation

• To explain why it is relevant

• To explain its components i.e. the “Risk Cycle”

• Guidance on
  - Preparing a “Risk Register”
  - Risk management techniques
  - Reporting on risks
Place for Risk Management?
What is Risk Management?

It is a process to:

- Identify all relevant risks
- Assess / rank those risks
- Address the risks in order of priority
- Monitor risks & report on their management
Risk Management – why do we need it?

- Promotes good management

- May be a legal requirement depending upon industry or sector

- Resources available are limited – therefore a focused response to Risk Management is needed
What is a Risk?

- A risk is an uncertain event which may occur in the future.
- A risk may prevent or delay the achievement of an organization’s or units objectives or goals.
- A risk is not certain – Its likelihood can only be estimated.

Note: Not all risk is bad, some level of risk must be taken in order to progress / prevent stagnation.
The Risk Management Cycle

1. Confirm Strategy
2. Identify & Assess Risks
3. Challenge & Evaluate Controls
4. Take Action
5. Monitor & Report

Policy
Risk Management Cycle – Step 1

- Define Purpose
- High level Plan
- Unit Specific Targets
Risk Management Cycle – Step 2

Risk Identification – what are the threats and uncertainties associated with my organization’s or units objectives?

- Separate out the risk into its cause & possible effect
- Be concise & clear
- Do not concentrate on symptoms only
Risk Management Cycle – Step 2 cont.

• Assess the risk’s

  - Impact
  - Likelihood

  (Guidance on both later!)

• Prioritize the risks

• Hint: Get input from appropriate individuals
Risk Management Cycle – Step 3

Challenge & Evaluate Controls

Control: Policy, action, procedure or process designed to prevent risk or to limit its impact

Do they work, are they effective?

Residual Risk only should be measured
Risk Management Cycle – Step 4

Take Action!

- For serious risks where controls are
  A) Weak
  B) Absent

- For risks where the Risk Appetite is exceeded

- Examine Cost vs. Benefit
Risk Management Cycle – Step 4 cont.

Types of Action

A) Tolerate
B) Treat
C) Substitute
D) Terminate

(The choice of the above will be decided upon by your risk appetite)
Risk Management Cycle – Step 5

Monitor & Report

- Use a standard format for capturing risk data e.g. a “Risk Register”
- Review all risks at least annually
- Serious risks to be reviewed more often depending on circumstances
- Report on risk to senior management / Board
- Make Risk Register available to stakeholders to show good governance
Categories of Risks

- There are multiple ways into which risks can be categorized
- Final categories used will depend upon each organization's circumstances
- Goal is to cluster risks into standard, meaningful & actionable groupings
- What follows is one example of a type of categorization
Categories of Risks

Financial

- Reduction in funding
- Failure to safeguard assets
- Poor cash flow management
- Lack of value for money
- Fraud / theft
- Poor budgeting
Categories of Risks cont.

**Operational**
These risks result from failed or inappropriate policies, procedures, systems or activities e.g.

- Failure of an IT system
- Poor quality of services delivered
- Lack of succession planning
- Health & Safety risks
- Staff skill levels
- No process to track contractual commitments
Categories of Risks cont.

Reputational

- Organization engages in activities that could threaten its good name
  - Through association with other bodies
  - Staff / members acting in a criminal or unethical way

- Poor stakeholder relations
Governance & Compliance

- Lack of oversight by Board
- Segregation of duties not defined formally
- Ensuring compliance with funders terms and conditions
- Compliance with applicable legislation
  - Safeguarding of vulnerable individuals
  - Taxation Law
  - Data Protection
  - Health & Safety Law
Categories of Risk cont.

**Strategic**

- Engages in activity at variance with its stated objectives
- Fails to engage in an activity that would support its stated objectives
Risk Register

a) What is it?

b) Components

c) How to report on it
Risk Register cont.

- A Risk Register is a management tool used to record relevant details relating to risks.
- It is a database of information on risks.
- Best kept simple to begin with!
## Risk Register

**XYZ Charity**

**Prepared by:** Management Team  
**Date:** August 2013

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Risk Description</th>
<th>Controls/Actions already in place</th>
<th>Impact</th>
<th>Likelihood</th>
<th>Weighting</th>
<th>LHI</th>
<th>Risk Cover</th>
<th>Further Actions Required</th>
<th>Date when further actions will be in place</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reduced Funding - Decrease in funding from central government - Reduction in public donations due to recession - Reduced income at 2nd hand shops due to competition from door collectors. All could cause a reduction in the charities activities.</td>
<td>1) Budgets - all units now prepare 1 year rolling budgets which are reviewed each quarter by Finance Officer and each 6 months by Board. 2) Close down of 1 shop on a temporary basis.</td>
<td>4</td>
<td>4</td>
<td>16</td>
<td>H</td>
<td>Board</td>
<td>1) Management to explore alternative sources of income &amp; report to Board. 2) Possibility of converting current bank overdraft facility into a longer term less expensive bank loan is been explored.</td>
<td>1) March 2014 2) January 2014</td>
</tr>
<tr>
<td>2</td>
<td>Onerous Property Leases Of the 10 shops in operation 5 are under rental leases which impose a very expensive yearly rent. In these cases the rental charge for the branch comprises 50% or more of all the branch costs.</td>
<td>Negotiations have been opened with landlords but there is concern as so far they are unwilling to reduce the rent.</td>
<td>3</td>
<td>5</td>
<td>15</td>
<td>M</td>
<td>Management Team</td>
<td>Alternative branch locations been examined</td>
<td>June 2016</td>
</tr>
<tr>
<td>3</td>
<td>Theft from Stores Following an incidence of robbery of cash takings from 1 shop last year there is a risk that shop controls &amp; security measures may not be good enough to safeguard staff &amp; cash.</td>
<td>1) A review of cash controls and procedures was carried out by central management using the services of a consultant. 2) Revised security procedures for the collection of cash takings have been put in place.</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>L</td>
<td>Operations Manager</td>
<td>No further action is considered necessary at this time.</td>
<td>None</td>
</tr>
</tbody>
</table>

### Risk Weighting Values
- **16+** = High Level Risks
- **8-15** = Medium Level Risks
- **0-7** = Low Level Risks
Parts of a Risk Register

Risk Description – Clear description of risk, its cause & consequence

Controls / Actions already in place – List what is actually happening now which reduces the impact of a risk or its likelihood

Impact – scale of 1 to 5 (1 = minor, 5 = catastrophic)  
(Note this is to be residual impact only)

Likelihood – scale of 1 to 5 (1 = remote, 5 = unavoidable)  
(Note this is to be residual likelihood only)

Weighting – Its Risk Ranking: a calculated figure i.e. impact x likelihood
Risk Management

Parts of a Risk Register cont.

**Risk Owner** – The administrative unit, management position or group who are in the best position to manage the risk on an on-going basis

**Further Actions Required** – The controls / solutions which have yet to be acted upon which could reduce the impact or likelihood of a risk

**Date** – The expected date as to when the actions shown under further actions required will be in place & effectively addressing the risk
Risk Assessment Matrix

Impact

Likelihood

- Impact 1: Likelihood 1
- Impact 2: Likelihood 2
- Impact 3: Likelihood 3
- Impact 4: Likelihood 4
- Impact 5: Likelihood 5
Tips for Success

- Involve all levels of staff & management in the process
- Check controls are relevant & effective
- Ensure risk owner takes responsibility for management of risks under their control
- Focus on risk cause, not its symptoms
Why Risk Management May Fail

- Limitations of scope
- Lack of top management support
- Did not engage all stakeholders
- Failure to share information
- RM not embedded within planning & management system
Summary & Conclusion

We have covered:

- Definition of risk
- Risk Management cycle
- Categories of risk
- Risk Register – how to guide
- Possible pit falls in a Risk Management process
Place for Risk Management?
Thank You