Australian Government
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Comcover Information Sheet

Framework

Case Study: Developing a New Risk Management Framework

Infrastructure and Project Financing Agency

Purpose

The aim of this case study is to assist Commonwealth officials at all levels, including senior executives service officials to understand:

- the benefits of a risk management framework, and
- the method, including practical tips, to developing a risk management framework.

This case study can be useful to newly created entities or entities wanting to refresh their approach to strategic risk management.

At a glance

This case study provides information on how to develop a new risk management framework, as modelled off the method used for developing one for the Infrastructure and Project Financing Agency (IPFA). IPFA's role is to advise the Australian

This case study on IPFA's Strategic Risk Management project outlines the IPFA's process they took to develop a new risk management framework from scratch. This case study illustrates how to set up foundational risk controls, such as risk policies and frameworks.

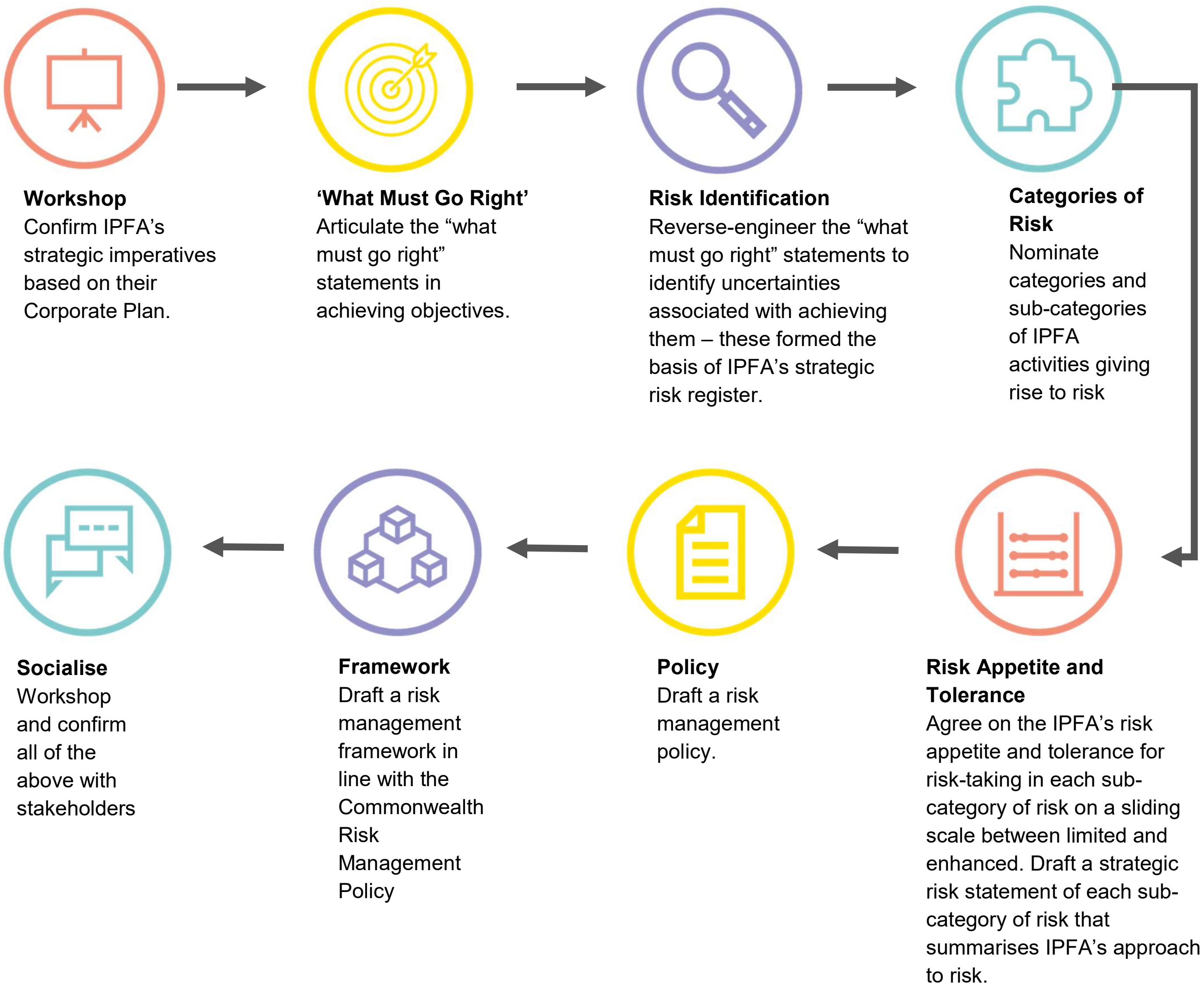
What are the benefits of a risk management framework?

A risk management framework is set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organisation. Implementation of a risk management framework assists in the prioritisation of activities, identification of opportunities and the creation of early warning mechanisms to manage risk that may impede organisational objectives.

Method

When a new entity is formed, it is important to consider risk in the context of long-term strategic priorities. The link between risk and IPFA's strategy was set out in its corporate plan. This was critical in setting the direction of their risk framework. Workshops were held early on to better understand IPFA's complex operating environment and to determine what "must go right". The analysis was then flipped to discuss what could prevent these objectives from being achieved and this thinking then formed the basis of IPFA's risk management framework.

Process used to develop a new risk framework



The diagam above, provides a vistual representation of IPFA's proccess to develop a new risk framework, the steps are further listed and explained below.

1. **Workshop -** IPFA held a workshop to identify strategic objectives to inform the corporate plan. As part of this process, the key drivers of success in achieving the strategic objectives were also identifed. Discussions also considered risk in the context of the broader long-term strategic prioritites, and the importance of designing a risk management approach that was proportionate to the IPFA's mandate and deliverables.

2. **What must go right -** IPFA dicussed “what must go right” statements in achieving their objectives (see appendix 1). When considering these statements they considered what it would look like if things were going right? For example, “The agency has 1000 staff to deliver on its objectives” or “The agency receives an annual departmental budget of $5 million” (please note these figures are not real are only being used for the purposes of an example).

3. **Risk identification -** Risks were then identfied, by reverse-engeneering “what must go right” statements, to identify uncertainities associated with achieving objectives. For example, “A shift in priorites leads the Government to reduce the annual departmental budget resulting in slow or ineffective delivery of services”.

4. **Catagories of risk -** IPFA then established categories of risk, to categorise organisational activities that have risks. Risk categories included people, financial and service delivery (amongst others).

5. **Risk appetite -** IPFA then established risk totlerance for each sub-category of risk on a scale of ‘limited’ to ‘enhanced’. A strategic risk statement was then drafted for each sub-category of risk.

6. **Policy -** A risk management policy aligned to the Commonwealth Risk Management Policy was then drafted. This ensured IPFA were able to meet the requirements of Section 16a of the *Public Goverance, Performance and Accountability Act 2013* to establish and maintain systems and appropriate internal controls for the oversight and management of risk.

7. **Framework -** A risk management framework aligned to the Commonwealth Risk Management Policy was then drafted.

8. **Socialise -** This process was then communicated to key stakeholders through a workshop.

Practical tips

Proportionate risk management keeps everyone happy

The project team recognised that there was a disproportionate relationship between IPFA's size and the risk to which it is exposed. This is because IPFA's risk exposure was driven by the scale of its projects and a diverse group of public and private sector stakeholders.

Brainstorm early on

The IPFA Strategic Risk Management project has provided several insights for entities establishing a risk management framework. The initial brainstorming sessions were found to be effective in agreeing the end-to-end risk management development process. This process is also useful to refine strategic objectives and can therefore contribute to the setup of all aspects of the entity's operations.

Review as you go

The IPFA case study indicates that building a risk management system should be treated as a linear process. In consideration of this, initial controls were subject to periodic reviews and updates.

Identify the right stakeholders

The IPFA project demonstrated that it is important to consider key stakeholders and operating environments in determining who needs to participate in the development of risk management frameworks. In addition, given that IPFA have responsibilities that intersect with both public and private sectors, it was important to have representatives with both commercial and government backgrounds.

Involve key stakeholders in the build

It is important to engage key stakeholders in the risk process from an early stage to facilitate buy-in. This ensures that when a full handover occurs, the ongoing team is fully aware of context and risk management systems.

Risk appetite and tolerance need to be based on the operating environment

The amount of risk an entity is prepared to bear informs planning constraints. In the case of IPFA, this included required resources, timeframes, and the governance structure required to provide oversight.

In consideration of this, IPFA identified distinct categories of risk-taking and then articulated the amount and types of risk they were prepared to take. For example, IPFA's success is reliant on the correct mix of commercial and public service experience, but combining two different cultures together requires a consistent approach. Articulating IPFA's appetite and tolerance for risk was crucial to align the approach to risk-taking across the agency.

Simplify risk concepts with pictures

As part of routine stakeholder engagement, IPFA found that documenting risk tolerances in a pictorial manner by sub-category allowed executives to more quickly and easily engage in strategic risk management. This was critical to the success of the project, as these risk management artefacts need to be living documents that help guide the strategic decisions in the entity's establishment and not seen as a compliance activity.

Don't set and forget – review and refine

Risk management is an ongoing activity that does not stop with the development of the risk management framework prior to the establishment of an entity. While setting up appropriate governance arrangements prior to the establishment of a new entity is important, the operation and effectiveness of the risk framework should continue to be reviewed and refined.

Related Resources

Names and links to related risk information resources:

- Information Sheet: Defining Risk Appetite and Tolerance
- Information Sheet: Establishing a Risk Management Framework
- Information Sheet: Overview of the Risk Management Process
- Information Sheet: Understanding and Developing Key Risk Indicators
- Information Sheet: Building Risk Management Capability

Contact

If you have any questions or feedback in relation to this case study, please contact Comcover Member Services at comcover@comcover.com.au.

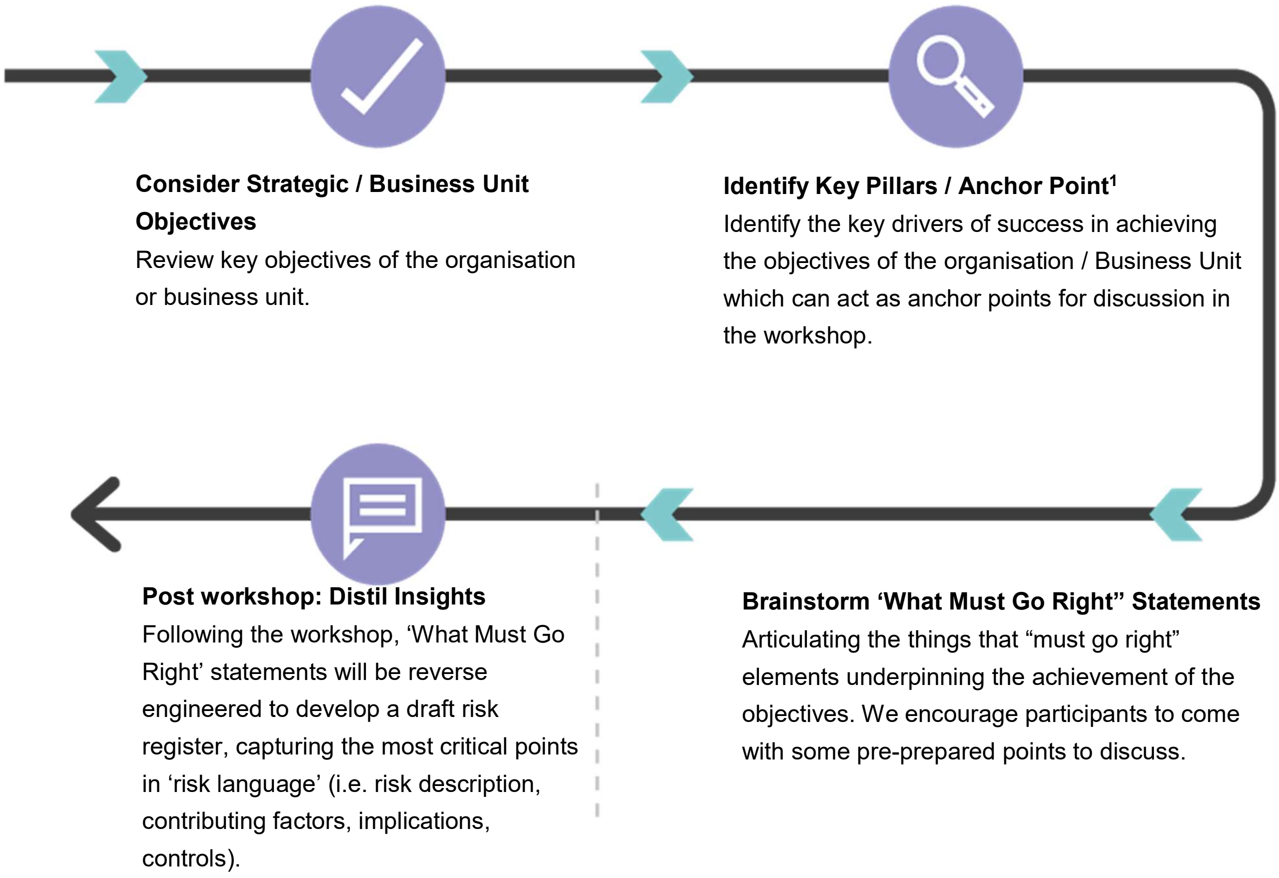
Use of this information sheet

Comcover's series of Risk Management Case Studies are learning resources and are not mandatory.

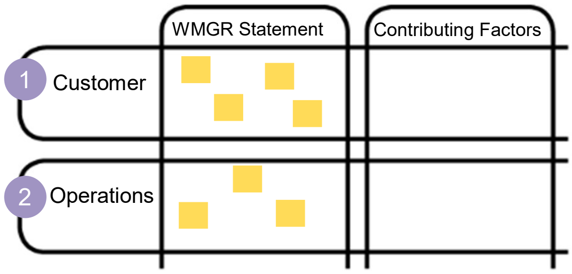
It is important that entities develop risk management frameworks and systems that are tailored to the needs of their organisation. Entities may choose to adopt some or all of the concepts contained in this case study to suit their specific needs or use alternative methodologies.

Appendix 1

Approach: ‘What Must Go Right’ workshops



Information from your ‘What must go right’ brainstorm could be captured using the below:



[1] These may include elements of the Corporate Plan, strategic objectives, risk appetite categories or key business areas.