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Communicate

Risk Identification Methods

Audience

This information sheet is intended to assist Commonwealth officials at the Generalist and Specialist levels understand how to identify key entity risks using strategic documents and risk workshops.

At a glance

Risk management requires leaders to focus on risks that threaten the achievement of strategic objectives. It helps to consider things that “must go right” to achieve the objectives, and the uncertainties that exist around those things that can jeopardise achievement of the objectives. Identifying risks to strategic objectives are a valuable investment of time and effort in support of achieving entity objectives.

This information sheet provides general guidance to enable entities to identify key entity risks to communicate upward to Senior Executive Staff (SES).

Triggers to identifying key risks

Possible triggers to identify risks can be broadly divided into two categories:

- **Regular triggers** including annual updates to your risk framework, the beginning of a new project or a review of your entity’s operations.
- **Ad hoc triggers** including the realisation of a significant risk, an increase in near miss events or a major change in your internal or external operating environment.

The annual review of objectives in your entity’s Corporate Plan is an ideal opportunity to identify and monitor uncertainties (risks) that could cause a deviation from your expected or preferred outcome. It is also an appropriate time to identify any emerging or trending risks that might require additional focus.

Key changes such as those arising from a change in risk owners, project sponsors, structure, funding or regulation can also be an opportune time to review current and newly emerging risks.

Utilising strategic documents

This process involves identifying your entity's goals and subsequently the dependencies or uncertainties standing in the way of their achievement. Risks are the uncertainties associated with the achievement of objectives. The approach below describes the process to identify the key strategic objectives, to reverse-engineer them into risk statements.

Review Corporate Plan

- The completed task of extracting the 'what must go right statements' (WMGR) informs the next steps. These may have been distinctly called out in the Corporate Plan, implicit within the Secretary's messaging, or both.
- The WMGR statements are usually in narrative form. Turn them in to a succinct and measureable objective. E.g., "To satisfy stakeholder demand we must increase our productivity by 15%" Becomes*: Increase Productivity by 15%.*
- Let's now follow that example through the next steps… (the same process can then be applied to any objective).

Identify Drivers of Success

- Identifying a primary objective of a 15% improvement in productivity will have muliple sub-elements to enable it. These may include elements like:
  - Reducing office expenses
  - Relocating to more affordable premises
  - Organisational restructure, etc.
- Engage with the natural owner of each objective to understand the critical success factors. E.g.,
  - Office expense reduction of 12.75% by Q2 2018.
  - Office rental reduction of 150sqm and $120,000 per annum by Q4 2018.
  - 11% reduction in ASL by Q3 2019.
- Remain focused on those that have material influence (3 to 6 is ideal).

Reverse your thinking

- Once key drivers of success have been documented, consider only the things that may jeopardise their achievement where uncertainty still exists.
- These will form the basis for your entity's strategic risks. The threats that you are certain about are issues to be managed in BAU.
- Remember: Risk = Uncertainty

Some examples in this scenario may include:

- The achievement of office expense reduction will require seamless transistion to a shared service hub within 3 months.
- Commercial rents in our preferred locaton are incongruent with a savings objective and moving elsewhere will be disruptive.
- The current industrial relations landscape will requuire extensive union negotiation.

Translate into Risk Statements

- These uncertainties can then be translated into risk statements that can be operationalised throughout your entity.
- Risk statements will include language that incorporates both a "likelihood" and "consequence" element.
- Circulate risk statements back to the natural owner of each business objective who will now act as the risk steward or risk owner.

Risk statement examples:

- 'Failure to transistion to a shared services hub within 90 days will prevent achievement of required office expense reductions".
- 'Office relocation beyond 15km of exisiting site may have negative productivity impacts negating any benefits of rental reduction."
- "Not securing union agreement on proposed restructure peior to announcement may result in disuptive industrial action."

Risk workshops

Risk workshops are an effective way to bring stakeholders together to brainstorm risks and to challenge thinking. Effort should be taken to ensure risk workshops are engaging and focussed on participant involvement to ensure robust discussion on the identification of risks within the entity.

Workshops provide the opportunity to share learnings, discuss perspectives and agree on ownership of risks. To generate buy in and accountability from key stakeholders it is important to circulate the agreed outcomes as soon as practicable.

The following steps will help you to plan and run an effective risk identification workshop.

1. Identify relevant stakeholders

The key to a successful workshop is having the right mix of stakeholders in attendance. These stakeholders could be relevant executives and key decision makers, subject matter experts, and people in operational roles likely to be involved with day to day management of the risks. It is important to have initial contact with identified stakeholders prior to the workshop to gain their input on any additional personnel required to attend.

Below are some examples of the types of stakeholders that may be considered:

- Executive leadership group or committee
- Subject matter experts for each risk category or risk owners (e.g. HR Manager for a “people” risk category or Chief Information Officer for a “technology” risk category)
- Anyone likely to be flagged as a risk or control owner or may have an informed view on potential risks and consequences
- Representatives of any operational areas that may impact or be impacted by the realisation of objectives to be considered in the workshops

2. Conduct preliminary discussions

Initial discussions with select key stakeholders should be conducted to set up an agreed process to run the workshops. These discussions should explore the interests of each stakeholder at the workshop, and ensure a variety of perspectives will be present. The discussions will also potentially provide an early understanding of the risks that will be developed in the workshop and inform any additional resources that may be distributed prior to workshops.

These preliminary discussions will:

- provide participants context before attending,
- familiarise stakeholders with the risk identification process,
- establish the interests of workshop attendees,
- identify risk themes to be discussed at the workshop, and
- build relationships and rapport prior to the workshop

3. Identify and review the strategic context

Following on from the preliminary discussions, the strategic context of the workshop should be established. First, determine what the objectives are for the project or business area. This can involve a review of corporate plans or project aim statements. It is often also advisable to review the Key Performance Indicators (KPIs) as these can clarify how success is being measured.

Next it is important to review the risk framework and supporting documents that apply to these risks. These can include the entity's risk appetite and tolerance statements, risk category definitions, and risk likelihood and consequence descriptors. This guidance must be understood prior to the workshop, so that the risks can be articulated in a way that is consistent with the framework.

The final preparation for the workshop is to collect and review any pre-existing documents that have reviewed risks relevant to the workshop objectives. Relevant documents may include risk assessments regarding shared activities from partner entities, risk registers from other areas of your entity or risk assessments from previous years. Once all documents have been collated a selection of key documents should be distributed to workshop attendees prior to the meeting to assist with their preparation.

Workshop preparation steps include:

- Identify the objectives of the project/business area/entity (context)
- Determine the measures of success (KPIs)
- Review the risk framework
- Collect and review risk artefacts that from the context, including organisational plans, risk assessments from partner entities, or risk registers from previous years
- Circulate key documents as reading prior to the workshop

4. Run Workshop

On the day of the workshop, it is ideal that the stakeholders would have read the context material and have an understanding of the objectives to be considered. It important to note that the role of the facilitator is to guide and direct the group through the risk management process, while remaining impartial. This may include challenging ideas and drawing out risks.

The facilitator should clarify the scope of the assessment that is being undertaken. For example, a particular category of risks (i.e. risks to our people) or the top five operational risks facing the entity. In addition, the facilitator should provide some principles on what makes a good risk statement and why it matters. A good risk statement should outline an uncertainty that could happen, what could cause it and why it would affect objectives.

See practical tips to run a workshop below for further instruction.

5. Risk Outputs

At the end of the workshop, you should have some identified risks and notes on the discussions. This register should include the key elements of each risk as raised in the workshop including the risk owner, sources and consequences, rating based on likelihood of the consequence, current controls and proposed treatments. After the workshop the risk register may need to be refined to ensure that each risk is clearly articulated and all relevant elements of the risk have been explored. This step may involve some extrapolation to fill identified gaps, but any information conceived at this stage will be confirmed in the next step.

Drafts of the risk registers will need to be sent to the stakeholders for review. This is also an opportunity to include some suggestions to cover topics raised in the workshop which are outside the general scope. After the risk register is agreed, the final stage is to monitor the implementation of the risk treatments and to determine the timeframe for the next review of these risks.

Practical tips to run a risk workshop

Provide pre-reading

Give participants information on what to expect in the workshop, what the process will be and what to bring with them. If the participants risk management experience is limited, provide some pre-reading on the basic concepts that will be discussed and the entity's risk management framework and supporting documents.

Be clear about the scope of the assessment

For instance let the participants know what risks you are specifically assessing. Is it a particular category of risks (i.e. risks to our people) or is it the top five operational/strategic risks? Don't forget to assess high consequence/low likelihood risks.

Be impartial

When facilitating workshops, your role is to guide and direct the group through the risk management process while remaining impartial.

Understand the objective of the workshop

Having a clear understanding about the objective will assist in developing the most effective approach to the workshop. For example, the approach to a workshop for an entity's key strategic risks will be different from a workshop for a new project.

Have some additional support in the workshop

Having additional support at the workshop will enable you to concentrate on running the workshop. Have someone assist with taking notes and documenting the risk information in a register.

Try not to spend too much time on any one risk

If you find that a risk requires a detailed discussion, consider discussing this separately with the person responsible to keep the momentum of the workshop moving.

Park any issues

Explain the difference between a risk (an uncertainty) and an issue (a current problem) and record any issues in a separate issues register for later discussion.

Provide guidance on defining a risk

Provide some principles on what makes a good risk statement and why it matters. A good risk statement generally outlines an uncertainty that could arise, what could cause it and why it would impact objectives.

Contact

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

Use of this information sheet

Comcover's series of Risk Management Information Sheets are designed to be used as 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 entity. Entities may choose to adapt some or all of the concepts contained in this information sheet to suit their specific needs or use alternative methodologies.