

## SOE Board Talk

Iakweaolep

This week we continue the important topic of SOE risk management

Please contact SOEMU if there are any concerns or clarifications needed.

2<sup>nd</sup> Floor Finance Building  
Ph. 625 8320

In last week's Board Talk we introduced the subject of Risk Management and stated that a risk management process can be determined as:

- Establish the context
- Identify the risks
- Analyze and evaluate the risks
- Mitigate the risks

### Establishing the context

Context is vitally important as each SOE is different and thus will assess like items and similar risks in a different way. Establishing the context essentially means to consider both the internal and external environment within which the SOE operates and to determine the level of risk that might be tolerable within each contextual setting.

Establishing the context will require assessment of:

- Vision, mission, purpose, core functions and values, legislative direction and objectives,
- External and internal environment – SWOT analysis,
- External and internal stakeholders – what are their needs and expectations?
- SOE planning, reporting and management processes.

After completing this contextual analysis, SOEs can then define how risks are to be managed through application of:

- Risk management policies,
- Risk management guidelines,
- Risk reference tables that help evaluate risks and existing controls. They include definitions of the acceptance and reporting levels of risk,
- Risk management implementation strategy, and
- Use of a Risk register.

Risk classes may be determined, such as strategic risks, operational risks, project risks or other classifications.

## SOE Board Talk

While this type of classification is common in large organizations, it may be unnecessary in RMI. Clearly the aim in establishing the context is to keep it as simple and targeted as possible to improve focus and decision-making. The essence of the whole risk management process **must be** about effective assessment of defined risks, **not about** the process itself.

To complete review of the context it is useful to assess the critical success factors and key dependencies of the SOE. Success factors and dependencies become the basis to identify risk because anything that has a negative impact upon them constitutes a risk to the desired outcomes.

### Risk identification

It is necessary to ensure that a risk awareness culture is developed. While some risks, e.g. power interruptions to IT systems, are obvious to many, often risks are less clear except perhaps to specific individuals in their various autonomous tasks. Thus, the proper identification and assessment of all risks may be something that evolves over time, rather than as a discrete event.

Nonetheless it is important that sufficient attention is given to the effort towards full identification of each risk; as business is ongoing and decision-making is an everyday occurrence.

The aim is for a comprehensive list of risks and opportunities based on those events that might create, enhance, prevent, degrade, accelerate or delay the achievement of the SOE's objectives. A risk that is not identified at this time will not be included in further analysis.

It is widely recommended that procedures such as environmental scanning are conducted to help identify risks; this varies from a highly sophisticated process using IT tools to the use of informal networks and sound judgement. Essentially it is about a specific exercise, conducted periodically to think through all the internal and external business influences and impacts that could arise and the associated risks that could impact the business.

As a part of the business planning initiative the management team and the board should meet to discuss and conduct a group SWOT analysis and brainstorm the identification (and analysis) of risks.

Over time, each SOE needs to develop the ability to capture lessons from various audits, commissioned studies, systems reviews, external observations, documented losses, problems arising and so forth, so that a more thorough and comprehensive application of the risk identification process can be undertaken.

## SOE Board Talk

Each risk requires the identification of the possible causes of the risk event. Each risk may have one or more causal factors which can either directly or indirectly contribute to the risk event occurring. Identifying the range of causes will help to better understand the risk, evaluate the adequacy of existing controls and design effective risk managements.

Again, the issue of classification or categorization of risks arises. Should a classification be deemed necessary then it is appropriate to classify in a way that is helpful to identify and manage them, e.g. type or source of risk, or by impact range. An example follows:

Risks related to breakdown in internal controls and impact on business reporting	Risks related to operations	Risks related to compliance with laws, policies and directives	Risks related to personnel	Risks related to markets and customers
IT system/network malfunction	Machinery / Vehicles malfunction	Compliance with purchase contract and procurement regulations	Sufficiency of remuneration and rewards to attract and retain quality people	Correctly identifying customer needs
People skills and capacity to maintain systems	Materials, power or other operational inputs lost / unavailable	Compliance with Laws, regulations, instructions, policies and procedures	Balance of qualified personnel to meet SOE objectives and responsibilities	Responding to customers in an Emergency situation
Financial reporting ...accuracy...disclosure... transparency	Technical skills gaps	Record keeping – for legislative, compliance, and governance purposes	Developing personnel attitudes towards change and improvement	Impact of competitor behavior
Management of reputation, relations and public expectations	Accidents due to unsafe working conditions			

*Next week we continue with the topic of Risk Management and its importance to SOE reform*

Good luck this week in the boardroom

SOEMLI

**SOE Board Talk**