

SOE Board Talk

Iakwe aolep

This week we continue the important topic of SOE risk management

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

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We have 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

Last week we discussed issues of establishing the context and risk identification.

Risk analysis

Risk analysis involves analyzing the impact of the potential challenge or opportunity. It requires assessment of the consequences, as well as the likelihood, of a risk occurring.

It is important to rate the realistic worst-case scenario, which is the worst-case level of risk considering both consequences and likelihood. Where there are multiple ratings for a risk the highest combination of consequence/likelihood is taken as the final rating.

A common approach for analyzing risk is through the use of a simple risk matrix, as detailed below.

	CONSEQUENCE		
LIKELIHOOD	Minor	Moderate	Significant
Unlikely	Low	Low	Medium
Possible	Low	Medium	High
Likely	Medium	High	High

Where there are more stakeholders or where there is a range of cross-agency, complex and competing issues, then a more detailed risk analysis can be used, for example including likelihood categories of rare and almost certain, in addition to those above. Consequence categories might be extended to include insignificant and catastrophic.

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Sometimes a detailed explanation may be given in response to the different consequence/likelihood combinations. Sometimes a rating scale is used, so that each of the categories is given a ranking between say 1 to 5 as a determination of the likelihood or consequence of the risk. The combined rankings are multiplied to give an overall rating of the risk in terms of likelihood and consequence. Of course, a pre-determined scale against each of the 1 to 5 ratings must be available, preferably using quantifiable terms, for example if assessing in accordance with the financial consequences of the risk, then each rating would have a financial range.

Risk evaluation

Once the level of risk has been determined, the next step is to evaluate the risk and see where the risk fits against the SOEs overall risk criteria. The context that has been established is now brought into play, because depending on the risk appetite of the SOE (as determined by the board), not all risks will warrant immediate or intensive management requiring board overview. The less acceptable the exposure to a risk is, the higher the priority which should be given to addressing it.

The legal and regulatory environment should always be considered as risks that may result in a breach of legislation should be addressed with priority.

Over time the risks change as does the evaluation and treatment priorities. The consequence and likelihood ranges developed in risk identification are used in the Table below.

Risk	Consequence	Likelihood	Risk Evaluation
IT system/network malfunction	Moderate	Possible	Medium
People skills and capacity to maintain systems	Minor	Likely	Medium
Financial reporting ...accuracy...disclosure...transparency	Significant	Possible	High
Management of reputation, relations and public expectations	Moderate	Possible	Medium
Machinery / Vehicles malfunction	Significant	Possible	High
Materials, power or other operational inputs lost / unavailable	Moderate	Likely	High
Technical skills gaps	Significant	Possible	High
Accidents due to unsafe working conditions	Significant	Likely	High

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Risk	Consequence	Likelihood	Risk Evaluation
Compliance with purchase contract and procurement regulations	Minor	Possible	Low
Compliance with Laws, regulations, instructions, policies and procedures	Moderate	Possible	Medium
Record keeping – for legislative, compliance, and governance purposes	Moderate	Unlikely	Low
Sufficiency of remuneration and rewards to attract and retain quality people	Moderate	Likely	High
Balance of qualified personnel to meet SOE objectives and responsibilities	Minor	Likely	Medium
Developing personnel attitudes towards change and improvement	Moderate	Unlikely	Low
Correctly identifying customer needs	Moderate	Possible	Medium
Responding to customers in an Emergency situation	Significant	Unlikely	Medium

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

Good luck this week in the boardroom

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