SOE Board Talk

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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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In the last few weeks we have discussed risk management and how it is relevant to SOEs. We have presented a methodology for considering risk and developing a risk management system.Further stages to an effective risk management system follow.

Risk decision

Once a risk has been analyzed and evaluated, the risk owner makes an informed decision to do one of the followings:

- Accept the risk,
- Avoid the risk (abandon the activity), or
- Manage the risk (reduce the likelihood or consequences).

The risk decision balances the issues of risk and reward. An SOE cannot progress or improve without capitalizing on opportunities, and opportunities will always have associated risks. The risk management process allows the SOE board and management to optimize these decisions and demonstrate effective management of the risks.

Sometimes it may be necessary to accept a high level of risk. The important thing is to do and be seen to be doing all that is reasonable to manage the risk. At other times, it may be beneficial to accept a small risk rather than impose a treatment which is deemed to be more expensive than the value of benefits accruing from the activity.

Once the risk decision is made, each risk should be allocated a risk owner. This is the person responsible for managing the risk and is usually the person responsible for implementing the mitigation strategy, activity or function that relates to the risk. It is recommended that each SOE elect a senior officer to be the overall risk management officer and to assume ownership for a range of the risks and their ultimate management, however, it will always remain the responsibility of the board to ensure an appropriate risk management process/policy is in place and risks are being managed in accordance with that process/policy.

The risk decision can be managed through another risk matrix, as follows:

Level of Risk	Criteria for Management of Risk		Who is responsible
Low	Acceptable	With adequate controls	Operational Manager
Medium	Management control required	With adequate controls	Operational Manager
High	Executive control required	Only acceptable with excellent controls	Chief Executive Officer

Risk register

A risk register should record all risks identified, the basic evaluation and decision with respect to risk treatment. This register should be properly updated and the decisions signed-off. The register will help with monitoring and re-assessing and updating risk decisions as lessons are learnt and any new activities and processes are introduced.

Risk treatment/management

In some situations, it may be that the analysis and evaluation of a risk, simply means that the SOE will abandon the related activity and so eliminate the risk. However, this may be rare, especially when applied to core operations. Therefore, the most practical solution is to 'manage' the risks. Often some measure of control, mitigation or insurance is already in place at the time of the risk assessment and has the potential to reduce the likelihood and /or consequences of the risk.

Risk management involves firstly analyzing a range of options to reduce the likelihood of a risk eventuating, and/or reduce the consequences if the risk does eventuate; secondly, to determine which options or management activities is most appropriate to improve the evaluation ratings; and thirdly implementing the desired management strategy.

Some risk management activities may be directive in nature, e.g. the need for specific training before completing tasks, while some may be corrective in nature, e.g. taking out an insurance policy that enables recovery from certain types of loss. In addition, many controls will be aimed at prevention, such as segregation of duties, back up of important files and application of safety rules and equipment. Another category of control that is common is those controls relating to detection and provision of after-the-event controls for rectification, e.g. bank reconciliations and asset stock-takes. In applying these controls there is the option to pursue errors or discrepancies and recover loss after the risk/event has occurred.

Remember managing risk is about doing all things reasonable, not all things possible.

Only management options which reduce the level of risk to an acceptable level need be considered. However, a cost/benefit approach should be taken such that management activities that cost in excess of the expected cost if the risk occurs should not be considered.

Consider also that any risk management must be compatible with the organizations' mission and values and be aligned to legal and politically correct positions.

Risk	**Risk Evaluation**	***Possible*Management activities/controls**
Financial reporting …accuracy...disclosure…transparency	High	Chief Accountant to manage quarterly account reconciliations; ensure all asset and liability details are checked for accuracy; publish information and comment on performance.
Machinery / Vehicles malfunction	High	Implement a preventative maintenance and servicing program.
Materials, power or other operational inputs lost / unavailable	High	Acquire back-up systems for power, water and other critical supplies. Develop an effective inventory system to ensure critical materials and consumables are always available.
Technical skills gaps	High	Implement a detailed training program to ensure suitable skills are available and to bridge skills gaps.
Accidents due to unsafe working conditions	High	Develop and implement a program of workplace safety to clear walkways, safeguard operators and ensure protective equipment and protective shields on equipment are in operation.
Sufficiency of remuneration and rewards to attract and retain quality people	High	Survey market rates for key personnel and develop a reward and remuneration policy that is competitive.

Risk management plans will help to ensure that there are definitive actions, responsibilities and performance measures against every management activity to be implemented. Once a management activity is put into effect, then the risk is subject to a re-evaluation. In most cases it is anticipated that the risk will now be within the 'acceptable' range so that the activities/events to which the risk attaches can proceed. If this is not the case, further management may need to be considered, keeping in mind the above cost-benefit, legality and compatibility issues.

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Next week we conclude on the important topic of Risk Management and its importance to SOE reform

Good luck this week in the boardroom

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