

# RISK MANAGEMENT METHODOLOGY

Risk management is the systematic application of management policies, procedures and practices to assess and manage risks. The approach utilises a logical and structured method to establish the context and identify, analyse, evaluate, treat, monitor and communicate risk.

Risk management is a fundamental component of project management. Frame's risk management process is applicable to the entire lifecycle of a project, with risks continually identified and treated, iteratively assessed and evaluated, and risks monitored as long as they are a threat.

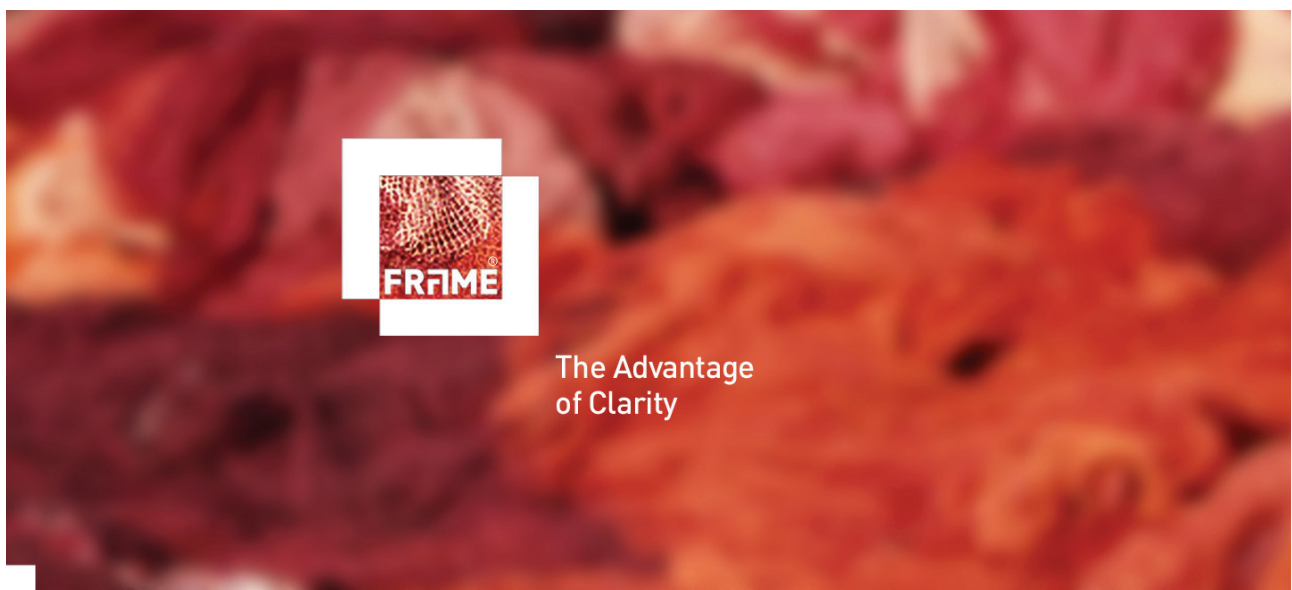
Central to Frame's risk management process is communication and consultation. The project manager ensures clients are consulted, involved and kept informed at all stages of the risk management process.

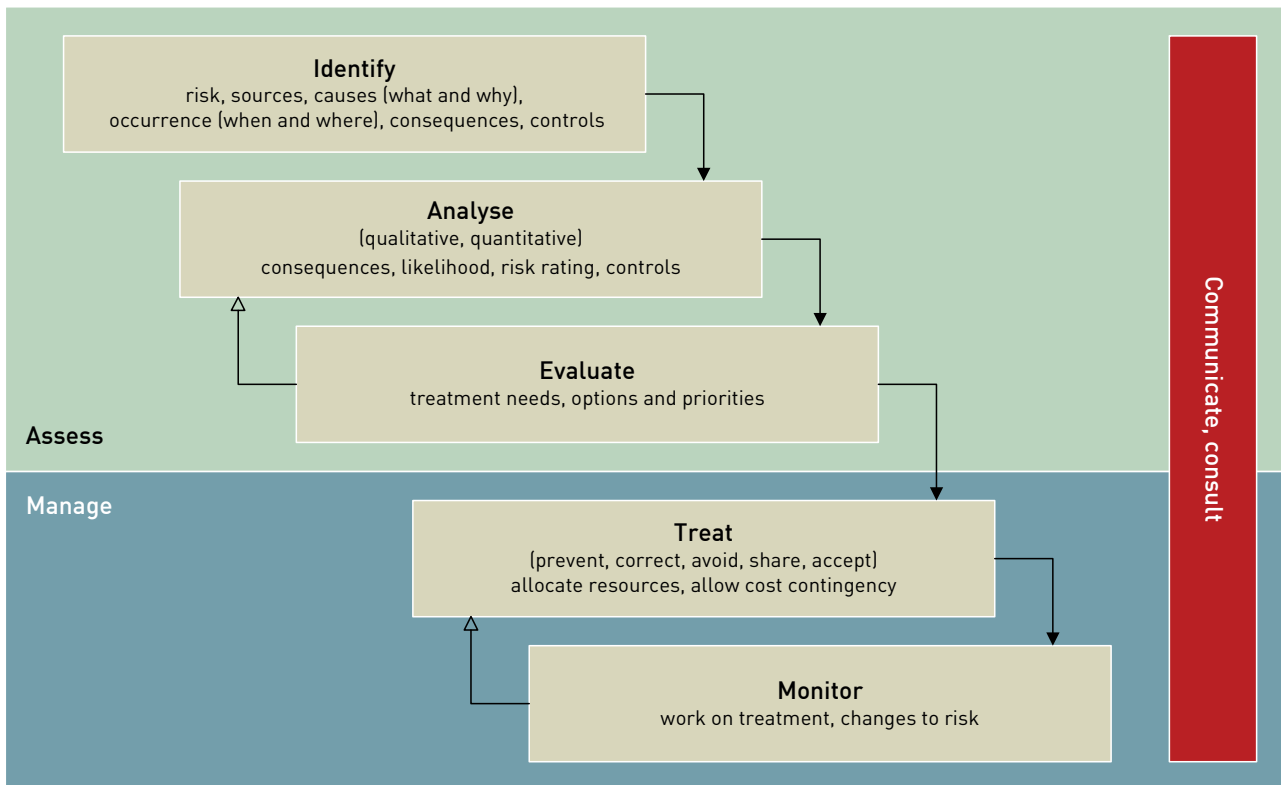
Frame's risk management methodology complies with the requirements of *ISO 31000 Risk management—Principles and guidelines*.

The objectives of risk management are to:

- implement risk identification, assessment and management strategies to ensure the achievement of intended project outcomes
- regularly assess and prioritise risks with a view to minimising them
- reduce the risk of poor performance, complaints, disruption of service and adverse events
- avoid fraud and financial loss
- embed risk identification and treatment in the project management and delivery process.

Frame's process supports the management of business, technical, environmental, occupational health and safety and other risks.





A systematic approach to identify project risks starts with an agreed and clear understanding of the context in which the risk identification is to take place. An effective process is to conduct a workshop with all key stakeholders and subject matter experts to step through the project stages in their logical sequence.

Risk analysis then develops a clearer understanding of risks and involves further consideration of each risk's sources, consequences and likelihood of occurrence. Existing processes, devices and practices that act to minimise negative risks, or enhance positive risks, are identified and their strengths and weaknesses assessed.

Based on the outcomes of risk analysis, risk evaluation makes decisions about what risks need treatment, what the treatment options are, and what treatments are the priorities. The treatment chosen is dependant upon the possible consequences of the risk, and the cost of applying the treatment versus the perceived benefit.

Risk management is an iterative process where the effect of the treatment is regularly re-assessed to determine whether the risk is now acceptable. If it is acceptable, no further treatment is required but the risk is continually monitored. If it is not acceptable, then further treatment is required until the risk is reduced to an acceptable level.

Risks may be treated in a number of different ways.

- *Prevention* is to eliminate or at least minimise the chances of a risk occurring.
- *Correction* is to repair or correct the problems that have arisen after a risk has occurred.
- *Avoidance* is to decide not to proceed with the activity that is the source of the risk.
- *Sharing* risk (often referred to as risk transfer) is where someone else bears at least part of the consequence of the risk (such as purchasing insurance). Another approach is to share the costs of the risk with vendors, suppliers or partners through contractual agreements.
- The final treatment option is simply *accepting* the consequences of the risk if it occurs.

The monitoring of risks is a responsibility of the project manager and is formally managed through project review meetings. The outcomes of the monitoring process (status, decisions and planned actions) are formally recorded and communicated through the project *Risk Management Plan, Risk Log* and *Highlight Reports*.

The key requirement when analysing risk is to assess the risk in terms of likelihood and consequence.

'Likelihood' refers to the possibility of a risk occurring prior to any treatments being applied.

Likelihood is assessed in terms of the total project lifespan, ie how likely it is that the risk will eventuate at some time during the project. This is necessary to enable risks to be funded in the project budget, which covers the life of the project.

If a risk—positive or negative—occurs, 'consequence' defines the outcome or impact on a range of stakeholders or assets, eg damage, loss, decrease/increase in market/profits. Consequence is rated in terms of its impact.

A key requirement of the Frame risk management methodology is that consequence needs to be quantified in dollar terms.

The magnitude of consequences of an event, and the likelihood of the event occurring must be assessed in the context of the effectiveness of existing controls and strategies. Consequence and likelihood are individually rated and then combined to determine the risk rating.

#### Five qualitative measures of risk likelihood

Level	Definition
A Almost certain	Is expected to occur in most circumstances
B Likely	Will probably occur in most circumstances
C Possible	Might occur at some time
D Unlikely	Could occur at some time
E Rare	May occur only in exceptional circumstances

#### Five qualitative measures of risk consequences

Rating	Impact
1 Insignificant	No measurable operational impact on the business
2 Minor	Local management intervention required, with locally available resources
3 Moderate	Substantial management intervention required, possibly with external assistance
4 Major	Significant senior management intervention required, with significant mobilisation of resources including external assistance
5 Catastrophic	Immediate senior executive and board intervention required

#### Project risk rating matrix

Risk rating is determined by plotting likelihood and consequence. The risk rating acts as a prioritisation mechanism for actioning the risks, and can be used to develop specific responses to the risk if required.

Low risk	Moderate risk	High risk	Extreme risk
Manage by routine procedures	Management responsibility must be specified	Senior management attention needed	Immediate action required

	Consequences				
Likelihood	1	2	3	4	5
A	Green	Yellow	Yellow	Red	Red
B	Green	Green	Yellow	Yellow	Red
C	Light Green	Light Green	Yellow	Yellow	Yellow
D	Light Green	Light Green	Green	Green	Yellow
E	Light Green	Light Green	Green	Green	Yellow

Frame project managers have several tools to facilitate communication of risk management for a project:

- the risk management plan
- the risk log
- project reviews
- the highlight report.

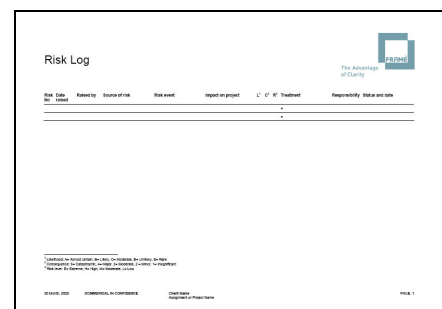
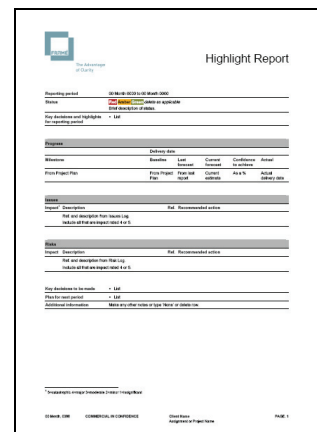
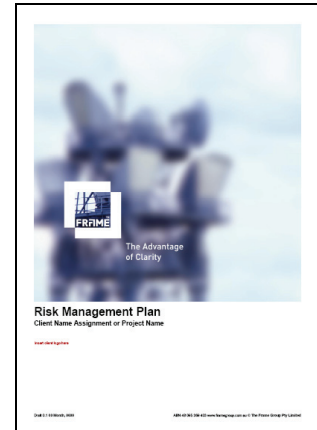
The risk management plan is the key document for communicating and coordinating project risk management. Frame provides a risk management plan template to assist with documenting the risk approach for a project.

Risks and their consequences are quantified and quantification outcomes are taken into account in project forecasts. A critical element of the Frame project risk management methodology is the accurate costing of treatments.

The risk log is the repository for recording risks that have been identified, analysed and evaluated. It is also used to record the risk treatments, manage the implementation of the treatments, and communicate the status to all stakeholders.

Project review meetings provide the forum for monitoring and reporting the project's progress. Project review meetings enable an executive update of the project's progress, including risk management.

The highlight report, presented at project review meetings, is an effective mechanism for ensuring that risks are consistently and regularly reviewed and proactively managed.



# FRAME<sup>®</sup>

## Sydney (Head Office)

Level 11, 189 Kent Street  
GPO Box 4647  
Sydney NSW 2001

**Tel** +61 (0) 2 9323 2800  
**Fax** +61 (0) 2 9323 2828

## Canberra

Unit 9, 25 Buckland Street  
PO Box 224  
Mitchell ACT 2911

**Tel** +61 (0) 2 6122 6800  
**Fax** +61 (0) 2 6122 6868

## Melbourne

Level 7, 31 Queen Street  
Melbourne VIC 3000

**Tel** +61 (0) 3 9927 3800  
**Fax** +61 (0) 3 9927 3838

## Brisbane

Level 1, 21 Mein Street  
Spring Hill QLD 4000  
GPO Box 2502  
Brisbane QLD 4001

**Tel** +61 (0) 7 3009 7800  
**Fax** +61 (0) 7 3009 7878