RISK MANAGEMENT

This tool kit has been designed to help you identify and manage risks on your project and understand the process and reason for doing risk management.

It will help you to identify a risk, what should happen next and how the risk should be properly managed to mitigate the outcome.

What is a Risk.

A risk is a problem or uncertainty which may have an effect on future project progress. A risk may not always have an adverse impact, but can be a positive opportunity as well. Potential risks should be identified, managed and monitored throughout the project.

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Risk Management

Why we Manage Risk

The purpose of risk management is to identify potential problems before they occur and manage them to mitigate the impact they could have on the project.

Managing risk involves making advance preparation for possible future events rather than responding to them as and when they happen.

Risk management should <u>not</u> be done as a one off activity at the beginning of the project.

Risk management is an ongoing activity and should be reviewed at regular arranged intervals.

Key Steps

Below are some key steps that should be undertaken when managing risk:

1. Identify the risk – when identifying the risk it is important to consider the cause, risk and impact. This will give a more rounded view to the risk.
2. Evaluate the risk – this will determine the impact and likelihood and subsequently scoring the risk profile.
3. Select the countermeasure – the countermeasure chosen should be the action that will be taken to control the risk.
4. Plan and resource the risk – Planning and resourcing should be done by identifying who is best placed to be the risk action owner and the next steps required in controlling the risk.
5. Monitor the risk – this should be done by regularly reviewing the risk log through meetings ensuring the stability of the risk is always considered. Any increase to the risk profile should be reported/escalated to the Project Board for consideration/immediate action.

Categories of Risk

Categorising risk gives greater ability to monitor and control risks dependant on their category. Below are the categories that could be used for a structured approach towards risk management along with examples of that types of areas could be covered in each category.

- Commercial Risk – Contractual issues, failure of suppliers to timescales/quality etc, collapse of contractors etc.
- Financial Risk – Inflation, failure to meet targets, financial developments affecting plans etc.
- Legal Risk – New legislation, failure to obtain appropriate approval, unexpected licensing requirements etc.
- Management Risk – Lack of clarity regarding roles and responsibilities, poor leadership, inappropriate decision making etc.

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- Resource Risk – Skill set, limited resource availability, training requirements etc.
- Schedule Risk – Delays in supplies, dependencies on other projects, poor estimations of time etc.
- Technical Risk – Inadequate design, infrastructure failure, breaches in information security etc.

Countermeasures of Risk – FASTAR

In order to manage and control risk possible countermeasures should be identified. The FASTAR countermeasures below show the main actions that can be taken. When selecting the countermeasure in your risk log you would specify the option chosen from the list below, provide a high level explanation of the countermeasure and provide contingency plan details:

- **Fallback** – This is were a plan of action would be in place that would be implemented if the risk were to occur or the probability of the risk occurring became higher than deemed acceptable to the project.

- **Accept** the risk - This is were the Project Board makes a conscious decision to accept the possibility that the risk may occur. This may be because they consider that the risk will not actually occur, or because any possible countermeasures are too expensive or unworkable.

- **Share** the risk – This is were the risk would be shared between involved parties as preagreed at the beginning of the project for example if it was possible that the cost plan was to be exceeded the variance could be shared.

- **Transfe**r the risk - This is were the risk is passed to a third party, generally through an insurance policy or penalty clause.

- **Avoid** the risk - This is were the countermeasures to be put in place are intended to prevent the threat from being realised, or to prevent it from having any impact e.g. by adopting an exit strategy.

- **Reduce** the risk – This were the countermeasure taken is not necessarily to avoid the risk but, more likely, to set in place a series of actions to reduce the risk to an acceptable level.

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Why use a Risk Log

The Risk Log should be used by the project to record new risks as they are identified. The log includes headings which detail the key information to capture to successfully manage the risk.

The Log also provides a means of listing all the identified risks and the results of their analysis and evaluation, and so facilitates the consideration of all of a project's risks and their impact, likelihood or proximity at Project Board's meetings.

The risk log is generally owned by the Project Manager.

However, for risk to be properly managed and controlled anyone who identifies any possible risks should flag them asap so they can be accurately recorded.

The Risk Log

The risk log has the below categories included, please see below brief description on what should be included;

- Risk ID: This will be the unique ID. One should be attributed to each risk.
- Risk Category: This will be the type of category the risk falls into, i.e resources, schedule etc
- Risk - Full Description: This should be a detailed description of the risk including the cause of the risk, the risk itself and the impact the risk could have, e.g. *"Due to (cause)…there is a risk that (risk)…therefore (impact)…"*
- Risk Owner: This should be the person that is accountable for the risk.
- Action Owner: In some cases the actions taken to mitigate the risk will be undertaken by someone other than the risk owner, in this case the action owner should be noted so updates can be retrieved from the correct person.
- Date Identified: This should be the date the risk was identified which should match date the risk was recorded.
- Countermeasure: This is the action that will be taken to control the risk.
- Impact: This is the evaluated effect or result of a particular outcome actually happening based on the scale detailed in the scoring section.

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- Probability: This is the probability of the risk being realised on the based on the scale in the scoring section.
- Risk Score: This is an automated field which will calculate the score based on impact*probability. The RAG status will be automatically generated, using the profile, to highlight the importance of the risk.
- Proximity: This is the expected lifecycle for the risk, i.e. when the risk is most likely to happen. This can be used to filter the risks which are due to happen soon and have an urgent risk score.
- Change in Score: This is an indication to highlight whether the score has changed since the previous review date. The arrows should be used to show whether the score has remained the same (→), increased (↑) or decreased (↓).
- Status Update: This should be an update to provide the project team and board with information on how the risk is progressing and whether the risk profile has changed, the risk is closed etc or whether the risk has been realised. This should always be prefixed with a name and a date.
- Next review date: The status update should indicate when there will next be an update on the risk. If a risk has a future proximity then it may not need to be reviewed until then.
- Status: This should indicate whether the risk is open, closed or has been transferred to an issue.
- Closed Date: Once a risk is closed or transferred a closed date should be entered for reference purposes.

Reviewing Risk

Once a risk is logged it is imperative that it is monitored regularly, countermeasures are identified and actioned and status updates are provided. This should be done as part of a meeting or if participants are at various locations via conference call, or electronic update.

The risk log should provide the basis for the meeting (agenda item) and each risk should be reviewed for updates ensuring that any actions that were due to take place have taken place. If there is slippage in actions this should be the forum to put corrective actions into place.

Always review your most important risks first. Filter on red risks and if time runs out the most important ones will be covered.

If the meeting which you use to review risk often runs out of time before you get to risks – move them to the beginning of the agenda!

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Scoring of Risk

The Risk Log will provide an indication of each risk and what score has been calculated. The most important factors when evaluating risk are impact and probability.

- **Impact** - This is the evaluated effect or result of a particular outcome actually happening. Impact should ideally be considered under the elements of Time, Quality, Benefit and People/Resources. The impact should be scored as follows:

1: low; 2: medium; 3: significant; 4: high

- **Probability –**This is the probability of the risk actually being realised. The probability should be scored as follows:

1: unlikely; 2: feasible; 3: probable; 4: expected.

Entering the above figures relating to the risk will then allow the risk score to be calculated and a RAG status to be applied.

RAG (Risk Score = Impact x Probability)	
Up to 3	Act later
4 to 9	Act soon
12 to 16	Act now

Scoring of risk is vital as it is the quickest way for you to spot the most important risks!

Proximity is also an important factor to consider when evaluating risk.

Proximity - This is the expected lifecycle for the risk, i.e. when the risk is most likely to happen and after what time it will cease to be a risk. Some risks will be predicted to be further away in time that others, meaning that attention can be focused on the more immediate ones. The proximity should be scored as below;

Proximity	
1	0-3 months
2	3-6 months
3	6-12 months
4	1 year +

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Project Office Top Tips

- Management of risk is a continual project activity, don't just create the log at the beginning of the project and forget about it.
- Ensure risks are regularly monitored and a process is in place to do this, weekly meetings etc .
- If there is a probability that there may be a potential issue ensure the risk is recorded asap.
- Remember that any risk that is realised becomes an issue and will need to be transferred and monitored through the issue log.
- Finally……good risk management can improve the ability for a project to succeed.