



RISK TOOL: RISK ANALYSIS PROCESS

RATIONALE AND APPLICATION:

The overall purpose of the management of risk process is to help a decision-maker understand a situation, along with the likely outcomes.

This process is in two parts:

- assess the risk
- plan and control the activities to reduce the risk

This is an integrated process, these are defined into many overlapping activities with steps in each.

LIMITATIONS AND ERRORS OF APPLICATION

- Initial risk identification activities being too narrow. The aim here is to identify all possible risks
- Timing and impact of risk not fully considered
- Risks not being ranked
- Potential mitigation not considered or noted

ILLUSTRATION OF RISK ANALYSIS PROCEDURE

Risk Identification	1	Set context, and perspective for analysis
	2	Gather information on risks
	3	Classify risks based on their causes
Risk Estimation	4	Determine likelihood, consequence and timing of risks identified
	5	Clarity and improve estimates
	6	Sort risks into initial order of importance
Risk Evaluation	7	Obtain risk indicators, (if necessary)
	8	Assess risks using appropriate techniques and determine level of each
	9	Generate alternative paths of action for risks that do not meet acceptability criteria
	10	Sort risks in order of priority and cross reference to the identified risk reduction options



■ FURTHER POINTS

Risk identification

Risks within the plan are systematically discovered, identified and classified according to their potential root causes.

A list of standard risks can be used as an input and prompt to the risk identification process. Risks identified are then listed for further analysis.

Risk estimation

After the risks are identified they are individually estimated as to their potential likelihood and impacts. This involves projecting a profile of each risk identified.

If historical data is available, the projections made are more likely to reflect what could actually happen. Without historical information, the estimates must be based on experience.

After the risks have been identified and estimated, their likelihood and impact can be combined to place them in a list of relative importance. Risks that are both likely to occur and have a high impact must be addressed.

Risk evaluation

Having done some risk estimation, it is necessary to assess the situation and see if the level of risk is acceptable, based on the potential benefits and the risk indicators.

Possible actions to reduce each risk should be considered along with the benefits and costs of each course of action. The evaluation should include some consideration of how these risks impact other parts of the organisation.

The risks are then placed in ranking order and the potential mitigation noted against each. This information is then submitted to the risk management process.