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THE BUSINESS NEWSLETTER FROM AUSWILD & CO  
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# HOW TO PREPARE A RISK MANAGEMENT PLAN (PART 2)

In this month's issue of **ausBIZ** we bring you the second instalment in how to prepare a risk management plan. A risk management plan (and a business impact analysis) are important parts of your business continuity plan. By understanding the potential risks to your business and finding ways to minimise their impacts it can make or break your business if disaster strikes.

## Assess your processes

Use flow charts, checklists and inspections to assess your work processes. Identify each step in your processes and think about the associated risks. Ask yourself what could prevent each step from happening and how that would affect the rest of the process.

## Consider the worst case scenario

Thinking about the worst things that could happen to your business can help you deal with smaller risks. The worst case scenario could be the result of several risks happening at once. For example, someone running a restaurant could lose power, which could then cause the food to spoil. If the restaurant owner was unaware of the power outage or the chef decided to serve the food anyway, customers could get food poisoning and the restaurant could be liable and suffer from financial losses and negative publicity.

Once you've identified risks relating to your business, you'll need to analyse their likelihood and consequences and then come up with options for managing them.

## Analyse and evaluate the impact of risks

Once you have identified the risks to your business, you need to assess the possible impact of those risks. You need to separate minor risks that may be acceptable from major risks that must be managed immediately.

## Analysing the level of risk

To analyse risks, you need to work out the likelihood of it happening (frequency or probability) and the consequences it would have (the impact) of the risks you have identified. This is referred to as the level of risk, and can be calculated using this formula:

$$\text{level of risk} = \text{consequence} \times \text{likelihood}$$

Level of risk is often described as low, medium, high or very high. It should be analysed in relation to what you are currently doing to control it. Keep in mind that control measures decrease the level of risk, but do not always eliminate it.

## Evaluating risks

Once you have established the level of risk, you then need to create a rating table for evaluating the risk. Evaluating a risk means making a decision about its severity and ways to manage it.

Your risk evaluation should consider:

- the importance of the activity to your business
- the amount of control you have over the risk
- potential losses to your business
- any benefits or opportunities presented by the risk.

Once you have identified, analysed and evaluated your risks, you need to rank them in order of priority. You can then decide which methods you will use to treat unacceptable risks.

## **Treat risks to your business**

Treating risks involves working through options to deal with unacceptable risks to your business. Unacceptable risks range in severity; some risks will require immediate treatment while others can be monitored and treated later. Your risk analysis and evaluation will help you prioritise the risks that need to be treated.

## **Make sure you have adequate insurance**

Speak to your insurer to find out if you have the right insurance cover for your business. Be sure to clarify whether you are covered for the risks you have identified in your risk management plan. Keep in mind that insurance policies may have different definitions for certain incidents (e.g. flooding).

You should also check that you:

- have coverage for the loss of income you could incur if customers affected by the crisis stop ordering your product or service
- have appropriate insurance to cover other related issues such as on-site injuries to staff or visitors, or for loss of your customers' goods or materials
- have coverage in case your supplier/s are affected by a crisis and can't deliver necessary supplies for your business
- are meeting your workers' compensation obligations in case any of your staff are injured in a crisis.

## **Review and update your risk management plan**

You will need to test, evaluate and update your risk management plan regularly as risks can change as your business, your industry and the environment you operate in change. Regularly reviewing your risk management plan is essential for identifying new risks and monitoring the effectiveness of your risk treatment strategies.

## **Business continuity**

Your risk management plan should be part of a broader business continuity plan that includes strategies for responding to and recovering from incidents if they do happen. Making sure your business continuity plan is reliable and up to date will help you resume operations quickly after an incident and reduce the impact to your business.

While you may be able to predict and deal with a large number of potential risks, there will be some that are unexpected or impossible to plan for. Preparing an incident response plan and a recovery plan as part of your overall business continuity plan can help you deal with these situations if they happen.

A risk management plan is the prevention step in the prevention, preparedness, response and recovery (PPRR) model of business continuity planning.

## **ausNEWS! ausNEWS! ausNEWS!**

*We believe **CONGRATULATIONS** are in order to **Steve & Candice Ganitis** (Alpine Motor Group, Cooma) who recently tied the knot in Greece.....and also to **Jeff Mowle** and **Lola Duilo** of Affordable Pools who recently welcomed a baby boy named Jake, a brother for Max.....this month's **BIRTHDAY GREETINGS** go to **Michael Pentecost** (Clancy Motors, Bathurst), **Cheryl Hawkins**, **Juleen Brooker**, **Betty Parker**, **Bruce Parker** and **Robert Bonanno**. Wishing you all a **HAPPY BIRTHDAY!***

**Important:** This is not advice. Clients should not act solely on the basis of the material contained in this bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without prior approval.