

Risk Management - Enterprise-Wide Policy and Framework - NSW Health

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Summary This policy directive articulates the requirement for NSW Health entities to establish risk management practices in accord with the Australian/New Zealand Standard 4360:2004, Risk Management as interpreted within the NSW Health Enterprise-Wide Risk Management Framework document accompanying the attached policy statement.

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Applies to Area Health Services/Chief Executive Governed Statutory Health Corporation, Board Governed Statutory Health Corporations, Affiliated Health Organisations - Non Declared, Affiliated Health Organisations - Declared, Public Health System Support Division, Community Health Centres, Dental Schools and Clinics, NSW Ambulance Service, NSW Dept of Health, Public Health Units, Public Hospitals

Audience Chief Executives, Directors, Health Service Managers

Distributed to Public Health System, NSW Ambulance Service, NSW Department of Health

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Director-General

This Policy Directive may be varied, withdrawn or replaced at any time. Compliance with this directive is **mandatory** for NSW Health and is a condition of subsidy for public health organisations.

ENTERPRISE-WIDE RISK MANAGEMENT

PURPOSE

NSW Health recognises that risks are an integral part of our organisation and must be managed at the appropriate level to be effective. Opportunities and threats faced by NSW Health should be addressed through the risk management process in order to maintain and improve performance and achieve identified objectives.

The application of effective enterprise-wide risk management practice as a part of the strategic planning and monitoring systems of an organisation ensures that investment decisions are founded on evidence-based decision making and are linked to the strategic directions of the organisation. The purpose of this policy is to outline the commitment of NSW Health to implementing enterprise-wide risk management and to identify the key components of risk management that must be implemented by NSW Health entities.

Compliance with this policy will provide an integrated and standardised approach to managing risk throughout NSW Health.

MANDATORY REQUIREMENTS

Each NSW Health entity is required to implement a risk management framework in line with standards established by the Australian and New Zealand Standard 4360:2004 *Risk Management* and the attached NSW Health Risk Management Framework.

In order to achieve this requirement, all NSW Health entities must:

- Have a risk management plan that identifies how the organisation will manage, record and monitor risk, including procedures for escalating risk reports to the Chief Executive.
- Include risk management planning as a part of the strategic, operational and annual business planning activities of the organisation, its facilities and/or networks.
- Have a risk register that is used to record, rate, monitor and report risk.
- Have an established process for monitoring and reviewing risk control and governance systems.

IMPLEMENTATION RESPONSIBILITIES

Department of Health

- Issue policy and guidance and provide assistance to support the management of risk across NSW Health.
- Work with Health Services to monitor and address extreme risks that require the attention of the Director-General and Minister.
- Report risk trends to the Director-General.
- Monitor compliance with risk management policy and procedures.

- Consider risk in strategic planning and decision making.

Chief Executives

- Champion risk management within the organisation.
- Ensure appropriate resources are allocated to managing and monitoring risk and to implementing risk mitigation strategies identified through risk planning activities.
- Implement and keep current a risk management plan for the organisation.
- Consider risk in strategic planning and decision making.
- Ensure communication of risk management requirements to management and staff.
- Establish a risk register for the organisation that provides for the recording, monitoring and management of risk.
- Review and take appropriate action on risk reports escalated from within the organisation.
- Determine the formal delegation of authority for various levels of Management within the entity to accept risks or take – up opportunities.

Audit and Risk Management Committees and Internal Audit Units

- Monitor and report to the Chief Executive on the implementation of the risk management plan for the organisation.
- Ensure audit plans for the organisation include appropriate consideration of risk.

REVISION HISTORY

Version	Approved by	Amendment notes
June 2009 (PD2009_039)	Director-General	New policy.

ASSOCIATED DOCUMENTS

1. NSW Health Enterprise-Wide Risk Management Framework

Enterprise-Wide Risk Management



Issue date: June-2009

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Contents

	Page
1 Introduction	1
About this document	1
Key Definitions	1
What is risk and risk management?	2
Why does NSW Health need a risk management framework?	2
What does the framework entail?	3
What will the framework achieve?	3
2 Risk management structure	4
Roles, responsibilities and governance	4
Risk escalation	6
Risk categories	7
3 Risk management process	10
Step 1 Establish the context	10
Step 2 Identify risks	12
Step 3 Analyse risks	14
Step 4 Evaluate risks	14
Step 5 Treat risks	15
Step 6 Monitor and review	16
Communicate and consult	16
4 NSW Health risk management tools	17
NSW Health Risk Matrix	17
NSW Health risk report form and guidance sheet	19
NSW Health risk management self assessment checklist	19
NSW Health risk management staged implementation plan	19
Risk workshops	19
5 References	20
6 List of Risk Management Tools (web links)	21

1 Introduction

About this document

The NSW Health Enterprise-Wide Risk Management Framework provides information on the roles, responsibilities, processes and procedures, standards, tools and documentation to be used for managing risk within NSW Health.

The framework is to be used by NSW Health Chief Executives, Directors and risk practitioners to implement an enterprise-wide risk management approach to risk throughout their organisations.

The framework contains a number of tools designed to assist with identifying, assessing, recording, monitoring and reporting of risk. These tools are referenced in the Framework via a web link and are available for download from the Department of Health, Corporate Governance and Risk Management Branch intranet site.

Key Definitions

Outlined below are the key definitions used in the Enterprise-Wide Risk Management Framework.

Australian / New Zealand Risk Management Standard	AS/NZS 4360:2004 Risk Management – Standards Australia has developed AS/NZS: 4360:2004 Risk Management as a generic and flexible standard that is not specific to any government or industry sector. The standard identifies elements or steps in the risk management process that can be applied to a wide range of activities at any stage of implementation.
Consequence	The outcome of an event that has a positive or negative effect on objectives.
Health Services	Organisations in the NSW Health structure, including the Area Health Service.
Likelihood	The probability of the occurrence of a specific event or frequency of an event over a set period of time.
NSW Health risk matrix	A tool used in the ranking or prioritisation of risks.
Risk	The chance of something happening that will have an impact on objectives; measured in terms of impact and likelihood.
Risk Management	The culture, process and structures that are directed towards realising potential opportunities while managing adverse effects.
Risk management framework	The set of elements of an organisation's management system concerned with managing risk. Elements can include strategic planning, decision making and other strategies, processes and practices for dealing with risk. A risk management system reflects the culture of an organisation.

A comprehensive [Glossary](#) is available

What is risk and risk management?

Risk is the probability that something will occur. Risk management involves developing systems to identify and analyse risks, with the aim of reducing any harmful consequences and benefiting from any opportunities. The box below gives formal definitions of risk, risk management and the risk management process.

Risk is measured in terms of consequence or impact (How bad will an event be if it happens?) and likelihood (How likely is it that the event will happen?).

Definition of risk and risk management

The Australian/New Zealand Standard 4360:2004 Risk Management provides the following definitions:

- risk is '... the chance of something happening that will have an impact on objectives.'
- risk management is '... the culture, processes and structures that are directed towards realising potential opportunities while managing adverse effects';
- the risk management process is '... the systematic application of management policies, procedures and practices to the tasks of communicating, establishing the context, identifying, analysing, evaluating, treating, monitoring and reviewing risk'.

Why does NSW Health need a risk management framework?

Managing risks – identifying, assessing and controlling them – is part of everyday activity throughout NSW Health. Risk management is essential to good management practice and effective corporate governance and is necessary to ensure decisions are made with sufficient information about risks and opportunities.

By identifying risk an organisation is identifying any threats or opportunities to an organisation achieving its goals and objectives. Decisions to accept, transfer or mitigate risk must be made in the context of achieving NSW Health's strategic goals and objectives. In the case of NSW Health, these goals and objectives have been articulated by the NSW Government, the NSW Department of Health and by Chief Executives across NSW and are documented in major operational and planning documents such as the State Plan, the State Health Plan and Health Service Corporate & Strategic Plans.

These goals and objectives are intended to support NSW Health's overarching purpose which is to provide a universal public healthcare system in NSW that delivers safe, high quality care for everyone in the NSW community and to improve the health of the population.

To be effective, the approach to risk management needs to be consistent, standardised and integrated with activities in all areas that are relevant to risk; for example, strategic and operational, planning, performance, and clinical and general management. Risk management must be supported at the most senior level of the organisation and it must be integrated into normal business or operational processes rather than viewed as something that is separate from such activities. In particular, risk management must be embedded at the operational and strategic level, where accountability and responsibility are clearly defined.

The risk management process needs to work across disciplines and also be robust, transparent and aligned with NSW Health's priorities and objectives. Finally, risk management needs to be proactive, and to consider and plan for both actual and potential risks. To meet these needs, the Department of Health has developed this document – the NSW Health Enterprise-Wide Risk Management Framework.

What does the framework entail?

This document describes the structures and processes NSW Health will use to manage risks, and the reporting hierarchy through the Department of Health to the Minister for Health. The framework provides clear guidance and instructions on how to manage risks. It does this by explaining how risks are identified, assessed, treated (ie addressed or dealt with) and reported through governance and operational committees.

The systematic process described here applies to all internal and external systems, and takes into account both clinical and non-clinical (service) reporting structures. It can be applied to any risk, regardless of severity.

The framework does not replace the NSW Health Incident Management Policy or the Incident Information Management System (IIMS), which is specifically designed for incidents.

What will the framework achieve?

Applying the framework will help management to make decisions that impartially and systematically consider both opportunities and threats. The framework will help management and staff to prepare for and deal with risks in a timely manner; also, the process of reviewing risks will allow new risks and issues to emerge.

At all levels of NSW Health, planning is used to define key objectives and activities for the future. Applying the risk management process in the planning phase will allow NSW Health to:

- proactively consider the most important risks for the service
- identify opportunities and threats
- improve analysis of the effectiveness of current treatment strategies
- establish a proactive and reliable basis for decision making and planning
- ensure the owner of a risk is accountable.

2 Risk management structure

This section:

- explains the risk management roles and responsibilities of different levels of staff within NSW Health, NSW Department of Health and various governance committees
- discusses the link between severity of a risk and the management level to which the risk should be escalated for treatment or action
- outlines the categories NSW Health uses to categorise risk

Roles, responsibilities and governance

To integrate risk into every day activities, it is essential to define responsibilities and accountabilities for staff in relation to risk management. Staff must understand what risks they are accountable for, and what activities and actions must be taken to manage those risks.

Risk management accountabilities and expectations must be included in the organisation's performance management systems, both informal and formal. In doing this, the organisation fosters a risk management and learning environment.

All staff in NSW Health are expected to manage risks in their own area, and within their capacity and delegation of authority. Risks that are beyond a staff member's capacity or delegation of authority need to be escalated to a higher level of management for acceptance and management of the risk. Reporting or communicating risks in this way will help to prevent errors, improve care and performance and achieve business objectives.

Decisions on extreme and high risks - such as death, significant disruption to services or long term strategic health needs - are made at the executive level. From time-to-time the Minister for Health will determine that an extreme risk is to be accepted. On most occasions the delegation to accept extreme and high risks or take up opportunities is vested with the Director-General and Chief Executives.

Deputy Directors-General and the executives of NSW Health Services are also responsible for identifying and taking decisions about risks for their respective portfolios.

The consideration of risk should be reflected in the terms of reference of significant committees (including governance committees) within the organisation (eg the Infection Control Committee or Disaster Management Committee). Committees have a role in identifying, monitoring and reviewing risks relevant to their terms of reference. Governance committees throughout NSW Health such as the audit and risk management committees have the added responsibility to not only monitor and review risk but to determine that appropriate risk management systems have been effectively implemented.

The Department of Health is promoting an overarching electronic risk register that will help management and the executive to identify all significant risks and develop strategies for dealing with those risks. The register will also be a useful planning tool, because information in the register can be aggregated.

Table 1 highlights risk management responsibilities for some specific groups within NSW Health.

Table 1 Responsibilities for some specific groups within NSW Health

		Responsibilities
All of NSW Health	Director-General NSW Health	Is the principal decision maker about risk management and determines whether a particular risk needs to be reported to the Minister. Will determine the formal delegation of authority for extreme risk or opportunities to be accepted by NSW Health chief executives or head of health service.
	NSW Health Chief Executives or head of health service	The Chief Executives, as the statutory Head of the Health Service, is required to ensure robust clinical, organisational and financial governance of the organisation. The Chief Executive will provide a reasonable level of assurance that the organisation for which they are responsible can deal appropriately with potential risks and take practical steps to reduce (mitigate) those risks when they arise. The Chief Executive will determine the formal delegation of authority for risk or opportunities to be accepted by Managers within the Health Service.
	NSW Health management	Accountable for the management of risk within their area of responsibility. Ensure that staff develop plans to identify, assess and treat risks relevant to their portfolio.
	NSW Health staff	Manage risks – that is, identify, assess and treat risks – and promptly report any existing or potential risk to their manager.
	Internal audit	As part of the annual audit program, assess whether: <ul style="list-style-type: none"> • a risk management plan is in place for the function being audited • the risk management plan is appropriately integrated with other planning documents, is current and is regularly reviewed. As part of normal post audit reporting, report on risk management issues to: <ul style="list-style-type: none"> • senior management • the Audit and Risk Management Committee • the Department of Health.

		Responsibilities
NSW Department of Health	NSW Department of Health	Promote risk management across NSW Health; provide advice and guidance to ensure that risk management is applied in a consistent and effective manner.
	Corporate Governance and Risk Management Branch	Take overall responsibility for developing, modifying and maintaining the NSW Health Enterprise-Wide Risk Management Framework.
	Finance Risk & Performance Management Committee	Advise the management board on strategic, financial and asset management issues, including financial reporting and management, overall budget frameworks, funding mechanisms and asset management. Also advise on strategic performance measurement and monitoring, including benchmarking of key measures of performance, monitoring of implementation of operational and strategic plans, and compliance with targets and outcomes.
	Risk Management & Audit Committee	Maintain oversight of risk management, review systems and of the control framework of the organisation. Provide reasonable assurance to the Board and/or Chief Executive that a risk management system has been effectively implemented.
	NSW Health Counter Disaster Unit	Provide advice and guidance to the Area Health Services on emergency risk management. Advise the Health Emergency Management Committee on emergency risk management.
	Senior Executive Advisory Board	Advise on system-wide matters, including budget management, major strategies and policies. Also provide advice on state-wide planning, direction setting and guidance for NSW Health – including determining which services should be managed centrally as state-wide services – and advise the Minister on health policy and legislative issues.

		Responsibilities
Health Service Governance Committees	Audit and Risk Management Committee	Maintain oversight of risk management, review systems and of the control framework of the organisation. Provide reasonable assurance to the Board and/or Chief Executive that a risk management system has been effectively implemented.
	Health Care Safety & Quality Committee	Help the Chief Executive to ensure the integrity of systems designed to monitor the strategy and quality of care and service provided, and to ensure that quality of care and service continuously improve.
	Finance and Performance Committee	Help the Chief Executive to ensure that operating funds, capital works funds and service outputs required by the organisation are managed appropriately and efficiently.
	Medical and Dental Appointments Advisory Committee	Advise and, where appropriate, makes recommendations with reasons, to the Chief Executive about matters relating to the appointment or proposed appointment and credentialing of visiting practitioners or staff specialists.

Risk escalation

All NSW Health staff have a responsibility to identify risks and report those risks to their managers for treatment. External stakeholders can also raise awareness of risks in health services. Once a risk has been identified, managers are responsible for rating those risks using the NSW Health [Risk Matrix](#) and escalating responsibility up to an appropriate level of management. At every level, the person with the appropriate delegation and accountability should determine the risk, to work out whether the risk should be escalated (ie referred to a more senior person). Each health service must determine these delegations and lines of accountability. The level to which a risk is escalated will depend on the severity of the risk, which in turn depends on consequences and likelihood. As shown in Table 2, the greater the risk, the more attention is required from senior management and the executive.

Any risks identified as being extreme or high must be reported through governance committees (eg the Audit and Risk Management Committee) or through the executive management committee or team to the Chief Executive for assessment and review. The Chief Executive or the head of the health service will review all extreme risks to determine whether they are to be reported or escalated to the NSW Department of Health.

Risks are escalated after they have been initially assessed and rated by the risk custodian. Members of the executive teams can either confirm or alter the risk rating and decide on actions to be taken to treat the risk. However, it is the Chief Executive or head of the health service who ultimately determines what level of risk is acceptable and what rating should be assigned to a risk identified in their health service, particularly for extreme and high-level risks.

The NSW Health risk escalator (below) shows the communication flow to the appropriate authority and is based on the NSW Health [Risk Matrix](#).

Table 2 NSW Health risk escalator

Risk rating	Action required
Red = extreme (A – E)	Escalate to Chief Executive or head of health service Implement a detailed action plan to reduce risk rating
Orange = high (F – K)	Escalate to senior management Implement a detailed action plan to reduce risk rating
Yellow = medium (L – T)	Specify management accountability and responsibility Monitor trends and plan for improvement
Green = low (U – Y)	Manage by routine procedures Monitor trends

Risk categories

Categorising risks helps us better understand them, and can be useful in planning and reporting. Risks can fit under many categories; for example, clinical, financial and political. Table 3, below, shows the risk category areas NSW Health uses to assist in reporting, with relevant examples.

Table 3 Risk categories, with examples

NSW Health risk category	Examples of areas to consider within category
Clinical care and patient safety	<ul style="list-style-type: none"> • Access appropriate to needs and prioritised according to clinical need • Care evaluation, clinical handover, clinical ethics, clinical pathways and variance analysis • Clinical quality improvement and clinical practice improvement • Decision making at end of life and mortality management • Discharge and transfer of care and recognition and management of deteriorating patients • Ongoing care and management of chronic disease • Patient safety, including infection control, medication safety and response to complaints and concerns about clinicians • Protection of children and others who are unable to care for themselves while accessing health services
Health of the population	<ul style="list-style-type: none"> • Community health • Disease prevention • Human behaviour and demographics • Health protection and surveillance
Workforce	<ul style="list-style-type: none"> • Claims management • Continuing employment and professional and learning and development • Human resources performance management • Injury management • Recruitment, selection, retention and appointment, including internationally trained medical officers • Succession planning • Workplace relations, including grievances • Visiting medical officers, contracts and volunteers
Communication and information	<ul style="list-style-type: none"> • Hardware infrastructure (switchboards, pager systems, etc.) • Information and data management system • Informed consent • Privacy and confidentiality • Knowledge management • Records management • Risk communication • Safety alerts • Software • Staff communication • Technology and technical issues
Facilities and assets management	<ul style="list-style-type: none"> • Assets and consumables, including buildings, equipment, land, plant, vehicles, supplies and utilities • Catering and food hygiene • Preventative maintenance, repair maintenance replace, waste management • Environmental management and sustainability
Emergency and disaster response	<ul style="list-style-type: none"> • Pandemic, terrorism, essential services and utilities • Dangerous goods, hazardous substances • Emergency planning and preparedness, including environment spills & power failures • Evacuations, fire, flood, storms, threats and toxic releases and chemical spills

NSW Health risk category	Examples of areas to consider within category
Finance and legal	<ul style="list-style-type: none"> • Administration, including accommodation, payroll and transport and travel • Fraud • Litigation • Commercial and legal management • Commercial income • Contract management • Intellectual property • Medical indemnity insurance and Treasury managed fund • Operational budgets • Procurement of goods and services, maintenance and contracts management • Public liability
Safety and security	<ul style="list-style-type: none"> • Air quality, heating, noise, lighting and radiation • Hazardous substances and material safety datasheets • Occupational health and safety • Security management • Security monitoring
Leadership and management	<ul style="list-style-type: none"> • Complaints management • Credentialing and delineation of clinical privileges • Economic circumstances • Enquiries and ministerials • External and internal auditing • Governance structures, delegations and financial management • Legislative compliance • Monitoring performance • Political circumstances • Reputation and image • Resource accountability • Service agreements • Strategic and operational planning
Community expectations	<ul style="list-style-type: none"> • Access to services • Consumer engagement and empowerment, and stakeholders expectations • Consumer feedback, cultural and special needs, planned and delivered in partnership with patient rights and responsibilities • The right care and services – including the protection of children – provided in the right setting within appropriate timeframes

3 Risk management process

The Australian/New Zealand Standard 4360:2004 Risk Management describes the main elements of the risk management process as follows:

- Step 1 – Establish the context
- Step 2 – Identify risks
- Step 3 – Analyse risks
- Step 4 – Evaluate risks
- Step 5 – Treat risks
- Step 6 – Monitor and review risks.

These steps are shown in Figure 1, on the following page. Steps 2–4 taken together are described as ‘risk assessment’.

Step 1 Establish the context

As shown in Figure 1, to establish the context, it is first necessary to consider the strategic, organisational and risk management context in which risks will be managed. In relation to NSW Health, this means considering both the internal and external environment. Issues to be considered under each of these contexts are as follows;

- *strategic* – consider the relationship between the organisation and its environment; identify the organisation’s strengths, weaknesses, opportunities and threats; consider elements that might support or impair NSW Health’s ability to successfully manage risks.
- *organisational* – consider the organisation and its capabilities, including goals and objectives, and the strategies in place to achieve them; align risk management with the NSW Health strategic and corporate plans
- *risk management* – consider the goals, objectives, strategies, scope and parameters of the risk management process, including the benefits, costs and opportunities of risk management activities and the resources that will be required.

The last two steps at this stage are to:

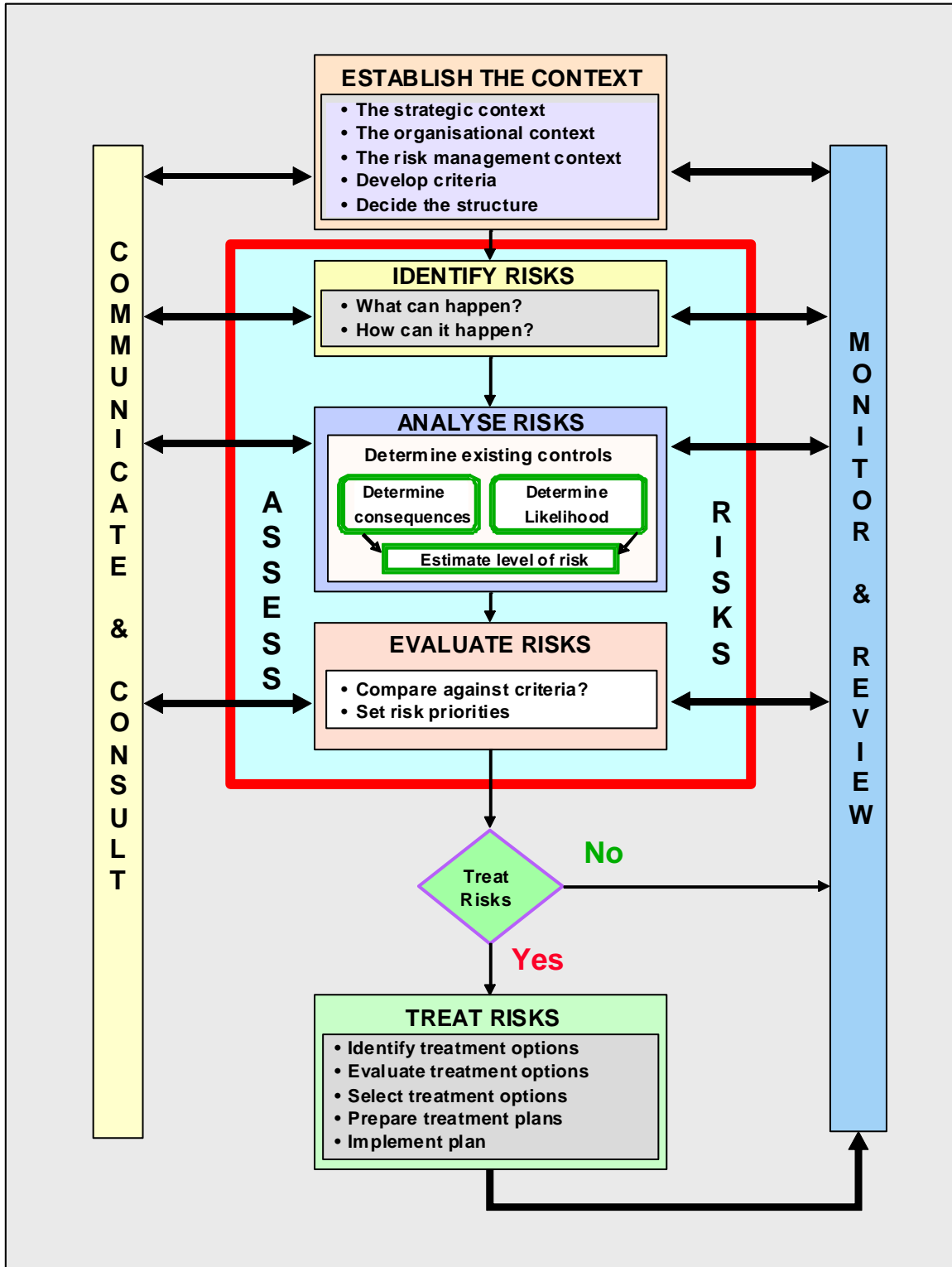
- *develop criteria* against which the risk will be evaluated, using the organisational objectives outlined in the strategic and the operational plans that are linked to the NSW State Health Plan
- *decide the structure* of the process NSW Health will use to establish the context, to ensure that it does not overlook any significant risks.

Ensure that objectives and scope align with strategic documents; for example:

- *Future Directions for NSW Health – Towards 2025*
- *A New Direction for NSW State Health Plan – Towards 2010*
- *Local Health Service Strategic Plan*

Involve key stakeholders to ensure a considered approach on all relevant matters.

Figure 1: The risk management process (AS/NZS 4360:2004 Risk Management)



Step 2 Identify risks

As shown in Figure 1, identifying risks involves answering the questions 'What can happen' and 'How can it happen'.

To determine what can happen, it is necessary to compile a comprehensive list of events that might affect the organisation, including sources of risk and areas of impact. The aim of the process is to identify all risks, regardless of whether they are within the control of the organisation. The process needs to be systematic and structured, to ensure that all potential risks affecting the organisation have been identified and addressed.

The identification of risk can be by an individual or through structured group processes, as described below in the section on methods for identifying risks.

Classify risks

Various generic methods are available for classifying risk. One method provided by AS/NZS 4360:2004 Risk Management involves classification according to sources and areas of impact.

Generic sources of risk include:

- commercial and legal relationships
- economic circumstance
- human behaviour
- natural events
- political circumstances
- technology and technical issues
- management activities and controls
- individual activities.

Section 2 listed the risk categories used by NSW Health, with examples (see Table 3). The Table can be used as a guide during the risk identification phase.

Table 4, below, groups methods for identifying risks and opportunities into five groups and provides examples.

List identified risks, for example through

- risk workshops
- team meetings
- structured events (see Table 4)

Table 4 Methods for identifying risks and opportunities

<i>Risk identification group</i>	<i>Examples</i>
Structured risk and opportunity identification process	<ul style="list-style-type: none"> Department planning process Risk workshops Techniques such as 'strengths, weaknesses, opportunities, threats' (SWOT) analysis; brainstorming; analysis of systems or scenarios
Risk identification through normal organisation activities	<ul style="list-style-type: none"> Team meetings Managers forums Briefings Informal ad hoc meetings Routine data collection and in-patient data sets
Assessment against standards	<ul style="list-style-type: none"> Quality reviews and audits Clinical reviews and audits Internal or external audits Accreditation reviews External reviews Occupational Health and Safety (OHS) and injury management (IM) profile audits Observation Professional judgement (from knowledge of standards)
Incident or complaint	<ul style="list-style-type: none"> Adverse events Internal incident or complaint reporting Health Care Complaints Commission Independent Commission Against Corruption Ombudsman Coroners
Investigation processes	<ul style="list-style-type: none"> Root cause analysis London protocol investigations Misconduct investigations

Step 3 Analyse risks

Risks are analysed by combining estimates of likelihood and consequences. The aim is to understand the nature of risk, and determine the risk before treatment. Analysis can be qualitative or quantitative, or a combination of both.

NSW Health has developed a risk rating matrix that is consistent with AS/NZS 4360:2004 Risk Management. The [matrix](#) must be used when analysing risks.

Analysing risks involves considering the consequence and likelihood of a risk

See the NSW Health risk rating [matrix](#)

Step 4 Evaluate risks

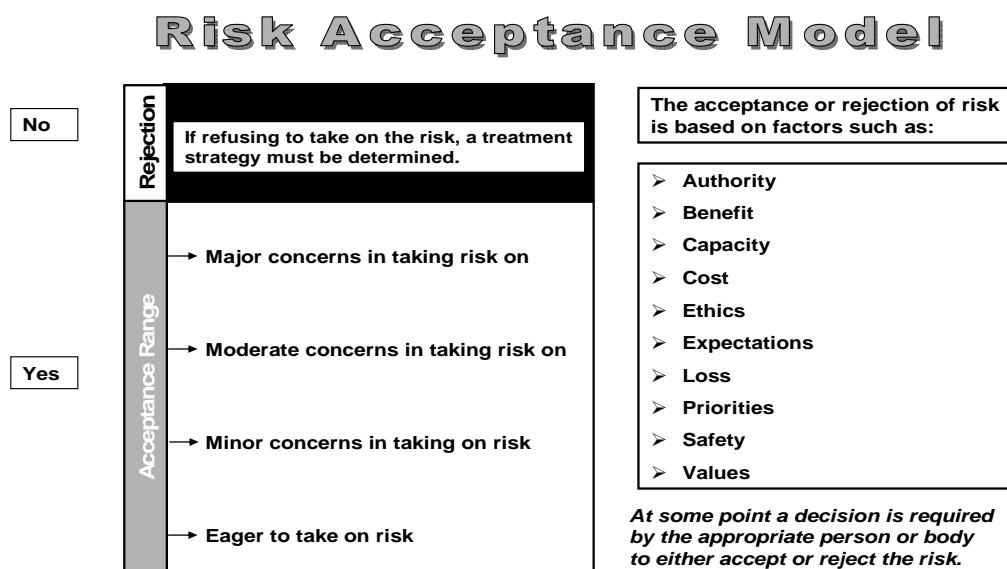
Evaluating risks involves comparing the level of risk (as determined during the risk analysis phase) against predetermined criteria, to determine whether a level of risk is acceptable or needs to be treated. The outcome of this phase is list of risks that require further action, organised in order of priority. Where risks need to be controlled or treated, the proposed controls or treatments are classified as soft, moderate or hard.

The risk acceptance model, shown in Figure 2, below, emphasises the many aspects to be considered in determining at what point to classify a risk as acceptable. Appetite for taking on a particular risk will vary from one manager or clinician to another; that is, a risk that is acceptable to one person may be unacceptable to someone else. Nevertheless, a decision must be taken on whether to accept or reject the risk. If a manager fails to make a decision on the status of a risk or a proposed treatment plan for that risk, then the risk has been accepted by default. A manager may decide to accept the risk with the current treatments, and this is acceptable if it is within their delegation of authority.

To evaluate risk, consider the level of risk that is practicable, reasonable and acceptable.

Because tolerance of and appetite for risk will vary between managers, use a standardised set of criteria to evaluate risk (eg use the NSW Health risk rating [matrix](#)).

Figure 2 Risk acceptance model



Step 5 Treat risks

If a risk is deemed to be unacceptable, additional treatments will be needed to manage the risk. Options can include:

- rejecting or avoiding the risk (eg, do not take on the function)
- reducing the likelihood that the risk will occur (eg, improve the service)
- reducing the consequences if the risk does occur (eg, improve the outcome)
- transferring the risk (eg, contracting out the service)
- retaining the risk (eg, continuing with an existing strategy).

Staff who are expected to initiate or implement treatment measures must have the delegation of authority and capacity to do so.

In evaluating options, the aim is to create a balance between minimising the risk and creating potential benefits or opportunities. For example, if an extreme risk can be addressed within existing or minimal resource allocations, then treating that risk should be a priority. When risks are not acceptable, treatment plans need to be developed and implemented. Once treatments are in place, the risk rating is reviewed and a new risk rating recorded.

Step 6 Monitor and review

Identified risks need to be continually monitored and reviewed by the risk owner. The performance indicators are critical to this process, and aim to ensure that:

- risk treatment plans are appropriate and identified control measures are effective (ie ensure that changes in circumstances have not altered risk priorities)
- the overall risk management approach is still relevant.

Communicate and consult

Communication and consultation are continual or iterative processes that an organisation conducts to provide, share or obtain information and to engage stakeholders about the management of risk. They are vital aspects of good risk management, and are used in each step of the risk management process. Therefore, it is important to develop a communication plan early in the risk process.

Communication is particularly important because both the sender and receiver of the risk information need to understand what the other party means in relation to the risks. Relevant stakeholders should be consulted as appropriate.

If a risk is assessed as having reached its target rating, ensure that the risk is regularly monitored and reviewed; for example, by the owner of the risk or through team meetings and risk workshops.

Develop a communication strategy for the Enterprise-Wide Risk Management Policy and Framework for your health service. Ensure that the strategy highlights the relevance of risk management to planning, performance, quality and safety, so that risk management becomes part of everyday business.

4 NSW Health risk management tools

NSW Health Risk Matrix

When classifying risks, it is essential that the classification is consistent. NSW Health has therefore developed a risk [matrix](#) for use in rating identified risks. The rating can be used to rank risks and prioritise them. Once an activity has been ranked, a manager can determine whether the risk is acceptable or whether actions are required to reduce the level of risk, and thus the ranking.

The matrix relates the consequence and likelihood of a risk, where:

- *consequence* is the outcome of an event that has an effect (either positive or negative) on objectives
- *likelihood* is the probability that a specific event will occur, or the frequency of an event over a set period of time; this depends on two factors:
 - *exposure* – how often the activity is undertaken in the organisation
 - *potential* – how likely it is that the outcome will occur when the activity is undertaken.

The terms used to describe risk are often subjective and open to different opinions, depending on the experience of the person doing the assessment.

In determining how often an activity is undertaken, the terms used and their meanings are:

- *often* – event likely to occur every day or multiple times a week
- *intermittent* – event likely to occur every week or at least every month
- *infrequent* – event likely to occur a few times a year.

Determining likelihood can be subjective, particularly where data are not available. However, historical data that take into account frequency of exposure and statistical data are often available and can be used to determine whether the likelihood of an event is:

- *high* – occurs in response to almost all exposures
- *moderate* – occurs in response to most exposures
- *low* – sometimes occurs in response to exposure
- *rare* – rarely occurs in response to exposure.

NSW Health generates a range of statistical data, including performance indicators, incident data, research data and clinical outcome data.

Rating the risk

In rating risks, it is important to use the matrix and follow these steps:

- Step 1 – rank the consequence
- Step 2 – rank the likelihood
- Step 3 – classify the level of risk.

Step 1 – rank the consequence

For each identified risk, determine the consequence of the event occurring (from catastrophic to minimal), using the examples contained within the NSW Health [Risk Matrix](#), as a guide.

Note: The consequence description will alter depending on the type of risk being assessed. For example, the severity of risks related to occupational health and safety might be assessed against the level of injury incurred, whereas those related to finances may be assessed in terms of financial loss incurred.

Step 2 – Rank the likelihood

For each identified risk, determine the likelihood that the event will occur, using the figures shown in Table 5, below.

Table 5 Relationship between probability and frequency

Probability (%)	or	Frequency
> 95–100		Several times a week
> 70–95		Monthly or several times a year
> 30–70		Once every 1 -2 years
> 5–30		Once every 2 – 5 years
< 5		Greater than once every 5 years

Step 3 – Classify the level of risk

Once the consequence and likelihood of each risk has been determined, the position on the NSW Health [risk matrix](#) is represented alphabetically, from A to Y. The alphabetical representation highlights the risk position in relation to its consequence and likelihood, in doing this it clarifies the context of the risk position. The matrix is also used to classify the risk and the consequent level of action required, as shown in Table 6, below.

Table 6 Level of action required in relation to risk rating

Risk rating	Action required
Red = extreme (A – E)	Escalate to Chief Executive or head of health service Implement a detailed action plan to reduce risk rating
Orange = high (F – K)	Escalate to senior management Implement a detailed action plan to reduce risk rating
Yellow = medium (L – T)	Specify management accountability and responsibility Monitor trends and plan for improvement
Green = low (U – Y)	Manage by routine procedures Monitor trends

NSW Health risk report form and guidance sheet

The NSW Health [risk report form](#) is designed to help staff to report risks to their managers and have those risks considered for inclusion in the risk register. Health services can use this form directly or can modify it to suit their needs.

A [guidance sheet](#) provides detailed guidelines for staff and managers on how to complete the NSW Health risk report form. The aim is to provide consistency in reporting risk and escalating it to higher levels of management.

NSW Health risk management self assessment checklist

The NSW Health risk management [self assessment checklist](#) is intended to be used by health services when managing risks. Initially, it can be used as a baseline assessment to help in developing priorities for implementation of risk management (see the NSW Health risk management staged [implementation plan](#)).

As risk management is implemented across the health service, the self assessment can be used at a more local level (eg facility or division) to determine what stage of implementation has been achieved.

From time to time, NSW Health will require health services to report on risk management implementation using the criteria in this checklist.

NSW Health risk management staged implementation plan

NSW Health expects that each Health Service will fully implement risk management across the organisation by December 2013. The NSW Health risk management staged [implementation plan](#) shows how risk management might be implemented into a health service, and gives a sample timeframe for achieving the December 2013 target. Health services can modify the timeframes of this plan, based on the results of the self assessment, subject to the approval of the Director-General.

Risk workshops

The aim of holding a risk workshop is to help participants to identify, assess and treat risks. During the workshop, participants list and identify risks or issues that are preventing them from achieving their objectives. This process is vital to delivering high-quality services.

Outlined at the risk management website are the steps involved in [facilitating a risk workshop](#).

Identifying and categorising risks within NSW Health's priorities

Applying the risk management process will help managers to achieve the vision and goals set by NSW Health, and to achieve their performance targets and business objectives. Working to explicit objectives is critical to success, because it helps the organisation to prioritise what is important. NSW Health's vision and goals are outlined in documents such as *A New Direction for NSW Health – Strategic Plan Towards 2010*. Stating NSW Health's objectives or priorities in a formal document also provides clarity and consistency in our approach.

The steps to [identifying and categorising risks](#) within NSW Health's priorities are summarised at the risk management website.

5 References

NSW Health

- Clinicians' Toolkit for Improving Patient Care (GL2005_062)
- Corporate governance and accountability compendium for NSW Health (December 2005)
- North Coast Area Health Service risk Management Framework 2007
- NSW Health Incident Management Policy (PD2007_061)
- Statement of Corporate Governance for Health Services 2007-2008 – Internal Audit Checklist
- Sydney West Area Health Service – Enterprise Wide Risk Management Framework “Risk First”
- Workplace Health and Safety, a Better Practice Guide: (PD2005_409)

Other

- ACT Education and Training Risk Management Framework July 2005
- Australian/New Zealand Standard 4360:2004, Risk Management
- Department of Premier and Cabinet, Performance Review of Internal Audit Capacity in NSW Public Sector, March 2008
- Guidelines for managing risk in the healthcare network (HB 228:2001)
- HB 436:2004 Risk Management Guidelines – Companion to AS/NZS 4360:2004
- HB 240:2000 Guidelines for managing risk in outsourcing utilizing the AS/NZS 4360:2004 Risk Management process
- HB 254-2003 Guide to control assurance and risk management June 2006
- ISO 9000 Quality Management Systems - Fundamentals and Vocabulary
- ISO/IEC CD 2 Guide73 ISO 2008
- NSW Treasury Statement of Best Practice Internal Control and Internal Audit. 2000
- Occupational Health and Safety Act 2000
- Occupational Health and Safety Regulation 2001
- Southside Health Service District Bayside Facilities - Integrated Risk Management Framework February 2007
- SUNCORP – Enterprise-Wide Risk Management Framework Draft Version 4.2, 2007
- Victorian Government Risk Management Framework June 2007
- Workplace Injury Management Act 1998

6 List of Risk Management Tools (web links)

- 1 NSW Health Risk Matrix
http://internal.health.nsw.gov.au/cgrm/rmra/risk_management/1_risk_matrix.pdf
- 2 NSW Health Risk Report Form
http://internal.health.nsw.gov.au/cgrm/rmra/risk_management/2_risk_report_form.pdf
- 3 Guidance Sheet for NSW Health Risk Report Form
http://internal.health.nsw.gov.au/cgrm/rmra/risk_management/3_guidance_sheet_risk_report_form.pdf
- 4 NSW Health Risk Management Self Assessment Checklist
http://internal.health.nsw.gov.au/cgrm/rmra/risk_management/4_self_assessment_checklist.pdf
- 5 NSW Health Risk Management Staged Implementation Plan
http://internal.health.nsw.gov.au/cgrm/rmra/risk_management/5_implementation_plan.pdf
- 6 Facilitating Risk Workshops
http://internal.health.nsw.gov.au/cgrm/rmra/risk_management/6_facilitating_risk_workshops.pdf
- 7 Identifying and Categorising Risks within NSW Health's priorities
http://internal.health.nsw.gov.au/cgrm/rmra/risk_management/7_identifying_categorising_risks.pdf
- 8 Glossary
http://internal.health.nsw.gov.au/cgrm/rmra/risk_management/8_glossary.pdf