

Risk Management Guide

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About this guide

Introduction

Any business is exposed to risk. All business decisions carry a risk and many have financial implications.

There can be risks in accepting a project and risks in not accepting. There are risks in new business ventures, purchasing a business, opening a new branch, diversifying products, research and development, commercialising research, appointing distributors and raising capital.

Business owners will go through a continuous process of assessing risk, managing it and balancing the likely cost against potential profit.

This guide covers the following topics:

Topic	See page
Introduction	3
Risk Management Audit Checklist	5
Crisis Recovery	11
Disaster Recovery Checklist	12

Introduction

Integrated risk management strategy

Your risk management strategy does not exist in isolation from your business. It will be embedded at all levels and across all aspects of your business.

Some of your business' risk management strategies will already be in place. For example, in developing your business plan you probably completed a SWOT analysis first. When you identified the strengths, weaknesses, threats and opportunities relating to your business, your plans to minimise, combat or avoid weaknesses and threats generated risk management strategies for those aspects of business risk.

The involvement of a board of skilled, energetic and vigilant directors can be an important bulkhead in a risk management strategy. Policies and procedures underpinning workplace safety and effective recruitment and human resource management will also factor in an integrated risk management strategy. So will your insurance portfolio and your succession plan.

A risk management strategy should be integrated with management strategies across your business, as well as pulling together those elements of external risk which impact on your business although they are beyond your control.

Risk analysis

It's important to analyse the risks to which your business may be exposed. When you have completed a realistic risk assessment, you can develop risk management plans for all reasonable contingencies.

Analyse what type of risks your business might be exposed to.

- What can happen?
- How can it happen?
- Why could it happen?

Use the Risk Management Audit Checklist to conduct a preliminary review of business operations.

From this review establish key elements and then the risk identification method to be used to review those key elements. For example, if you identify workplace health and safety to be an area where your business is exposed to risk, the next step is to schedule a Health & Safety Audit. If infrastructure is a key element of risk, schedule a site inspection of all physical assets, including a review of those assets to ensure that they're safe.

The risk matrix

When you have identified risks which could affect your business, analyse them in terms of the likelihood of the risk event occurring and the severity of the consequences for your business.

Frequency	Consequence		
	Significant	Major	Minor
Frequent			
Possible			
Rare			

High level risk



Medium level risk



Low level risk



Analysis in terms of this matrix will assist you to develop risk management strategies tailored to your business.

Hindsight is 20/20

Some risks will only be identified retrospectively. You need to ensure they don't happen again or, if that is out of your control, that they don't have the same level of adverse impact.

Identify retrospective risks through:

- Hazard or incident logs or registers
- Customer complaints
- Staff or client surveys
- Audit reports
- The media and professional journals
- Web sites

Prospective risk

Prospective risks are harder to identify. Use:

- 'Think tank' meetings with staff and other key stakeholders in the business
- Community awareness and risks that may be affecting similar businesses
- Surveys of staff or clients to identify potential risk issues
- Reviews of system designs to identify potential risk areas

Risk Management Audit Checklist

Risk Category	Notes	✓
Business Risks		
1. Financial: <ul style="list-style-type: none"> ▪ Cash flow ▪ Taxation ▪ Debtors ▪ Creditors ▪ Competitors ▪ Suppliers ▪ Inflation ▪ Invoice fraud ▪ Cheque signatories' fraud ▪ E-banking fraud ▪ Stock control ▪ Purchasing ▪ Title deeds of properties acquired ▪ Lease agreements for all leased properties ▪ Exercise of lease options as per lease documentation ▪ Personal guarantees - company directors/shareholders ▪ Interest rates ▪ Loan borrowings ▪ Currency movements ▪ Business interruption 		<input type="checkbox"/>
2. Commercial: <ul style="list-style-type: none"> ▪ Market ▪ Business sustainability ▪ Growth ▪ Export ▪ Diversification 		<input type="checkbox"/>

3.	Corporate Governance: <ul style="list-style-type: none"> ▪ Risk culture within the organisation ▪ Appointment of Chief Executive Officer ▪ Role of directors in relation to risk management ▪ Audit committee ▪ Internal auditors ▪ External auditors 	<input type="checkbox"/>
4.	Organisational: <ul style="list-style-type: none"> ▪ Key management ▪ Key person insurance covers ▪ Management succession ▪ Key staff leaving ▪ Business structures ▪ Labour unrest 	<input type="checkbox"/>
5.	Stakeholders: <ul style="list-style-type: none"> ▪ Shareholders ▪ Directors ▪ Chief Executive Officer ▪ Management Team ▪ Internal Team <input type="checkbox"/> Succession plans are in place for the business ▪ Contractors ▪ Customers ▪ Suppliers 	<input type="checkbox"/>
6.	Employment: <ul style="list-style-type: none"> ▪ Management systems/policies for sound recruitment/employment practice, including policies to address: <ul style="list-style-type: none"> <input type="checkbox"/> Bullying <input type="checkbox"/> Sexual discrimination/harassment <input type="checkbox"/> Other discrimination and/or harassment 	<input type="checkbox"/>
7.	Operational: <ul style="list-style-type: none"> ▪ Communications - including mail and email ▪ Sales not achieving targets ▪ Electricity failures ▪ 'Just in time' stock techniques ▪ Compound selection process (pharmaceuticals) 	<input type="checkbox"/>

<p>8. Fixed Assets and Infrastructure:</p> <ul style="list-style-type: none"> ▪ Plant ▪ Equipment ▪ Motor vehicles ▪ Buildings ▪ Other assets required for the business ▪ Ergonomic and safety issues for fixed assets <p>Management plans address:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Refurbishment <input type="checkbox"/> Replacement <input type="checkbox"/> Safety <input type="checkbox"/> Fire <input type="checkbox"/> Layout of workplace - factory/offices <input type="checkbox"/> Correct use of equipment <input type="checkbox"/> Insurance covers <input type="checkbox"/> Zoning 		<input type="checkbox"/>
<p>9. Information Technology:</p> <ul style="list-style-type: none"> ▪ Implementation ▪ Management ▪ Maintenance and upgrades ▪ Technology Failures 		<input type="checkbox"/>
<p>10. Safety:</p> <ul style="list-style-type: none"> ▪ Team members ▪ Contractors ▪ Customers ▪ Suppliers ▪ Occupational risk ▪ Workplace health & safety ▪ Stress management ▪ Occupational health ▪ Contractors' due diligence ▪ Personal injury ▪ Major health problems (e.g. pandemics) 		<input type="checkbox"/>
<p>11. Research/Intellectual Property:</p> <ul style="list-style-type: none"> ▪ Planning and resourcing requirements for research activities ▪ Risk management issues relating to: <ul style="list-style-type: none"> ▫ Innovation ▫ Protection of intellectual property 		<input type="checkbox"/>

<p>12. Reputation:</p> <ul style="list-style-type: none"> ▪ Viability of products/services ▪ Unprofessional conduct ▪ False product claims <ul style="list-style-type: none"> ▪ Environmental and recycling <p>Weight of materials recycled each year compared to the total weight of the products sold seven years earlier:</p> <p>_____ kg</p> <ul style="list-style-type: none"> <input type="checkbox"/> All waste processed in the region in which it was generate/collected <input type="checkbox"/> Nothing shipped overseas for recycling or disposal <input type="checkbox"/> Recyclers must comply with all applicable health and safety laws <input type="checkbox"/> No use of prison labor at any stage of the recycling process <input type="checkbox"/> No disposal of hazardous waste in solid-waste landfills or incinerators 		<input type="checkbox"/>
<p>13. Compliance/Legal:</p> <ul style="list-style-type: none"> ▪ Attach details of legal requirements and regulations relevant to the business ▪ Assess risk implications relating to: <ul style="list-style-type: none"> ▫ Political changes ▫ Product safety ▫ Trade practices ▫ Defamation/legal issues 		<input type="checkbox"/>

Security Risks		
<p>14. Overall security of the business premises, assets, team</p> <p>Review potential risks from:</p> <ul style="list-style-type: none"> ▪ Product liability ▪ Product tampering ▪ Underweight products ▪ Theft ▪ Theft by a person in a special relationship (e.g. staff) ▪ Fraud ▪ Email fraud ▪ Stock shrinkage ▪ Patent abuse ▪ Loss of intellectual property ▪ Terrorism ▪ Contaminated mail ▪ Hijacking of deliveries ▪ Extortion ▪ Underage drinking on licensed premises ▪ Binge drinking on licensed premises 		<input type="checkbox"/>
Environmental Risks		
<p>15. Natural</p> <ul style="list-style-type: none"> ▪ Earthquakes, natural landslips, volcanic eruptions, hydrothermal activity, storms, floods, cyclones, tsunamis, droughts and sand storms ▪ Temperatures (extreme cold or heat) <p><input type="checkbox"/> Does the property title have a Section 74 Notice?</p> <p><input type="checkbox"/> Has this been disclosed to the insurer?</p> <p><input type="checkbox"/> Business continuity risk strategy in place for identified risks</p>		<input type="checkbox"/>

<p>16. Man-made</p> <ul style="list-style-type: none"> ▪ Contamination, e.g. oil tanker spill ▪ Incorrect storage of chemicals ▪ Incorrect disposal of products into storm water drains ▪ Biological issues, e.g. virus, bacteria, fungi, human tissue ▪ Noise ▪ Emissions <p><input type="checkbox"/> Does the business have obligations under the Emissions Trading Scheme (see Compliance/Legal section)</p>		<input type="checkbox"/>
<p>External Risks</p>		
<p>17. Factors over which the business has little control, but which impact on the business:</p> <ul style="list-style-type: none"> ▪ War ▪ Global financial upheaval ▪ Energy pricing shocks ▪ Sabotage 		<input type="checkbox"/>
<p>Completed by: _____ Date: _____</p> <p>Reviewed by: _____ Date: _____</p>		

Crisis Recovery

Disaster recovery plan	Use the Disaster Recovery Checklist to assess the steps needed to take to get your business up and running again in the wake of a critical event. Develop your disaster recovery plan on this basis.
Business continuity plan	Your disaster recovery plan will include business continuity plans. These are mandatory in a number of industries. They force management to concentrate on developing plans, not only for a disaster, but also then for the business going forward.
Insurances	Adequate insurance is a core element of a risk management strategy. Refer to the Insurance Guide and Insurance Checklist to put together an insurance portfolio to suit your business.
Resources	<p>The Insurance Council of New Zealand website is a useful source of information and consumer advice on insurance.</p> <p>The Recover Canterbury website has a range of useful resources on disaster recovery. For example the Canterbury Employers' Chamber of Commerce has put out an excellent Crisis Recovery Manual.</p> <p>Workplace Health and Safety, Managing Health and Safety: A guide for employers</p>

Disaster Recovery Checklist

	Notes	✓
1. Property Protection Plan		
Property Protection Plan developed covering: <ul style="list-style-type: none"> ▪ Building structure ▪ Building interior and exterior components ▪ Surroundings ▪ Owned or leased ▪ Schedule of maintenance / improvement / upgrades 		<input type="checkbox"/>
2. Insurance		
Insurance portfolio reviewed for: <ul style="list-style-type: none"> ▪ Place of business ▪ Contents and inventory ▪ Production processes Additional cover obtained for: _____ _____ _____ <input type="checkbox"/> Business interruption and extra expense insurance obtained		<input type="checkbox"/>
3. Evacuation procedures		
Procedures developed to: <ul style="list-style-type: none"> ▪ Warn employees and customers (e.g. for a bomb threat) ▪ Communicate with staff and community responders ▪ Conduct an evacuation and account for all persons in the business ▪ Manage response activities ▪ Activate and operate an emergency operations centre ▪ Fight fires ▪ Shut down operations ▪ Protect vital records ▪ Restore operations 		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

Team members appointed with responsibilities to carry out relevant procedures.		<input type="checkbox"/>
All team members trained to use relevant procedures		<input type="checkbox"/>
Full fire and earthquake drills are to be carried out _____ times/year		<input type="checkbox"/>
All staff are to be aware of the drill procedures		<input type="checkbox"/>
Refresher drills are to be carried out _____ Weekly/monthly		<input type="checkbox"/>
All drills are recorded in the evacuation procedures diary on the day the drill is carried out, and evaluated for effectiveness.		<input type="checkbox"/>
All staff are aware of how to turn off water mains and electricity.		<input type="checkbox"/>
<p>At least one staff member who holds a current First Aid certificate will be present at all times.</p> <p>Staff with a current First Aid certificate:</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>		<input type="checkbox"/>
4. Emergency Contacts		
<p>An Emergency Contacts list will be kept in the 'Emergency' folder at _____ [location]</p> <p>and will be updated _____ [frequency]</p>		<input type="checkbox"/>
<p>Staff appointed to act as a Warden:</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>		<input type="checkbox"/>

<p>Method to make any third party present on the premises aware of emergency evacuation procedures, location of fire alarms, fire extinguishers and fire hose:</p> <p>_____</p> <p>_____</p> <p>_____</p>		<input type="checkbox"/>
<p>5. Business Continuity</p>		
<p>Potential upstream losses identified.</p> <p>Upstream losses: when one of your suppliers is affected by the disaster and cannot deliver the goods or services your business needs.</p>		<input type="checkbox"/>
<p>Potential downstream losses identified.</p> <p>Downstream losses: when a key customer and/or residents in the community are affected by disaster. For example, if supplying a component to a large factory is a major source of the firm's cash flow and that factory is closed by earthquake damage, the business will suffer a downstream loss even if it escaped unscathed from the disaster itself.</p>		<input type="checkbox"/>
<p>Business Continuity Forms obtained from all employees (and the business owner) with all contact details.</p> <ul style="list-style-type: none"> ▪ Details entered into the Employee Contact List ▪ Call Order assigned for each employee [who to ring first] <p>Employee Contact List is kept in:</p> <p>_____ [location]</p>		<input type="checkbox"/>
<p>6. Key Suppliers/Vendors</p>		
<p>Key Suppliers identified</p> <p>Key Supplier/ Vendor Information Forms completed for all key suppliers.</p> <p>Details entered into the Supplier Contact List.</p> <p>Alternative suppliers identified and contact information entered into the Supplier Contact List.</p> <p>Supplier Contact List is kept in:</p> <p>_____ [location]</p>		<input type="checkbox"/>

7. Key Contacts	... for administration of our business, e.g. bank, creditors, insurance agent, accountant, etc.	
Key Contacts identified. Key Contact Forms completed for all key contact. Details entered into the Key Contact List. Key Contact List is kept in: _____ [location]		<input type="checkbox"/>
8. Critical Business Functions		
Critical and time-sensitive business functions identified and prioritised, including: <ul style="list-style-type: none"> ▪ The amount of downtime we can tolerate for each business function ▪ Business functions necessary to fulfil legal and financial obligations ▪ Business functions necessary to maintain cash flow ▪ Business functions essential to maintain market share and reputation, or to strategically adjust to changed circumstances Alternative procedures developed to cover short disruption and loss of everything.		<input type="checkbox"/>
9. Recovery Location		
Possible recovery location(s) identified: <ul style="list-style-type: none"> ▪ Alternate site ▪ At similar business through mutual aid agreement ▪ Home(s) ▪ Primary place of business, if location dependent Business functions to be performed at recovery location(s) specified. Details of recovery location(s) kept in: _____ [location] All team members briefed on recovery location(s)		<input type="checkbox"/>
10. Vital Records		
Vital records to perform your critical business functions identified, including: <ul style="list-style-type: none"> ▪ Media ▪ Backup details ▪ Storage details ▪ Whether it can be recreated at need 		<input type="checkbox"/>

11. Equipment / Machinery/ Vehicles		
<p>Key equipment / machinery/ vehicles to perform essential business functions identified, including tools and spare parts vital to operation.</p> <p>Lists completed of:</p> <ul style="list-style-type: none"> ▪ Equipment / machinery currently owned or leased ▪ Computer equipment and software ▪ Voice / data communications equipment vital to maintain communication with employees, vendors, customers, emergency officials and other key contacts ▪ Alternatives available 		<input type="checkbox"/>
<p>Completed by: _____ Date: _____</p> <p>Reviewed by: _____ Date: _____</p>		

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