



DOCUMENT NUMBER	SR002
TYPE	Procedure
SUBJECT	Operational Risk Management Methodology
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Purpose

The Synod of the Diocese of the Northern Territory Incorporated is committed to creating and maintaining a safe environment to God's glory. Risk management is the process of identifying, assessing and controlling threats to that safety, achieved by implementing initiatives and maintaining internal controls to mitigate risk to an "acceptable" level. The purpose of this policy is to set out a pragmatic risk management approach which is able to be adopted across the Diocese as a practical discipline, including the provision of a template and an example for risk management planning.

Scope

This methodology is a guide for the Diocesan Office, parishes and ministry units which are both in the Diocese and also under the jurisdiction of the Synod of the Diocese. It might apply to regular activities (e.g. the church service, financial/non-financial processes) and irregular activities (e.g. church camps, conferences). This methodology is not one which is mandated but rather one which is available for responsible persons to use in fulfilling their fiduciary duties in executing their roles for the Diocese.

Essence of the Diocesan Risk Management Policy

SR001 Diocesan Risk Management Policy states that "the risk appetite of the Diocese is to tolerate a risk to a low-to-medium level". This means that "any activity that might give rise to a risk greater than a low-to-medium rating requires the design, implementation, review/reporting, evaluation and continuous improvement of a risk management plan."

The intention of SR001 Diocesan Risk Management Policy is not to wrap up every ministry unit in red tape. The core business of the Diocese (its parish ministries) have business-as-usual internal controls to manage risk (e.g. Safe Ministry, professional standards protocols, WH&S policies & procedures, incident/hazard reporting, external audit, governance bodies at multiple levels, insurance specifically covering the "usual" activities of the Diocese). However, the effect of this policy is that each key operational unit (i.e. parishes, Diocesan Office, ministry units with independent operations) shall implement such a risk management process for any new or non-standard operational initiatives (e.g. one-off camps, new ministries, activities atypical of daily/weekly services).

An approach to risk management



A classic example of the risk management process, as found on the NSW Health website (and page 17 of the Anglican Church Southern Queensland WHS Manual), might be set out as follows:



Underpinned by a management commitment to “safety first” and within a consultative organisational culture, key activities are analysed to:

- a) *identify* potential hazards;
- b) *assess* the risk of that hazard occurring in terms of likelihood and consequence
- c) determine the new initiatives and existing internal *controls* required to mitigate the risk;
- d) *review* whether those initiatives and controls are effective to mitigate the risk.

In short, managing risk is about setting risk-informed targets and managing activities to meet those targets—one manages what one measures. This can occur at both strategic and operational levels, but ought to be limited to key manageable activities to avoid paralysis-by-analysis. *Put simply, the reporting programme of the Diocese ought to be one grades its success on how it manages predefined risks.*

It is proposed that the Diocesan approach to risk management be to determine the following:

- a) Key activities required to fulfil the operational plan;
- b) Key success measure for achieving each outcome;
- c) Key foreseeable risks of not meeting those success measures, expressed as a SMART (specific, measurable, achievable, realistic, time-bound) goal;
- d) Likelihood and consequence* of the *inherent risk of failure* to meet success measure;
- e) Key initiative to overcome each risk area, expressed as a SMART goal;
- f) Key internal control embedded in the organisation to mitigate control, expressed as a SMART goal; and



g) Likelihood and consequence* of the *residual risk of failure* to meet success measure, which ought to be at an “acceptable” level of risk

Per SR001 Strategic Risk Management Policy, risk rating is quantified as follows:

Risk Matrix

Likelihood	Consequence				
	1. Insignificant	2. Minor	3. Moderate	4. Major	5. Catastrophic
A. Almost Certain	Medium	High	High	Extreme	Extreme
B. Likely	Medium	Medium	High	High	Extreme
C. Possible	Low	Medium	High	High	High
D. Unlikely	Low	Low	Medium	Medium	High
E. Rare	Low	Low	Medium	Medium	High

The Risk Matrix is used to determine the rating of the risk presented and to take appropriate action as follows:

Risk Rating	Response
Extreme	Unacceptable , must be given <u>immediate senior management attention</u>
High	Active management required , must have <u>considerable management to treat risk</u> and monitor effect on organisation
Medium	Tolerable , risks should be managed to reduce to as low as reasonably possible
Low	No action required , manage and monitor with normal operational practices

Likelihood of Risk Occurrence

Risk Rating	Description
A. Almost Certain	<ul style="list-style-type: none"> Commonly occurs: 90% chance of risk event occurring; or Almost certain to occur in the next 3–12 months.
B. Likely	<ul style="list-style-type: none"> Known to occur: 60-80% chance of risk event occurring; or Likely to occur in the next 1–2 years.
C. Possible	<ul style="list-style-type: none"> May occur: 30-60% chance of risk event occurring; or May occur within the next 2–5 years.
D. Unlikely	<ul style="list-style-type: none"> Not likely to occur: 5-30% chance of risk event occurring; or May occur within the next 5–20 years.
E. Rare	<ul style="list-style-type: none"> Exceptional/highly unusual: <5% chance of occurring; or A more than once in 20 year event.

Consequences of Risk Occurrence



Consequence	1. Insignificant	2. Minor	3. Moderate	4. Major	5. Catastrophic
Business Disruption	Local non-critical service not resolved	Local critical service not resolved for <4 weeks	Local critical service not resolved for >4 weeks	Diocese-wide critical service not resolved <4 weeks	Diocese-wide critical service not resolved >4 weeks
WHS: Injury	Injury requiring first aid within no lost time	Injury requiring first aid within normal leave entitlements	Injury requiring hospitalisation within normal leave entitlements	Life-threatening injury preventing work <12 mths/NT WorkSafe involvement	Life-threatening injury preventing work >12 mths/NT WorkSafe involvement
WHS: Safety	Threat/event involving local leadership	Threat/event involving Bishop's Office	Threat/event involving of civil/eccl. authorities	Event involving civil/eccl. authorities with redress <\$1m	Event involving civil/eccl. authorities with redress >\$1m
Financial/Data	Event with <\$0.01m impact	Event with \$0.01m–\$0.05m impact	Event with \$0.05m–\$0.5m impact; critical data reconstruction <3 FTE mths; single user data security breach	Event with \$0.5m–\$1m impact; critical data reconstruction >3 FTE mths; Diocesan data security breach	Event with >\$1m impact; critical data irretrievable; sensitive data security breach
Legislative Compliance	Individual complaint resolved by local leadership; lack of awareness of civil regulations/internal controls	Individual complaint resolved by Bishop's Office; minor non-compliance civil regulations/internal controls	Individual action resolved pre-trial; substantial non-compliance civil regulations/internal controls	Class action resolved pre-trial; individual action with court appearance	Class action resulting in court appearance
Reputation/Image	Issue broadcast on selective media resolved by local leadership	Issue broadcast on selective media resolved by Bishop's Office; loss of <5% Diocesan members	Issue broadcast on Territory media resolved; loss of 5–10% Diocesan members	Unresolved issue broadcast on Territory media; loss of 10–50% Diocesan members	Unresolved issue broadcast on national media; loss of >50% Diocesan members
Strategic	Delays in business-as-usual operations affecting objectives	Delays in delivery of operational unit's objective	Permanent failure of operational unit's objective	Permanent failure of element of strategic objective	Permanent failure of strategic objective

The most important point about managing risk is that one manages what one measures. This methodology attempts to convert immeasurable objectives into a measurable targets.

Template

Our insurers Anglican Insurance and Risk Services has provided a template for a risk management framework which can be used by each new operational initiative or unusual activity. It is in a relatively simple form and is available on the Diocesan website at <https://www.ntanglican.org.au/ministry-and-registry/forms-procedures/workplace-health-safety/>

Example of an operational risk—financial processes

Key activity

Let us consider the case of payment controls in a parish setting.¹ The activity is significant as the signatories, all of whom are likely to be volunteers, are able to expend all funds, without necessarily informing the rector of that parish. One might determine the success measures of the payment function of a parish as one that *loses no money from the bank account*,

¹ The level of acceptable risk needs to be determined organisation-by-organisation, similar to that of the Diocese set out above.



gains an unqualified audit/review report in terms of payment processes and/or has no complaints from creditors.

Identifying risks

Let us consider the setting where the parish administrator is a signatory of the parish bank account. On the face of it, it could be most efficient to have the person who receives invoices, processes the books of account and draws up cheques (or online transfers) as the one who approves payments—a one-touch system. However, the responsible persons of the parish would have been at least negligent in that they have placed the parish administrator in a most vulnerable position—any misfeasance in the organisation would be levelled against the parish administrator.

Assessing risks

The parish would be most vulnerable to significant financial and reputational loss. Using the risk assessment model above, one might grade the risk inherent in the existing control environment “*high*”. Leaving aside the “*trustworthiness*” of the parish administrator, which is not controllable, it is most conceivable that an administrator could determine that they were in a position to skim the accounts of the parish (“*likely*” likelihood of failure) and that the potential loss could be tens of thousands of dollars (“*high*” consequence of failure).

Controls as initiatives and business-as-usual functions

An obvious control is that the bank accounts be set as requiring “two-to-sign”, which is relatively simple to invoke. However, this does not eliminate the risk of misfeasance:

- If the second signatory does not look carefully at the supporting documentation, it might be easy to conceal a change to the payee or account details so that a payment to a supposed creditor is redirected elsewhere; and
- The parish administrator could “skim” the money yet record that a supposed creditor has been paid, which could only be verified if the creditor complained, a communication which could be intercepted and the process could be repeated without detection.

Fortunately, much expenditure in a parish relates to the stipendiary ministers and is therefore able to be set for a full year without change. However, a large project might provide the opportunity for “skimming”. Some controls to overcome this could be:

- a) Remove the parish administrator’s signing rights, so that two independent persons sign the cheques; and/or
- b) Perform discreet bankruptcy checks on parish administrators and responsible persons in the parish.



One would expect that these initiatives and controls might produce a “possible” likelihood and limit the potential loss to a “moderate” consequence, reducing the overall risk of failure from “high” to “medium”.

Reviewing controls

The process of reviewing these initiatives and controls is determined by answering the questions:

- a) *Has there been any unexplained money lost during the year?*
- b) *Has the parish gained an unqualified audit/review report re payment processes?*
- c) *Have there been any complaints from creditors?*

Acceptable risk

The control review questions had clear yes/no answers. However, the responsible persons might deem it an acceptable risk to have the parish administrator in charge of a small petty cash till, with the reconciliation performed together with a second responsible person, allowing for a small amount of loss, as small transactions can get lost in the noise of operations. Notwithstanding that, the Registrar’s preference is that there is no petty cash!

Conclusion

This methodology paper has attempted to explain how a risk management discipline might be implemented across all units under the jurisdiction of the Synod of the Diocese. It is a discipline which is becoming “table stakes” for governance committees, whether for-profit or not-for-profit.

Diocesan Council would like to encourage all parishes and ministry units to take an approach like this into account in their operational planning, particularly for new initiatives or unusual activities. It is hoped that this paper provides concrete examples to emulate and make the Diocese a “risk managing culture”.

For completion when document supersedes any existing policy, procedure or protocol.

VERSION NUMBER OF THIS DOCUMENT	DATE OF PREVIOUS DOCUMENT	SUMMARY OF CHANGE	REASON FOR CHANGE
v2	7 th August 2020	Quantification of risks and articulation of a risk management methodology	Lack of examples and objective data for determining the likelihood and consequence of inherent and residual risks
v3	18 th June 2021	Additional quantification of the	Comprehensive review of criteria for



		risk matrix including risk likelihood and consequence	risk assessment was required (relying on Anglicare NT's model until this point)
v4	9 th October 2021	Changes to reflect SR001 Diocesan Risk Management Policy	Risk consequence gradings changed, articulated the aim of this methodology more clearly where it focuses on <i>initiatives</i> rather than business as usual