



DOCUMENT NUMBER	SR002
TYPE	Procedure
SUBJECT	Operational Risk Management Methodology
AUTHORISED BY	David C. Ray CA, Registrar
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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.

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.

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

*Based on grades of the likelihood and consequence of a failure, risk might be quantified (albeit subjectively) as follows:

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

Such an assessment could be underpinned by a “likelihood” scale to make it more objective:



Likelihood: rare (inconceivable), possible (conceivable) to almost certain (predictable)
Consequences: insignificant (unnoticeable), moderate (over budget), catastrophic (going concern question)

For greater objectivity, the “consequences” might also be equated to certain financial/non-financial measures, using the following grades as an example (where *extreme* = “catastrophic” in our model):

Rating	Type	Consequence
1 Minor	Business Disruption	Local issue resolved with negligible impact on service, business critical service lost for less than minimum period
	WHS	Injury requiring minimal medical treatment or first aid
	Client	Almost being assaulted or minor assault causing negligible injury
	Financial	Negative financial impact \$0-\$1,000 (Note: Petty Cash Administrative Errors above \$100 only)
	Legislative Compliance	Minor complaint/incident resolved by Anglicare NT management
	Reputation and Image	Issue resolved promptly by day-to-day management process
	Strategic	Negligible impact upon achievement of plans or strategic goals. The impact can be managed within normal work environment
2 Moderate	Business Disruption	Local service delivery problems for less than a month, business critical service lost for agreed minimum period
	WHS	Injury requiring medical treatment and sustained lost time
	Client	Being assaulted by client causing medically treated injury or Client being assaulted causing impact on workers
	Financial	Negative financial impact between \$1,000–\$5,000
	Legislative Compliance	Isolated complaint/ incident where there is a threat of legal action, resolved by Anglicare NT management
	Reputation and Image	Issue raised by clients and/or local press
	Strategic	Prevents the achievement of an operations unit plan.
3 Major	Business Disruption	Major service delivery targets not met for several weeks, business critical service not back in agreed time
	WHS	Long term injuries/disability or short term hospitalization and rehabilitation
	Client	Being assaulted by client causing significant lost time, hospitalization or rehabilitation. Client death that impacts workers
	Financial	Negative financial impact between \$5,000K-\$15,000
	Legislative Compliance	Significant level of complaints / incidents where there is a high threat of legal action, resolved by management
	Reputation and Image	Client and/or community concern, heavy local media coverage
	Strategic	Prevents the achievement of an Anglicare NT wide or Group plan
4 Extreme	Business Disruption	Cessation of major business critical services for up to one month
	WHS	Single fatality and/or severe irreversible disabilities
	Client	Assaulted by client or Client Death with significant impact on workers
	Financial	Negative financial impact greater than \$15,000
	Legislative Compliance	Breach of legislation and/or civil law suit and/or criminal charges laid against Anglicare NT or individual employee
	Reputation and Image	Embarrassment for Anglicare NT, including adverse media coverage
	Strategic	Prevents the achievement of Anglicare NT’s strategic goals

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.

Example of an operational risk—financial processes

Key activity

Let us consider the case of payment controls in a parish setting. 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, 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 “*extreme*”. 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 (“*catastrophic*” consequence of failure cf. “*extreme*” in the Anglicare NT consequences model).

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 “extreme” to “medium”.



Reviewing controls

The process of reviewing these initiatives and controls is determine 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!

Summary of risk management of payment process of a parish

Objective	Financial stewardship
Key activity	Payment process
Success Measures	a) No unexplained money lost
	b) Parish receives unqualified audit/review report on payment processes
	c) No complaints from creditors
Identify risks	a) Subject to human negligence/fraudulent activity (skimming)
	b) Potential for failure to detect human negligence/fraudulent activity
Likelihood of inherent risk	Likely
Consequence of inherent risk	Catastrophic
= Inherent Risk Rating	Extreme
Control	Two-to-sign order on all bank accounts
Initiative	a) Remove the parish administrator’s signing rights, so that two independent persons sign the cheques
Initiative	b) Perform discreet bankruptcy checks on parish administrators and responsible persons in the parish and monit
Likelihood of residual risk	Possible
Consequence of residual risk	Moderate
= Residual Risk Rating	Medium
Review of success measures	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?
= Review risk environment	Y/N (if no re-evaluate controls/initiatives to mitigate risk environment)

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 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. 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