



Australian Government
Department of Foreign Affairs and Trade

**Australian
Aid** 



RISK MANAGEMENT FOR AID INVESTMENTS

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TARGET AUDIENCE

This better practice guide is for use by DFAT staff who have responsibilities for designing and implementing aid investments. All other staff should refer to the overall DFAT Risk Management Guide. This guidance is supplementary to the Aid Programming Guide and is for reference by managers of aid investments within the scope of the Aid Programming Guide.

INTRODUCTION

This guide to risk management for aid investments is a component of the overarching risk management policy outlined in the *DFAT Risk Management Guide*. It follows the requirements of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) framework and the *Commonwealth Risk Management Policy*.

This guide:

- Provides guidance to DFAT staff involved with aid investments on the best approach to undertaking the risk processes outlined in the design and implementation sections of the Aid Programming Guide.
- Steps through each stage of the International Standard's Risk Management Process with guidance specific to aid investments.

KEY RISK PRINCIPLES FOR AID INVESTMENTS

Identify risks early: This is the key to effective risk management. By identifying and managing risk in the early stages of program planning and design, it may be possible to remove or greatly reduce risk through the design process. Identifying risks early improves investment outputs and outcomes.

Objective-based risk management: It is essential that the culture of risk management incorporate the principles of **identifying risks against clearly stated business objectives** and actively assessing risks as **measured against the benefits of the activity** and not just simply choosing the lowest risk option.

Fit for purpose: the approach to risk management must be fit for purpose; it should be commensurate with the level of risk and adaptable to suit changes in the external environment. Eliminating risk is not the goal; risk management involves considering ways to minimise risks, avoid risks, share risks or mitigate and accept risks. High risks may be acceptable because of the potential benefits, or the costs of not taking action. It is usually impossible and unrealistic to eliminate all risk in an aid investment.

Active Management: Active management of risks includes discussion of risks at meetings, both with partners and within DFAT. Risk registers are updated in response to changes in the risk environment and controls reviewed for effectiveness. All risk and contract management activity is documented.

Accountability: It is expected that staff will manage risk within the scope of their business activities and **escalate risks that require higher management level attention** as part of a positive risk culture. An active communication flow that supports both a bottom-up and top-down approach is critical.

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BENEFITS OF MANAGING RISK

Benefits of good risk management includes:

- Consideration of risk provides a stronger understanding of our programs and program delivery.
- Alignment of risk management to clearly articulated business objectives, provides a stronger understanding of what those objectives are and how we will achieve them.
- Good risk management practices increase the effectiveness of DFAT programs and business as usual activities, increasing public confidence and the integrity of DFAT's aid investments.
- Monitoring the expected benefits of a program/project/activity against the identified risks, informs our decision-making processes and rationalises our position.
- Well-managed risk reduces the likelihood of issues occurring that prevent our aid investments meeting their objectives.

Risk management occurs at all steps in the aid cycle; **Figure 1** provides a summary of the risk process at each point in the aid cycle. Further detail on this is in the [Aid Programming Guide](#).

MANDATORY REQUIREMENTS

- Any aid investment must be screened for risks and safeguards as the first step in any design process.
- All aid investments must maintain an active risk register.
- The investment risk assessment must be reviewed and updated at least quarterly
- A due diligence assessment of aid delivery partners must be completed before entering into a funding arrangement regardless of the value of the arrangement.
- All safeguard risks must be managed as per the Environmental and Social Safeguard Policy.

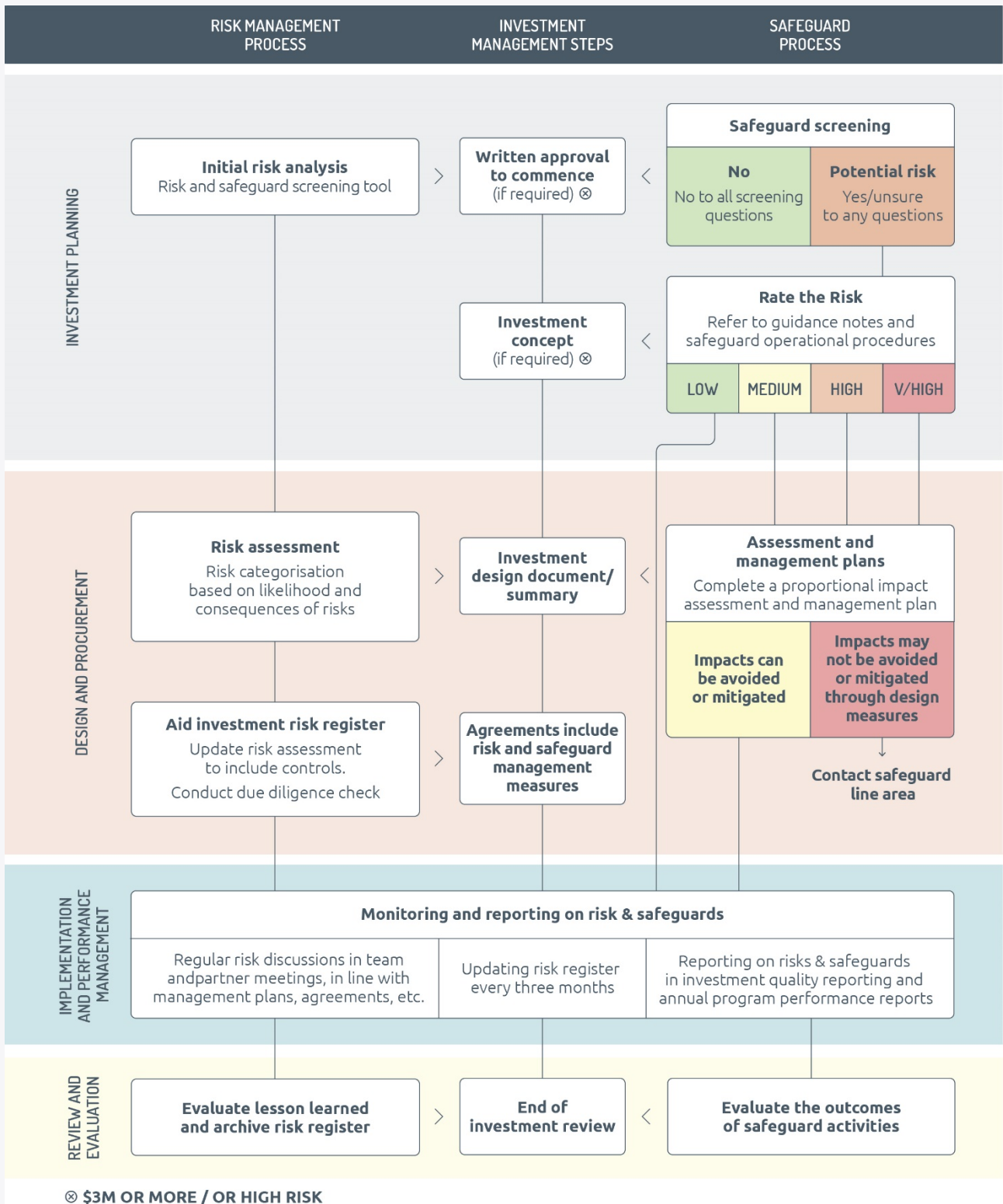


Figure 1: Risk Management through the aid process.

Recording your risk assessment

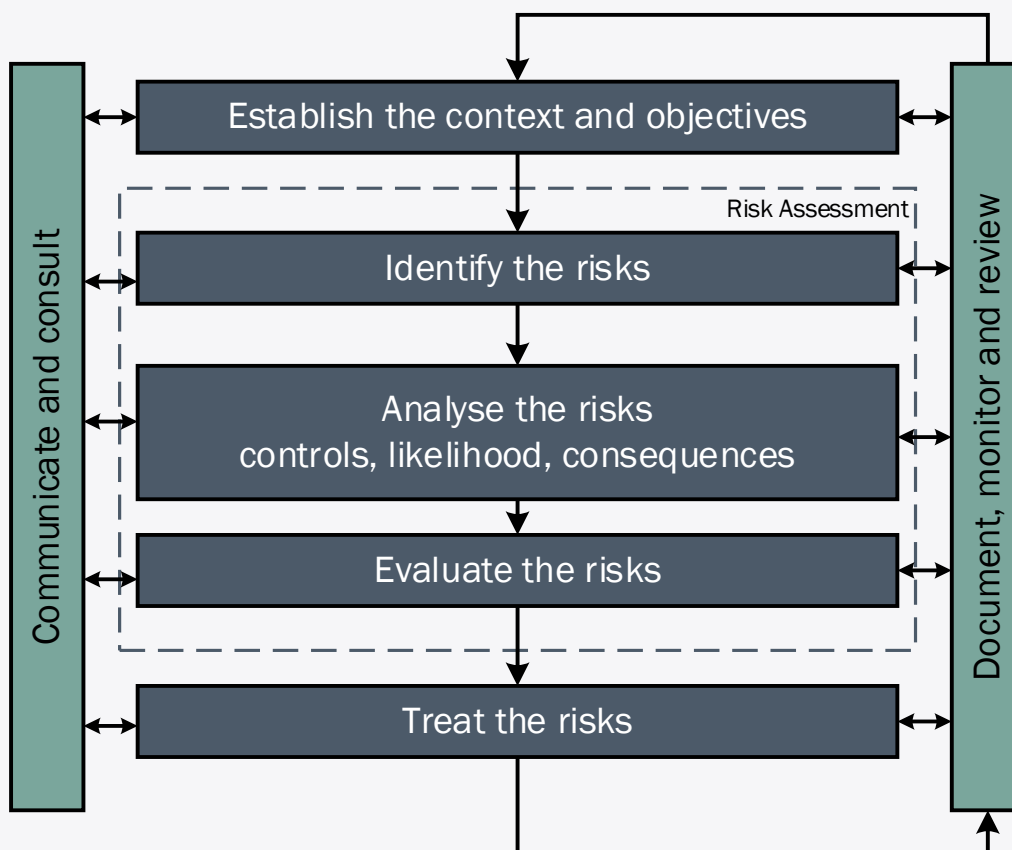
Aid Investment risk assessment and management must be documented. This includes maintaining a risk register that is reviewed at least quarterly and documenting any changes in the risk register and any risk discussions. These documents constitute an official record and must be saved in EDRMS.

THE RISK MANAGEMENT PROCESS

The International Risk Management Standard (AS/NZS ISO 31000:2018) is the accepted risk model used throughout DFAT, including aid investments. The process has seven steps as indicated in the diagram below. This process should occur **during the planning, concept and design phases and continues throughout the implementation phase** of the Aid Management Cycle.

This Guide provides the following information for each step:

- The purpose of the step (Purpose)
- The better practice approach to completing the step (Key Actions)
- How to document the information obtained in the step in the risk register (Documentation)



STEP 1 – COMMUNICATING AND CONSULTING

Purpose

Effective communication ensures that those responsible for implementing the process, as well as other relevant stakeholders, understand the basis of decisions and the reasons why particular actions are required. It also supports and encourages accountability for ownership of risks.

Regular conversations on existing and new or emerging risks and monitoring the implementation of treatments should be integrated into current management processes (e.g. business unit meetings, work health and safety committee meetings, program or project steering committees etc).

A key step is to **identify the key internal (within DFAT) and external (outside DFAT) stakeholders** that will provide DFAT with information about the environment and context of the development project. This assists DFAT with identifying the significant risks to the project objectives.

Key Actions

- Identify key internal and external stakeholders and determine their influence, views, expectations and issues (through direct discussions and/or other research).
- Review key relevant documentation (legislation, plans, strategies, policies, procedures, agreements, etc.).
- Build risk into meeting agendas and everyday conversations.

Documentation

- Records of conversation, analysis and other key documents referenced kept on the relevant EDRMS file.

Tips for Success

- Internal DFAT stakeholders could include, relevant desk and post staff, relevant thematic groups, relevant aid management support teams (procurement, due diligence, public financial management, fraud control, risk management, etc.), relevant corporate areas (finance, HR, security, workplace health and safety, etc.).
- Depending on the context, relevant external stakeholders could include, relevant whole of Government partner agencies, relevant partner government agencies, other donors and multilateral organisations with relevant knowledge and experience, civil society and non-government organisations within country or with appropriate knowledge and understanding of the country, beneficiaries.
- Regular conversations within and across work units and with stakeholders about objectives and risk are the foundations for enabling officers to make sound judgements about the management of risk. They also ensure that officers have a shared understanding of the types and degrees of risk that are reasonable for a work unit, which may change over time. Open communication with management ensures that there is a common understanding of risk appetite.
- Open communication is also necessary to ensure that risks are referred to a higher level of management when necessary.

Useful Tools

Stakeholder Analysis – various tools exist, some examples are available at the following websites:

- [World Bank Stakeholder Analysis](#)
- [Overseas Development Institute \(ODI\) Stakeholder Analysis](#)

STEP 2 – ESTABLISHING THE CONTEXT AND OBJECTIVES

Purpose

Risk is the possibility of an event or activity preventing an aid investment or activity from achieving its outcomes or objectives. Risk is always about what **may** prevent the achievement of objectives. Hence the importance of clearly articulating the objectives of any investment.

This step **defines the objectives** and **develops an understanding of the broad context/operating environment** in that the aid investment or activity will be operating. Establishing the context and objectives is a critical part of the risk management process as it defines the basic parameters within which risks will be managed and sets the scope for the rest of the risk management process.

Key Actions

- Specify the key objectives of the aid project, including internal business objectives (such as national interest, safety of staff, value for money, safeguards, gender inclusion etc.).
- Identify the external and internal factors influencing the objectives (political, social, environmental, regulatory, cultural, competitive, financial, institutional, corruption, etc.) and their level of uncertainty and/or complexity.
- Identify which of the factors are most likely to impact on the achievement of objectives.
- Determine whether the internal and external structures and business processes in place are adequate to achieve the objectives.

Documentation

- Record the objective in your risk register
- You may also want to record other information from this step in the file (in EDRMS) for the aid investment.

Tips for Success

- Work areas should engage with stakeholders, who may have different perspectives on objectives and risks, because of their own goals and assumptions.
- Utilise your stakeholders and other similar projects to gather contextual information.
- Internal stakeholders may include DFAT staff in Canberra and at post and specific risk policy areas such as security, procurement, fraud control, and aid risk management.
- Using your stakeholder map from Step 1 can help you to identify who some of the risks may be shared with. (See Appendix E for more information).
- Supply Chain mapping for large projects and facilities can help to identify where risks may exist and who is best to manage those risks.

STEP 3 – IDENTIFYING THE RISKS

Purpose

This step is to identify the risks arising, using the context identified in the previous step, to generate a list of risks that might affect the achievement of the identified objectives.

Key Actions

- Create a list of risks based on those events that might enhance, prevent, degrade, accelerate or delay the achievement of the relevant objectives.
- Articulate each risk as (examples are at [Appendix B](#)):
 - the **event** (what can happen)
 - the **source** (what can cause the event to happen)
 - the **impact** (what will happen if the event occurs)

Documentation

- Record the risk event, source and impacts in your risk register.
- Some risks may be too low a risk, outside the scope of the investment or not require active management or monitoring so will not be included in your risk register. Document these risk events with the reason for the decision. Save this document to your aid investment file in EDRMS.

Tips for Success

- Utilise your stakeholders and other similar projects to gather potential risks – a workshop is an ideal approach (the Aid Risk Management Section can facilitate this). Noting that some of our risks will be shared risks with our partners.
- The point is not to have an exhaustive list – if you have to think too hard about it then it probably isn't a substantial risk. The list of risks within the Design, however, should be comprehensive and then during implementation be reduced to only those risks that need active management or monitoring (recommended maximum 10-15 risks during implementation).
- Continuously ask: “where are we vulnerable?”
- Utilise tools and advice from specialist risk areas (fraud, child protection, WH&S, etc.)

Useful Tools

“Writing a Risk” at [Appendix B](#) for examples to help correctly articulate a risk.

Bowtie method at [Appendix D](#) can help to identify the sources and impacts of your risk as well as the controls and treatments.

Common Risk, sources, and impacts

The table below contains common risks, sources and impacts, it is a guide only, it is not exhaustive and components of risk should **always** be tailored to the specific investment/activity.

Sources	Risk event	Impacts
Inadequate governance arrangements Poor financial situation/viability Location of Project: <ul style="list-style-type: none"> Ability of providers to service location Cultural sensitivities Weather and access Implications on monitoring and access Nature of project activity (eg: construction, working with children) Engagement level: <ul style="list-style-type: none"> Provider with community DFAT – provider Lack of experience/qualifications of provider Failure of monitoring/ inadequate compliance checking Programme/ project objectives unclear Failure to run background checks / due diligence Change in partner government priorities	Provider lacks capacity to deliver project/activity Delivery is ineffective or does not contribute to programme outcomes Harm/injury to staff/provider/public Fraud/misappropriation of funds/ funding is diverted to terrorism Non-compliance with legislation/other Breach of security Relationship with partner government/other damaged A natural disaster occurs	Damage to reputation Adverse media Financial loss Legislative breach Potential legal action against DFAT Programme objectives not achieved Leave the area worse off than we found it Physical/mental harm/injury/death Loss/inappropriate use of sensitive information Essential services not delivered Community view of Government/Provider decreases and reduces the ability to deliver future projects damaged.

STEP 4 – ANALYSING THE RISKS

Purpose

This step has three parts. In the first part we determine the inherent risk rating of the event. This is determined by analysing the chance that the event will happen and the consequence if the event happens. Using the likelihood and consequence, we use the DFAT risk matrix ([Appendix A](#)) to determine the risk rating. The second part of this step is to identify any controls that may currently be in place for this risk. In the third part of this step determine the residual or current risk rating, this is the risk level that exists at the current point in time with controls in place.

Likelihood – Chance of something happening. How likely is it that this risk will occur?

Consequence – Outcome of an event affecting objectives. How serious the consequences of the risk will be.

Key Actions Part 1 – risk rating

Using the DFAT Aid Risk Assessment Matrix ([Appendix A](#)), determine the inherent risk rating by:

- assessing how likely it is that each risk event will occur

- assessing the consequence on the objective if the risk occurred

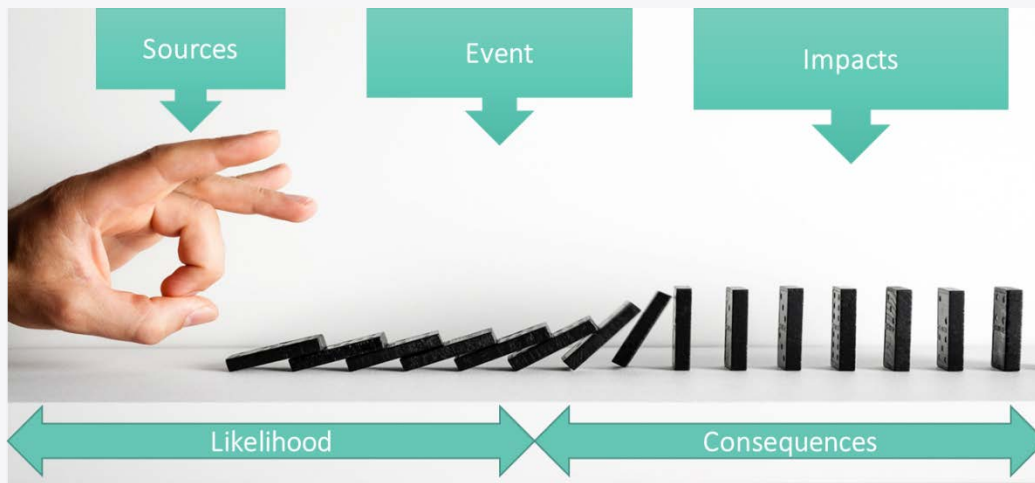


Figure 2: Relationship between sources, risks and impacts

Tips for Success

- Try to rate the risks as realistically as possible as that will guide the type of treatments needed - it is okay if you have a lot of high risks or they are lower than anticipated.
- Get a wide range of opinions and input on the risk ratings and come to an agreed and educated consensus – it is not a science so different opinions are expected (and good!).

Now that you have determined the inherent risk rating, have a look at the controls that are currently in place. These may include legislation, contracts, monitoring, policies and procedures or other.

Documentation

- Record the likelihood, consequence and risk rating for each risk in the risk register.

Key Actions Part 2 - Controls

- Identify the controls currently in place that help to prevent the risk from occurring or to limit the impact of the possible consequences if the risk occurred.
- Utilise your stakeholders and other similar projects to help identify controls and their effectiveness in the past.
- Controls can include policies, procedures, processes, regular meetings, monitoring, etc.

Documentation

- Record any existing controls for each risk in your risk register.

Tips for Success

A control's effectiveness becomes critical where negative consequences cannot be tolerated and where the consequences are greatest. Assess each control for effectiveness against the following criteria:

- **Relevant** – Does the control address the likelihood or consequence of the risk?
- **Assured** – Has the control been tested? Is the control available and reliable at all times? Is the control consistent with DFAT values? Is the control resilient to the risk it is trying to mitigate?
- **Efficient** - Is the control cost effective to implement? Is it flexible if the risk changes? Will the control work quickly to prevent or mitigate the risk?

- **Assigned** – Is someone responsible for implementing or undertaking the control? Do responsible officers know the level of priority placed on the control?

Key Actions – Part 3

Using the DFAT Aid Risk Assessment Matrix ([Appendix A](#)), determine the inherent risk rating by:

- assessing how likely it is that each risk event will occur
- assessing the consequence on the objective if the risk occurred

Documentation

- Record the likelihood, consequence and risk rating for each risk in your risk register.

STEP 5 – EVALUATING THE RISKS

Purpose

This step involves **determining whether the current level of risk is acceptable or not** to the risk owner. It informs managers of the relative significance of identified risks and supports sound decision making on how to prioritise the management of risks.

Key Actions

- The risk owner is to determine if the current risk rating is acceptable based on both their individual and the Department's risk appetite and tolerance – this determines whether treatments are required.
- If a risk is acceptable, document why it is acceptable and why no further treatment is needed (in the treatments column of the risk register)
- If a risk not acceptable, it should be treated (treatments are identified at the next step in the process).
- It is important to have a clear understanding of why a risk is accepted and to document the decision.

Documentation

- Record in the risk register if additional treatments are required.

Tips for Success

- Regular discussions about risk in teams and work units can prove particularly useful in developing a shared understanding of your risk appetite - what may or may not be acceptable.
- A risk with a rating of high or above does not automatically mean it is unacceptable; the environment of the aid program often means that the benefits of taking a risk to achieve the objectives outweigh its costs (both tangible and intangible costs).
- It would be inappropriate to accept risks that could: threaten Australia's national interests; damage Australia's reputation; threaten the lives of DFAT's staff or stakeholders; threaten DFAT's credibility with the Government, the Parliament, the Australian public and other key stakeholders; result in DFAT breaching legislation, treaties, international obligations, etc.

STEP 6 – TREAT THE RISKS

Purpose

This step determines what measures should be implemented in addition to the current controls in order to reduce the risks that have been evaluated as unacceptable in the previous step. These measures are known as “treatments”. These may once implemented become controls.

This step also includes identifying a target risk rating based on the expected effectiveness of the proposed treatments. Considering what would be the level of risk remaining after proposed risk treatments are implemented helps to evaluate whether the proposed treatments are enough to reduce the risk to the desired risk rating.

Key Actions

- Determine the appropriate specific risk treatment actions to be implemented based on one or a combination of the following option(s):
 - **Avoid the risk** by deciding not to start or continue with the activity that gives rise to the risk
 - **Take the risk** to pursue an opportunity
 - **Reduce the likelihood of the risk** by removing/reducing the source or cause of the risk or strengthening the current controls and/or compliance with them
 - **Reduce the consequences of the risk** through contingency plans, public affairs strategies, consultation with stakeholders, etc.
 - **Share the risk** with another party or parties, including through contracts and insurance – noting there are risks associated with sharing and that all of the consequences of a risk cannot be fully transferred
 - **Accept the risk** where the risk cannot be avoided, reduced or shared
- Determine who/what position is responsible for implementing each of the agreed risk treatments.
- Determine the timeframe within which each agreed risk treatment will be implemented.
- Ensure risk treatments are approved by the appropriate level of management.
- Determine what the risk rating (using the DFAT Aid Investments Risk Assessment Matrix at [Appendix A](#)) will be when all proposed treatments are implemented and whether that rating is acceptable or if more treatments are needed.
- Implement the agreed risk treatments.
- Once treatments are implemented, they may become controls.

Types of controls/treatments



Figure 3: Types of controls

In general, preventative controls are more cost effective than detective/reactive controls. To determine whether the controls or treatments will lower the level of the risk to an acceptable level, an assessment should again be made of the possible consequences and likelihood of the risk materialising and the risk rated

again, that is the ‘target risk rating’. Consider additional controls or treatments if the level is still unacceptable.

Controls and treatments should be proportionate to the level of risk they are treating. Where the risk is low, the level of resources committed to treating that risk should also be low. In general, the higher the overall rating for the risk, the greater the required level of management attention.

Documentation

- Record for each risk in the risk register the treatments, the treatment action owner and the due date of the treatment.
- Record the target risk rating for each risk in the risk register.
- Where a risk needs to be escalated record this in the risk register.

Tips for Success

- *It is important to remember that the costs of risk treatments need to be proportionate to the level of the risk being treated and value of the project.*
- List the treatments as action items with specific dates for completion or milestone dates. If a date cannot be determined, review if the action is actually a control that is already in place/happening regularly.
- Remember that treatments are actions not yet implemented whereas controls are already in place/happening regularly.
- Use the target risk rating as a guide for determining if your treatments are effective in reducing the risk or whether more/modified treatments are needed.
- Make sure the treatment actions actually affect the risk source and/or impact identified. To do this, you should consider what the level of consequence, likelihood and the overall level of risk would be if all the proposed treatments are implemented. If the proposed treatments will not reduce the overall level of the risk when implemented, then you need to consider whether there are any additional treatments that should be implemented.
- To choose the most suitable risk treatment option (or options), you need to weigh the costs of implementation a treatment against the benefits it is likely to deliver. Issues to consider include:
 - the financial and other resources required to implement the treatment.
 - the feasibility (including timing) of implementing the treatment.
 - how effective the treatment is likely to be in reducing or removing the risk
 - the potential impact of the treatment on stakeholders’ values, perceptions and interests – some treatments may be more acceptable to stakeholders than others.
 - whether the treatment will compromise or be in conflict with any legal, regulatory or other obligations
 - possible unintended consequences of the treatment – risk treatments may affect other existing risks, or may introduce new risks (known as secondary risks)
 - The failure or ineffectiveness of a risk treatment is itself a risk.

Escalating risks

Some risks are above your level of delegation or authority to manage and may require escalation to the appropriate level of management for their oversight and accountability. This is done by discussing the risk with the higher level of management and ensuring they agree to accept the accountability for the risk.

Risks of any risk level may need to be escalated in the following instances:

- When agreement cannot be reached on how to manage a shared risk or the partner is not managing the risk as agreed.
- Where the control or treatment of the risk would add additional costs over what has already been budgeted.
- Where the control of the risk is above your level of authority.
- Where the risk event is about to become an issue and you need direction on what action to take.

High and very high risks should be brought to the attention of the next level of management so that they are aware of the risk and can take action or ownership of the risk where appropriate. They may decide to escalate the risk to the next level of management.

STEP 7 – DOCUMENT, MONITOR AND REVIEW

Purpose

Risk management must be responsive to change – both from within DFAT and in the external environment. Therefore, the activities of monitoring and reviewing must be ongoing, and are integral to each step in the Risk Management Process. Through monitoring risks, controls and risk treatment implementation, you can determine the effectiveness (impact, benefits and costs) of your risk management.

Formal documentation of the risk management process is essential for transparency, communication of risk, accountability for managing risk, facilitating monitoring and review processes and program review processes, including internal and external audits. Accordingly, documentation needs to be clear, comprehensive and available for scrutiny upon request. It is important, once the risk management plan/risk register is developed, that a formal, regular process is adopted to monitor and review progress with implementing risk treatments, the effectiveness of risk treatments and identify new and emerging risks. This includes monitoring how partners are managing our shared risks.

Key Actions

- Include an agenda item in regular internal team/management meetings (minimum monthly) to discuss existing and new/emerging risks and the progress/effectiveness of treatment implementation and whether additional treatments are needed. Record relevant information in the risk register.
- Include an agenda item in regular meetings with partners (minimum monthly) to discuss existing and new/emerging risks and the progress/effectiveness of treatment implementation and whether additional treatments are needed. Record relevant information in the risk register. Document conversations.

Review

- Risk registers should be reviewed at least quarterly to determine their currency, and in particular, progress with implementing risk treatments and whether risk management should be escalated to more senior levels or de-escalated after the overall risk rating has decreased to an acceptable level.
- Review the partner's risk register minimum quarterly to ensure risks are still current, treatments have been appropriately identified and implemented etc.
- Where possible and appropriate, schedule conversations with other stakeholders and review relevant information to monitor the operating environment on a regular basis.
- Where there are concerns about how a risk is being managed, it should be escalated to the appropriate level of management for their oversight and accountability. This is done by discussing the risk with the higher level of management and ensuring they agree to accept the accountability of the risk. Record the escalated risk in the risk register. Where a risk can be managed at a lower level of management, de-

escalate the risk to the appropriate level of management. This is done by discussing the risk with the lower level of management and providing the reasons why the risk is being de-escalated and ensuring they agree to accept the accountability of the risk. Record the de-escalated risk in the risk register.

- Keep a record of your reviews.

Documentation

- Keep a record or minutes of meetings where risks are discussed, particularly where any risk based decisions are made.
- Maintain a register of conversations with partners and related people as part of your day-to-day contract management processes (record or save these in Aidworks). Attach a copy of the risk register to the AidWorks record.
- Record the details of the risk register reviews. Save in EDRMS.

Tips for Success

- Build monitoring and reviewing into existing management and reporting processes as much as possible – risk management should be a business as usual practice.
- Guide discussions to look at what risks could occur in the near future, not just what has already occurred – try to be proactive not reactive.
- Some projects develop a shared risk management plan across partners (in addition the investment risk register) that outlines how often they will monitor risks; define project risk appetite, etc.
- Tailor monitoring and reviewing processes to the overall level of project risk, partner risk profile, sensitivity of project, experience of project managers, etc.
- Remember that risks can occur in any project regardless of its value or initial perceived level of risk so all projects require a basic level of monitoring.
- Consider whether documentation clearly and logically sets out the thinking underpinning decisions on risk.
- Risk management is a dynamic activity. Officers should remain alert to changes in the department's operating environment and circumstances and continue to consider risks and opportunities throughout the life of the work or project.
- Monitoring and reviewing includes conducting 'lessons learned' activities when things go wrong, or when adverse or unanticipated events occur.

Appendix A – Aid Risk Matrix

		Consequences						
		Limited	Minor	Moderate	Major	Severe	Investment risks	
Limited impact on investment objectives and beneficiaries, including from operating environment, disaster, reputational, fraud/ fiduciary, partner, resourcing and/or other risks factors.		Minor delays in achieving investment objectives, resulting in minor impact on service delivery and/or beneficiaries.	Political, governance, social and/or security factors threaten investment effectiveness but can be dealt with internally.	Delay in providing services or achieving key objectives, resulting in moderate impacts on service delivery and/or beneficiaries.	Political, governance, social and/or security factors creates moderate disruption to one or more investment activities.	Delay or failure to provide services or achieve key objectives, resulting in major impact on service delivery and/or beneficiaries.	Critical failure to provide services or achieve investment objectives, resulting in severe impact on service delivery and/or beneficiaries.	Results
Results in consequences that can be dealt with by routine operations.		Minor disaster impacts to investment objectives and outcomes.	Political, governance, social and/or security factors threaten investment effectiveness but can be dealt with internally.	Moderate disaster impacts to investment objectives and outcomes. Moderate damage to property.	Political, governance, social and/or security factors creates major disruption to the investment.	Significant disaster impacts to key investment objectives or outcomes. Major damage to critical property or multiple properties.	Political, governance, social and/or security instability severely undermines the investment.	Operating environment
		Minor impact to DFAT's reputation from dissatisfaction of partners, beneficiaries, or other key stakeholders. Minor political and/or community sensitivity.	Minor disaster impacts to investment objectives and outcomes.	Moderate impact to DFAT's reputation from dissatisfaction of partners, beneficiaries, or other key stakeholders. Moderate political and/or community sensitivity.	Significant disaster impacts to key investment objectives or outcomes. Major damage to critical property or multiple properties.	Severe disaster impacts to overall investment objectives or outcomes. Extensive damage or loss of property/or multiple properties.	Severe disaster impacts to overall investment objectives or outcomes. Extensive damage or loss of property/or multiple properties.	Disaster risk
		Isolated theft of property or petty cash by an individual(s). Investment suffers minor adverse financial impact when DFAT funds are not used for intended purposes, not properly accounted for and/or do not achieve value for money..	Minor impact to DFAT's reputation from dissatisfaction of partners, beneficiaries, or other key stakeholders. Minor political and/or community sensitivity.	Fraud threatens the effectiveness of key investment objectives and/or services. Investment suffers moderate adverse financial impact when DFAT funds are not used for intended purposes, not properly accounted for and/or do not achieve value for money.	Moderate impact to DFAT's reputation from dissatisfaction of partners, beneficiaries, or other key stakeholders. Moderate political and/or community sensitivity.	Systemic fraud perpetrated over a period of time. Diversion of funds to terrorist organisations. Investment suffers major adverse financial impact when DFAT funds are not used for intended purposes, not properly accounted for and/or do not achieve value for money, affecting achievement of key investment objectives.	Critical investment failure resulting in severe political and/or community sensitivity resulting in extensive adverse publicity or criticism of DFAT.	Fraud/ fiduciary
		DFAT resources occasionally constrained. Minor breach of investment accountability, legislative/ contractual or security obligations.	Institutional and/or partner capacities is generally adequate, however some weakness may reduce effectiveness of aspects of the investment.	DFAT resources moderately constrained. Moderate breach of investment accountability, legislative/ contractual or security obligations.	Institutional and/ or partner capacity is constrained, resulting in moderate impact on investment effectiveness.	DFAT resources significantly constrained. Multiple breaches of investment accountability, legislative/ contractual or security obligations.	Critical institutional and/or partner capacity failure undermines the effectiveness of entire investment.	Reputation
		Minimal impact on the environment. Impacts are largely undetectable. No or negligible increase to people's vulnerability to climate change impacts, and negligible GHG emissions	Institutional and/or partner capacities is generally adequate, however some weakness may reduce effectiveness of aspects of the investment.	Minor impact on the environment. Impacts are temporary and confined to a small area of low environmental sensitivity. Minimal and short term increase to people's vulnerability to climate change impacts, and/or minimal GHG emissions.	Institutional and/ or partner capacity is constrained, resulting in moderate impact on investment effectiveness.	Significant impact on the environment. Impacts are irreversible, diverse, over a sensitive geographic area. Significant and long term increase to people's vulnerability to climate change impacts, and/or significant GHG emissions.	Critical institutional and/or partner capacity failure undermines the effectiveness of entire investment.	Partner
		No harm/injury to a child. Minimal social impact, vulnerable and/ or disadvantaged groups. Impacts not a concern to affected communities or other stakeholders.	DFAT resources occasionally constrained. Minor breach of investment accountability, legislative/ contractual or security obligations.	Minor injury to a child, requiring first aid. Short-term nuisance or minor social impact on local population, including vulnerable and/or disadvantaged groups. No attention from NGOs, media or stakeholders beyond the affected population.	DFAT resources moderately constrained. Moderate breach of investment accountability, legislative/ contractual or security obligations.	Life-threatening harm/injury to a child. Significant social impact which extends beyond local population, including vulnerable and/or disadvantaged groups. Concern raised by NGOs, media or stakeholders may prevent the project/ investment from continuing.	DFAT resources critically constrained. Systemic breach of investment accountability, legislative/ contractual or security obligations.	Other
		No displacement and/ or resettlement. Limited impact on potentially affected households.	Minor impact on the environment. Impacts are temporary and confined to a small area of low environmental sensitivity. Minimal and short term increase to people's vulnerability to climate change impacts, and/or minimal GHG emissions.	>5 households/ businesses displaced.	Moderate impact on the environment. Impacts may be long lasting, extend beyond the local area and include sensitive environmental communities. Moderate and short term increase to people's vulnerability to climate change impacts, and/or moderate GHG emissions.	>20<100 households/ businesses displaced.	Significant impact on the environment. Impacts are irreversible, diverse, with strong cumulative impacts over a large and/or sensitive geographic area. Severe and permanent increase to people's vulnerability to climate change impacts, and very high GHG emissions.	Environmental Protection
		Indigenous group living in project area of influence. No adverse impact.	Short-term nuisance or minor social impact on local population, including vulnerable and/or disadvantaged groups. No attention from NGOs, media or stakeholders beyond the affected population.	Moderate worker and/ or community health and safety impacts. Serious injury or multiple minor injuries.	Significant impact on indigenous population. Damage to/or temporary loss of access to indigenous land, assets, resources, and/or cultural heritage.	Significant worker and/ or community health and safety impacts. Life threatening injury/ multiple serious injuries.	Significant, long-lasting impact that effects the indigenous population. Permanent loss of/or access to indigenous land, assets, resources, and/or cultural heritage.	Children, vulnerable and disadvantaged groups
Likelihood	Probability	Limited worker and/ or community health and safety impacts. Injury requiring first aid.	Short-term nuisance or minor social impact on local population, including vulnerable and/or disadvantaged groups. No attention from NGOs, media or stakeholders beyond the affected population.	Moderate worker and/ or community health and safety impacts. Serious injury or multiple minor injuries.	Significant impact on indigenous population. Damage to/or temporary loss of access to indigenous land, assets, resources, and/or cultural heritage.	Significant worker and/ or community health and safety impacts. Life threatening injury/ multiple serious injuries.	Significant, long-lasting impact that effects the indigenous population. Permanent loss of/or access to indigenous land, assets, resources, and/or cultural heritage.	Displacement and resettlement
Almost Certain	Very likely. The event is expected to occur in most circumstances as there is a history of regular occurrence at DFAT, similar organisations or investments.	Short-term nuisance or minor social impact on local population, including vulnerable and/or disadvantaged groups. No attention from NGOs, media or stakeholders beyond the affected population.	Short-term worker and/ or community health and safety impacts. Minor injury requiring medical care.	Moderate worker and/ or community health and safety impacts. Serious injury or multiple minor injuries.	Moderate impact on indigenous population. Damage to/or temporary loss of access to indigenous land, assets, resources, and/or cultural heritage.	Significant worker and/ or community health and safety impacts. Life threatening injury/ multiple serious injuries.	Significant, long-lasting impact that effects the indigenous population. Permanent loss of/or access to indigenous land, assets, resources, and/or cultural heritage.	Indigenous Peoples
Likely	There is a strong possibility the event will occur as there is a history of frequent occurrence at DFAT, similar organisations or investments.	Short-term nuisance or minor social impact on local population, including vulnerable and/or disadvantaged groups. No attention from NGOs, media or stakeholders beyond the affected population.	Short-term worker and/ or community health and safety impacts. Minor injury requiring medical care.	Moderate worker and/ or community health and safety impacts. Serious injury or multiple minor injuries.	Moderate impact on indigenous population. Damage to/or temporary loss of access to indigenous land, assets, resources, and/or cultural heritage.	Significant worker and/ or community health and safety impacts. Life threatening injury/ multiple serious injuries.	Significant, long-lasting impact that effects the indigenous population. Permanent loss of/or access to indigenous land, assets, resources, and/or cultural heritage.	Health and Safety
Possible	The event might occur at some time as there is a history of casual occurrence at DFAT, similar organisations or investments.	Short-term nuisance or minor social impact on local population, including vulnerable and/or disadvantaged groups. No attention from NGOs, media or stakeholders beyond the affected population.	Short-term worker and/ or community health and safety impacts. Minor injury requiring medical care.	Moderate worker and/ or community health and safety impacts. Serious injury or multiple minor injuries.	Moderate impact on indigenous population. Damage to/or temporary loss of access to indigenous land, assets, resources, and/or cultural heritage.	Significant worker and/ or community health and safety impacts. Life threatening injury/ multiple serious injuries.	Significant, long-lasting impact that effects the indigenous population. Permanent loss of/or access to indigenous land, assets, resources, and/or cultural heritage.	
Unlikely	Not expected, but there's a slight possibility it may occur at some time.	Short-term nuisance or minor social impact on local population, including vulnerable and/or disadvantaged groups. No attention from NGOs, media or stakeholders beyond the affected population.	Short-term worker and/ or community health and safety impacts. Minor injury requiring medical care.	Moderate worker and/ or community health and safety impacts. Serious injury or multiple minor injuries.	Moderate impact on indigenous population. Damage to/or temporary loss of access to indigenous land, assets, resources, and/or cultural heritage.	Significant worker and/ or community health and safety impacts. Life threatening injury/ multiple serious injuries.	Significant, long-lasting impact that effects the indigenous population. Permanent loss of/or access to indigenous land, assets, resources, and/or cultural heritage.	
Rare	May occur only in exceptional circumstances. Is possible but has never occurred to date.	Short-term nuisance or minor social impact on local population, including vulnerable and/or disadvantaged groups. No attention from NGOs, media or stakeholders beyond the affected population.	Short-term worker and/ or community health and safety impacts. Minor injury requiring medical care.	Moderate worker and/ or community health and safety impacts. Serious injury or multiple minor injuries.	Moderate impact on indigenous population. Damage to/or temporary loss of access to indigenous land, assets, resources, and/or cultural heritage.	Significant worker and/ or community health and safety impacts. Life threatening injury/ multiple serious injuries.	Significant, long-lasting impact that effects the indigenous population. Permanent loss of/or access to indigenous land, assets, resources, and/or cultural heritage.	

APPENDIX B – WRITING A RISK

The way in which a risk is articulated can impact on the controls and treatments that are implemented to manage the risk. It is important to articulate each risk as follows:

- the **event** (what can happen)
- the **source/s** (what can cause the event to happen)
- the **impact/s** (what will happen if the event occurs)

RISK		
EVENT	SOURCE	IMPACT
A shift of priorities and support for development priorities by the partner government...	due to a change in government in upcoming elections...	results in strains the bilateral relationship and delays short and long term planning and programming.
Poor contractor performance...	due to the limited experience of contractor in country...	results in significant delays in achieving contract milestones.
High reliance on the partner...	due to limited resources at post...	means DFAT does not have full oversight of processes and systems and increases exposure to fraud.

Once a risk is written to include the three components of event, source and impact, the controls and treatments can be tailored to what will have an effect on reducing the source and/or impact of the risk. Each risk event can have more than one source and impact.

APPENDIX C – RISK PROCESS SUMMARY

Summary of the DFAT aid risk process



NB: Green rectangles reflect the ISO steps

APPENDIX D – BOWTIE METHOD

The bowtie is a tool that can assist in the identification of the sources, impacts and controls for risks.

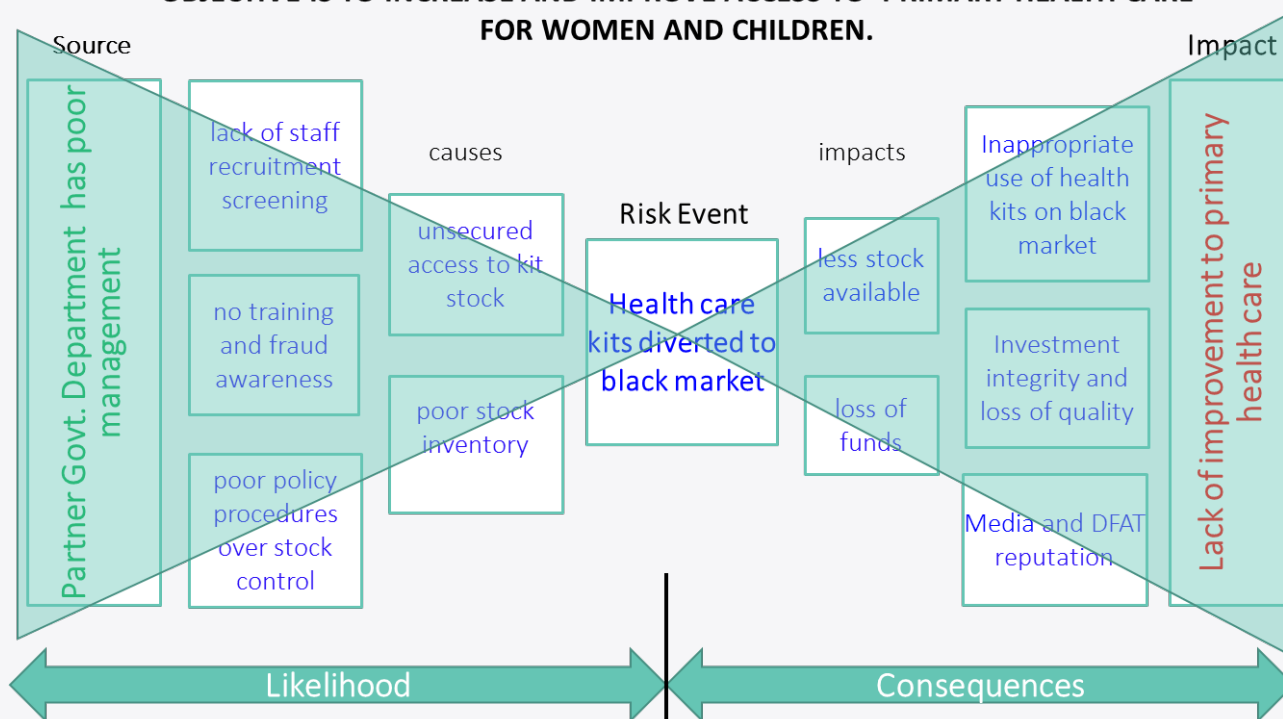
In order to develop effective risk controls and treatments it is important to have a good understanding of the sources and impacts for your risk event. Often we cannot control the actual risk event but we can control or treat some of the sources and impacts leading to a lower likelihood or consequence for the risk.

The example below shows the bowtie diagram for the risk of having health care kits diverted to the black market as part of an aid program aimed at increasing and improving access to primary health care for women and children. This bow tie was developed using the following steps:

1. The risk event was placed in the centre of the page.
2. The question ‘But why?’ was asked about the event and the possible sources or causes of this event were then identified. These were placed on the left hand side of the page. (But why is asked a number of times about the risk event and its sources until known sources and sources of the sources have been identified)
3. Impacts were then identified and added to the right hand side of the page. To help identify these impacts the question ‘What happens next?’ was asked until no more impacts were identified.

EXAMPLE: HEALTH SECTOR PROGRAM

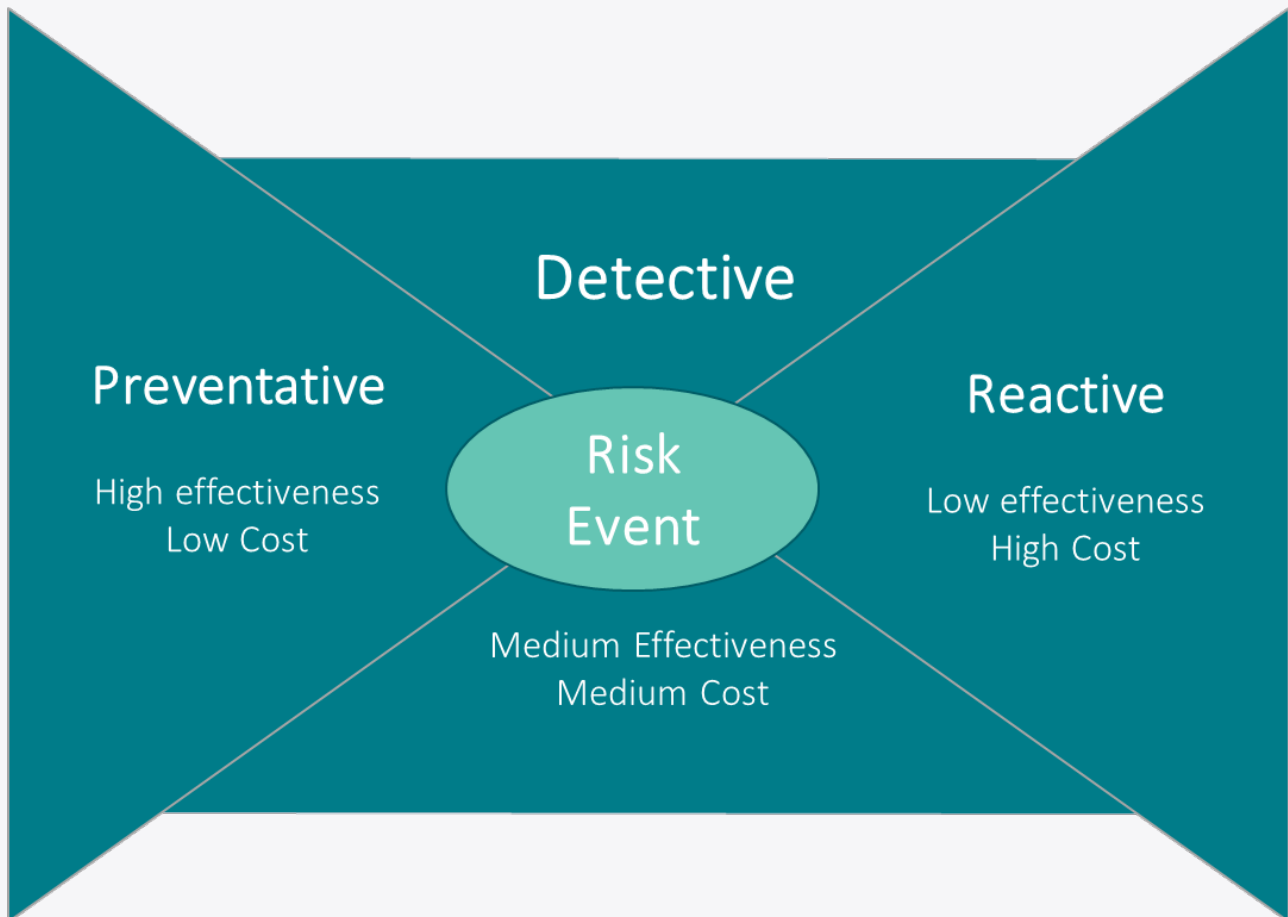
OBJECTIVE IS TO INCREASE AND IMPROVE ACCESS TO PRIMARY HEALTH CARE FOR WOMEN AND CHILDREN.



Once all the sources and impacts for the risk are identified we are able to determine how to control and treat the risk to reduce its likelihood and/or consequence (and thus reduce the risk rating). Generally, controls on sources will reduce the likelihood of the risk and controls on the impacts will reduce the consequences.

The diagram below depicts the type of controls for a risks based on what it acts on in the bowtie diagram. From this it can be seen:

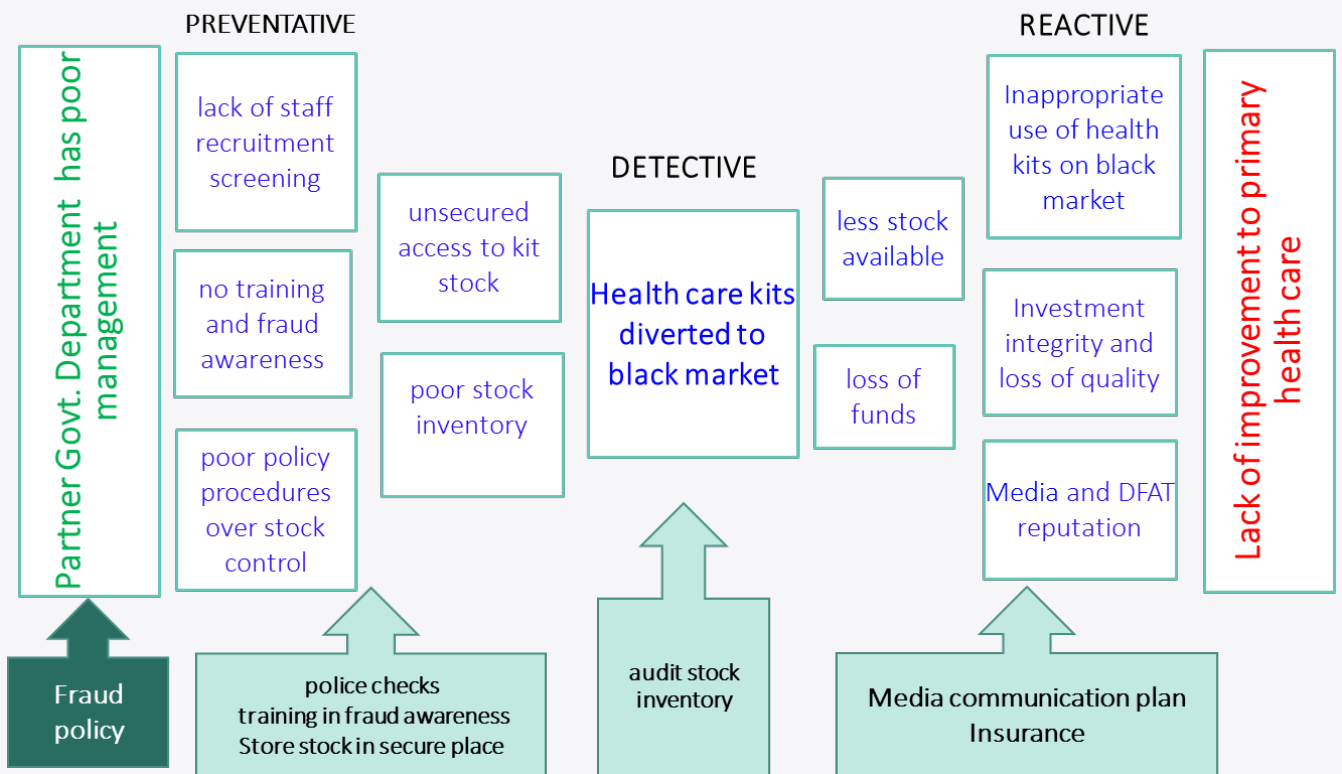
- Controls on the source can prevent or lower the likelihood of a risk from occurring, are generally low cost, and have a high effectiveness.
- Controls on the impact have a low effectiveness (the risk has already occurred) and a high cost. They can reduce the consequence through well-planned responses.
- Controls on the risk event are largely detective and have medium effectiveness and cost. They are more effective in some instances than others.



The example below shows the controls that may be used for the earlier example of health care kits being diverted to the black market. This shows:

- That we can put a number of controls in place on the sources including the development of a fraud policy, implementing police checks on staff before recruiting, training staff in fraud awareness and storing the stock in a secure location. These all may prevent or reduce the likelihood of the risk from occurring. If these risks are identified during the design of an investment these can be addressed through the design process.
- The control on the risk is an audit of stock inventory this will detect if the risk occurs. Preventative controls can then be checked to ensure they are being correctly implemented or another source of the risk may be identified.
- The reactive controls are a media communications plan and insurance. Both of these controls aim to reduce the consequence.

EXAMPLE: HEALTH SECTOR PROGRAM



APPENDIX E SHARED RISKS

Setting the context is an important step for understanding the internal and external context in which risk is managed. Completing this step can help identify the potential for shared risk.

Three elements of setting the context are particularly valuable:

- Understanding the organisational context, strategies and objectives of all the potential parties to the risk.
- Developing a stakeholder map to ensure that the interdependencies often featuring in shared risk are understood.
- Seeking the assistance of subject matter experts can help clarify where shared risk may exist.

Why would we look to transfer risk management?

Risk management is not only about understanding the risks, but where primary responsibility for risk management has been transferred and where accountability rests. It is possible for others to manage some risks on our behalf e.g. where the risk is better managed at a level closer to the delivery of results. However, transferring the management of risk doesn't remove the risk; it simply gives someone else the primary responsibility for managing the risk.

Even when the primary responsibility for managing a risk sits with an external partner, DFAT still has an assurance role and needs to monitor and respond to what is happening. DFAT does not need to define solutions but should be kept informed of what risks exist and receive regular assurance that risks are being managed appropriately.

Risks we can transfer primary responsibility for

Specific project activities: Implementing partners are responsible for the delivery of the activities or goods and services set out in the formal agreement, which may involve working with a longer delivery chain. It is our implementing partner's responsibility (as clearly stated in DFAT's standard funding arrangements) to ensure that all goods and services financed using DFAT funds are used for the purpose set out in the funding arrangement.

"Availability" and performance risks: This is where implementing partners take on the risk of absorbing cost and resourcing consequences of making the service available when required and to agreed levels of performance. Service continuity risks are where the provider accepts responsibility for uninterrupted delivery of the programme. Some elements can be transferred to the provider including technical maintenance, fault fixing and continuity arrangements.

Exchange rate fluctuations: Commitments are often made in Australian Dollars which means that we transfer the exchange rate risk (both downside and upside) to our implementing partners, providing DFAT with more budget certainty. However, currency movements may affect delivery costs, resulting in risks to programme delivery (i.e. where the funding available is not enough to cover all programme deliverable/outputs.) In such cases, a decision would need to be made as to whether to reduce the scope of the programme or apply to increase the funding available.

Risks can't we transfer primary responsibility for

Reputational Risks: This applies throughout the delivery chain. For example, if a partner is using child labour or poor quality materials or working to the detriment of gender equality, this can damage DFAT's reputation.

Risk of programme failing and potential consequences: Although programme delivery risks can be transferred to our implementing partners (see above) DFAT remains responsible for the overall programme and dealing with any fallout of risks materialising and the programme being unsuccessful.

Risks relating to country contexts: DFAT operates in a range of different country contexts, with specific risks and issues linked to the government and political environment such as policy, legislative and regulatory changes. These are likely to be highest in fragile and conflict-affected areas.

Risks associated with DFAT staff: DFAT staff not following internal rules or processes or DFAT not having staff with the right skills in the right places at the right time.

Duty of Care: Taking steps to protect its employees from reasonably foreseeable harm that may occur as a result of their work.

Risks can we transfer primary responsibility for, but may choose not to

Asset management costs: Significant financial risks regarding equipment which is no longer required, or where it is not financially viable to repair/replace.

Risks associated with potentially higher costs in conflict and humanitarian environments: Operating costs tend to be higher and may increase in such environments, but DFAT usually absorbs these costs and risks rather than looking to implementing partners to do so.

Risks linked to a lack of evidence: Where there is no established evidence about what works and what does not, risk is inherently higher. Risks may be managed by designing programmes to adapt as we learn by doing. There are likely to be higher costs (which DFAT is likely to choose to absorb).

GLOSSARY

Risk	The effect of uncertainty on objectives. Risks include events that cause damage or are negative in impact as well as events which prevent realising positive opportunities or benefits.
Risk Management Processes	The systematic application of management policies, procedures and practices to the activities of communicating, consulting, establishing the context, and identifying, analysing, evaluating, treating, documenting, monitoring and reviewing risk.
Objectives	The specific statement of what you are planning to achieve.
Risk Assessment	The process of identifying, analysing, quantifying and documenting risk.
Risk Register	The document that records risks and assigns responsibility for their controls and treatments.
Emerging risks	Any new or potential risk identified by staff that should be assessed and managed once identified. Discussing risks as part of normal business processes is the best means of identifying emerging risk.
Inherent Risk Rating	The risk rating before any risk before any control or treatment.
Risk Controls	Current processes, procedures, actions or other measures that are taken to reduce the likelihood of a risk occurring or minimise the impact if the risk were to occur. A control is something that is currently in use, as opposed to a treatment, which is a control not yet implemented.
Likelihood	The chance of a risk happening.
Consequence	The outcome or impact of a risk happening. The risk can affect DFAT's objectives, its stakeholders or the wider community.
Risk Rating	The rating (or level) of a risk derived from the combination of consequences and their likelihood.
Risk Matrix	The criteria against which the level of a risk is evaluated, taking account of likelihood and consequence. DFAT has a specific matrix for rating risks.
Risk Treatment	A strategy, process or procedure that aims to reduce the likelihood, share or mitigate the impact of risk. A risk treatment is something proposed or planned.
Target Risk Rating	The level of risk remaining after risk treatments are implemented. This is a useful measure of whether the proposed treatments will lower the level of the risk to a satisfactory level or whether there is a need to consider additional treatments.
Risk Appetite	The amount and type of risk that the Department is willing to bear to achieve its objectives either before or after treatment.
Risk Owner	Person/entity with accountability and authority to manage a risk