

Risk Management Fact Sheet 4 Risk Categories

Aim of this fact sheet

This fact sheet aims to help DETE staff members engaged in planning and risk management activities to understand:

- why and how risk categories are used
- how to allocate a risk to the most appropriate risk category.

Why and how we use risk categories?

Risk identification includes clearly defining the risk through the risk statement, as well as categorising the risk. Both of these processes help to assess, monitor and review, and communicate the risk.

One of the ways the department understands its risk profile is to analyse and report risks within each division’s operational plan. This lets us view the risks that impact on our objectives. However, this approach is limited in that it doesn’t help us know how risks relate to each other across divisions.

To meet this challenge the department has expanded its ‘risk watch’ capabilities by using **risk categories**. Risk categories give us another structured and manageable overview of the risks facing us.

Risk categories are based on the ‘cause’ of the risk. Grouping risks this way helps us understand:

- where the largest risk exposure originates from
- the effectiveness of the department’s systems of controls.

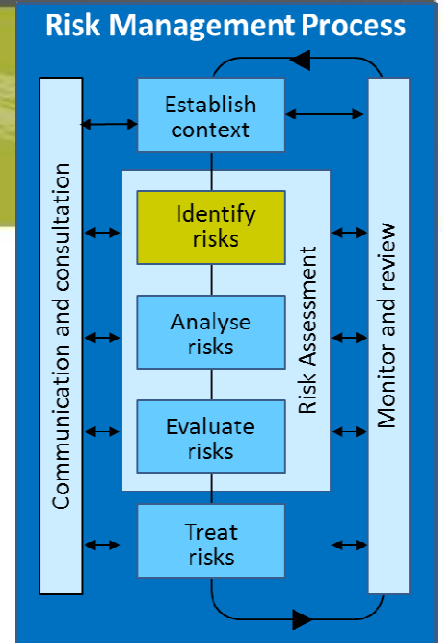
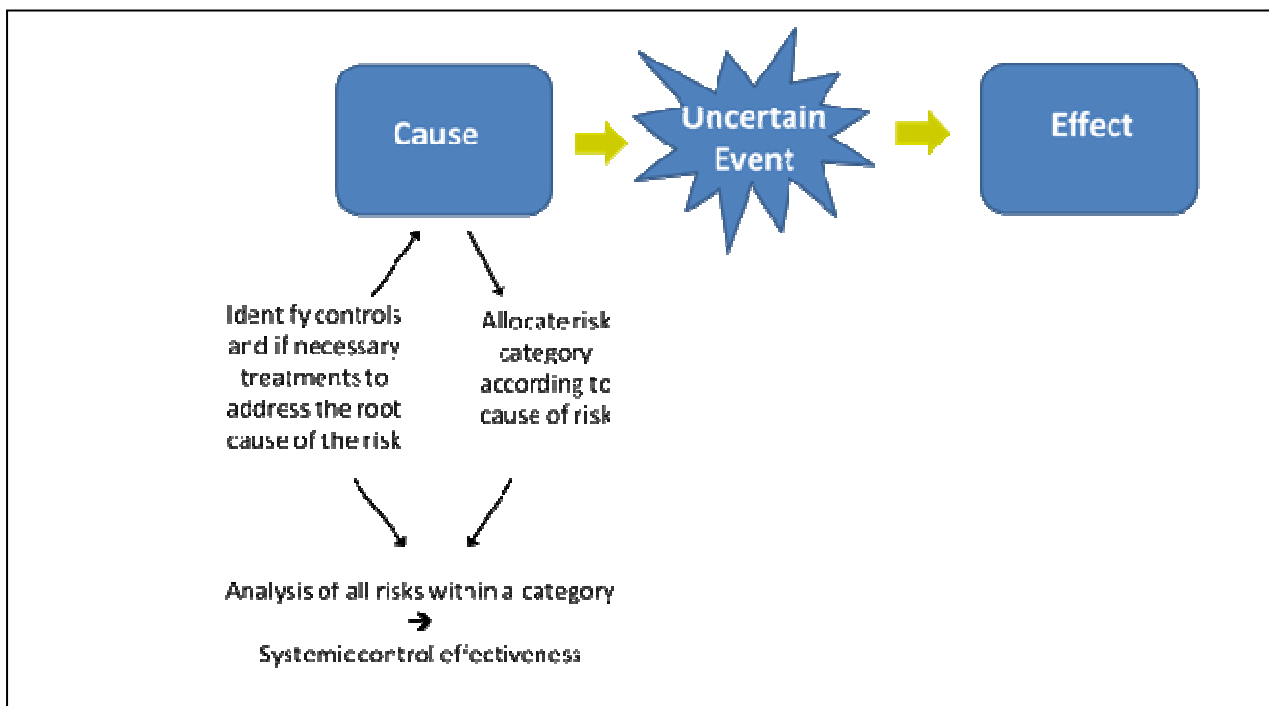


Figure 1: Risk cause as the basis for risk categorisation



How do I know which risk category to use?

The department's world of risk funnels down into 11 major categories (Figure 2). These help us generate meaningful information about our systemic control effectiveness and facilitate identification of risk our risks derive from.

Figure 1: DETE's risk categories



Each category fans into a group of subcategories (Appendix 1) that help specifically define elements of each risk category, hence where the true risks lie.

When allocating a risk to a risk category and recording it in the risk register, it is important to:

- allocate the risk to the risk category according to the cause of the risk, as demonstrated in Figure 2
- use your best judgment as to the appropriate category
- allocate each risk to only one category .

Your risk statement should contain three elements, which includes cause of the risk:

- **uncertain event:** what could occur, uncertain set of circumstances, area of uncertainty
- **its cause:** trigger, source, factor contributing to risk occurring or increasing likelihood of occurring
- **its effect:** consequence, impact, effect on objectives.

ERM Fact Sheet 3 Risk Statement provides information on how to write a good quality risk statement.

For example:

Uncertain event	Cause	Consequence
<i>There is a risk that high employee turnover</i>	<i>caused by</i> <ul style="list-style-type: none">• job dissatisfaction• uncompetitive remuneration	<i>resulting in</i> <ul style="list-style-type: none">• Loss of corporate knowledge• Delay in delivery of business objectives

The risk category allocated to this risk is 'Human Resources'.

For example¹

Uncertain event	Cause	Consequence
<i>There is a risk that Payments will not be processed</i>	<i>caused by</i> <ul style="list-style-type: none">• poor design of the Finance IT system	<i>resulting in</i> <ul style="list-style-type: none">• late payment penalties

Poor design of the Finance IT system will have an impact on Financial and other processes, however the risk category is 'ICT' as the root cause of the risk is ICT/systems related and needs to be controlled and treated as an ICT /systems issue.

The Enterprise Risk Management Process outlines Risk Categories and Sub Categories used by the department.

¹ Adapted from the VMIA Guide to developing a Risk Framework