



**Riverland Division
of General Practice Inc.**

To: Board

From: CEO

Subject: Item 2.5 Risk Appetite

Date: 27/9/11

1. FOCUS

To provide the RDGP Board with information to guide the identification of its risk appetite.

2. BACKGROUND

In August 2011 the Chair and CEO of RDGP attended a Company Directors Course through the Australian Institute of Company Directors. One of the modules focused on risk management and the identification of an organisation's risk appetite. The following information excerpts were requested by RDGP Directors.

3. DISCUSSION

Risk appetite (or risk attitude) is the organisation's approach to assess and eventually pursue, retain, take or turn away from risk. It is the amount of risk exposure (or potential adverse impact from an event) that the board is willing to accept/retain to meet its mission, goals or objectives.

Risk tolerance is a different concept and relates to an organisation's readiness to bear the risk after risk treatment in order to achieve its objectives.

In setting the risk appetite the board needs to consider

- Stakeholder expectations
- Organisation's strategy – purpose, values, objectives and business plans
- Organisational capabilities – skills, resources and technology necessary to manage and monitor risk exposures in the context of risk appetite and risk culture
- Environment in which the organisation is operating to incorporate changing industry and market conditions

Modern boards are adopting a formal statement of risk providing principles and guidance to management as to the overall levels of risk that the board sees as appropriate. This is a communication tool rather than a risk plan.

To establish the risk appetite of an organisation, the board should engage with management about future risks, especially concentrating on the headline risks. This is where risk and strategy converge. In undertaking these discussions, the board can reassure itself that the current risk appetite is appropriate, and as new decisions come to the board that they are made consistently with the agreed risk appetite.

This requires agreement on

- risk capacity – available capital, liquidity, acceptance by stakeholders of major changes in risk profile
- risk profile (categories of risks faced by the organisation – hazards, financial, operating,

organisational, strategic and reputational risks)

- headline risks – risks where board decisions really reflect the risk appetite

A robust discussion by board and senior management around headline risk questions will enable them to be identified. The result of these discussions will be the identification of major risks from a governance perspective.

The resulting statement of risk appetite is simply a description of the set of risks it faces and agreement that the acceptance and management of these risks is appropriate. It involves the creation of a formal statement acknowledging the board's willingness and the organisation's capacity to take on risk as well as its tolerance for loss or negative events that can be reasonably quantified.

Such a statement may include

- overall risk appetite statement
- statement of strategic risks with specific tolerances identified (eg no less than 80% eligible membership levels)
- statement of financial risks with specific tolerances identified (eg current ration no lower than 1.5)
- statement of operational risks with specific tolerances identified (eg employee turnover should not exceed 15% annually)
- totally unacceptable risks (eg serious injury or death of employees or clients is totally unacceptable, deliberate violation of any law is totally unacceptable)

A comprehensive risk management plan should then be developed and monitored regularly.

4. RECOMMENDATIONS

That the board consider the development of a risk appetite statement in conjunction with reviewing the existing risk management plan.

5. RISK CONSIDERATIONS

The focus of the exercise is risk.

6. BUDGET CONSIDERATIONS

Board and management time

Bron Marie
CEO