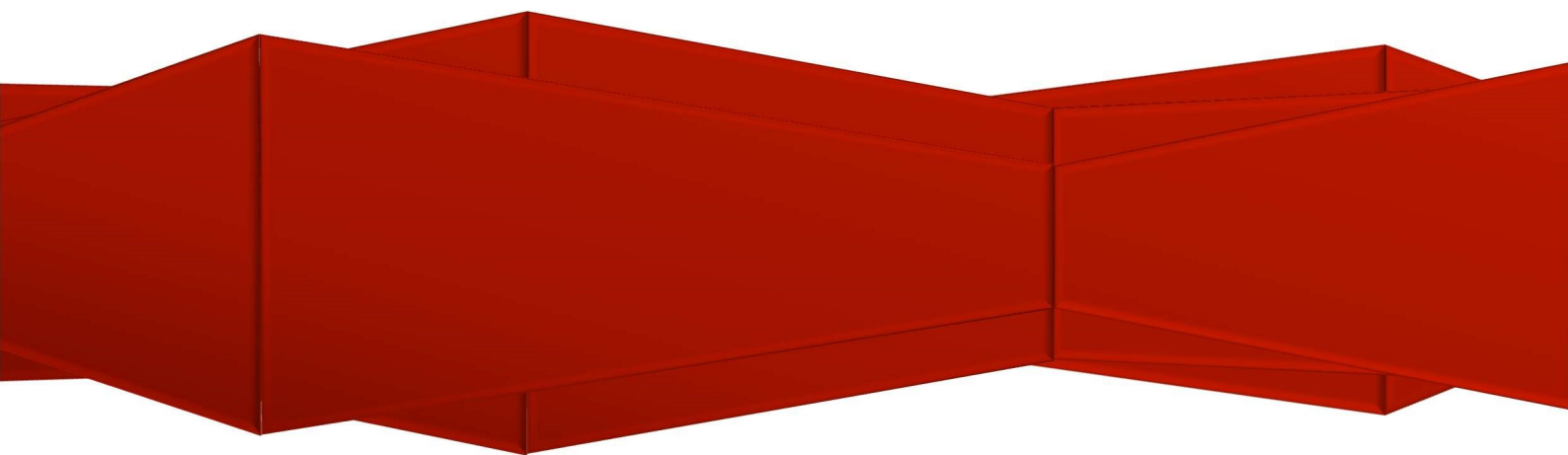




PCG Risk Management Framework

Strengthening our commitment to risk management

June 2020



Introduction

Professional Certification Group (PCG) recognises that a holistic approach to managing risks and opportunities is essential to achieve our vision, mission and goals. As a result, the Risk Management Framework (The Framework) has been updated to maximise our ability to deliver on our objectives, promote sound decision-making, manage adequate allocation of resources and prioritise strategies based on the business needs and opportunities, while limiting a potential adverse impact.

The Framework reflects the leadership's commitment to managing risks coherently by adhering to Standards Australia ISO 31000:2018 Risk Management –Guidelines, HB 158-2010 Delivering assurance based on ISO 31000:2009 Risk Management – Principles and guidelines and Engineers Australia Risk Management Strategies Guide July 2005.

The Framework also intends to provide and operate within an environment of continuous improvement and ongoing business excellence, enhancing PCG's focus on learning and development. It provides the outline of our approach to risk across the business. The implementation of this framework demonstrates that risk management has been imbedded into the existing business processes, and that risks and opportunities are being managed effectively and efficiently to deliver desirable outcomes and objectives.

The Framework will also be used to inform the development of new, and refinement of existing policies and processes.

The Framework consists of two parts:

1. First part provides Policy and leadership commitment to integrate the Framework into all business levels and functions.
2. Second part (A & B) provides documented risk systems and tools, which are being utilized to capture and assess organisational risks and opportunities.

PART 1

The Policy

The Professional Certification Group (PCG) is licensed to approve and inspect new building work provided the work is approved in accordance with state and local laws, and complies with building codes designed to protect public health and safety.

The Professional Certification Group considers risk management to be crucial in satisfying public expectations that the buildings they use are safe and provide a healthy environment.

Risk management plays a critical role in helping us understand the impacts some activities may have on our business, and manage risks associated with these threats and opportunities. It helps us to determine an appropriate control environment and balance of strategies to address potential barriers, allowing us to allocate resources efficiently and effectively. It also sets a culture of continuous improvement and compliance.

Our commitment to embed risk management into all business functions and activities forms a part of the Risk Management Framework. This Framework documents our systems and methodology, as well as strengthening our risk culture that fortifies alertness, openness and responsiveness to change.

Purpose

The Framework provides the necessary foundations and arrangements for managing risks across PCG, including insurable risks.

It illustrates how risk management is embedded in our systems, our work and services we provide. It encompasses integration, design, implementation, evaluation and improvement across PCG.

It describes the key principles, elements and processes to guide all staff in effectively managing risk, making it part of our day-to-day decision-making and business practices. Implementation of The Framework requires all staff to apply risk management principles to fulfill their responsibilities, to ensure PCG's compliance, cost-efficiency and effective service delivery.

Through implementation of The Framework, PCG aims to:

- set out a consistent approach to managing risks across the business
- align our processes with relevant standards and industry best practice
- embed risk management into all planning activities and business decision

making process

- ensure that we have systems in place to track and report upon existing and emerging risks and opportunities to the achievement of our objectives
- increase understanding and awareness, provide guidance and clarify accountability and responsibility in relation to risk
- provide an appropriate process to give rigor to annual insurance renewal
- indicate commitment of the leadership team
- facilitate open and transparent communication about risk and opportunities to ensure key priorities are managed at the appropriate level.

Leadership and Commitment

All PCG staff members have a responsibility to identify risks and to ensure that appropriate actions are taken. Specific responsibilities include:

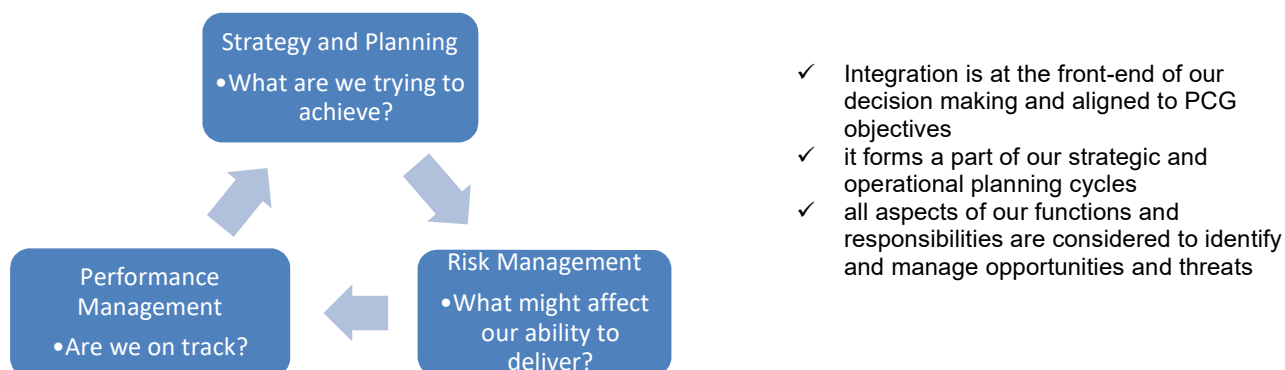
Role	Responsibilities
All staff	Develop an understanding of risk management Report any risk related issues, concerns, incidents or compliance breaches to their manager Comply with PCG policies and procedures.
Middle Management Certifies	Identify new and emerging risks associated with their responsibilities Ensure their team members are aware of risk management expectations Ensure risk control activities are regularly monitored and updated and are implemented in their area of responsibility Provide guidance to the relevant staff to assist in proactive identification and management of risks and opportunities Regularly review the risk register for treatment plans within their areas of responsibility.
Directors	Provide leadership for the development, implementation and review of the risk management framework, including risk register Guide the implementation of risk management Regularly review the risk register and treatment plans Ensure risk management is integrated and considered with strategic and operational planning and reporting Identify new and emerging risks and opportunities Communicate key risk issues to the Insurer Foster a positive, risk-aware culture across PCG.

Integration

Risk management methodology, principles and commitments are adopted by PCG in all businesses and at all organizational levels.

At the governance level, all Directors guide the course of PCG its internal and external relationships, the rules, processes and practices needed to achieve its purpose.

The below diagram depicts how PCG has integrated risk into our strategic and operational levels.



We aim to strengthen integration of risk management into business-as-usual practices by using consistent language, approaches and documentation across all levels of PCG.

A degree of risk taking is required in order to innovate. Risk avoidance is an impediment to innovation and to moving from the present to the future.

A key component of embedding risk management into all PCG activities and promote effective risk culture is to ensure that all staff are aware of our processes for the identification, analysis and treatment of risks.

PART 2 A – The Framework

What is risk management?

As described in Australian Standards, risk is defined as ‘effect of uncertainty on objective’.

Risk management process is the coordination of activities that direct and control an organization with regards to risk¹. It is commonly accepted that it involves both the management of potentially adverse effects as well as the realisation of potential opportunities.²

In performing our daily activities and responsibilities, risk management can be described as the collection of deliberate actions and activities that we carry out at all levels to identify, understand and manage risks to the achievement of our objectives.

Benefits of risk management

The principles that guide PCG in its risk management activities have been adopted from the *Australian / New Zealand Risk Management Standard ISO31000:2018*, where risk management must:

- create value and be an integral part of organisational processes
- explicitly address uncertainty and be part of decision making
- be systematic and structured and based on the best available information
- be tailored, dynamic and responsive to change and consider human factors
- be capable of continual improvement and enhancement.

An overview of The Framework is provided in Figure 1. The diagram illustrates the key elements PCG is utilizing while integrating risk process into our day to day business activities.

Some of the benefits of practicing a consistent risk management process across PCG are:

- maximizing opportunities by a more effective day to day operational planning and business activities
- fewer costly surprises

¹ Australian Standards ISO 31000:2018 Risk Management Guidelines

² Standards Australia ISO 31000:2018 Risk Management Guidelines

- improving quality of communication with internal and external stakeholders
- enhancing quality of collected evidence, for times of potential disputes/claims
- greater transparency in decision-making, priority setting and the ongoing control of processes.

The Risk Management Process

The risk management process is the approach and mechanisms by which The Framework is implemented and delivered at all levels and functions at PCG.

The process outlined below has been utilized to create a risk profile for PCG and forms an integrated part of management decision making. It is integrated into our structure, operations and processes from strategic to operational level.

Figure 1, outlines the 7-steps approach to risk management that is being used by us, which is consistent with that outlined in the risk Management Standard *ISO 31000* and the *Engineers Australia Risk Management Strategies Guide July 2005*.

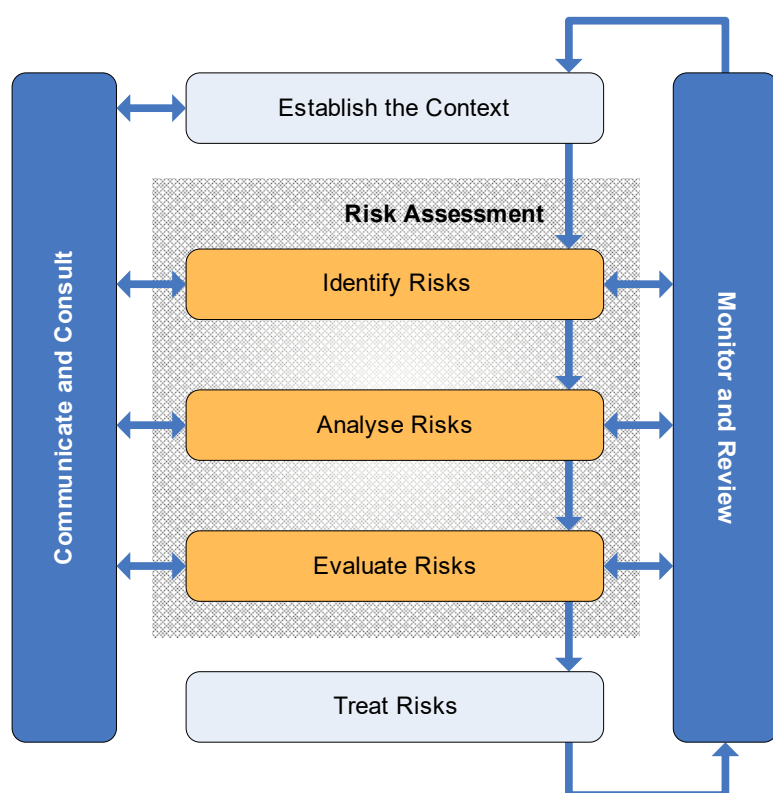


Figure 1 – Risk Management Process (AS/NZS ISO 31000:2018)

Step 1 – Communicate and Consult

During this stage we have identified the relevant stakeholders, both internal and external to PCG and determined how communication may be undertaken with them.

Communication, consultation and consideration with appropriate stakeholders have taken place within and throughout all steps of the undertaken risk management process.

Our key stakeholders who:

- have a legitimate interest in PCG operation and projects
- have relevant expertise, opinions, set standards and codes for the industry.

are:

- Our Directors, and our middle management team and staff
- Our clients; architects, builders, authorities, insurers etc.

Transparent communication and consultation with the relevant stakeholders allows us to:

- bring different areas of expertise together for each step of the risk management process
- ensure that different views are appropriately considered when defining risk criteria (Matrix) and when evaluating risks
- provide sufficient information to facilitate risk ownership and decision making
- build a sense of inclusiveness and ownership among those affected and responsible for risks.

Once key stakeholders have been identified and included into the discussion, PCG leadership team then established and considered, what impact, if any, those stakeholders have on the identified risks/ opportunities. As part of good practice, input from all stakeholders has been recorded and now forms a part of PCG Risk Register.

Step 2 – Establish the Context

Establishing the context defines the basic parameters within which we are managing risks and opportunities. PCG Directors have determined that undertaken risk profiling combines strategic and operational functions.

It reflects the current business environment in which PCG seeks to achieve its objectives.

By establishing external and internal context we have set up parameters in which the risks and opportunities were identified and will be managed.

Some of the questions or factors that assisted us in developing a context for risk identification include:

1. What is the internal context for the strategic or project/operational goals:
 - what are the key activities?
 - are there key findings from reports of other stakeholders involved in a project that identify potential risks?
 - are there recent incidents that identify potential exposures?
2. What is the external context for the strategic or project/ operational goals:
 - what is the relevance of any new legislation, regulations, code of conducts?
 - what are the expectations of key stakeholders?
 - what are the sources of risks / barriers to the Project?

Step 3 – Identify Risk

Risk must be identified first before it can be managed. Risk identification activity is about discovering, defining, describing and documenting risks before they become problems. This process generated a comprehensive list of events, which might affect the achievement of PCG's objectives. It provided a list of risks and opportunities which were either under control or not under PCG control or influence.

During risk identification we have considered a wide range of *sources of risks*, some of the relevant sources of risks for PCG are listed below:

- Commercial and Legal (Contractual, Indemnity, Liability etc.)
- Personal/human behavior (human error, negligence, aggression, dishonesty, etc.)
- Internal and external relationships (information sharing, builders, architects etc.)

- Perception (e.g. on PCG involvement and responsibility).

During the risk identification process the following was considered:

- Identifying 'what' can happen, 'where' and 'when':
 - identify who or what is specifically involved in the source of risk e.g., client, 3rd party or staff member
 - from these sources, consider what could possibly go wrong with these sources that could impact the achievement of objectives or results.
- Identifying 'why' and 'how' it can happen:
 - consider what might be the main causal factors of the event
 - consider how the event may impact the interfaces between the other project elements

A range of existing controls have been reviewed and considered to identify potential opportunities and exposures.

- complaints, claims records, WHS register etc
- identifying root cause (why this happened) for each issue
- identifying existing controls (what we are doing now) to address the issue
- developing mitigation strategies, indicating what we are planning to do about this in the future.

Risk categories listed in the Engineers Australia Risk Management Strategies Guide July 2005 also have been utilized to identify potential risks.

Step 4 – Analyse Risks

The purpose of this step is to understand and assess the seriousness of the risks identified. In following this process the below steps were adhered to.

4.1. Identifying Known Existing Controls

Existing controls, which are the activities, that are known to be already in place and that minimise each risk, have been identified and discussed. The controls can minimise the likelihood and/or the consequence of a risk.

During our analysis we have considered the following controls:

- processes
- policies
- systems
- data
- structures
- organisational protocols etc.

which can minimise the likelihood and the impact of a risk/event and can also prevent/reduce the risk/event from occurring.

As risk analysis is conducted in the context of existing controls, therefore it is important to take time to not only identify them, but also to establish how well developed, executed and managed they are. Only this holistic consideration can provide a robust picture of how truly effective the existing controls are.

For example, sometimes there might be a policy, which is well designed, documented, approved and communicated to the relevant stakeholders only to be stored on a book shelf and consequently be ineffective.

Therefore, during our analysis we ascertained how well the control is executed and continually managed. Only then the accuracy and the effectiveness of the policy can be correctly determined.

4.2 Determine the likelihood and consequence of the risks occurring

During this step, we have analysed the identified risks in terms of consequence and likelihood and utilized PCG risk Matrix (section 4.3, section 4.4 and section 4.5)

The likelihood and consequence rating of risks is a systematic process to understand the nature of, and to deduce the level of, risk for each of the risks identified in Step 3. The process for likelihood and consequence rating is as follows.

4.3 Likelihood Ratings

Likelihood is the assessment of the frequency or probability of the event happening taking into account the context or environment to which the event relates to. The Likelihood Rating Table below provides broad descriptions to support likelihood ratings, and these can be amended so that the 'Likelihood of Occurrence' descriptions are more relevant to their circumstances.

Likelihood Criteria: this guide provides the indicative terms against which the probability of risk event occurrence is evaluated.

LIKELIHOOD: What is the chance that the event will occur?		
Level		Description
5	Almost Certain	It is expected to occur weekly, monthly , based on the available evidence (records/experience). Certain to re-occur
4	Likely	It is expected to occur annually , based on the available evidence (records/experience). Probably will occur in most of the circumstances.
3	Possible	It is expected to occur every 2-3 years , based on the available evidence (records/experience). It could occur at some time
2	Unlikely	It may occur every 4- 8 years . Some records of known incidents or experiences exist
1	Rare	Very remote chance the event may occur within a lifetime. Not impossible but unlikely to occur (may occur in exceptional circumstances). Records may exist (10 years and over)

4.4 Consequence Ratings

Consequences are the possible impact and the extent the event/risk would have in the areas of (consequence categories): finance, human, service delivery, compliance and reputation. It is imperative to ensure that all relevant areas of impact within each category, as per below Consequence Matrix, are considered during the analysis.

Effectiveness of existing controls and likelihood (data available) must be taken into consideration when assessing the extent of the consequences.

During the analysis consideration was given to all descriptions under each category.

The below template was populated to reflect PCG risk appetite and to tolerance levels.

CONSEQUENCE	Finance	Human	Service Delivery including Human factors	Legal and Compliance	Reputation
Area of Impact					
Insignificant					
Minor					
Moderate					
Major					
Catastrophic					

4.5 Risk Rating

The risk level is determined by matching previously selected likelihood with the highest nominated consequence rating in the context of existing controls. Appropriate risk level was calculated by the Risk Level Matrix.

Recommended form of action, escalation and monitoring for appropriate risk level is indicated in Recommendation for action table.

RISK LEVEL MATRIX

CONSEQUENCES		LIKELIHOOD				
		Rare 1	Unlikely 2	Possible 3	Likely 4	Almost Certain 5
5	Catastrophic	5	10	15	20	25
4	Major	4	8	12	16	20
3	Moderate	3	6	9	12	15
2	Minor	2	4	6	8	10
1	Insignificant	1	2	3	4	5

Level	RISK RATING
20-25 (5)	Extreme
12-16 (4)	Significant
8-10 (3)	Medium
3-6 (2)	Low
1-2 (1)	Insignificant

Step 5 – Evaluate Risks

The evaluation process was undertaken to make a decision, based on the outcomes of the risk analysis performed in previous steps, about which risks need to be treated and the priority for treatments. Escalation process to the relevant level is integrated into the risk treatment plans and risk reporting protocol.

Recommendation for actions

Risk Level	Risk Rating	Description
20-25	Extreme	The risk is to be reviewed by all Managing Directors with immediate action delegated to one Managing Director, and monthly review by all Managing Directors until the risk rating is reduced to the acceptable level determined by Directors.
12-16	Significant	The risk is to be reviewed by all Managing Directors with action delegated to one Managing Director, and monthly review by all Managing Directors until the risk rating is reduced to the acceptable level

		determined by Directors.
8-10	Medium	Existing controls, treatment plans and monitoring can be managed within existing operational routines. Appropriate action determined by responsible Director. Periodic monitoring required as agreed by the Directors.
3-6	Low	It is expected that the existing controls are effective with minor additional action required. Routine day to day management required by the person responsible.
1-2	Insignificant	No impact on the business. Slight interruption to work flow, rectified by normal process.

Step 6 – Treat Risks

All risks need some form of management, whether it involves a plan for handling risks (Treatment Plans) or merely keeping it on the watch.

Activities listed under Treatment Plan, will be conducted to successfully manage the risk. This will result in the improvement of existing controls, development of new plans, allocation of resources and responsibilities for treatment implementation within a set time frame. The aim of the treatments is to enhance positive outcome.

During the selection of the most appropriate treatment options, PCG decisions regarding priorities were based on balancing potential benefits derived in relation to achievement of the objectives against cost, effort or disadvantages of implementation.

As implementation of Treatment Plans might have a direct impact on budget and resource allocation, therefore those activities will be integrated into PCG annual business planning process.

During the selection of appropriate risk treatment option, our values, perception and potential involvement of stakeholders and the most appropriate ways to communicate and consult with them were considered.

It is often not possible or cost-effective to implement all treatment plans at the same time, therefore a risk owner will assess the importance and provide priority level for each treatment as per Table 1.

Table 1: Treatment Plans Priority Level

High	High priority in planning, allocating and approval of resources and engaging appropriate stakeholders.
------	--

Medium	Planning, allocation and possible consideration of additional resource and budget, engaging appropriate stakeholders.
Low	Forms part of a day to day business function. No additional resources required.

Step 7 – Monitor and Review

Risk treatments, even if carefully designed and implemented might not produce the expected outcomes and could produce unintended consequences. Therefore, their performance is integrated in our monitoring and review process as determined by the leadership team and reflected under Step 5. It is also incorporated throughout our performance management process.

Periodic reviews of the Risk Management Framework (The Framework) will be undertaken based on the results of monitoring and reviews and insurance requirements. Some of the processes demonstrating our commitment to continuous improvement and to periodic review of the Policy include:

1. Ongoing consideration of occurred claims and complaints
2. Regular review of treatment plans
3. Annual review and update of the Risk Register and operational claims / dispute claims register
4. Ongoing training and development of staff to ensure that the team is equipped with a sound knowledge and skills base
5. Inclusion of, and measurement against, performance measures relating to the performance with regard to risk management and other key Insurance and legal requirements.

The Risk Management Policy will be reviewed annually to ensure that the Policy and the risk appetite and tolerance (Consequence and Likelihood matrix) continue to meet PCG's business needs.

PART 2 B – Risk Systems and Tools

Risk systems are part of the Risk Management Policy and The Framework. They consist of the components intended to assist PCG with ‘doing risk management right’:

1. Risk management process including the Policy – Part 1 and Part 2
2. Risk register

Tools – Registers

PCG has two ways to record issues and potential risks.

- jobs under review register (JURR)– allows to record and analyse claims and compliances as they occur
- Risk Register – includes issues from the claim register and additional issues/ risks which can prevent MBS from achieving its core business objectives.

The JURR and risk register enables PCG to document, manage, monitor, review and update risk information, aligning actions with annual insurance review process and business planning /budgeting process.

Jobs under review register

The primary objective of this register is to record issues for insurance purposes, to record events (claims/complains) as they occur and analyze them in the context of why they happened (root cause). At the same time it allows to demonstrate existence of current controls (processes addressing the issue) and to determine if any action is needed to reduce potential claims or to reduce an impact a claim may have on insurance premium.

Risk Register

The PCG risk register will guide PCG through the risk management process as outlined under Part 1 of this Plan, from establishing of the context, conducting identification and analysis of risks, to the development of risk reduction strategies. The register includes information from the operational claim/dispute register. The combination of both registers forms the risk profiling for PCG.

A template of a Risk Register is attached in APPENDIX 1.

Glossary of key terms

Australian/New Zealand Risk Management Standard	AS/NZS ISO 31000:2018. The Standard provides principles and generic guidelines about risk management, and can be applied to a wide range of activities, including strategies and decisions, operations, processes, functions, projects, products, services and assets.
Controls	Measure that maintains and /or modifies risk ³
Consequences	Outcome of an event affecting objectives ⁴
Likelihood	Chance of something happening ⁵
Risk	Effect of uncertainty on objectives ⁶
Risk management	Coordinated activities to direct and control an organisation with regard to risk. ⁷
Risk Management Plan	Set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organisation. ⁸
Risk Management Policy	Statement of the overall intentions and direction of an organisation related to risk management. ⁹
Risk Management Process	Systematic application of management policies, procedures and practices to the activities of communicating, consulting, establishing the context, and identifying, analysing, evaluating, treating, monitoring and reviewing risk. ¹⁰
Stakeholder	Person or organisation that can affect, be affected by, or perceive themselves to be affected by a decision or activity. ¹¹
Treatment Plans	Process to modify risk ¹²

³ ISO Guide 73:2009, definition 3.8.1.1.

⁴ ISO Guide 73:2009, definition 3.6.1.3.

⁵ ISO Guide 73:2009, definition 3.6.1.1

⁶ ISO Guide 73:2009, definition 1.1

⁷ ISO Guide 73:2009, definition 2.1

⁸ ISO Guide 73:2009, definition 2.1.1

⁹ ISO Guide 73:2009, definition 2.1.2

¹⁰ ISO Guide 73:2009, definition 3.1

¹¹ ISO Guide 73:2009, definition 3.2.1.1

¹² ISO Guide 73:2009, definition 3.8.1.

Appendix 1.

Risk Register

	Risk Description	What can happen?	Why can this happen?	Controls	Risk Assessment			Treatment Plans	Action by:	Completion Date:	Risk Assessment - Review		
No.	Risk to the PCG is....	Sub risk (consequence)	Causes	What do you do/have now to reduce the risk	Likelihood	Consequence	Risk Rating	Risk mitigation Strategies, what are we going to do in the future about this risk.			Likelihood	Consequences	Risk Rating