How to score a risk

Risk Scoring Process

This guidance note describes the steps to be taken when applying an assessment rating (score) to an identified risk.

The Council implements a 4 X 6 risk matrix to reflect assessed level of risk, where the 4 scale represents the impact of a risk and the 6 scale represents likelihood of a risk event occurring.

RISK MATRIX

Impact	Score						
↓	↓						
Very Serious	4	4	8	12	16	20	24
Serious	3	3	6	9	12	15	18
Material	2	2	4	6	8	10	12
Negligible	1	1	2	3	4	5	6
	Score →	1	2	3	4	5	6
	Likelihood	Almost Impossible	Very Low	Low	Significant	High	Very High

In the Pentana Risk Module, the matrix appears as:

Corp009 Risk that Bond governance arrangements are ineffective

Assessment	C4L3 Very serious - Low
Score	12
Date Reviewed	12 Oct 2017
Impact	4 Very serious
Likelihood	3 Low

Impact tab:
- **1 Negligible** Negligible
- **2 Material** Material
- **3 Serious** Serious
- **4 Very serious** Very serious

Potential Impact

The first step is to examine the potential impacts which have been identified. The severity of these impacts will determine where the risk will sit on the 1-4 scale. The potential impacts of the risk will be determined by applying criteria as in the example below:

The following tables provides examples of impacts against the points of the scale.

Negligible	**1**	Managed incident, almost no people, economic (financial), social, technological, legal, environmental impact.
Material	**2**	Local media interest, customer complaints, significant disruption
Serious	**3**	National media interest, negative reputational impact, serious loss of confidence and Government censure, prosecution / litigation
Very Serious	**4**	Major national media interest, death or injury, prosecution / litigation, public outcry, special measures

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Likelihood

The likelihood of a risk event occurring determines where the risk is placed on the 1-6 scale. The table below provides examples of how to apply this placing.

Almost Impossible	1	Once in 50 years
Very Low	2	Once in 20 years
Low	3	Once in 10 years
Significant	4	Once on 5 years
High	5	Once in 1 year
Very High	6	Once in 3 months

Using this methodology will lead to a baseline risk assessment.

Control Effectiveness

The risk assessment arrived at using the approach detailed above will now need to take account of the controls which must be identified for every risk. Controls will broadly fall within one of the following four categories:

Category	Control Examples
Preventive	Segregation of duties (e.g. authorisers and requisitioners under the Procurement Regulations); access controls to confidential systems
Detective	Exception reports; reconciliation processes; error reports
Directive	Accounting manuals; documented procedures (e.g. Following the Public Pound); scheme of governance (including delegated powers, Financial and Procurement Regulations); training; management supervision
Corrective	Complaint handling; virus isolation; incident resolution

Controls are created and entered into a separate area of the Risk Module and linked to the relevant risk. They appear as:

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Update	Risk Tree	History	Internal Controls	Related To	More...

Summary ▾

Internal Controls OK	✖
Internal Controls Score	⚠ 2 Partially Effective

Internal Controls ▾

Control	Score
✅ Corp009-001 Bond Governance Project Board develops, monitors and im…	3 Fully Effective
✅ Corp009-002 Communications Protocol supports active consideration of in…	3 Fully Effective
⚠ Corp009-003 ALEOs provide quarterly trading accounts in advance of qua…	2 Partially Effective
⚠ Corp009-004 Insider List in place with members and relevant officers awar…	2 Partially Effective
⚠ Corp009-005 Economic Policy Panel actively monitoring local and regiona…	2 Partially Effective
⚠ Corp009-006 Scheme of Governance	2 Partially Effective

Once controls have been identified, an analysis of their effectiveness has to be made. Controls may be Not Effective, Partially Effective or Fully Effective. The ultimate goal of risk management is to ensure all identified controls reach a state of full effectiveness.

For example, we have identified a risk around health and safety. One of the controls is that all managers at a particular level have received appropriate training in managing health and safety incidents. The Organisational Development team have advised that currently, 50% of the managers requiring the training have received it. This control is therefore partially effective.

For all controls which are not effective or partially effective, there should be a corresponding action to improve effectiveness. In the case of the example above, the action would be to ensure all appropriate managers receive the training. The current progress status of the action would state '50%.' As further training is delivered, the progress would increase until eventually the action is complete. The control would then become fully effective.

In most cases, controls reduce the likelihood of a risk event occurring. The control that managers will be trained in health and safety incidents reduces the likelihood of a risk that an incident is not properly handled. It does not reduce the impact of the incident on the individual or individuals caught up in the incident. So the effect of the control is to move the likelihood down the 1-6 scale.

In a minority of cases, controls may serve to reduce the impact of a risk event. For example, we have identified a risk that the Council loses access to part of the core

office accommodation through fire, flood or structural damage. We reduce the likelihood of a risk event as far as possible through implementing controls such as fire risk assessments, structural surveys, regular testing of safety systems etc. The impact of a risk event of this kind would be very serious. Essential services may not be delivered, vulnerable groups may be placed at risk. We apply key controls which include Emergency Planning and Business Continuity Plans. These ensure that staff may be alerted to work from home where possible; that alternative premises are rapidly made available; that we seek support from partner organisations. These controls can mitigate the impact of the risk event on the community.

The relative effectiveness of the controls will determine the current risk assessment. Where the majority of the controls are not effective, the risk assessment will be at or close to the baseline assessment and will fall within the red area of the matrix. Where most of the controls are partially effective, the risk will probably fall within the amber area of the matrix. Where controls are mostly fully effective, the risk will be expected to fall within the green area.

The movement of a risk through the matrix over time, as control effectiveness improves, is an important management tool providing assurance that risk management approaches are successful.