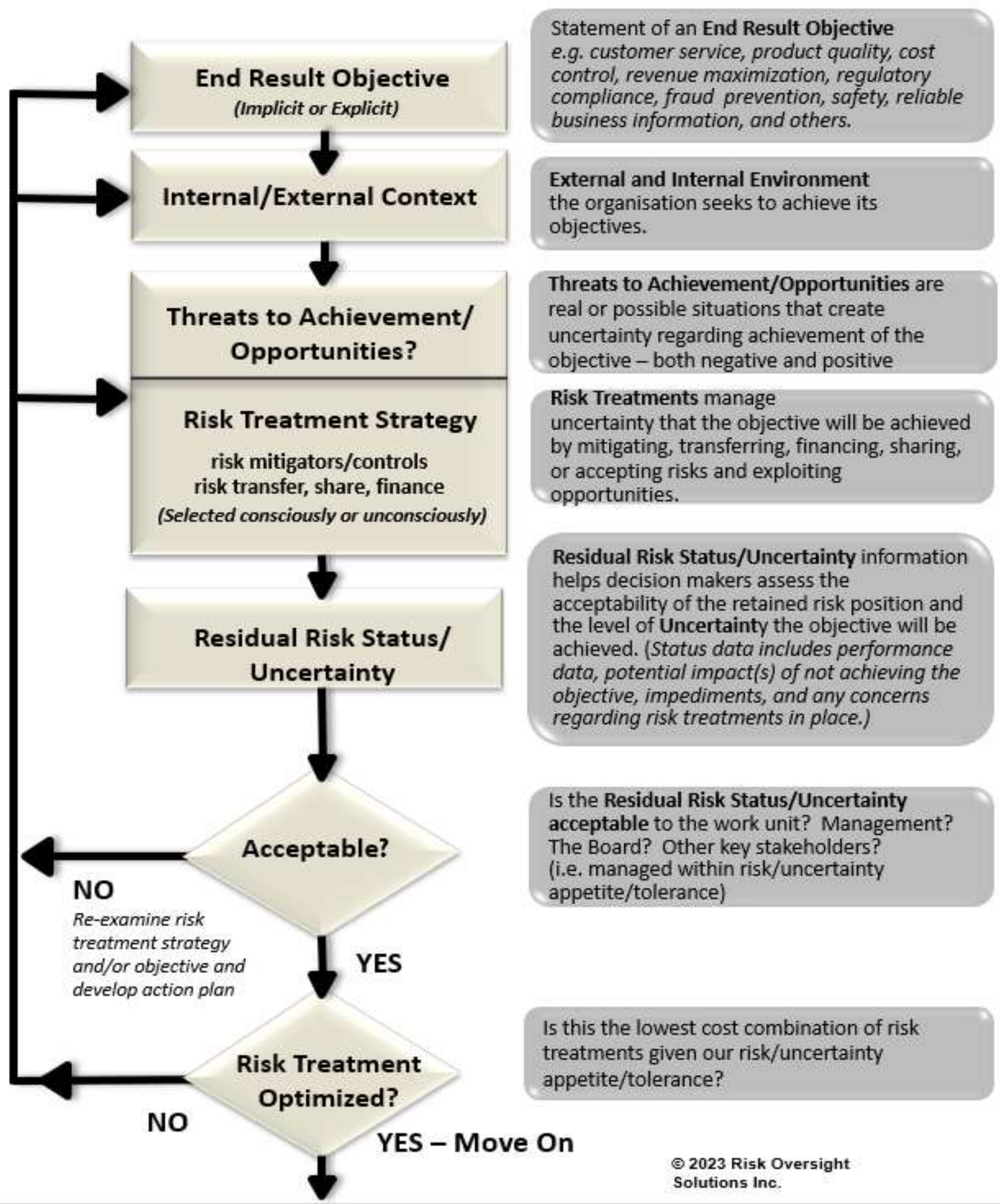
Owner/Sponsor Guide to UncertaintyStatus*line*™

This document provides an introduction to the key steps required to complete a UncertaintyStatus*line*™ objective centric risk and uncertainty status assessment.

NOTE: THIS GUIDE IS APPLIED ONCE THE "OBJECTIVE REGISTER" HAS BEEN POPULATED AND OBJECTIVES ASSIGNED TO OWNER/SPONSORS BY THE STRATEGY & VALUE OVERSIGHT COMMITTEE (OR YOUR EQUIVALENT).

IT ASSISTS OWNER/SPONSORS COMPLETING STEP 4 DESCRIBED BELOW. IT IS EXPECTED OWNER/SPONSORS WILL HAVE HAD INITIAL TRAINING AND WILL HAVE TRAINED FACILITATOR ASSISTANCE COMPLETING THEIR INITIAL RISK/CERTAINTY ASSESSMENTS

UncertaintyStatus*line*™



STEP 1: VALIDATE THE ASSIGNED OBJECTIVE

As an Owner/Sponsor you have been assigned primary responsibility for formally assessing and reporting on acceptability of residual risk status/uncertainty for the objective(s) assigned to you.

Your first step, which is an important step often overlooked, is to agree that:

- You are the logical person(s) to be responsible for completing the assessment and reporting results;
- The objective is an end result objective (as opposed to an activity or task to be undertaken in support of one or more objectives) ideally with wording you agree with;
- Linked to the organization's PURPOSE and value creation strategy (e.g. revenue growth, product quality, customer service, cost reduction, share price, market share etc), or core value preservation objectives, objectives capable of significantly eroding entity value if not achieved (e.g. obeying certain laws, reliable financial statements, safeguarding confidential information); and is as specific as possible (e.g. "Our goal is to do well" versus "Our goal is to grow share price by 10% year over year");
- Set at the right level of granularity (e.g. minimize all unnecessary costs versus minimize unnecessary office cleaning costs) to pass the cost/benefit test; and
- Important enough/dangerous enough to warrant the incremental cost of including it in the company's Objectives Register and completing a formal risk/uncertainty assessment.

These steps should have been completed by the Strategy and Value Oversight (SVO) Committee or equivalent beforehand, but it is important that the executive assigned primary responsibility for assessing and reporting on a specific objective accepts the objective as valid, and they believe they are logically positioned to be responsible for assessing and reporting on risk/uncertainty status. Any concerns should be discussed with the SVO Committee before proceeding.

Formal risk/uncertainty assessment, and related assurance work to ensure its reliability, takes valuable management and support staff time and has a cost. The decision to apply some level of formal documented risk/uncertainty assessment rigour (NOTE: the definition of rigour per the Oxford dictionary is – "the quality of being extremely thorough and careful") should be made consciously. The Strategy and Value Oversight Committee that assigned you this objective has made that determination when they assigned your objective(s), and reviewed objectives selected for inclusion in the company's Objective Register with the company's board.

STEP 2: UNDERSTAND THE TARGET ASSESSMENT RIGOUR ASSIGNED/THE AMOUNT OF TIME IT WILL TAKE TO COMPLETE AN INITIAL ASSESSMENT

The number one objection senior management and work unit staff have to completing documented risk and uncertainty self-assessments is “We/I don’t have time”. This approach specifically recognizes that formal risk/uncertainty assessment (versus the informal variety that occurs daily at all levels of an organization) has a cost in terms of time and money. If an objective has been included in the organization’s Objective Register it means a decision has been taken by the SVO Committee that some level of visible documented risk/uncertainty assessment is worth the time/money of formal assessment. As an Objective Owner/Sponsor you need to understand the “Target Assessment Rigour (“TAR”) level the Strategy and Value Oversight Committee (“SVOC”) assigned. TAR defines how much effort/time/rigour the SVO Committee believe is warranted on the objective(s) you have been assigned. See below for an overview of different levels of assessment rigour.

Target Assessment Rigour (“TAR”) User Guide

AR LEVEL	DESCRIPTION
Not Assigned (NA)	A decision has been made by the STRATEGY AND VALUE OVERSIGHT COMMITTEE or your equivalent to include the objective in the entity’s OBJECTIVE REGISTER. The primary criteria for including an objective in the Register is whether the objective is important enough in terms of value creation or value preservation to warrant the additional cost in time and resources of formal risk assessment/management. Accountability to report on the Uncertainty Rating (“UR”) linked to the objective has not yet been assigned to an OWNER/SPONSOR(s) (i.e. to report whether the objective is, or is not currently within the organization’s risk/uncertainty appetite/tolerance and, if it is outside of risk appetite/tolerance, the magnitude/potential impact of that out of risk appetite/tolerance position. See UR definitions for more details)
Not Rated (NR)	Accountability to report on the CRRR for the objective has been assigned to an OWNER/SPONSOR(s) and a Target Assessment Rigour (“TAR”) level set but no Uncertainty Rating has been assigned yet by the OWNER/SPONSOR(s).
Intuitive/Experiential	This target level of Assessment Rigour requires the least amount of time to complete, usually less than an hour. The OWNER/SPONSOR(s) consider current performance information on the objective, the impact of not achieving the objective in whole or in part, any impediments to adjusting the residual risk status/uncertainty, all known information about the state of risks he/she/they are aware of linked to the objective, any current concerns, audit findings, consultant observations, and other data. An Uncertainty Rating is then assigned and a few paragraphs written by the OWNER/SPONSOR(s) explaining the UR rating. OWNER/SPONSOR(s) may

	request assistance from the risk and/or internal audit group to help them assign a UR.
Traffic Light/Time Limited	A time-limited effort is made to develop or update a list of risks/threats to achievement of the assigned objective and assign RED/AMBER/GREEN ratings to each risk identified/documented within the past 12 months. This would usually take less than 3 hours and may be done by the OWNER/SPONSOR(s) on their own, or with the assistance of a trained facilitator. Action items for all RED rated risks must be developed. Performance, impact, and impediment data linked to the objective is input or updated. Once risks have been identified and rated and the RESIDUAL RISK STATUS/UNCERTAINTY data considered, a UR for the objective is assigned or updated. In this approach even a single red rated risk requires the UR be higher than a GREEN rating.
Full Risk/Risk Treatment Assessment	More effort is taken to quality assure that all significant risks have been identified using a variety of risk identification methods and, most importantly at this level, the specific risk treatments/controls in place/use for all, or some, of the risks have been identified and documented. Performance, impact and impediment information for the objective has been obtained and documented. Data has been updated within the past 12 months. This option would usually take 4-6 hours of time. The amount of time required is less if upgrading the objective from TRAFFIC LIGHT/TIME LIMITED AR to this level.
High (H)	A broader range of techniques have been used to identify all significant risks. Risk treatments for significant risks have been identified and efforts made by OWNER/SPONSOR(s) to independently validate the existence and effectiveness of the risk treatments described in the assessment. Efforts have also been made to validate the adequacy and accuracy of the performance, impact, and impediment information linked to the objective in the RESIDUAL RISK STATUS/UNCERTAINTY section. This level could take 1 to 2 days of total assessment time. Usually at this level independent assurance providers have also been asked to report on the reliability of the assessment and provide feedback to the OWNER/SPONSOR(s).
Very High (VH)	All standard UncertaintyStatusline™ information elements described at lower AR levels have been identified and documented and additional efforts made by the OWNER/SPONSOR(s) to validate their completeness and reliability. Usually at this level independent assurance providers have also been asked to report on the reliability of the assessment. It is not uncommon that this level of rigour could take a week or more to complete.
Very High + (VH+)	In addition to identifying and documenting all standard UncertaintyStatusline™ data elements, more advanced techniques to determine velocity of risks, leading/lagging risk indicators, steps taken to assess the reliability of risk likelihood and consequence ratings using as much fact-based data as possible, and other advanced risk assessment techniques have been applied. This level can take weeks to complete.

NOTE: These TARGET ASSESSMENT RIGOUR (TAR) levels and terms are illustrative. The key point is ensuring that users and people receiving information understand the amount of effort and time that has been taken to assess and report on risk/uncertainty status linked to a specific objective. As a general statement the higher the TAR, the more reliable the information produced. This relationship is not linear. Data quality does improve as rigour increases, but the goal is TAR level be “fit for purpose”. Users can customize the default terms used for the levels and the number of levels to fit their environment. It is important to note that even the lowest level in this system, INTUITIVE/EXPERIENTIAL, represents more rigour than that applied in the more traditional risk centric/risk register based ERM frameworks that focus on analyzing individual risks, in a vacuum from the objective(s) affected and performance.

The lowest TAR, intuitive/experiential, takes very little time. The OWNER/SPONSOR(S) mentally think about risks that create uncertainty the objective will be achieved, and what is currently being done to manage them; and then assigns an “UNCERTAINTY” rating for the objective using rating options provided in this OWNER/SPONSOR GUIDE on page 12. The rating is usually accompanied by a short explanation of the rating assigned. It can also identify residual risk status/uncertainty data for the objective, including available performance/indicator data, impact data, and any impediments. This approach, when done with the aid of a facilitator, usually takes an OWNER/SPONSOR less than an hour. This level of rigour is called INTUITIVE/EXPERIENTIAL, a relatively low level of risk/uncertainty assessment rigour. When a low level of rigour is used, there is heavy reliance on the ability and integrity of an OWNER/SPONSOR to identify and assess significant risks and opportunities to the objective in their head without a formal process or documentation, and decide whether the current residual risk/uncertainty status (the level of risk/certainty after considering current risk treatments/controls used to manage risks) is within the entity’s risk appetite/tolerance. It is important to note that an Owner/Sponsors may not know what the entity’s risk/uncertainty tolerance is initially.

It is important to note that even the INTUITIVE/EXPERIENTIAL level of assessment rigour, the lowest level of assessment rigour possible in this approach, is a higher level of rigour than most status quo risk centric risk assessment approaches used today.

If it is decided after a quick first pass assessment that a higher level of assessment rigour/more work and time is warranted for a specific objective, additional assessment rigour increments available can range from an additional couple of hours for the next level of assessment rigour, up to what can be weeks, even months, of work for highest target assessment rigour available.

If a low TAR assessment assigns an UNCERTAINTY RATING (“UR”) of GREEN it means the OWNER/SPONSOR(S) believes that the current residual risk status/uncertainty is within senior management and the board’s risk/uncertainty appetite/tolerance. No additional risk treatments are warranted at the current time. If the OWNER/SPONSOR doesn’t believe the current residual risk/uncertainty status is fully within the entity’s risk/uncertainty appetite/tolerance, additional, more rigorous assessment steps may be undertaken, a different UR rating assigned, and efforts made to adjust residual risk status/uncertainty to an acceptable level. See STEP 8 in this guide for definitions of the five UNCERTAINTY RATINGS (URs).

STEP 3: CONFIRM THE PRIORITIZATION OF THE OBJECTIVE

If a decision has been made that an objective in the Objective Register warrants more formal documented risk/certainty assessment rigour than the lowest level of INTUITIVE/EXPERIENTIAL, usually the first step is to take some time to formally rate the objective on a number of important dimensions if this hasn't already been done or review ratings, if any, assigned by the SVO Committee. These dimensions include importance to the whole organization, importance to the Owner/Sponsor, potential to increase entity value, potential to erode entity value, current level of risk/uncertainty assessment rigour, target level of risk/uncertainty assessment rigour, the current performance rating (how well are the company is doing on this objective currently), and, in some cases, whether formal risk/uncertainty assessment linked to the objective is regulator mandated/expected (e.g. financial service regulators often expect to see evidence of risk assessment linked to customer well-being, anti-money laundering, market abuse, IT security and many other areas).

In an ideal world, this step would have occurred as part of the prioritization process to decide which objectives should be included in the organization's Objectives Register and assign target level of assessment rigour. At a minimum, the Objectives Register should include the entity's top strategic/value creation objectives, top value preservation/erosion objectives, and areas/objectives regulators require evidence of formal risk management, if any. (e.g. financial statement reliability, compliance with certain laws, health and safety, IT security, business continuity, etc) The set of objectives that warrant inclusion in the OBJECTIVES REGISTER should be periodically revisited by the SVO Committee or equivalent with careful consideration to costs/benefits and resources available.

In cases where there is a risk group and/or an internal audit function, both groups should continually consider whether they believe any additional objectives should be added to the OBJECTIVES REGISTER. If they do, they can then make recommendation with supporting logic to the SVO Committee that decides which objectives will be included in the company's Objectives Register. Boards must also instruct management if they believe there are important objectives that should be added to the Objectives Register that were not initially included.

STEP 4: IDENTIFY RISKS/THREATS TO ACHIEVEMENT/OPPORTUNITIES

If a decision has been made to take the time to formally document and assess risks/threats to achievement (i.e. real or possible situations that create uncertainty regarding achievement of objective) when the Target Assessment Rigour was set, the next step is to identify and assess risks/opportunities. Traditional ERM programs and many internal audit methodologies often only utilize what is commonly referred to as the "brainstorming" approach to risk identification and assessment. Opportunities are not usually identified/considered, but are important in deciding how much risk/uncertainty to accept in pursuit of specific objectives. The brainstorming method relies heavily on the knowledge and experience of those participating. (i.e a simple prompt of "What do you see as the top risks to this objective?) Used in isolation, particularly when done in a very short period of time such as annual internal audit planning or the annual risk register update meeting, brainstorming has regularly proven to be unreliable.

We recommend brainstorming be supplemented by a range of other risk identification techniques depending on the relative importance of the objective. Your facilitator will guide you and often will do a lot of the necessary research/preparation/risk and opportunity identification before the workshop. Other viable risk identification methods include internet research, scenario modelling, visualization, flowcharting, inverse controls/risk treatments approach, statistical analysis, cause-of-failure approach, risk source model, Monte Carlo simulations, and others. These should have been introduced to Owner/Sponsors in initial orientation training. For objectives involving life or death, and entity threatening objectives, the assessment rigour should be increased, or a conscious decision made by senior management and the board to accept the additional risk that comes with not having invested much time/effort/resources to formally identify and assess plausible risks. (i.e. the liability risk of being seen or deemed not to be meeting evolving risk oversight due diligence expectations)

STEP 5: ASSESS THE RISKS/OPPORTUNITIES

Having identified some number of risks and opportunities in Step 4, the next decision is how much time to commit to analyzing them. A common step involves estimating risk likelihood and consequences. Whenever possible try to use factual data as opposed to guesses with little fact-based support. Different combinations of likelihood and consequence create what is commonly referred to as “risk levels”. Risk levels in turn determine a target level of management attention different risks warrant. If you are experiencing difficulty assigning specific risk likelihood/consequence ratings because of a lack of data, consider simply assigning a “risk level” rating to each risk. A table that determines risk levels from different likelihood/consequence combinations and the related management attention level definitions is shown below. Focusing on how much attention a specific risk warrants often helps. The table adjusts for extreme consequence/rare likelihood events by assigning an adjusted risk level.

	Consequences				
Likelihood	extreme	very high	medium	low	negligible
almost certain	severe	severe	high	major	significant
likely	severe	high	major	significant	moderate
moderate	high	major	significant	moderate	low
unlikely	major	significant	moderate	low	trivial
rare	significant	moderate	low	trivial	trivial
SOURCE: *Guidelines for Managing Risk in the Australian Public Sector, #22 October 1996*					

<u>RISK LEVEL DEFINITIONS</u>

SEVERE – must be managed by senior management with a detailed plan
HIGH – detailed research and management planning required at senior levels
MAJOR – senior management attention is needed
SIGNIFICANT – management responsibility must be specified
MODERATE – manage by specific monitoring and response procedures
LOW – manage by routine procedures
TRIVIAL – unlikely to need specific application of resources

If time is limited, participants can simply estimate current effectiveness of the risk treatments in use without describing them and assign standard Red/Amber/Green ratings to each risk that indicate whether the current residual risk/uncertainty status, after considering risk treatments currently in place, is resulting in an acceptable level of residual risk/uncertainty. Definitions for standard “traffic light” risk status ratings for individual risks are as follows:

RED – current residual risk status/uncertainty for the risk being assessed is unacceptable. Additional risk treatments required

AMBER – current residual risk status/uncertainty warrants monitoring. No additional risk treatments planned currently

GREEN – current residual risk status/uncertainty linked to the specific risk being assessed is considered fully acceptable and within entity risk appetite/tolerance

Action items must, by definition, be developed and implemented for all RED rated risks. AMBER rated risks will be given increased scrutiny going forward but no risk treatment changes are considered necessary at the current time.

Careful consideration should be given to the quality of the inputs used to assess risks. The more "fact-based" and reliable the data that supports likelihood/consequence/velocity and other risk assessment inputs is, the more likely the assessment will result in sound decisions.

STEP 6: IDENTIFY "RISK TREATMENTS"

If the decision is that additional formal risk/certainty assessment rigour is warranted, the next step is to document, for some or all of the risks identified in STEP 5, the specific "risk treatments" in use/place. Risk treatments per ISO Guide 73, an internationally accepted terminology guide, setting out standard risk definitions can involve:

- avoiding the risk by deciding not to start or continue with the activity that gives rise to the risk;
- taking or increasing risk in order to pursue an opportunity;
- removing the **risk source (3.5.1.2);**
- changing the **likelihood (3.6.1.1);**
- changing the **consequences (3.6.1.3);**
- sharing the risk with another party or parties [including contracts and **risk financing (3.8.1.4)]; and**
- retaining the risk by informed decision.

Users should consult the UncertaintyStatus*line*™ Risk Treatment Principles and Risk Treatment Elements reference aids for illustrative risk mitigation/transfer/share treatments. Your facilitator uses these tools to frame questions in workshops/interviews re possible use of specific treatments.

The risk treatment description should attempt to accurately describe what is actually done currently, as opposed to what policy or procedures indicate should be done. If there are any known concerns with a risk treatment, or the way it is applied in practice, these concerns should be documented initially as "Concern Unrated" and then later assigned either "Concern Acceptable" or "Concern Unacceptable".

This data is part of the Residual Risk Status/Uncertainty data. Action plans must be developed for all concerns unacceptable. Inaction over an extended period on a concern that senior management and, in significant cases, the board of directors, are aware of but not willing to act on or direct resources to address, indicates the concern is, in fact, acceptable to management and the board.

STEP 7: DOCUMENT CURRENT "RESIDUAL RISK STATUS/UNCERTAINTY DATA

Indicator Data– Best available performance information available on how well the objective is being achieved.

Impediment Data – Any situations or problems that stand in the way of the objective owner/sponsor adjusting the risk treatment strategy and related residual risk status/certainty. These can relate to the lack of funds, cooperation of staff or other departments, training deficiencies, board/senior management attitudes, and others.

Concern Data – Any known or suspected problems or concerns with one or more risk treatments/controls in place to manage risk likelihood and/or consequence.
Note: This category includes what has traditionally been called "control deficiencies" by auditors.

Impact Data– How bad would it be if the objective was not met in whole or in part? How would the board, the organization, the staff, and others be impacted?

STEP 8: ASSIGN AN UNCERTAINTY RATING ("UR") AND DOCUMENT/ASSESS RISK APPETITE/TOLERANCE

Deciding whether the current residual risk status/uncertainty status linked to a specific objective is, or is not, acceptable to an OWNER/SPONSOR, senior management, and the board after considering risks/opportunities and risk treatments in place is difficult, but key to better resource allocations. Those making the decision have to consider resources available, competing priorities, risk/uncertainty status on other important value creation and preservation objectives, whether the organization's current strategic focus is short or long term, impact on individual and group remuneration, priorities of investors, credit agencies and regulators, and much more. What this approach offers is substantially better information to make those complex decisions. UR definitions are shown below.

A key goal of an effective risk management process is to strive to operate, continuously, to the extent possible, within senior management and board's risk/uncertainty appetite and tolerance. ISO definitions for the terms risk appetite and risk tolerance from ISO Guide 73 are noted below.

Risk appetite
The amount and type of risk that an organization is willing to pursue or retain.

Risk tolerance
An organization's or its stakeholder's readiness to bear the risk after risk treatment in order to achieve its objectives.

Source: ISO Guide 73: Risk Management – Vocabulary, 2009

Sample UNCERTAINTY RATING definitions are listed below. These can be customized to fit sector specific circumstances.

Uncertainty Ratings (URs)

Fully acceptable level of uncertainty of achievement. Any significant concerns have been identified and shared upwards
Some management effort is required to reduce uncertainty of achievement to an acceptable level.
Considerable management action is required to reduce uncertainty of achievement to an acceptable level.
Significant analysis and corrective action by Senior Management and the Board is urgently required to reduce uncertainty of achievement to an acceptable level.
Massive corrective action by Senior Management and the Board is required now to reduce uncertainty of achievement to an acceptable level.

STEP 9: DEVELOP ACTION PLANS FOR UNACCEPTABLE CONCERNS

For risks identified that were assigned RED ratings, where the current risk treatments in place/use are considered to be inadequate, users should document a concern statement describing the residual risk situation for that specific risk. Some concerns that are identified in the course of an assessment, including risks where there is no specific risk treatment, the risk treatment has flaws, and/or viable risk treatments available are not being used, may be accepted by OWNER/SPONSORS subject only to one caveat - hat for significant risk/uncertainty decisions, they must be willing to share those decisions with those above, up to and including the Board for really big risk/uncertainty acceptance decisions.

For concerns deemed unacceptable, users need to document action items detailing the new risk treatments that will be implemented and due dates to reduce the current residual risk/uncertainty status linked to the objective to Full green – fully within the OWNER/SPONSOR/entity's risk/uncertainty appetite/tolerance.

STEP 10: PERIODICALLY REVISIT THE TARGET ASSESSMENT RIGOUR LEVEL, PERFORMANCE, AND UNCERTAINTY RATING ASSIGNED

As an OWNER/SPONSOR of an objective you are responsible for periodically (ideally real time) reassessing Uncertainty Rating(s) (URs) on the business objective(s) you have been assigned as new information emerges, including new information on company priorities, risks, and performance. The goal is to continuously assess whether the current residual risk status/uncertainty status, including the state of action items to address risks to objectives deemed outside of risk/uncertainty appetite/tolerance, is being reliably reported to senior management and the board.