

# Risk criteria examples



## Purpose and Outcomes

The [risk criteria examples](#) provide considerations and options for the assessment of the following elements:

- Control effectiveness
- Consequence descriptors
- Likelihood descriptors
- Risk rating
- Escalation and response for risk rating

Using this document you can create your own risk management criteria

VMIA is the Victorian Government's insurer and risk adviser

Level 10 South,  
161 Collins Street  
Melbourne VIC 3000  
P (03) 9270 6900  
F (03) 9270 6949

contact@vmia.vic.gov.au

**vmia.vic.gov.au**

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## Considerations and Support

| Consideration                                  | Questions to ask  | Options/examples   |
|--|---|--|
| <b>Control effectiveness</b>                   | What title do we want to give to our control effectiveness types?<br>How would we define each of the controls identified?<br>Who are the control owners?<br>How will we measure effectiveness of the control? | See the control effectiveness example in <a href="#">Design, implement and evaluate controls</a> guidance                                  |
| <b>Consequence descriptors</b>                 | How many tiers do we require?<br>What are the most relevant labels?<br>What are the most relevant rating descriptions for each tier and label?  | Four, five or most useful number?<br>Insignificant, Minor, Moderate, Major, Severe<br>See <a href="#">Consequence descriptor</a> example   |
| <b>Likelihood descriptors</b>                  | How many tiers do we require?<br>What are the most relevant labels?<br>What are the most relevant rating descriptions for each tier and label?  | Four, five or most useful number?<br>Almost certain, Likely, Possible, Unlikely, Rare<br>See <a href="#">Likelihood descriptor</a> example |
| <b>Risk rating</b>                             | What are the relevant labels for each of the intersecting likelihoods / consequences tiers?   | See <a href="#">Risk Rating</a> example  |
| <b>Escalation and response for risk rating</b> | What is your risk assessment escalation level for each of our identified risk ratings?<br>What is your risk treatment response for each of our identified risk ratings?                                       | See <a href="#">Escalation and response for risk rating</a> example  |

## Control effectiveness - Example

**Note:** these are examples only, your organisation's control titles and descriptors need to be used. For more information on control effectiveness, check out our [Guide](#).

### ***Example of a five-level scale***

| Control effectiveness       | Description   |
|-----------------------------|---|
| Fully effective             | Nothing more to be done except review and monitor the existing controls. Controls are well designed for the risk and address the root causes. Management believes they are effective and reliable at all times.   |
| Substantially effective     | Most controls are designed correctly and are in place and effective. Some more work to be done to improve operating effectiveness, or management has doubts about operational effectiveness and reliability.  |
| Partially effective         | While the design of controls may be largely correct in that they treat most of the root causes of the risk, they are not currently very effective.<br><br>Or, some of the controls do not seem correctly designed in that they do not treat root causes. Those that are correctly designed are operating effectively. |
| Largely ineffective         | Significant control gaps. Either controls do not treat root causes or they do not operate at all effectively.   |
| None or totally ineffective | Virtually no credible control. Management has no confidence that any degree of control is being achieved due to poor control design or very limited operational effectiveness.  |

***Example of a three-level scale***

| Control effectiveness | Description  |
|-----------------------|--|
| Effective             | <p>Controls eliminate or remove the source/root cause of the risk.</p> <p>Or, controls are well documented, consistently implemented and reliable in addressing the source/root cause of risk. High degree of confidence from management in the protection provided by the controls.</p>             |
| Partially effective   | <p>Controls are in place but may be partially documented or communicated, or inconsistently applied or infrequently tested.</p> <p>Weaknesses in the controls are minor or moderate and tend to reflect opportunities for improvement, rather than serious deficiencies in systems or practices.</p> |
| Ineffective           | <p>Controls are not documented or communicated, or are inconsistently implemented in practice. The controls are not operating as intended and risk is not being managed. Controls are not in place to address the root cause/source of risk.</p>   |

## Consequence Descriptors - Example

**Note:** these are examples only, your organisation's descriptors need to be used.

| Consequence | Financial     | People  | Reputation   | Operational disruption   | Legal & compliance   | Natural environment   |
|-------------|---------------|---|--|--|--|---|
| Tier 5      | Severe        | Direct loss or opportunity cost of more than \$5M   | One or more fatalities or severe irreversible disability to one or more people   | Greater than 50% of media stories are negative for a period of up to 30 days or more; Significant impact on funding for several years; long-term loss of clients | Full service or business performance disruption > 1 weeks, partial disruption (months)                 | Major litigation costing \$>5m; Investigation by regulatory body resulting in long term interruption of operations  |
|             |               | Increase in budget more than 20%                    | Resignations of large numbers of key management level staff with key skills, knowledge and expertise<br>Staff are not up skilled to meet corporate objectives and key strategic priorities |  |  | Major release of toxic waste resulting in long term damage to the environment; Significant damage to natural areas and ecosystem health; Extensive decline in support to community for living sustainably |
| Tier 4      | Major         | Direct loss or opportunity cost of \$1M to \$5M     | Extensive injury or impairment to one or more persons  | Greater than 50% of media stories are negative for a period of up to 30 days ; CEO departs affecting funding or causing loss of clients for many months          | Full service or business performance disruption 2–7 days, sustained partial disruption (weeks)         | Major breach of regulation with punitive fine, and significant litigation involving many weeks of senior management time and up to \$3m legal costs   |
|             |               | Increase in budget of 15% to 20%                    | Many resignations of key staff and loss of key skills, knowledge and expertise. Staff not upskilled to meet Business Plan priorities and commitments.                                      |  |  | Major release of toxins/water resulting in high compensation or reconstruction costs; Decline in support to community for living sustainably  |
| Tier 3      | Moderate      | Direct loss or opportunity \$250K to \$1M           | Short term disability to one or more persons   | 20-50% of media stories are negative for a period of up to 14 days ; senior managers depart; noticeable loss of clients for many months                          | Full service or business performance disruption <2 days, consistent partial disruption (weeks)         | Breach of regulation with investigation by authority and possible moderate fine, and litigation and legal costs up to \$999k  |
|             |               | Increase in budget of 5% to 15%                     | Some turnover of key staff and loss of key skills, knowledge and expertise   |  |  | Significant release of pollutants; Residual pollution requiring clean-up work   |
| Tier 2      | Minor         | Direct loss or opportunity \$100K to \$250K         | Significant medical treatment; lost injury time <2 weeks   | 10-20% of media stories are negative for a period of up to 7 day; complaint to management  | Part service or business performance disruption 1 day, limited partial disruption (days)               | Breach of regulations; major fine or legal costs; minor litigation  |
|             |               | Increase in budget of 2% to 5%                      | Some staff turnover with minor loss of skills, knowledge and expertise   |  |  | Required to inform EPA; Contained temporary pollution   |
| Tier 1      | Insignificant | Direct loss or opportunity cost of less than \$100K | First aid or minor medical treatment<br>No staff turnover  | Less than 10% of media stories are negative for a period of up to 7 days; complaint to employee  | Intermittent part service or business performance disruption, isolated partial disruption (days/hours) | Minor legal issues or breach of regulations   |
|             |               | Increase in budget by less than 2%.                 |  |  |  | Brief, non-hazardous temporary pollution; No environmental damage   |

## Likelihood Descriptors - Example

**Note:** these are examples only, your organisation's descriptors need to be used.

| Likelihood    |                | The event with its associated consequence  |
|---------------|----------------|--|
| <b>Tier 5</b> | Almost certain | All of the controls associated with the risk are extremely weak and/or non-existent. Without control improvement there is almost no doubt whatsoever that the risk will eventuate  |
| <b>Tier 4</b> | Likely         | The majority of the controls associated with the risk are weak. Without control improvement it is more likely than not that the risk will eventuate.   |
| <b>Tier 3</b> | Possible       | There are some controls that need improvement, however, if there is no improvement there is no guarantee the risk will eventuate.  |
| <b>Tier 2</b> | Unlikely       | The majority of controls are strong with few control gaps. The strength of this control environment means that it is likely that the risk eventuating would be caused by external factors not known to the organisation. |
| <b>Tier 1</b> | Rare           | All controls are strong with no control gaps. The strength of this control environment means that, if this risk eventuates, it is most likely as a result of external circumstances outside of our control.              |

## Risk Rating Matrices - Examples

Note: these are examples only, your organisation's labels need to be used.

| 4 x 4 example  |                  | Consequence |            |           |           |
|----------------|------------------|-------------|------------|-----------|-----------|
|                |                  | 1 Minor     | 2 Moderate | 3 Major   | 4 Extreme |
| Likelihood     | 4 Almost certain | 4           | 8          | 12        | 18        |
|                | 3 Likely         | 3           | 6          | 9         | 12        |
|                | 2 Possible       | 2           | 4          | 6         | 8         |
|                | 1 Unlikely       | 1           | 2          | 3         | 4         |
| Overall Rating |                  | 1-4         | 6-8        | 9+        |           |
|                |                  | Moderate    | High       | Very High |           |

| 5 x 5 example |                | Consequence   |               |               |         |         |
|---------------|----------------|---------------|---------------|---------------|---------|---------|
|               |                | Insignificant | Minor         | Moderate      | Major   | Severe  |
| Likelihood    | Almost Certain | Low           | Medium        | High          | Extreme | Extreme |
|               | Likely         | Low           | Medium        | High          | High    | Extreme |
|               | Possible       | Insignificant | Low           | Medium        | High    | High    |
|               | Unlikely       | Insignificant | Low           | Low           | Medium  | Medium  |
|               | Rare           | Insignificant | Insignificant | Insignificant | Low     | Low     |

## Escalation and Response for Risk Rating - Examples

**Note:** these are examples only, your organisation's values need to be used.

4 x 4 example

| Levels  | Risk escalation  | Response (Actions)  |
|---------|--|---|
| Extreme | Risk and Audit Committee / Board                             | Refer to: <ul style="list-style-type: none"> <li>• Risk Appetite Statement (if one exists)</li> <li>• Risk Management Policy</li> <li>• Delegations Instrument</li> </ul> |
| High    | Risk and Audit Committee / Board <b>(or)</b> Executive group |   |
| Medium  | Executive group  |   |
| Low     | Business Unit / Program                                      |   |

5 x 5 example

| Levels        | Risk escalation and response   |
|---------------|--|
| Extreme       | Extreme rated risks require immediate action by the Executive Leadership Team and briefing to the Board  |
| High          | High rated risks are managed senior management and the Executive Leadership Team by monitored by the Audit and Risk Committee regular reporting. |
| Medium        | Medium rated risks are managed by senior management and monitored by the Executive Leadership Team   |
| Low           | Low rated risks are tolerated and managed by routine procedures  |
| Insignificant | Insignificant rated risks are accepted and require no action, monitor  |