AACE INTERNATIONAL RECOMMENDED PRACTICE

72R-12

DEVELOPING A PROJECT RISK MANAGEMENT PLAN

AACE INTERNATIONAL

AACE International Recommended Practice No. 72R-12

DEVELOPING A PROJECT RISK MANAGEMENT PLAN
TCM Framework: 7.6 – Risk Management

Rev. April 25, 2013

Note: As AACE International Recommended Practices evolve over time, please refer to www.aacei.org for the latest revisions.

SAMPLE

Contributors:

Disclaimer: The opinions expressed by the authors and contributors to this recommended practice are their own and do not necessarily reflect those of their employers, unless otherwise stated.

David C. Brady, P.Eng. (Author)   James E. Arrow
John K. Hollmann, PE CCE CEP   Dennis Read Hanks, PE CCE

April 25, 2013

INTRODUCTION

Scope

This recommended practice (RP) of AACE International defines practices for developing and implementing a risk management plan for any type of project for any project phase. A risk management plan defines how the project team intends to implement its applicable risk management process. This RP assumes the process is aligned with *TCM Framework* section 7.6 *Risk Management* (e.g. plan, assess, treat, and control risks over the project life cycle.) It is recommended that the risk management plan be part of an overall project execution plan (PEP) or similar integrated project plan to better ensure project objectives are achieved.

The risk management plan describes specific processes, procedures, organization, tools and systems that guide and support effective risk management throughout the life cycle of the project.

Purpose

This RP is intended to provide guidelines (i.e., not a standard) in developing a project risk management plan. This will provide a basis for what most practitioners would consider to be good practices that can be relied upon, and that they would recommend be considered for use when applicable. In general, the risk management plan model includes:

- ensuring risk management objectives are addressed for all stakeholder and project requirements
- implementing an integrated set of work processes, procedures, and applications to plan, identify, analyze, evaluate, treat, and monitor risks specific to the life of the project
- implementing an organization's integrated suite of risk management applications (tools and systems)
- identifying organizational roles, responsibilities, and accountabilities with respect to risk management
- producing, updating, and controlling the risk management deliverables
- communicating risk management information and deliverables
- initiating the risk management process
- capturing and disseminating learnings for future risk management planning

This RP will assist in developing a fit-for-use template which can be customized for each specific project.

According to TCM, "the risk management plan must describe what the project or asset management team recognizes as being the risk management objective so that it may be incorporated within the overall project execution plan and/or project charter." The time invested in preparing, documenting, and communicating a solid risk management plan will increase the success of the execution of the project.

RECOMMENDED PRACTICE

In TCM, the risk management plan process is a precursor of recommended practice 62R-11, *Risk Assessment: Identification and Qualitative Analysis*. The overall risk management planning process is shown in Figure 1.
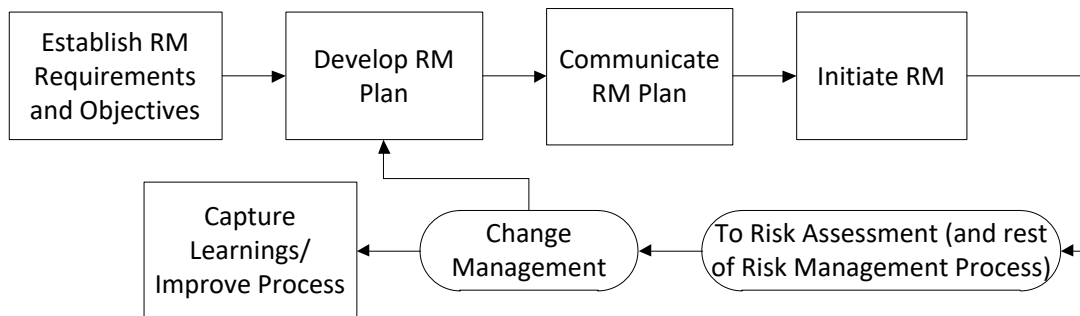
April 25, 2013

Figure 1: Process for Developing, Implementing and Maintaining a Risk Management Plan

Establish Requirements and Objectives

The first step of this process is to identify the stakeholders and to elicit their expectations, requirements, and objectives from the process with respect to risks. The risk management plan will then specifically address these requirements and objectives. General project requirements and objectives (e.g. profitability) will already be identified as part of integrated project planning. For risk management, these requirements must be made more specific to guide risk assessment, treatment, and control. For example, a project will usually have a safety objective in terms of a measure such as lost time incidents. The team may want to determine if management has requirements for who should lead identification of these risk and/or assessing the cost of such incidents. Many requirements will be established by company policy or regulation. If so, these should be reviewed. In elicitation, considering the external and internal context will help ensure that no important stakeholder and requirement is missed. Understanding the context will help ensure that the requirements are fit-for-use, make sense to all parties, and can be practically addressed in the risk management plan.

External Context

External stakeholders (typically those outside the project team and business entity owning the asset and proposing the project) must be considered when developing RM requirements. Typically legal, regulatory, and other third parties (e.g. communities near or affected by the project) stakeholders will determine key external requirements. The external stakeholders and contextual issues may include, but are not limited to:
- the social, cultural, political, legal, regulatory, financial, technological, economic, natural, and competitive entities and environments, whether international, national, regional or local
- key drivers and trends having impact on the objectives of the organization
- relationships with, perceptions and values of external stakeholders
- preferred methods or practices
- preferred metrics and/or report formats
- operational definitions of risk defined by the stakeholders that may affect the specific processes and methods used

Internal Context

The project's internal context includes any stakeholder and issue within the organization (again, typically the project team and business entity owning the asset and proposing the project) that can influence the way in which a project will be manage risk. The stakeholders and context outside the project team must be established because:

April 25, 2013

1. risk management takes place in the context of the objectives of the overall organization
2. requirements, objectives, and criteria of a particular project, process, or activity should be considered in the light of those of the organization as a whole
3. some teams fail to recognize opportunities to achieve the enterprise's strategic, portfolio, or business objectives and this affects ongoing organizational commitment, credibility, trust, and value

The risk management process should be aligned with the organization's culture, processes, structure, and strategy. This can include, but is not limited to:

- governance, organizational structure, roles, and accountabilities
- the organization's culture
- policies, objectives, and the strategies that are in place to achieve them
- capabilities understood in terms of resources and knowledge (e.g. capital, time, people, processes, systems, and technologies)
- the relationships with, perceptions, and values of internal stakeholders
- information systems, information flows and decision making processes (both formal and informal)
- standards, guidelines and models adopted by the organization
- form of and extent of contractual relationships
- frequency to update qualitative analyses
- frequency to run cost and/or schedule risk analyses
- budget or an estimated number of hours to support of the risk management process

In addition to the above, the plan needs to consider the following questions:

- Is the project/venture unique and requiring of special consideration?
- Are there any overarching project assumptions that need to be formalized?

If an enterprise risk management (ERM) process is in place, understanding the above issues will be made easier.

In the end, it is useful to document the risk management requirements in a way that identifies each stakeholder and the team's interpretation of their requirements. This can be used to test for agreement with these stakeholders and as a basis to ensure the quality of the ultimate risk management plan that is developed (i.e. did it meet requirements?).

Developing the Risk Management Plan

Whether the organization's risk management process and tool's (e.g., planning templates) are mature or not, each project's risk management plan must be organized in a logical manner and made specifically applicable to the project. Appendix A contains an example of a risk management plan table of contents to serve as an initial model or template.

The risk management plan will need to consider the requirements above and determine how each will be addressed in consideration of the context. Although the terminology may differ between companies, the plan outline concept should be similar to the following topics and descriptions.

Scope

Briefly describe the scope of the risk management plan with respect to the overall project plan. How does it tie into the project plan and the overall risk program within the company?