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# **Risk Management Policy**

**Recce Pharmaceuticals Ltd**  
ACN 124 849 065

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## 1. Overview

The Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

The Board has delegated to the Audit and Risk Committee responsibility for implementing the risk management system.

## 2. Risk Management Vision

To develop organisational wide risk management capabilities which ensure a consistent, efficient and effective assessment of risk in the achievement of Recce's goals.

Recce views risk management as integral to its objective of creating and maintaining shareholder value and the successful execution of its strategies.

## 3. Towards an Embedded Risk Management Culture

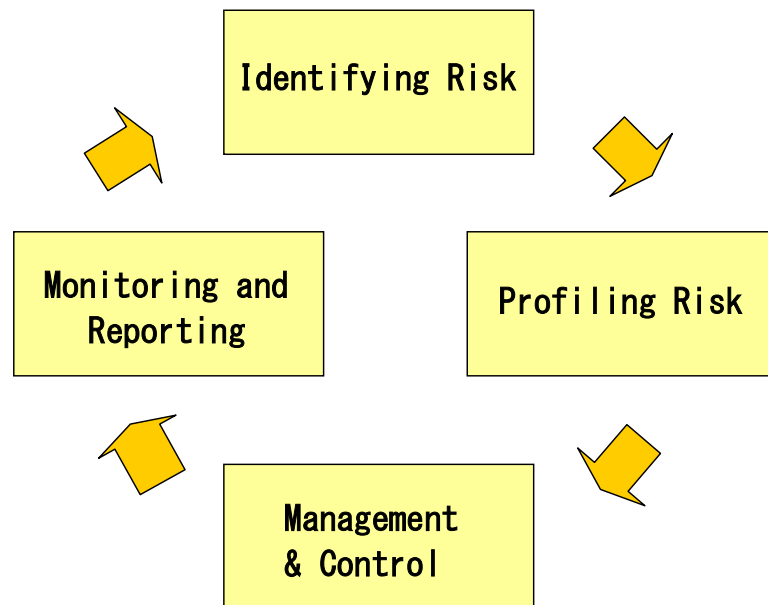
- 3.1 Risk management is an integral part of good management practice. This policy outlines the arrangements put in place to ensure risk information is reviewed and updated on a regular basis as part of regular management meetings or reactively when circumstances change, control systems alter or when new evidence about risk exposure emerges.
- 3.2 The Audit and Risk Management Committee will regularly review the policy and look at how risk management and risk management data (risk register) can be built into business plans and embedded into the review of the Group's performance.
- 3.3 A work programme will be put together and used to assess progress or performance in embedding risk management across the Company. The Management team will put together the plan, oversee its implementation, monitor and review progress against the plan and report developments to the Audit and Risk Management Committee during the course of the financial year.

## 4. Introduction

- 4.1 Risk Management describes the planned and systematic approach used to identify, evaluate and control the whole range of business risks, which might prevent an organisation from achieving its objectives.
- 4.2 Risk is defined as something happening that may have an impact on the achievement of objectives. It includes risk as an opportunity as well as a threat. By managing threats effectively the Group will be in a stronger position to deliver its objectives. By managing opportunities and the risks that come with it, the Group will be in a better position to provide improved results and better value for money.
- 4.3 When management of risk goes well it often remains unnoticed. When it fails, however, the consequences can be significant and high profile – hence the need for effective risk management.
- 4.4 Risk to the Company can take various forms e.g. risk to the public or stakeholders, risk from missed opportunities, risks to projects, financial risk, risks to reputation, etc.
- 4.5 Risks will always exist and some can never be eliminated. The Company recognises that it has a responsibility to manage risks and the risk management policy describes the processes that will be put in place and linked together to identify, profile, manage and control, monitor and report on risks.

The process is illustrated in figure 1 and described in subsequent sections.

Figure 1 – Risk Management Process



## 5. Roles and Responsibilities

5.1 A key objective of the risk management policy is to achieve the integration of risk management into the culture of the Company. Risk Management is a cultural issue that must be based on a top-down meets bottom-up approach.

5.2 The following have responsibilities for risk management.

- **Audit and Risk Management Committee**

- To agree the risk management policy.
- To hold the Management Team accountable for the effective management of risk by officers of the Group.
- To seek assurances from management that the priorities for action determined by the risk management process have been actioned.
- To monitor delivery of the strategy by receiving regular reports.

- **Management Team**

- To identify, manage, monitor and review the operational, strategic and financial risks affecting the Company.
- To ensure that the Company manages risk effectively through the development of a comprehensive corporate strategy.
- To monitor delivery by receiving regular reports from the various company officers for onward submission to the Audit and Risk Management Committee.
- To agree the priorities for action determined by the risk management process.
- To develop a formal framework for the identification, assessment and management of strategic, operational and projects risks.
- To agree a work programme for the implementation of risk management across the Company and report progress to the Audit and Risk Management Committee on a regular basis.
- To encourage the uptake of the risk management strategy and programme in each project and to share experiences of risk and good practice across the Company.
- To develop a Corporate Risk Register. – To invite expertise from within the Company or from external sources to join the group, as and when required.

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- **Other Officers and Staff**

- To manage risk effectively in their job.
- To report risks to their Supervisors.
- To undertake their duties within risk management guidelines.

## **6. Managers**

- 6.1 The managers meet on a quarterly basis. Meetings are chaired by the Executive Chairman and the managers comprise the Executive Directors of the Company.
- 6.2 Other expertise from within the Company and from external sources will be called upon when necessary.

## **7. Corporate Risk Register**

- 7.1 Once identified, all risks will be entered onto the Corporate Risk Register.
- 7.2 The Corporate Risk Register should be reviewed pro-actively on an ongoing basis e.g. at regular management meetings and reactively when circumstances or control systems change or when new evidence about risk exposure emerges.
- 7.3 It is therefore a key tool for management to use continuously to check that the Company's level of risk exposure is acceptable.
- 7.4 The risk register is completed in stages. The stages and risk management process are outlined below.

## **8. Risk Identification**

- 8.1 It is clear that the Company can only manage those risks that have been identified, therefore the more comprehensive the approach to risk identification, the better placed the Company will be to manage risk.
- 8.2 Appendix A outlines some of the key categories of risk facing the Company and for each category lists some of the strategic and operational risks that may arise. It provides a starting point or prompt for those seeking to identify risks in their areas of work.
- 8.3 We should encourage our key stakeholders to help us identify any potential risks that the Company may have, we should also encourage them to help us implement strategies to manage our risks.
- 8.4 The risks identified need to be recorded in a structured format to describe the potential issue (both from a quantitative and qualitative perspective), likely duration of the risk exposure, likely consequences and current action or controls.
- 8.5 Risk management is an important part of the Business Planning process. The Management Team regularly identify and report significant Strategic and Corporate risks to the Audit and Risk Management Committee. These are cascaded down the Company and considered along with operational risks and managed appropriately through project plans, work plans or work programmes.
- 8.6 The successful delivery of some of the strategic and operational objectives relies on support from our partners. The Company must therefore look beyond its boundary to identify risks to objectives from these sources, through good stakeholder involvement in the risk management process.

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## 9. Risk Profiling

9.1 Whoever identifies the risk should carry their involvement through to the profiling stage. Having identified the significant issues the risks can be assessed and prioritised according to their likelihood and impact levels.

9.2 The Risk Scenario forms created under the identification stage provide the basis for the assessment.

The potential impact should such an event occur is expressed in terms of;

- Catastrophic – would cause the closure of the business
- Major – huge financial loss; death; key deadlines missed; very serious legal concerns; major environmental impact; loss of public confidence
- Moderate – substantial financial loss; significant public health effects; deadlines renegotiated with customers; potentially serious legal implications; significant environmental impact, long-term reputation damage.
- Minor – some financial loss; minor or reversible health effects; minor impact on the environment; short-term reputation damage
- Insignificant – low to no financial loss; no public health effects; service delivery unaffected; no legal implications; unlikely to affect the environment; unlikely to damage reputation

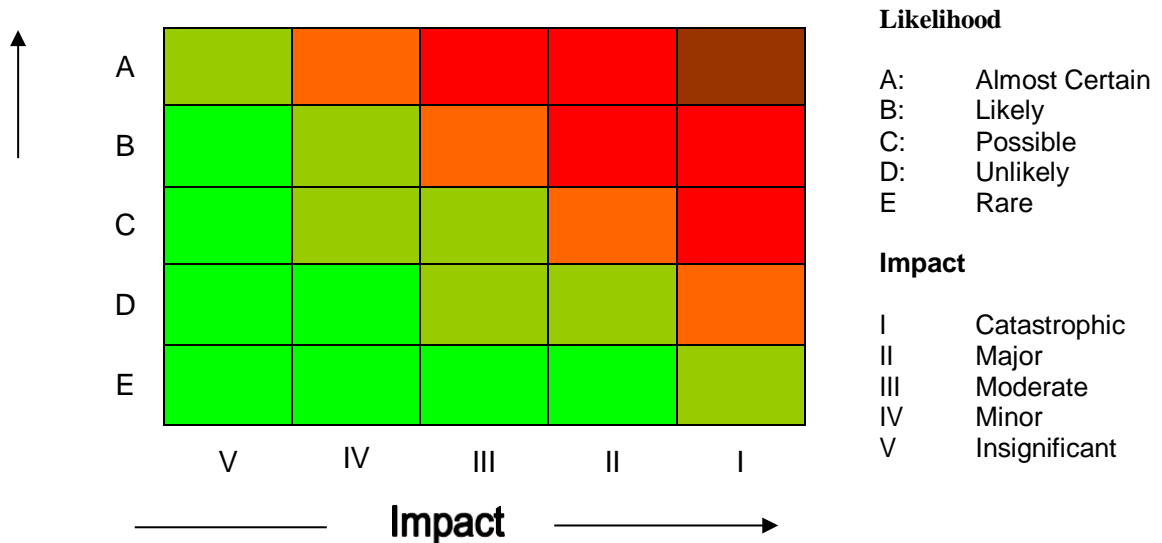
and determined by considering the description of the risk consequences information of the Risk Scenario form. The likelihood of the risk occurring is expressed in terms of;

- Almost Certain – the risk is likely to occur this year or at frequent intervals
- Likely – the risk is likely to occur more than once in the next three years
- Possible – the risk may occur in the next three years
- Unlikely – the risk is unlikely to occur in the next three years
- Rare – the risk may occur in exceptional circumstances

9.3 The results of the likelihood impact assessments are recorded on a Risk Profiling Grid (see Figure 2 below) using the risk scenario reference.

9.4 Details of the risks will be captured and recorded on the Corporate Risk Register. The Corporate Risk Register is a key building block of the strategy. The Company will maintain a central register of the important risks, built up from information provided from the risk management process. This should be a living process and not a tick box approach. Once the initial information is collected, the centre will only require to be notified of key changes since the last update.

**Figure 2 – Risk Profiling Grid**



9.5 It is clear that box A1 (likelihood almost certain, impact catastrophic) is the most serious area and the risks that sit within this box are the most important and demand immediate attention. From the grid the high priority areas or risks can be identified and management response considered managing down the likelihood of the event (where possible) and/or the level of impact, should the event occur.

**10. Management Action/Control**

10.1 The management action and control stage includes as its major element risk control or risk mitigation, but extends further to include actions like risk acceptance, risk transfer, risk avoidance, risk funding and contingency arrangements. Having identified and profiled the risks, one or more of the following general approaches should be considered to manage the issue.

- **Risk Control or Mitigation:** By far the greater number of risks will be in this category. The purpose is not necessarily to terminate the risk but, more likely, to put a planned series of mitigation actions in place to contain the risk to an acceptable level. *Mitigation actions include: New systems or practices, physical risk improvements, continued assessment and monitoring, staff training.*
- **Risk Acceptance:** The Company’s ability to take effective action against some risk may be limited, or the cost of taking action may be disproportionate to the potential benefit gained (see risk funding below). In this instance, the only management action required is to watch the risk to ensure that its likelihood or impact does not change. If new management options arise, it may then become appropriate to control or mitigate the risk. *Courses of action include: Monitor, informed decisions, contingency plans or arrangements (see contingencies below).*
- **Risk Transfer:** This might be done through such things as conventional insurance or by asking a third party to take on the risk. Partnerships or contracting out services, for example, transfers some but not all of the risk and under the arrangements often introduces a new set of risks to be managed. *Courses of action include: Insurance coverage, partnership or contract arrangements, and outsourcing.*
- **Risk Avoidance:** This is a variation of the control or mitigate approach and involves quick and decisive action to eliminate an activity altogether because it has been identified as being too risky. *Courses of action include: Discontinue activity or operations, alternative systems or arrangements.*

- **Risk Funding:** Total elimination of all risks is not always possible. Funding possible risk is a key part of the risk management process. There are likely to be occasions when the cost of the action will outweigh the benefits that will accrue to the organisation as a result of the action being taken. An assessment of the cost/benefit of eliminating or reducing the exposure to risk should be considered under the management/control stage. In such instances all or an element of the risk is retained (see risk acceptance above). Risk funding issues should be considered by the budget or financial management process.
- **Contingency Plans:** It is recognised that any risk could suddenly be realised and become a critical issue, even those that have been assessed as having relatively low likelihoods. The assessments could be wrong, circumstances might change before there is time to respond or external events could alter our view of situations and the nature of risk.

There is a need to consider in advance what action to take if a risk develops or a crisis occurs and these contingency arrangements are an essential part of the risk management process. Contingency plans or arrangements should be considered for all risks, which have been assessed as either Critical or Catastrophic impact, irrespective of the potential likelihood, and any plans developed should be rehearsed or validated to ensure they cater for the eventuality

## 11. Monitoring and Reporting

- 11.1 Risk management is a dynamic process. New risks will be identified, some will be terminated, contingency plans will need to be updated in response to changing internal and external events, and our assessment of likelihood and impact levels will also need to be reviewed, particularly in the light of our own management actions.
- 11.2 The main strategic, corporate and financial risks will be kept under regular review by the Management Team and risks will be reviewed regularly. Information on risk will be integrated with other key business monitoring or review mechanisms (e.g. performance reviews, budget monitoring, project reviews, etc.).
- 11.3 It is important to ascertain whether our management interventions are having the desired outcome on our risks. Each area identify and record significant risks, profile or prioritise the issues and monitor progress against this. Managers will review risk information as part of the business monitoring or review mechanisms in place and manage and/or report significant change. Ways to assess this updating process are: -
- How regularly is it happening?
  - What level of input is the Manager having to this review?
  - How static is the risk information?
  - Have the risk ratings and risk grid/matrix changed?
  - Do the changes appear cosmetic or are they substantial, involving the identification of additional actions or changes to contingency arrangements?
  - Are the additional actions being tackled?
  - Is there an audit trail outlining the actions that have been taken and indicating their relative success?
  - Is the risk information shared with staff and are they amending and refining their actions in the light of any changes to the risk profile?
  - What is the turnover in terms of new risks being identified and existing risks being terminated?
  - Is the number of High risks decreasing?



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- 11.4 The Corporate Risk Register is one of the basic building blocks of the risk management policy. It is a key tool for senior management to use continuously to check that the Company's level of risk exposure is acceptable. Information of changes to risks, risk ratings and management actions or response will need to be passed to the Management Team to amend the data.
- 11.5 The Management Team will help to provide consistent central support and will encourage the uptake of good practice across the Company. As a central point for the receipt of risk register information the Management Team will compare the data and approaches being taken by the individual cost centres. They will perform something of a challenge function, ensuring that all the necessary data is provided and conducting some initial testing of the robustness of the data – for example, where contingency plans are mentioned, they may be called in and compared to identify and share good practice.
- 11.6 The Company must disclose at least annually whether the Board (or a committee of the Board) has completed a review of the Company's risk management framework to satisfy itself that it continues to be sound.
- 11.7 The Company will disclose if it has any material exposure to economic, environmental and/or social sustainability risks (as those terms are defined in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations) and, if it does, how it manages, or intends to manage, those risks.

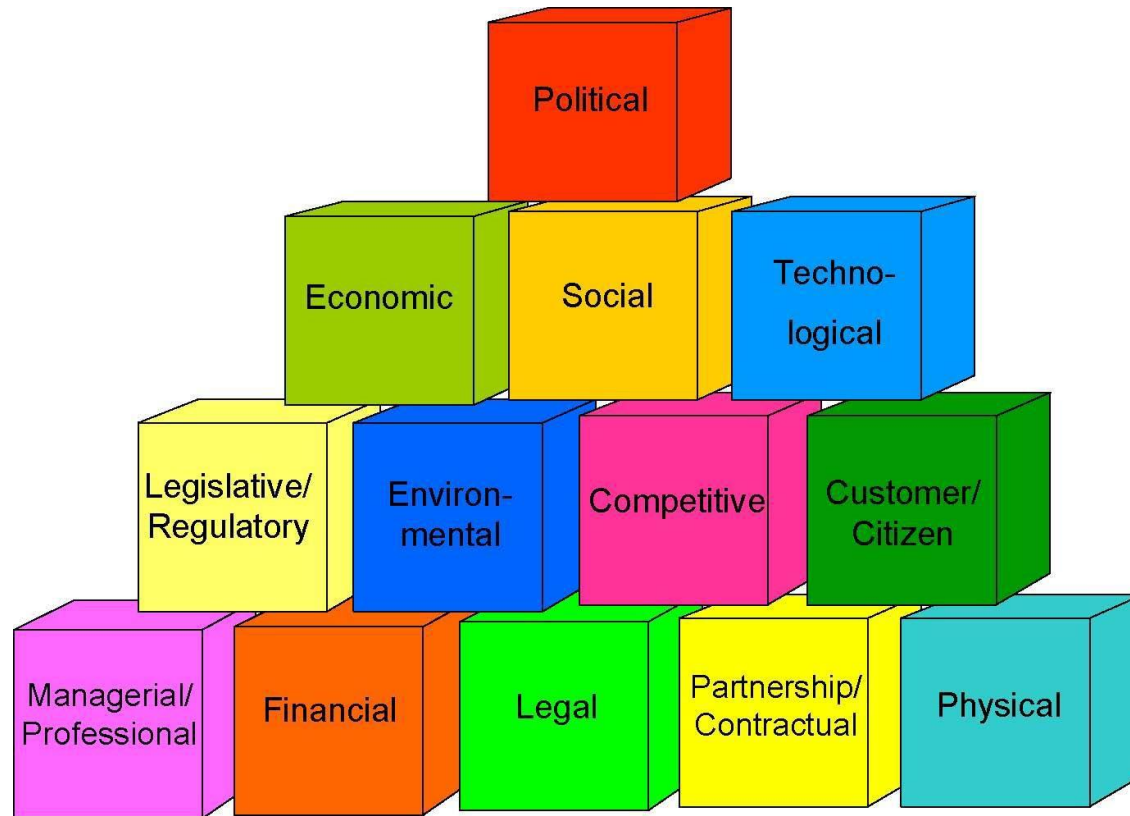
## **12. Review**

- 12.1 The Audit and Risk Committee reviews this policy at least annually and reports to the Board any changes it considers should be made. This policy may only be amended by resolution of the Board.

RISK MANAGEMENT GUIDANCE

APPENDIX A

Framework for Identifying and Categorising Risks



**RISK MANAGEMENT GUIDANCE**

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**Framework for Identifying and Categorising Risks**

<p><b>Political</b> <i>Arising from the political situation</i></p> <ul style="list-style-type: none"> <li>• Political make-up (majority party, key opposition parties)</li> <li>• Stability of political situation.</li> <li>• Election cycles (power shifts, undue influence on electioneering).</li> <li>• Decision-making structure (elected Prime Minister with cabinet).</li> <li>• Recent or proposed changes to political structure.</li> <li>• Political personalities.</li> <li>• Meddling/abuse (fraud, corruption, lack of strategic focus)</li> <li>• Leadership issues (lack of strong leadership, concentration of power into hands of a few, imbalance of power).</li> <li>• Power representation of departments.</li> <li>• Wrong strategic priorities.</li> <li>• Unfulfilled promises to electorate.</li> </ul>	<p><b>Economic</b> <i>Arising from the national, local and organisation specific economic situation</i></p> <ul style="list-style-type: none"> <li>• Borrowing and lending situations.</li> <li>• Interest rates.</li> <li>• Strength of investments.</li> <li>• Budgetary position (e.g. weak, not sustainable).</li> <li>• Key employment sectors (e.g. over reliance on key industries/employers).</li> <li>• Poverty indicators.</li> <li>• Demand predications (e.g. on demand led services like benefits, social care).</li> <li>• Competition between suppliers and the affect on pricing.</li> <li>• General/regional economic problems.</li> </ul>
<p><b>Social</b> <i>Arising from the national and local demographics and social trends.</i></p> <ul style="list-style-type: none"> <li>• Demographic profile (age, race, etc).</li> <li>• Health statistics/trends.</li> <li>• Crime statistics/trends.</li> <li>• Employment opportunities</li> <li>• Life-long learning.</li> </ul>	<p><b>Technological</b> <i>Arising from technological change and the organisational technological situation.</i></p> <ul style="list-style-type: none"> <li>• Capacity to deal with technological changes.</li> <li>• Current use of/reliance on technology.</li> <li>• Current or proposed technology partners.</li> <li>• State of architecture.</li> <li>• Current performance and reliability.</li> <li>• Security and standards, e.g. on back up and recovery.</li> <li>• Lapse or appearance of competitive patents, technologies</li> </ul>

<p><b>Legislative/Regulatory</b>  <i>Arising from current and potential legal changes and the organisation’s regulatory information.</i></p> <ul style="list-style-type: none"> <li>• Preparedness for new legislation and regulations – including Europe.</li> <li>• Exposure to regulators – e.g. auditors/inspectors.</li> <li>• Commitment to ‘Best Value’.</li> <li>• Responsiveness to criticism.</li> <li>• CPA /MIA or equivalent accounting body.</li> </ul>	<p><b>Environmental</b>  <i>Arising from inherent issues concerned with the physical environmental.</i></p> <ul style="list-style-type: none"> <li>• Nature of environment (urban, rural, mixed).</li> <li>• Land use – green belt, brown field sites.</li> <li>• Traffic problems/congestion.</li> <li>• Pollution, emissions.</li> </ul>
<p><b>Competitive</b>  <i>Arising from the organisation’s competitive spirit and the competitiveness of services, etc.</i></p> <ul style="list-style-type: none"> <li>• Position compared with peers.</li> <li>• Relationships with neighbours and partners, e.g. competitive or collaborative.</li> <li>• Success in securing funding.</li> <li>• Nature of service provision.</li> <li>• Competition for biodiesel. e.g. palm oil vs. rapeseed</li> </ul>	<p><b>Customer/Citizen</b>  <i>Arising from the need to meet current and changing needs and expectations of customers and citizens</i></p> <ul style="list-style-type: none"> <li>• Extent and nature of consultation with/involvement of community, e.g. community groups, local businesses, focus groups, citizens’ panels, consultation on new democratic structures, Council Tax levels, etc.</li> <li>• Relationship with community leaders, tenant groups and ‘opposition’ groups.</li> <li>• Community needs v Organisational objectives.</li> <li>• Service delivery feedback/complaints.</li> </ul>

**RISK MANAGEMENT GUIDANCE**

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**Framework for Identifying and Categorising Risks**

<p><b>Professional/Managerial</b> <i>Arising from the need to be managerially and professionally competent.</i></p> <ul style="list-style-type: none"> <li>• Views arising from peer reviews – e.g. internal audit.</li> <li>• Professional/managerial standing of key officers.</li> <li>• Stability of office structure/management teams.</li> <li>• Organisational competency and capacity.</li> <li>• Individual competency and capacity.</li> <li>• Performance management structure</li> <li>• Key staff changes and personalities.</li> <li>• Staff recruitment and retention. •</li> <li>• Turnover, absence, stress levels.</li> <li>• Inability to implement change.</li> </ul>	<p><b>Financial</b> <i>Arising from the financial planning and control framework</i></p> <ul style="list-style-type: none"> <li>• Financial situation of company.</li> <li>• Level of reserves.</li> <li>• Adequacy of funding</li> <li>• Budgetary policy and control.</li> <li>• Delegation of budget and financial disciplines.</li> <li>• Monitoring and reporting systems.</li> <li>• Use and sustainability of other sources of income</li> <li>• Control weaknesses – anti fraud &amp; corruption</li> <li>• Foreign currency exposures</li> <li>• Commodity pricing pressures</li> <li>• Interest rate risk</li> </ul>
<p><b>Legal</b> <i>Arising from possible breaches of legislation.</i></p> <ul style="list-style-type: none"> <li>• Legal challenges and claims.</li> <li>• Adequacy of legal support.</li> <li>• Boundaries of corporate &amp; personal liabilities.</li> <li>• Sufficient reserves to defend legal challenge.</li> <li>• Damage to reputation arising from legislation breach.</li> </ul>	<p><b>Physical</b> <i>Arising from physical hazards associated with people, buildings, vehicles, plant and equipment.</i></p> <ul style="list-style-type: none"> <li>• Nature and state of asset base including record keeping.</li> <li>• Commitment to health, safety and well being of staff, partners and the community.</li> <li>• Accident record keeping.</li> <li>• Maintenance practices.</li> <li>• Responsibility as managers.</li> </ul>

**Partnership/Contractual**

***Arising from partnerships and contracts.***

- Key strategic partners – from public, private and voluntary sectors.
- Accountability frameworks and partnership boundaries.
- Any other large scale projects involving joint ventures.
- Outsourced services.
- Relationships with contractors.
- Procurement arrangements/contract renewal policy.

Managing risks is a core responsibility for senior managers. Risk assessments should be undertaken as part of the corporate and planning process. Risk assessment draws on techniques such as group assessment, brainstorming and SWOT analysis.

The categories are neither prescriptive nor exhaustive but provide a framework for identifying and categorising a broad range of risks facing each business. Each category cannot be considered in isolation.