

AACE
INTERNATIONAL
RECOMMENDED
PRACTICE

63R-11

RISK TREATMENT

SAMPLE

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AAACE International Recommended Practice No. 63R-11

RISK TREATMENT

TCM Framework: 7.6 – Risk Management

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

SAMPLE

Contributors:

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INTRODUCTION

Scope

This recommended practice (RP) of AACE International defines the expectations, requirements, and practices for risk treatment. This RP follows the steps identified in RP 62R-11, *Risk Assessment Identification and Qualitative Analysis*. In this process, an action owner is assigned who, working with the risk team, is responsible for devising and implementing risk response plans for those risks that were not deemed acceptable in the qualitative analysis screening step. It expands on *TCM Framework* section 7.6.2.3 *Risk Treatment* and leads into 7.6.2.4 *Risk Control*.

In TCM, the risk management process is applied in the strategic asset management, as defined in RP 10S-90, *Cost Engineering Terminology* and project control processes. In the strategic arena, the project has not yet been selected, so the treatment focus tends to be on devising alternative asset or project solutions that mitigate the risks while meeting business objectives and requirements. In project control, the risk treatment focus is more on tactical refinements (per TCM 3.3.1.4 - identify creative alternative solutions, leveraging value engineering for example, and, through a formal quantitative analysis process) of project scope, conditions, plans and deliverables as well as developing contingency plans. This RP is intended to be generic to either focus area or any project scope.

Purpose

This RP is intended to provide guidelines, not a standard, for including risk management during the planning of a project or asset management that most practitioners would consider to be good practices that can be relied on, and would recommend for use. It will provide a foundation for risk control.

This RP will outline the processes and practices but is not a detailed “how-to”. In that respect it will most benefit those that are new to risk management or decision and risk management professionals who want to refresh their knowledge of recommended practices.

Background

This RP is intended to elaborate on the required skills and knowledge of decision and risk management professionals as identified by AACE International. It summarizes and clarifies the practices in the context of the TCM process.

Prior to treating risks, they must first be identified and qualitatively analyzed or screened. Once the unacceptable risks (a risk not identified for the "accept" treatment as described in TCM 7.6.5.3, *Risk Treatment*) have been passed on for treatment, the treatment planning process should begin as soon as practical to ensure the treatments are properly implemented.

This RP is consistent with *TCM Framework Section 7.6 Risk Management* which identifies the key actions to be performed during risk treatment:

- Evaluating all appropriate response strategies.
- Selecting an appropriate risk response plan strategy (or combination of strategies).
- Developing action items in support of the selected response.
- Validating proposed actions with assigned actions, including dates for implementation.
- Ascertaining post-response targets and gains.

August 23, 2012

- Ascertaining response plan resource requirements.
- Updating project schedule and/or budget if the treatment results pass decision making and change management criteria.
- Identifying any secondary threats or opportunities that may arise from the response.

The treatment process is interactive with the project control change management process because proposed treatment actions or risk responses are potential changes to the project plan. In some cases, treatment may be a planning process because it does not actually implement or control the response work and therefore should be developed in conjunction with project controls. This RP includes a discussion of the linkage of treatment planning and change management; however, it is not the primary reference for change management practices.

RECOMMENDED PRACTICE

The risk treatment process follows risk identification and qualitative analysis. In this process, an action owner is assigned to work with the team and is responsible for devising and implementing risk response plans for those risks that were not deemed to be accepted requirements in the qualitative analysis screening step. The action owner and subsequent response plans should be identified in the risk register.

Rather than have the action owner immediately start devising risk response plans, an initial explicit step is added to evaluate the current risk profile (i.e. the inherent risk). This step determines if a risk safeguard, control or containment process, procedure, work instruction, facilities or other company asset or project features exist or are available to manage existing threats or opportunities. A advantage to doing this is that the project manager and other stakeholders will better understand these safeguards and determine if they are likely to be effective.

Identify Action Owner

As shown in Figure 1, the first step in the treatment planning process is to identify action owners. The action owner should be the person most affected by the risk or in the best position to implement the action plan. The action owner is responsible for devising and implementing the risk response plan(s) on behalf of the project and monitoring and reporting on the status of the response plan and actions. The action owner can be from any level of the project or enterprise and ensures the treatment planning and actions get completed.

Each risk response may require review and support from project controls as part of the "plans for treatment option(s)" box in Figure 1. As such, the roles and responsibilities of the action owner must be documented and agreed upon in integration with the overall project team. The risk response plan may contain many actions or tasks. The action owner may assign those actions to other individuals. Having a single point of responsibility aids effective communication and helps maintain accountability. The action owner needs to be identified by the team analyzing the risk as the team in the best position to identify which group may be most affected by the risk and which team member is the best candidate to own it. It is highly advantageous that the action owner attended the risk identification and qualitative analysis workshops.

Over the life of the risk management process the action owner may change. For example, the owner may recommend that a risk be transferred to another party. Upon implementing that response, the other party must then assign an action owner under their process. If a third party accepts a risk, the original risk owner needs to ensure that it is not ignored.

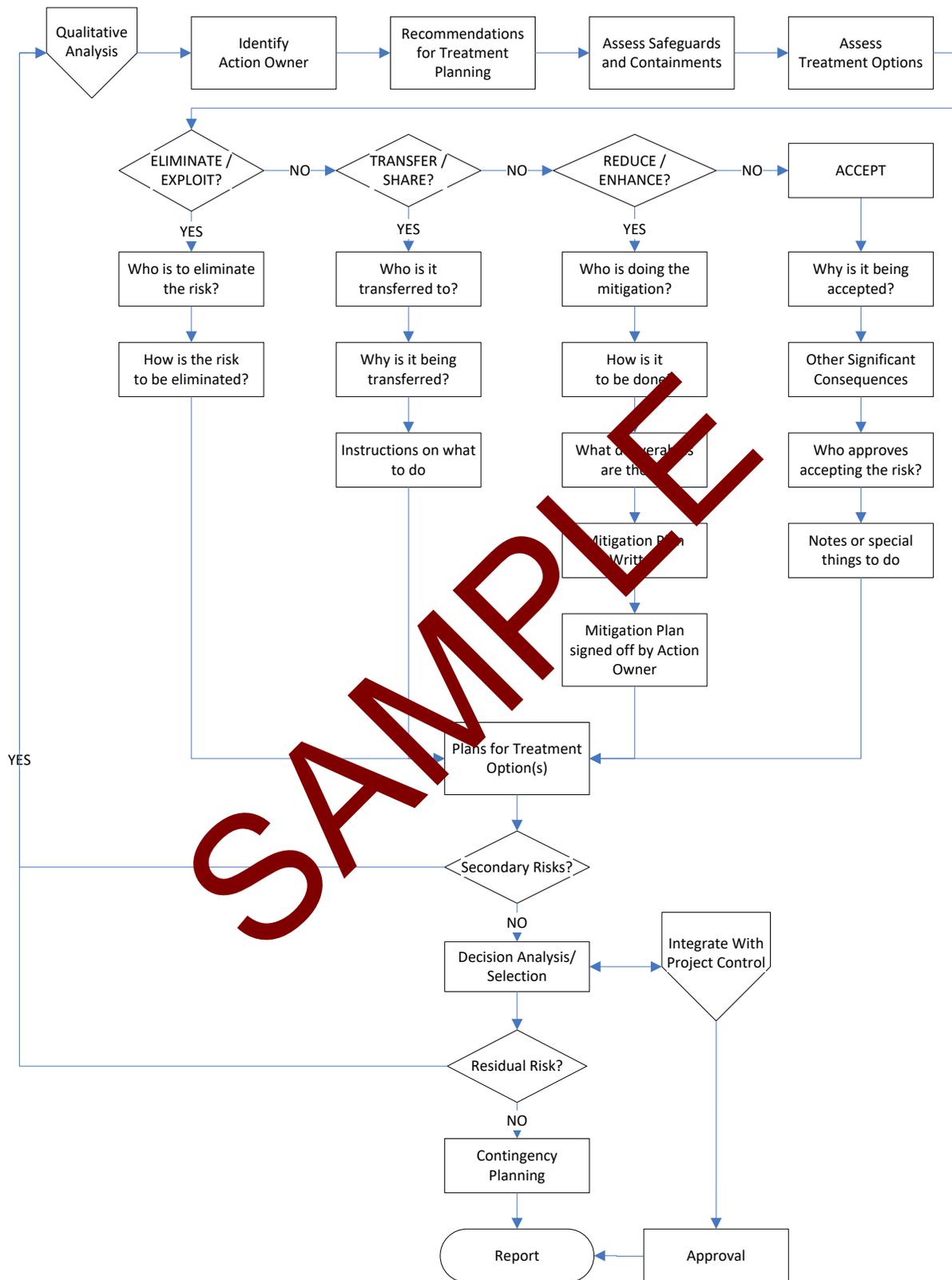


Figure 1 – Example Treatment Planning Process Flow Chart