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risk watch

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A Contingency Plan for Risks

by Gianna Di Stefano, PII Risk Manager

There are many types of risks faced by law firms. Performing a self-audit of your firm's risk management procedures and practices is an efficient way to determine your firm's professional risks.

Disaster can present in many forms and a contingency plan will help protect the clients' interests and hopefully mitigate the impact on the firm in terms of operation, revenue and business loss not to mention minimise potential professional negligence claims.

Set out below is a list of the type of risks faced by law firms. It does not seek to be comprehensive, rather just to jog your thinking about what can (and does) go wrong. The list is intended to be used to help a law firm identify its own risks when completing its risk register.

	Risk	Caused by …..	Resulting in ……
Strategic	Lack of strategic direction	No, or inadequate, planning	Inefficiencies Failure of practice
	Poor alignment of operational activities to strategy	Poor, or poorly communicated, strategy Poor governance or oversight	Wasted work or re-work Failure of practice
	Inappropriate or inadequate service offering	Poor planning, 'all eggs in one basket'	Loss of revenue Failure of practice
	Loss of significant client to competitor	Poor client service, lack of client diversification	Loss of revenue Failure of practice
	Loss of key staff member(s)	Illness, death, retirement(s) or resignation(s)	Loss of clients, financial loss

	Risk	Caused by …..	Resulting in ……
Operational	Fragmented IT system	Lack of IT architecture planning or strategy, lack of management understanding and oversight of IT function	Inflexible systems, productivity gains not realised, time and money wasted
	Damage to, or loss of, or loss of access to premises	Natural disaster (earthquake, flood), fire, non-renewal of lease	Inability to carry on business
	Internal disputes (e.g. between partners)	Lack of prior agreement of roles, responsibilities etc.	Wasted time Failure of practice
	Claim against the firm	Professional negligence (or inability to show no negligence due to poor records)	Payout, damage to reputation
	Complaint – to the firm or to the regulator	Poor service, delay etc	Finding of misconduct, damage to reputation, loss of clients
	Loss of intellectual property	Inadequate documenting of IP, inadequate protection of IP	Re-work, financial loss
	Under-performing staff	Poor training, supervision or management	Loss of revenue
	Sustained IT breakdown	Inadequate or poor business continuity planning	Loss of revenue
	Loss of data	Recovery and restoration not in place or not working	Delay or re-work
	IT security breach	Inadequate security arrangements	Loss of data Damage to reputation
Financial	Theft or fraud	Inadequate internal controls and management	Poor cash flow, financial instability, insolvency
	Failure to collect, or slow collection, of debts	Inadequate financial controls and management	Poor cash flow, financial instability, insolvency
	Over commitment to expenditure (e.g. loan repayments, departing partner payments)	Inadequate financial planning and management	Poor cash flow, financial instability, insolvency
	Unexpected expenditure	Poor project planning and management	Expected revenue increases or cost decreases not realised
Project	Project not adequately aligned to business needs	Poor project planning and management	Expected revenue increases or cost decreases not realised
	Project not realising potential	Poor project planning and management	Expected revenue increases or cost decreases not realised
Compliance	Claim against firm for IR compliance breach	Inadequate compliance with unfair dismissal, EO, bullying and other IR legislation	Payout, penalties, damage to reputation
	Injury or death of staff member	Inadequate compliance with WH&S legislation	Distress, payout, penalties, damage to reputation
	Injury to client at firm event	Inadequate compliance with WH&S, food safety regulation	Distress, penalties, damage to reputation
	Prosecution for liquor licensing breach at firm event	Inadequate compliance with liquor licensing legislation	Penalties, damages to reputation

Prevention and recovery planning is necessary for all types of risk/disaster.

A contingency plan will assist in recovering and resuming a law firm's operations, protect a firm against financial and business loss and minimise potential professional negligence claims.

The steps in implementing such a plan involve identifying the firm's risks, rating each risk and then considering what can be done to mitigate each risk and then do it.

Law Claims has developed some resources that can help. In addition, to the above list of risks faced by a law firm, we have a template for 'Registering and Rating Risks', a template 'Risk Action Plan' and an example 'Risk Management Policy'.

Please contact Gianna Di Stefano at Law Claims by telephone: (08) 8410 7677 or email: gdistefano@lawguard.com.au for more information.