

# *Performance Audit Report*

## **Managing Risk in the NSW Public Sector**

---

**State Library of New South Wales cataloguing-in publication data**

New South Wales. Audit Office.

Performance audit report: risk management in the NSW public sector / [The Audit Office of New South Wales]

07347 21358

1. Risk management – New South Wales – Auditing. I. Title: Managing risk in the NSW public sector.

352.44243909944

658.15509944

© Copyright reserved by The Audit Office of New South Wales. All rights reserved. No part of this publication may be reproduced without prior consent of The Audit Office of New South Wales.

---

# Contents

<b>Executive Summary</b>	<b>1</b>
<b>1. Risk: An Overview</b>	<b>11</b>
1.1 What is Risk?	12
1.2 Why is Risk Management Important?	13
1.3 The Law	14
1.4 Practice Elsewhere	15
<b>2. NSW Treasury and Risk</b>	<b>17</b>
2.1 Initiatives by Treasury	18
2.2 The Financial Management Framework The Commercial Policy Framework	19
2.3 Risk Management by Treasury	22
2.4 Compliance with Reporting Requirements	23
<b>3. Attitude and Culture</b>	<b>27</b>
3.1 Understanding Risk Management	28
3.2 Is Risk Management a Reality?	29
3.3 Being Risk Averse	30
3.4 Has Responsibility been Established?	31
3.5 Are Resources Adequate?	32
<b>4. The Risk Management Process</b>	<b>33</b>
4.1 The Context of Risk	34
4.2 Strategic and Organisational Context	34
4.3 Identifying Risks	35
4.4 Analysing Risks	36
4.5 Evaluating Risks	36
4.6 Risk Treatment	37
4.7 Monitoring and Review	38
<b>5. The Auditor's Role</b>	<b>39</b>
5.1 The Public Accounts Committee	40
<b>6. Appendices</b>	<b>43</b>
Appendix 6.1 Terms Used in this Report	44
Appendix 6.2 About the Audit	46
Appendix 6.3 Key Tips for Managing Risk	50
<b>Performance Audits by the Audit Office of New South Wales</b>	<b>51</b>

---



# **Executive Summary**

---

## Executive Summary

### Risk

Risk has been defined as *the chance of something happening that will have an impact upon objectives*.

The General Government Debt Elimination Act 1995 (the Debt Act) requires agencies in the General Government Sector to have a risk management plan, including strategies for dealing with those risks. The Debt Act does not apply to the Public Trading Enterprise Sector.

The Australian/New Zealand Standard on Risk Management (the Standard) requires that risk be measured in terms of the likelihood of something happening and the consequences of it happening. This applies to both the private and public sectors.

### The Audit

To conduct an audit of risk management within the NSW public sector we developed a survey, which asked a series of questions of twenty-six agencies about the way they manage risk. The audit, the survey and those agencies participating in the survey are discussed in *Appendix 6.2 About the Audit*.

As with all surveys, the findings do not necessarily apply to all participants, nor is it intended to imply that the findings are generally applicable to the public sector as a whole.

In addition, the results of the survey reflect how agencies consider they manage risk rather than a study of actual risk management. Nevertheless, the survey provides a basis upon which certain conclusions can be reached.

### Audit Opinion

**The Audit Office is of the opinion that, while agencies are aware of the need to manage risk, their risk management falls short of better practice. Many agencies do not consider their risk management to be adequate.**

**The survey suggests that some agencies, mainly those in the Public Trading Enterprise Sector have approached risk management in a systematic way and in accordance with the principles of better practice standards.**

**Others, mainly departments not subject to commercial imperatives, have yet to progress the management of risk beyond the traditional response of insuring against the more common types of risk. Thus there is a danger that with a number of agencies, risk may not be managed adequately, especially in the General Government Sector.**

**The Audit Office considers that:**

- **there is clearly a role for greater consistency in the way risk management is considered and applied**
- **agencies need to take a broader view of risk which goes beyond the insurance focus**
- **agencies need to recognise that being risk averse can deprive them of opportunities to improve efficiency and effectiveness**
- **there is a role for Treasury to oversight risk management practices in agencies and encourage the adoption of better practice where necessary.**

## **Managing Risk**

Risk management is an attitude of mind that should pervade all levels in an organisation. It needs to be undertaken on an ongoing basis and in a proactive manner. Without proper risk management, an organisation is less likely to achieve its objectives in an efficient and effective way.

***... an understanding of risk encourages good practice***

Agencies claimed to understand the concepts and practices of risk management and generally expressed a positive attitude to the benefits of risk management. The response to the survey does not, however, seem to support that conviction.

Fifty-four per cent of respondents in the General Government Sector [GGS] and 27 per cent in the Public Trading Enterprise Sector [PTES]) do not have a documented risk management policy.

Sixty-nine per cent of respondents in the GGS and 36 per cent in the PTES advised that the link between risk and corporate objectives is not effective.

Thirty-eight per cent of respondents in the GGS and 64 per cent in the PTES claimed that risk management is an integral part of management reporting. However, seventy-seven per cent of respondents in the GGS and 45 per cent in the PTES do not have a risk management plan.

There is also a lack of indicators to measure the success of strategies to manage risk. Of the respondents, 77 per cent in the GGS and 27 per cent in the PTES advised that key risk performance indicators are either not effective or not developed.

The Audit Office suggests Treasury review its risk management practices in terms of established better practice.

**... Treasury has sought to improve risk management practice**

Treasury has sought to improve the practice of risk management by the public sector. Treasury has, for example:

- issued a statement of *Best Practice on Internal Control and Internal Audit* and the *Risk Management and Internal Control Toolkit*
- developed and implemented a *Financial Management Framework* which requires agencies to manage and report on risk. Treasury regards the framework as a key strategy in improving risk management.

The Audit Office supports the Treasury in these initiatives.

**... Toolkit and the Standard**

Treasury released the *Toolkit* in 1997.

The survey indicates that fifty-four per cent of respondents in the GGS and 73 per cent in the PTES do not use the *Toolkit*.

The *Toolkit* contains valuable guidance to agencies in risk management. However, if the *Toolkit* is to be used more widely by the public sector, more effort is required by Treasury to make that happen.

**... agencies are risk averse**

The survey also indicates that agencies in the NSW public sector tend to be risk averse. The tendency is more prevalent in the GGS than the PTES. Seventy per cent of respondents in the GGS and 45 per cent in the PTES are inclined to be risk averse instead of risk taking.

While the Audit Office considers that due process and accountability must be maintained, there is also a requirement on agencies to pursue innovative ways to improve their services. It is accepted that not all initiatives will result in success. But as long as accountability and transparency are maintained, some failures would have to be considered acceptable.

**... risk and the law**

There is no uniform legal requirement to manage risk across the public sector.

A Chief Executive Officer (and a Board Member where there is one) is not required to provide an attestation or 'statement of responsibility' as to the adequacy and implementation of an internal control framework, including the management of risk.



The Treasury, in July 1998, proposed that the:

- legal definition of internal control be expanded to include the management of risk and
- law, governing information to be reported by agencies, mandate a ‘*statement of responsibility*’.

The Audit Office, the NSW Parliament Public Bodies Review Committee and the Legislative Council General Purpose Standing Committee Number 1 subsequently supported the recommendations.

The changes proposed by Treasury have yet to be implemented.

***... agencies are not complying with the law in reporting on risk***

While there is no uniform law that requires risk to be managed, there is a legal requirement for agencies to report on their management of risk in their Annual Reports.

The legislation does not define risk management or indicate the level of reporting that is to occur.

In the past, both the Treasury and the Public Accounts Committee have been critical of the standard of reporting on risk.

The Audit Office reviewed the Annual Reports of respondents as part of this audit. The review found that the reporting of risk by respondents does not meet the spirit and intent of standards set by Treasury.

For example, and to varying degrees, the Annual Reports did not:

- include a reference to a risk management plan and related strategies
- identify the control environment
- identify risks or the analysis of risks.

Under the circumstances it would not be possible for stakeholders, particularly Parliament, to make informed judgments about the risks faced by agencies and the management of those risks.

**The Public  
Accounts  
Committee**

The Public Accounts Committee (PAC) recommended that the Auditor-General be empowered to express an opinion on the adequacy of disclosures by agencies concerning the management of risk.

The comments by the PAC are encouraging and they clearly indicate a need for government agencies to recognise the importance of risk management.

For proper accountability there needs to be a policy which requires agencies to state in their annual reports that they have a process whereby they assess their business risks, implement controls to mitigate the risks, and monitor the process on a regular basis. In addition the CEO should sign a statement of responsibility to that effect in the annual financial report.

Should such a policy be put in place, then the Audit Office would be in the position to audit compliance with the policy.

## Recommendations

### The Audit Office recommends that the Government:

#### Government

- require all agencies in the public sector to manage risks in accordance with accepted standards
- progress the recommendation by Treasury that the Chief Executive Officer (and a Board Member, where there is one) provide an attestation to the adequacy and implementation of the internal framework maintained by the agency
- require the attestation and risk management procedures adopted to be included in Annual Reports.

### The Audit Office recommends that the Treasury:

#### Treasury

- ensure that there is a *standard* for risk management across the public sector which is applied consistently
- monitor, and report on:
  - the implementation of risk management by agencies
  - the adequacy of information provided in Annual Reports of agencies on the management of risk.

## **Response from NSW Treasury**

*Thank you for the opportunity to comment on the performance audit report, Managing Risk in the NSW Public Sector.*

### **The Role of Treasury**

*The Audit Office and the Treasury play a vital role in facilitating better risk management in the NSW Public Sector. I am pleased to note that the audit report supports Treasury's initiatives to manage risk in the NSW Public Sector.*

*The Audit Opinion indicates that a number of the General Government sector agencies surveyed state that their risk management systems focus on the management of financial risks (preventing financial loss). Treasury agrees that better practice is for the scope of a risk management system to extend beyond managing financial risk to managing risks arising from all of an agency's objectives, in a systematic manner.*

*Treasury also agrees with the Audit Office's view that "there is a role for Treasury to oversight risk management practices in agencies and encourage the adoption of better practice where necessary." Treasury currently undertakes such a role.*

*Treasury has developed the Financial Management Framework for the General Government Sector (the "Framework") which aims, inter alia, to improve management of the Government's asset and resource base, including better risk management. One of the key elements of the Framework is the development of Service and Resource Allocation Agreements (SRAA) between an agency and its Minister.*

*An agency is required to set out in the SRAA the major risks it faces and the risk management strategies and risk indicators associated with those risks. The development of a SRAA facilitates discussion between the agency and Treasury about the risk management strategies adopted by the agency. Treasury will discuss risk management improvement strategies with the agency, where such a need is identified.*

*Treasury itself has a Service and Resource Allocation Agreement with the Treasurer that identifies the major risks, risk indicators and risk mitigation strategies for each of its desired outcomes. The SRAA documents a systematic approach to the management of agency-wide risks in Treasury. It is intended that Treasury will build on this agency-wide approach to risk management in its upcoming corporate planning process.*

*The results of the survey do not indicate that agencies in the Public Trading Enterprise sector consider their risk management systems to be inadequate. Nevertheless, Treasury will continue to review agencies' Statements of Corporate Intent/Business Intent and Annual Risk Management Returns submitted as part of Treasury's monitoring process.*

**A Standard for Risk Management**

*The audit report includes a recommendation that Treasury "ensure that there is a standard for risk management across the public sector.*

*Treasury has developed the Risk Management and Internal Control Toolkit (the Toolkit), which is a self-assessment diagnostic tool to assist agencies to develop strategies to improve risk management.*

*Treasury will also promote the use of the Risk Management Standard (AS/NZS 4360:1999) and the Guidelines for Managing Risk in the Australian and New Zealand Public Sector (HB 143:1999) issued by Standards Australia, where appropriate. For example, the Risk Management Standard provides a methodology for developing a "Risk Management Plan" identified as better practice in the Toolkit.*

*As part of the implementation of the Financial Management Framework, Treasury is currently developing a Working Paper to initiate discussion with agencies about the characteristics of performance management systems necessary to support efficient and effective service delivery. This project will incorporate identification of the basic characteristics, or standards, of an effective risk management system, including demonstrating how that system is an integral part of an agency's performance management system.*

**Annual Reports**

*In addition to the initiatives aimed at improving agencies' risk management processes, noted above, Treasury will continue its annual reports review program, which includes a review of agencies' risk management disclosures. Treasury will continue to contact agencies to discuss specific disclosure matters and issue circulars providing advice in general areas that need improvement.*

**Attestation  
Statements**

*Treasury notes the recommendation in the audit report that “the Government progresses the recommendation by Treasury that the Chief Executive Officer (and a Board Member, where there is one) provide an attestation in regard to the adequacy and implementation of the internal framework maintained by the agency.”*

*Treasury is progressing incrementally the fundamental review of the financial and annual reporting legislation. The Public Finance and Audit Amendment (Auditor-General) Act 2001 enhanced the auditing and reporting powers of the Auditor-General. The Treasury is currently addressing annual reporting, financial reporting and auditing. The recommendation in the audit report, along with practice in other jurisdictions and the private sector, will be considered in the development of recommendations for the new legislation.*

*(signed)*

*John Pierce  
Secretary*

*Dated: 30 May 2002*

# **1. Risk: An Overview**

---

## 1.1 What is Risk?

### Definition

The Australian/New Zealand Standard on *Risk Management*, AS/NZS 4360:1999 (the *Standard*) defines risk as:

... the chance of something happening that will have an impact upon objectives ...

The *Standard* requires that risks be measured in terms of the likelihood of something happening and the consequences if it happens.

### ... risk applies to all activity

Agencies of government are responsible for a wide and diverse range of activities, including the delivery of services to the public, regulating industry, major construction projects, law and order, health, public safety and more.

All of these activities involve some form of risk, for example, the risk that services will not be delivered, or delayed, financial or economic loss, waste of public funds, inefficiency or the risk of lost opportunities.

The management of risk is:

- recognised as better business practice because it contributes to the efficient and effective use of limited resources
- an integral element of sound corporate governance.

Risk management is a comprehensive, structured and systematic process to evaluate and address the impact of risks in a cost effective way by using appropriate skills to identify and assess the potential for risks to arise.

The need to manage risk applies to all organisations (public and private) and to all functions and activities within an organisation.

### A question of balance

A balance needs to be struck between the costs of managing risk and the benefits. Decisions need to be made about what is a prudent level of risk management or what is an acceptable level of risk.

For some risks, the cost to avoid or reduce the chance of them occurring may be almost as high, or even higher than the cost if the risk eventuates. In other cases, such as public health and safety, the nature of risk may warrant costly preventative measures because of the low level of risk that is acceptable.



Balance is also required between responsibility for risk and the ability to control that risk.

Failure to do so may result in either the taking of unacceptable risks or not taking risks, resulting in lost opportunities.

## 1.2 Why is Risk Management Important?

Managing risk helps managers to achieve improved outcomes by understanding better the environment their agencies operate in.

A comprehensive, systematic and structured approach to risk assists decision-making. It can identify opportunities for continuous improvement through innovation. The management of risk is an integral part of public sector reform.

The management of risk improves accountability for decisions, actions and outcomes in the public sector and is part of sound corporate governance.

### Governance

The adoption of a structured approach to risk management encourages (and improves):

- more effective decisions
- the effective delivery of public sector services
- the effective allocation and use of resources
- accountability
- creativity and innovation in management practice
- the capacity to manage in the face of competing obligations
- morale
- flexibility in meeting objectives
- transparent decision making.

**Source:** Guidelines for Managing Risk in the Australian and New Zealand Public Sector, Standards Australia SAA/NZS HB143: 1999

*Managing risks can be costly ...*

*... but the costs of not managing risks can be even higher*

The public and private sectors face risk on a daily basis.

In 2000 the New South Wales Grains Board, a public sector agency, was forced to cease trading due to financial difficulties with estimated losses in excess of \$90m as at 31 August 2000.

The private sector in 2001 saw risks eventuate with the collapse of a number of significant organisations such as - HIH Insurance, Harris Scarfe, One.Tel, Pasminco and Ansett Airlines. A Royal Commission is enquiring into the collapse of HIH Insurance.

**... risk transfer does not transfer accountability**

Risks can be transferred unfairly if organisations are not mindful of the rights and responsibilities of clients, contractors and other stakeholders. Risk transfer does not reduce overall risk. Spreading the risk through risk transfer does reduce the level of risk to individual entities. Where risks are transferred unfairly or inappropriately, risks may be increased.

**Source:** Guidelines for Managing Risk in the Australian and New Zealand Public Sector, Standards Australia SAA/NZS HB143:1999

### 1.3 The Law

**The Law**

The law<sup>1</sup> requires agencies to report on their management of risk in their Annual Reports.

However, the law does not define risk management nor does it specify the extent and scope of the reporting.

The *Public Finance and Audit Act 1983* is silent on risk management. Section 11(1) of the Act, however, requires an effective system of internal control to be established over the financial and related operations. The management of risk is often regarded as an integral part of internal control.

Treasurer's Direction 900.01, issued under the Act, establishes responsibility on the head of an agency to manage risk and insurance arrangements.

The *General Government Debt Elimination Act 1995* (the Debt Act) requires each General Government Sector (GGS) agency to have a risk management plan for all significant financial and other risks, and strategies for dealing with those risks.

**Audit Observations**

Law or administrative direction has not specifically mandated a 'public sector wide' practice of risk management.

The effectiveness of the Debt Act is limited in promoting risk management in the public sector as it does not apply to the Public Trading Enterprise Sector (PTES).

---

<sup>1</sup> *Annual Reports (Departments) Act 1985* and the *Annual Reports (Statutory Bodies) Act 1985* and associated Regulations

Respondents in the GGS did not view the Debt Act as a catalyst for the implementation of risk management. Consequently many agencies have not complied with the requirements of the Debt Act's in terms of managing risk. Notably, 77 per cent of respondents in the GGS do not have a risk management plan.

#### **1.4 Practice Elsewhere**

Other public sector jurisdictions in Australia have adopted approaches to risk management:

- in October 1996 the Australian (Federal) public sector issued guidelines on risk management based on the *Standard*
- the Western Australian public sector issued risk management guidelines in May 1999 based upon the *Standard*. The guidelines were a response to Treasurer's Instructions requiring agencies to comply with accepted risk management practice
- the Queensland public sector introduced laws in regard to corporate management from 1 July 1997. Agencies were advised to consider the principles of the *Standard* when implementing risk management
- Comcover, the self-managed insurance fund for Commonwealth agencies, has encouraged use of the guidelines issued by the Australian public sector and Standards Australia.

In May 2001 Comcover undertook a benchmarking exercise (based upon the *Standard*), which assessed progress by Commonwealth agencies in the implementation of accepted risk management practice.

In New South Wales the Department of Public Works and Services and the Department of Information Technology and Management have issued guidelines based on the *Standard's* risk management process.



## **2. NSW Treasury and Risk**

---

## 2.1 Initiatives by Treasury

### **The Statement**

In June 1995 the Treasury released the *Statement of Best Practice on Internal Control and Internal Audit*.

The statement was a first step by a central agency to encourage individual agencies to adopt a contemporary and 'enterprise-wide' approach to risk.

In July 1996, Treasury undertook a survey of public sector agencies which:

... looked at current attitudes towards risk management and internal control, to what extent best practice had been implemented and what impediments to implementation existed.

### **The Toolkit**

In September 1997 Treasury issued a four volume document titled *Risk Management and Control* (known as the *Toolkit*), which was designed to assist agencies to:

- assess their status on a scale ... for each element of Risk Management and Internal Control
- identify those areas where improvement is needed
- identify strategies to move towards the desired position.

### **Audit Observations**

The Audit Office, in developing the survey, sought suggestions from Treasury. Treasury requested that the survey include questions about the uptake of the *Toolkit* by agencies.

While all respondents indicated an awareness of the *Toolkit*, the responses indicated that the *Toolkit* has not been widely adopted by agencies. Fifty-four per cent of respondents in the GGS and 73 per cent in the PTES do not use the *Toolkit*.

Of those that attempted to use the *Toolkit*, 4 agencies of GGS and no PTES respondents completed the task to the stage of developing a risk management plan.

Eighty-three per cent of respondents claimed not to have received advice on implementing the *Toolkit* by Treasury (or any other agency). In response Treasury has advised the Audit Office that it:

- conducted a formal launch of the *Toolkit* to which all Chief Executive Officers and Chief Financial Officers were invited
- presented to several agencies subsequent to the launch of the *Toolkit*, and also offered to conduct 'presentations to agencies on request'
- participated in trials of the *Toolkit* in three agencies during 1998-99.

**Proposed  
Amendment to  
Legislation**

In July 1998 the Treasury proposed that the law<sup>2</sup> governing financial and annual reporting by agencies be changed. The Treasury proposed that the definition of internal control be expanded to include risk management and that Chief Executive Officers be required to provide a *'statement of responsibility'*.

The changes were supported by:

- the Audit Office and the NSW Parliament Public Bodies Review Committee (November 2000)
- and the Legislative Council General Purpose Standing Committee Number 1 (December 2000).

To date the changes have not been adopted.

**Audit Observations**

In some other public sector jurisdictions, nationally and internationally, the law or administrative direction supports the practice of risk management.

A similar approach needs to be considered in New South Wales. Legal backing is only one of a number of strategies designed to improve the practice of risk management across the public sector.

## **2.2 The Financial Management Framework The Commercial Policy Framework**

**Treasury**

The Treasury also seeks to enhance performance of the public sector by:

- developing and implementing a *Financial Management Framework for the General Government Sector* that facilitates further improvements in the Government's programs and service delivery
- the application of a *Commercial Policy Framework* that aims to replicate within government businesses the disciplines and incentives that lead private sector businesses towards efficient commercial practices.

The Frameworks are supported by performance agreements that, in part, require an agency to identify those risks that may prevent the agency from achieving its outcomes and how the agency proposes to manage the risks identified.

---

<sup>2</sup> The changes are set out in a document titled *Fundamental Review of NSW Financial and Annual Reporting Legislation*, TWP 98-3, July 1998

The Treasury has advised that four elements of the Financial Management Framework are particularly relevant to the improvement of risk management. These are:

*Service and Resource Allocation Agreements*

These agreements are the 2002-2003 Budget bid document for twelve agencies (which account for approximately 70 per cent of all expenses incurred by General Government Sector agencies). It is likely that most, if not all, agencies will prepare SRAAs in the future. In these agreements agencies are required to identify, for each of their desired outcomes, the major risks and risk mitigation strategies.

*The Risk Management and Internal Control Toolkit*

The SRAA links risk management practices in agencies to the Budget process. Agencies will need to demonstrate that adequate risk management practices are in place to support their Budget bid.

The SRAA supports a better understanding of the totality of an agency's performance, that is, in terms of value for money of service delivery as well as financial performance and budgetary compliance. It lays the foundation for ongoing discussion about an agency's performance, including risk management, and therefore facilitates a more dynamic assessment of issues that may present potential fiscal and policy risk.

*Guide to Service and Resource Allocation Agreement Outcome Statements*

This document requires the identification and management of risk to be undertaken within a strategic and organisational context, which is consistent with the principles set out in the audit report.

*Review of Incentives for Improving Agency Performance*

Treasury will issue this Working Paper in the near future to agencies for comment. It addresses potential incentives and sanctions to improve performance and seeks to identify and remove impediments to better management, including risk management.

**Source:** Correspondence to the Auditor-General from the Secretary, NSW Treasury, 15 March 2002.

The Secretary of the Treasury and the Treasurer have entered into a *Service and Resource Allocation Agreement* for 2001-02 (the Agreement is executed on an annual basis).



The Agreement seeks to:

- integrate the characteristics of a performance agreement, funding agreement and strategic plan by including a focus on agency objectives and budget targets
- support and enhance the agency's capacity to deliver efficiently, effectively and appropriately the programs and services necessary to achieve outcomes desired by the community
- identify risks and risk management strategies.

Other documents relevant to the management of risk in the public sector include:

- Treasury Management Policy
- Guidelines for Economic Appraisal
- Guidelines for Financial Appraisal
- Guidelines for Privately Financed Projects
- Total Asset Management 2000 - Risk Management Guideline.

Treasury has advised of risk management initiatives practices relating to the State's energy businesses such as the:

- *Energy Trading Policy for Distributors and Generators* (1999) and
- a discussion paper *A Risk Management Proposal for New South Wales' Electricity Businesses* (December 2001).

and practices in regard to Treasury's management of the Crown's financial asset and the liability portfolio.

***Audit Observations***

The Audit Office supports the initiatives by Treasury which are designed to improve the practice of risk management in the public sector.

As indicated in the above correspondence from Treasury the initiatives, in some cases, are based on future actions. For example:

- the *Review of Incentives for Improving Agency Performance*, Treasury will issue this Working Paper in the near future to agencies for comment
- the *Service and Resource Allocation Agreements* apply to Budget bids for 2002-03 for twelve agencies and that it is likely that most if not all agencies will prepare SRAAs in the future.

The impact of Treasury's initiatives cannot be measured at this point in time. Treasury should review the effectiveness of its initiatives in the future.

Clearly however, the survey by the Audit Office indicates that risk management practice has some way to go to achieve 'better practice'.

**Public Trading  
Enterprise Sector**

The more significant agencies in the PTES are required to prepare a *Statement of Corporate Intent* (SCI) or a *Statement of Financial Performance* (SFP).

The SCI is to include, among other things:

- the agency's objectives
- the nature and scope of its operations
- strategic directions
- accounting policies
- performance targets
- Annual Risk Management Return.

The Chief Executive or Managing Director of an agency in the PTES is required to sign a *Representation Letter*, which attests that:

... all the 'key risks' and the 'major emerging contingent liabilities' which could materially impact the current and future results of our organisation for the forthcoming year have been disclosed.

***Audit Observations***

Treasury relies on the assertions contained in the performance agreements (between Treasury and agencies) that risk is (adequately) managed by both the General Government and Public Trading Enterprise sectors.

The Audit Office considers that Treasury needs to seek assurance that the assertions are soundly based and that the management of risk reflects better practice.

### **2.3 Risk Management by Treasury**

Part of the role of the Treasury is to assess and respond to its exposure to risk and that of the public sector generally.

The Annual Report of Treasury, Office of Financial Management 2000-01, advised that the Audit Committee of the Office of Financial Management (OFM) is responsible for reviewing areas of risk and the oversight of the development of risk management strategies (for OFM).

The Annual Report discusses certain reviews of risk areas that were undertaken during the course of 2000-01.

Treasury has advised that it has:

- commenced to manage its own organisational risks on an agency-wide basis
- recognised as better business practice because it contributes to the efficient and effective use of limited resources
- an integral element of sound corporate governance.

***Audit Observations***

It is evident that Treasury has introduced several initiatives to improve the management of risk in the public sector.

However, there are gaps in Treasury's processes such as:

- a more systematic and documented process to evidence risk management
- maintenance of a Risk Management Plan and a Risk Register.

On the basis of the documents provided, Treasury does not have a systematic and documented process to evidence the fact or the manner in which risk management is practised.

Treasury does not maintain a Risk Management Plan in the accepted sense of the term, and has advised that it does not maintain a Risk Register.

The Audit Office suggests that Treasury:

- build on the work undertaken to develop the *Service and Resource Allocation Agreement* review
- review its risk management practices in terms of established better practice in the *Standard /Toolkit*.

## **2.4 Compliance with Reporting Requirements**

Treasury reviews a sample of Annual Reports of agencies each year to monitor compliance by agencies with the legislative requirements for annual reporting.

As a result of reviews of annual reports for 1994-95, 1995-96, and 1998-99, Treasury expressed concerns about the level of understanding, and hence the standard, of risk management practiced by agencies.

Following the review of 1995-96 annual reports, Treasury issued a circular<sup>3</sup> which stated:

There has been little, if any, improvement in the reporting of risk management ... **The annual report of each agency, therefore, should have a discrete section dealing with the risk management plan and strategies including specific reference to the control environment, risk identification and analysis as well as reporting and monitoring processes.**

Treasury reiterated sections of the circular in 2000 when it issued the results of the 1998-99 annual reports:

Some agencies are still defining risk management narrowly in terms of insurable risks ... risk management is much broader than this ... it encompasses any activities to reduce the risks that impact on an agency's capacity to perform against its corporate objectives.

The circular also required that:

Annual reports should contain a discrete section dealing with the risk management plan and strategies including a specific reference to the control environment, risk identification and analysis as well as reporting and monitoring processes ...

**Source:** Treasury Circular TC 00/16 – Annual Reporting Update 31 July 2000.

The Public Accounts Committee (PAC) report<sup>4</sup> on annual reporting stated that:

The PAC is disappointed with the continued high levels of non-compliance with particular reporting requirements, such as ... risk management. This ... means large numbers ... of public sector agencies are flouting the law... This is unacceptable.

### ***Audit Observations***

The Audit Office reviewed the 1999-2000 Annual Reports of the agencies participating in the survey and Treasury for compliance with the reporting requirements of the above circular.

The Audit Office is of the view that the concerns expressed by the Public Accounts Committee and Treasury have not resulted in a significant improvement to the reporting of risk in Annual Reports of agencies.

---

<sup>3</sup> Treasury Circular TC 97/7 issued on 23 June 1997 – Annual Reporting Update

<sup>4</sup> NSW Public Accounts Committee Report No 95, March 1996 - *Annual Reporting in the NSW Public Sector*

It is apparent that the reporting of risk management by all agencies requires improvement so as to comply with the spirit and intent of the circular in terms of:

- the process used to identify, assess and manage risk including whether the process followed generally accepted principles and practices of the *Standard* issued by Standards Australia
- the identification of significant risks (just as contingent liabilities are identified in the notes accompanying the financial statements of agencies), and
- the control environment designed to minimise the occurrence and level of risk.

Agencies, including Treasury and the Audit Office, do not generally provide a '*statement of responsibility*' in their Annual Reports in regard to the adequacy of internal control (including risk management).



## **3. Attitude and Culture**

---

## The Remainder of this Report

The remainder of the report discusses the more significant issues arising out of the responses by agencies to the survey on Risk Management.

Each heading within chapters three and four is prefaced by a principle of better practice based on the *Standard* and represents an aspect covered in our survey.

### 3.1 Understanding Risk Management

#### Attitude

Eighty five per cent of respondents in the GGS and all PTES respondents agreed that effective risk management is important to achieving agency's objectives.

All agencies agreed effective risk management could improve performance.

#### Culture

However, only 23 per cent of agencies in the GGS and 27 per cent in the PTES rated the culture of their agency as being supportive of risk management.

In contrast, 62 per cent of respondents in the GGS and 73 per cent in the PTES advised that there is effective executive sponsorship, support and focus for risk management.

The PTES tended to nominate the Chief Executive Officer, or the Board, or a committee for risk/audit and/or risk manager as the main sponsor or champion for risk management.

The approach of the PTES contrasts with the GGS that does not, to the same degree, promote the concept of a *champion* for risk management.



### 3.2 Is Risk Management a Reality?

**Principle**

**Specific actions need to be taken to implement an effective risk management framework.**

**Policy and Plans**

Fifty-four per cent of respondents in the GGS and 27 per cent in the PTES do not have a documented risk management policy.

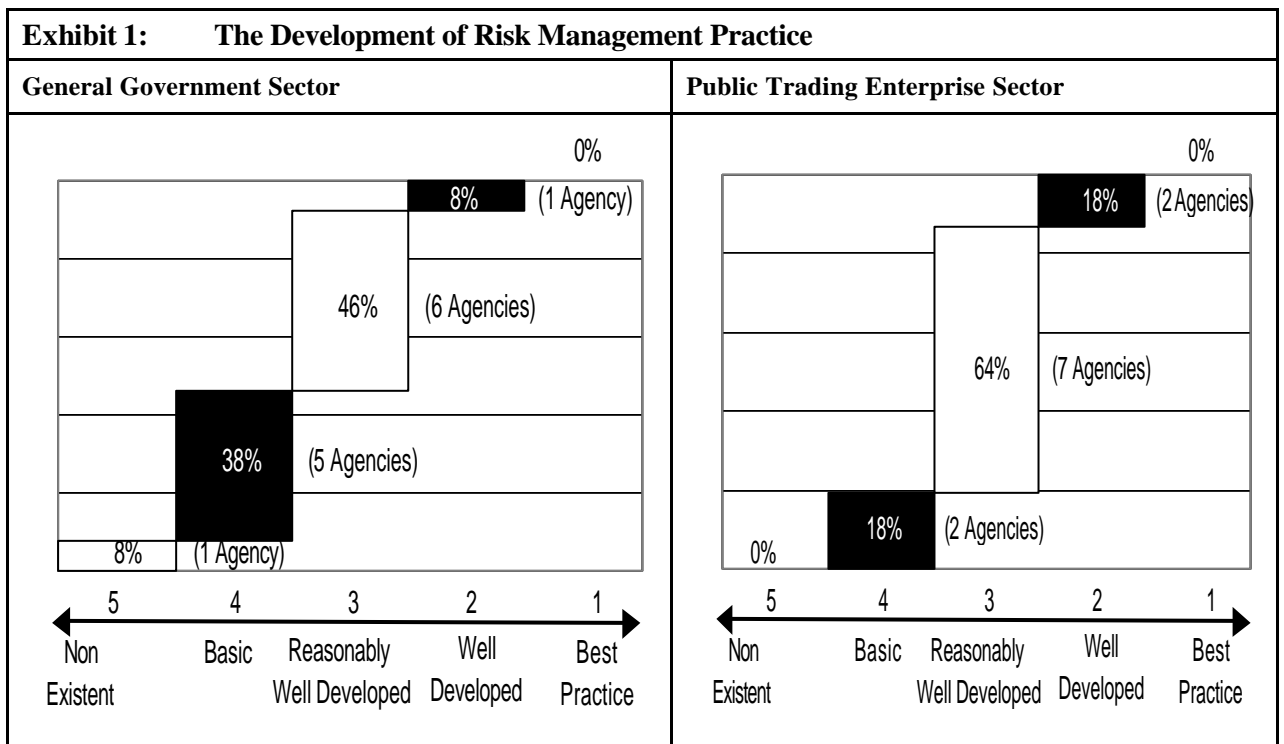
Seventy-seven per cent of respondents in the GGS and 45 per cent in the PTES do not have a risk management plan.

Respondents agreed that the policy has been communicated in the agency. However, 84 per cent consider the policy has not been adequately promulgated to external stakeholders.

The responses indicated that agencies are at varying stages in the development of risk management practice, see Exhibit 1.

Forty-six per cent of respondents in the GGS and 18 per cent in the PTES advised that the development of risk management practice is either basic or non-existent. No agency, from either sector, believes it meets better practice.

Fifty-four per cent of respondents from the GGS and 55 per cent from the PTES advised that they have effectively defined and communicated policies, procedures, systems and internal controls for risk management.



Source: The Audit Office Risk Management Survey. N= 13 and 11 respectively

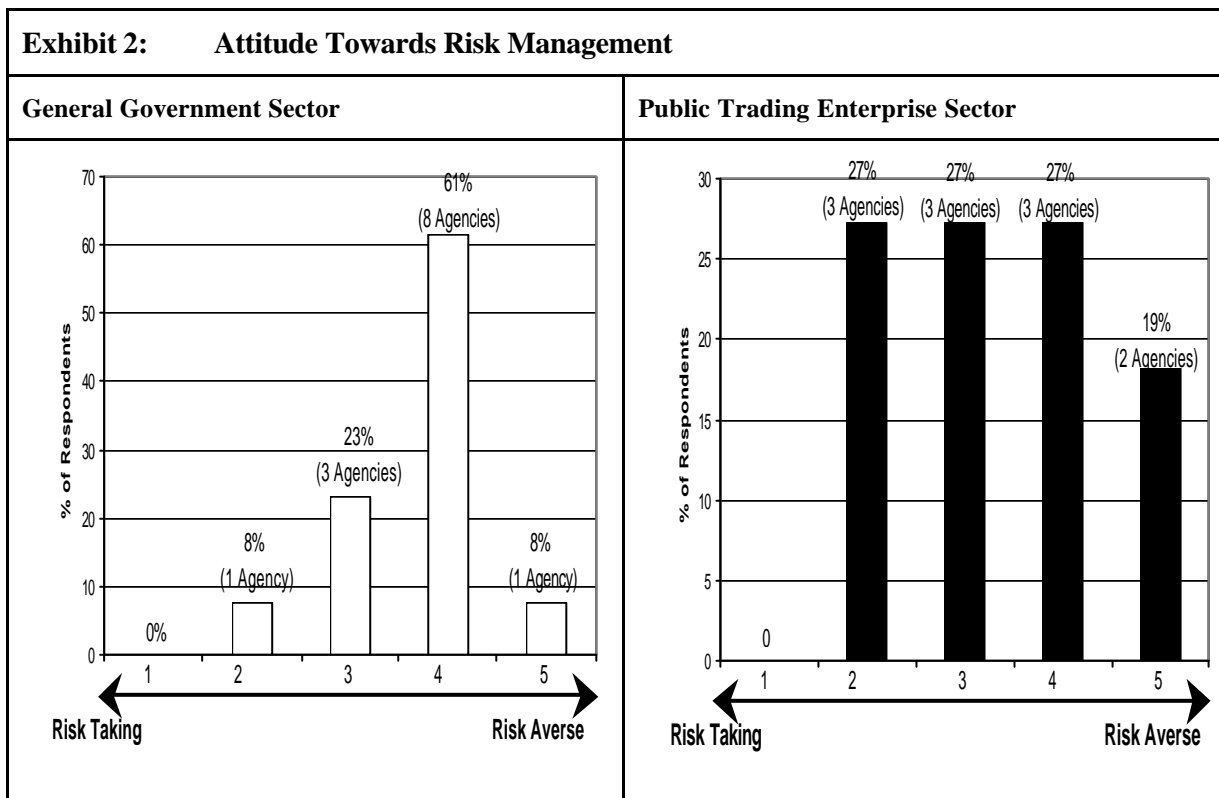
### 3.3 Being Risk Averse

Over 70 per cent of respondents support innovation and the taking of considered risks to achieve objectives.

As shown in Exhibit 2, many respondents advised that the culture of their agency is risk averse.

Respondents from the GGS tend to be more risk averse than the PTES as indicated in Exhibit 2. Sixty-nine per cent of respondents in the GGS and 46 per cent in the PTES are inclined to be risk averse as opposed to risk taking.

Only thirty-eight per cent of respondents in the GGS and 27 per cent in the PTES have a process for the systematic identification of opportunities.



Source: The Audit Office Risk Management Survey. N= 13 and 11 respectively

**Audit Observations** A commonly held view, nationally and internationally, is that the public sector is risk averse.

The Audit Office performance audits on the *Management of Intellectual Property*<sup>5</sup> and *e-Government – Use of the Internet and Related Technologies to Improve Public Sector Performance*<sup>6</sup> found that certain agencies demonstrated rigid and risk averse cultures that discouraged the taking of opportunities. The responses to our survey support this view.

### **Initiatives in the United Kingdom**

The Government in the United Kingdom is:

- tackling risk aversion by creating a culture of improvement and innovation with financial and other incentives
- improving the way risk is managed. Risk management has been mandated and better practice guidance is being disseminated
- expecting public sector external auditors to be critical of missed opportunities and to be supportive of innovation and the taking of considered risks. A commitment to do this was given by the public sector auditor in that country.

## **3.4 Has Responsibility been Established?**

### **Principle**

**It is important to identify who is responsible and accountable for the effective implementation of risk management.**

Ninety-two per cent of respondents advised that executives are held accountable for managing risks. The main accountability mechanism is performance agreements with the Senior Executive Officer/executive staff.

Yet the standard performance agreement for the Senior Executive Service contains no specific reference, and therefore no performance criteria, for the management of risk.

Only 8 per cent of respondents (exclusively the PTSE) believed there is an effective link between risk management and individual performance appraisals.

<sup>5</sup> The Audit Office of NSW Performance Audit Report: *Management of Intellectual Property*, October 2001.

<sup>6</sup> The Audit Office of NSW Performance Audit Report: *E-government – Use of the Internet and Related Technologies to Improve Public Sector Performance*, September 2001.

For those agencies that have a Board, the main accountability mechanism was that of a committee for risk and/or audit.

Thirty-eight per cent of respondents in the GGS and 82 per cent in the PTES agree that the accountability and responsibility for risk management within their agency is documented and communicated.

Thirty-nine per cent of respondents in the GGS and 27 per cent in the PTES agree that the accountability and responsibility for risk management within their agency is understood.

### 3.5 Are Resources Adequate?

**Principle**

**To manage risk effectively, adequate resources should be allocated for the task.**

**For risk management to become widely used across the public sector, adequate training is important. Training develops an awareness of the importance of risk management and how it should be applied.**

**Adequacy**

Thirty-one per cent of respondents in the GGS and 82 per cent in the PTES agree that appropriate resources are allocated in support of risk management policy and practice.

Budget restrictions were cited as being the main barrier where the level of resources devoted to risk management is regarded as not adequate.

**Training**

Seventy-seven per cent of respondents in the GGS and 36 per cent in the PTES do not recognise, to an adequate degree, the need for technical skills in the management of risks. Approximately 29 per cent believe their agency recognises, to a significant degree, the need to encourage and resource staff to undertake training to improve risk management skills.

The adequacy of training is an issue for many agencies given that no respondent in the GGS and 36 per cent in the PTES consider there is an effective understanding of risk and its management across their agency.

## **4. The Risk Management Process**

---

## 4.1 The Context of Risk

### *Principle*

**Management need to understand and manage risks in strategic and organisational terms.**

**It is important that management:**

- **define the relationship between the agency and its environment including the financial, operational, competitive, political, social, client, cultural and legal aspects of the agency**
- **determine the critical factors which might support or impair management's ability to manage the risks faced**
- **understand the agency and its capabilities, as well as its objectives and strategies to achieve those objectives**
- **identify their role in contributing to the agency's wider goals, objectives, values, policies and strategies when making decisions about risk.**

## 4.2 Strategic and Organisational Context

### **Findings**

Over 75 per cent of respondents examine and document risk within the strategic and organisational contexts.

There is a high level of agreement that:

- the aims and objectives of the agency have been documented and communicated to line management and support personnel
- personnel understand how organisational objectives are linked to the individual unit/area in the agency and responsibilities of staff.

Sixty-nine per cent of respondents in the GGS and 36 per cent in the PTES advised that:

- the specification and articulation of the agency's risk environment and the agency's objectives, and
- the linkage between risks and corporate aims and objectives are not effective.

Ninety-two per cent of respondents in the GGS and 73 per cent in the PTES do not have a communication strategy for risk.

Also, 33 per cent of respondents in the GGS and 50 per cent in the PTES believe the flow of information about risks between the agency and stakeholders (and vice-versa) is effective.

The management of risks should be closely linked to the achievement of objectives. Risks should, as a matter of priority, be assessed in terms of the impact they are likely to have on the achievement of key organisational objectives.

Thirty-eight per cent of respondents in the GGS and 45 per cent in the PTES agreed that the processes for the reporting and communication of information about risk between management and staff, effectively supports the management of risk.

### 4.3 Identifying Risks

#### *Principle*

**To manage risks a comprehensive, structured and systematic process is necessary. The process will identify what can happen and how and why it can happen.**

**Each risk should be recorded in a risk register, together with source, nature and existing controls, as well as risk analysis, evaluation and treatment decisions.**

#### **Findings**

Fifty-three per cent of respondents in the GGS and 73 per cent in the PTES agreed that a comprehensive and systematic identification of risks is undertaken in line with aims and objectives of the agency.

Thirty-eight per cent of respondents in the GGS and 82 per cent in the PTES claimed to identify risks in an effective manner, however, the process is not adequately documented.

Twenty-three per cent of respondents in the GGS and 91 per cent in the PTES have a risk register/database and the information recorded in the register tends to comply with better practice in most instances.

Most respondents do not participate in 'cross-agency' risk management planning or planning for large scale disruptions to service delivery.

Yet 71 per cent of respondents indicated that there are no specific reasons to involving partners in the development of risk management plans.

Forty-six per cent of respondents in the GGS and 9 per cent in the PTES consider that techniques used are not effective to identify risk.

## 4.4 Analysing Risks

### *Principle*

**Agencies need to analyse the level of risk prior to deciding on an appropriate response.**

### **Findings**

Thirty-eight per cent of respondents in the GGS and 78 per cent in the PTES consider that the analysis of risks is effective.

All respondents claimed to analyse risks in terms of likelihood and consequence.

In terms of consequence all respondents claimed to consider risk and its impact on the financial position and reputation of the agency, and the achievement of objectives. One quarter of respondents consider the consequences of risk in terms of safety and environmental impact.

Thirty-one per cent of respondents in the GGS and 73 per cent in the PTES claimed to have no difficulty in assessing the occurrence and likelihood of risks. Most agencies used qualitative analysis to assess risk. The method is:

- easier to use in terms of time and resources required
- less accurate if judgement is not consistently applied.

Further the reliability of qualitative analysis can be affected if there are not varying points of view involved in the determination.

Only 17 per cent of agencies used the more sophisticated technique of quantitative analysis to assess risk.

## 4.5 Evaluating Risks

### *Principle*

**Agencies need to prioritise the level of risk and the extent to which the taking of risks will produce opportunities.**

### **Findings**

A high proportion of respondents (82 per cent GGS and 91 per cent PTES) advised that risks are prioritised in their agency for active management. Yet eight per cent of respondents in the GGS and 80 per cent in the PTES believe that the prioritisation of risks is effective (77 per cent of respondents in the GGS provided a neutral response compared to 10 per cent in the PTES).

Thirty-eight per cent of respondents in the GGS and 73 per cent in the PTES advised that they have established effective criteria for the evaluation of risks.



## 4.6 Risk Treatment

### *Principle*

**The options for responding to risk include avoiding it, preventing it, mitigating its effects, transferring it, or retaining it. The options need to be assessed, a risk management [treatment] plan needs to be developed and implemented.**

### **Findings**

The most often used options for managing risk are controlling and transferring.

Of those agencies that choose to retain or accept the risk, two out of three respondents fund any financial losses as they arise. The others set aside specific reserves to fund financial losses as they arise.

Those agencies that do not provide specific reserves to fund any losses arising, face a risk of a serious impact on their financial viability if realised losses are material. In these situations the Treasury is likely to be called upon to fund the losses.

Only 9 per cent of respondents, exclusively from the PTES, acknowledge some difficulty in developing a risk mitigation strategy.

Thirty-eight per cent of respondents in the GGS and 9 per cent in the PTES have not developed or implemented effective risk strategies.

Sixty-two per cent of respondents in the GGS and 91 per cent in the PTES have a current disaster recovery plan (for Information Technology). Fifteen per cent of respondents in the GGS and 55 per cent in the PTES have a business continuity plan.

The interruption to services is likely to be more severe in the absence of a business continuity plan should specific risks eventuate.

Six respondents provided risk management plans to the Audit Office for review. Four plans did not comply with better practice, in that:

- responsibilities are not assigned for managing risks
- the strategic and organisational contexts for managing risk have not been established
- reporting and monitoring arrangements are not addressed
- resource requirements are not specified nor are critical success factors and performance measures.

## 4.7 Monitoring and Review

**Principle**

**An organisation needs to monitor risks and the effectiveness of the risk treatment plan, strategies and the management system.**

**It is important that the executive of the organisation ensure a review of the risk management arrangements is carried out at specified intervals. Records of such reviews are to be maintained.**

**Findings**

Twenty-three per cent of respondents in the GGS and 55 per cent in the PTES have a risk management plan. In this situation the ability of the remainder of the respondents to monitor and report on the management of risk is impaired.

Thirty-eight per cent of respondents in the GGS and 64 per cent in the PTES claimed that risk management is an integral part of management reporting. Respondents advised that:

- the development of key risk performance indicators to measure the success of strategies and emerging issues was not effective or not in place (77 per cent GGS, 27 per cent PTES)
- the monitoring of strategies against key risk performance indicators was not in place or not effective (84 per cent GGS, 36 per cent PTES).

## **5. The Auditor's Role**

---

## 5.1 The Public Accounts Committee

### PAC

The NSW Public Accounts Committee (PAC) has also expressed concern about risk management within the NSW Public Sector. In two separate reports it commented on the extent to which the Audit Office could play a greater part in monitoring risk management by agencies.

### Recommendations

In February 2000,<sup>7</sup> the PAC recommended that:

The Auditor-General's mandate should be extended to include monitoring and expression of an opinion on the risk management disclosures included in the annual reports of government agencies and departments.

The PAC's report on the *Inquiry into the Collapse of the New South Wales Grains Board*<sup>8</sup> (May 2001) considered that this performance audit (*Managing Risk in the NSW Public Sector*) should :

... examine how the monitoring and expression of an opinion on the risk management disclosures included in annual reports on government departments and agencies might be implemented (Recommendation 7).

The PAC also recommended that:

The Auditor-General's statutory reports and reports to Parliament must explicitly report significant changes in a client's risk profile from the previous year. The reports should include critical findings (Recommendation 6).

### Comments

The PAC's comments are encouraging and they clearly indicate a need for government agencies to recognise the importance of risk management.

To have proper accountability there needs to be a policy which requires agencies to state in their annual reports that they have a process whereby they assess their business risks, implement controls to mitigate the risks, and monitor the process on a regular basis. In addition the CEO should sign a statement of responsibility to that effect in the annual financial report.

---

<sup>7</sup> NSW Public Accounts Committee Report No 120, February 2000 - *Review of the Audit Office of New South Wales*

<sup>8</sup> NSW Public Accounts Committee Report No 128, May 2001 - *Inquiry into the Collapse of the New South Wales Grains Board*

**Management  
Responsibility**

It is management's responsibility to identify, evaluate and monitor risks and to put in place systems and practices to manage those risks.

Management needs to determine how much risk should prudently be accepted in striving to achieve the corporate objectives, and to maintain that risk within an acceptable range.

Managers must determine the most effective way to manage risk, balancing the exposure against the cost of reducing the risk.

If such a policy were put in place, the Audit Office would be able to audit the compliance with the policy for the management of risk disclosed in the annual financial report.

However, it would not be appropriate for the Audit Office to comment on the change in the risk profile of an agency on an annual basis.

The Audit Office assesses risks from an audit perspective, which may not coincide with the agency's assessment of its business risks. There is also the danger that movement in the risk profile on an annual basis may not be meaningful and a longer timeframe may be required for a better assessment.



## **6. Appendices**

---

## Appendix 6.1 Terms Used in this Report

<b>An Agency/ Agencies</b>	<p>A reference to an agency or agencies means an agency or agencies in the New South Wales public sector.</p> <p>An organisation refers to organisations or entities generally and may include those from the public and private sectors. Where a reference is made to an organisation in the public sector, the term agency is used.</p>
<b>Better Practice</b>	<p>A reference to <i>better practice</i> (or the Principle preceding the discussions of issues in the report) is influenced by the guidance provided by Standards Australia.</p> <p>In other cases 'better practice' is based on what steps a prudent manager would undertake in managing risk or alternatively what a progressive organisation might seek to undertake in managing risk.</p>
<b>Consequence</b>	<p>The outcome of an event being expressed qualitatively or quantitatively, being a loss, injury, disadvantage or gain.</p>
<b>Control Environment</b>	<p>The control environment comprises the management and internal control practices that safeguard the achievement of an organisation's objectives.</p> <p>Control environment factors include:</p> <ul style="list-style-type: none"><li>▪ integrity and ethical values</li><li>▪ the competence of the organisation's people</li><li>▪ management's philosophy and operating style</li><li>▪ the way management assigns authority and responsibility</li><li>▪ the attention and direction provided by executive management and/or the board of directors where applicable.</li></ul>
<b>General Government Sector (GGS)</b>	<p>The NSW General Government Sector comprises Budget dependent agencies, the Consolidated Fund, the Crown Entity - Non-Commercial Activities, and other General Government Non-Budget dependent agencies.</p>
<b>Treasury</b>	<p>The NSW Treasury consists of the Office of Financial Management and the Office of State Revenue. In this report the term Treasury is used to refer to the Office of Financial Management.</p>



<b>Public Trading Enterprise Sector (PTES)</b>	<p>This sector comprises units of government which:</p> <ul style="list-style-type: none"><li>▪ rely predominantly on user charges to fund operations and their capital works from borrowings and internal funds. They have a commercial charter</li><li>▪ are generally known as statutory bodies as defined under Section 39(1) of the <i>Public Finance and Audit Act 1983</i> and are listed in Schedule 2 of the Act</li><li>▪ include State Owned Corporations, such as water authorities, electricity distributors, and some port and rail authorities.</li></ul>
<b>Risk</b>	<p>Risk is the chance of something happening that will impact on the achievement of the objectives of an agency. Risk is measured in terms of the likelihood of an event occurring and its consequences.</p>
<b>Risk Management</b>	<p>In this report risk management is defined as being a comprehensive, systematic and logical process to identify, analyse, evaluate, treat, monitor and communicate risks which have an impact on the achievement of organisational objectives.</p> <p>The process is variously termed as being business risk management, enterprise wide risk management, corporate risk management, whole of agency risk management etc. The process in this report is simply referred to as risk management.</p>
<b>The Standard</b>	<p>The Australian/New Zealand Standard on <i>Risk Management</i>, AS/NZS 4360:1999 (the <i>Standard</i>).</p>
<b>‘Statement of Responsibility’</b>	<p>The ‘<i>statement of responsibility</i>’ is a signed representation by the Chief Executive Officer and a Board Member (where there is a Board), which gives assurance that the specific responsibility for the establishment and maintenance of an effective system of control (internal) has been met.</p>

## Appendix 6.2 About the Audit

<b>Audit Objective</b>	<p>The objectives of the audit were to:</p> <ul style="list-style-type: none"><li>▪ form an opinion on the efficiency and effectiveness of the arrangements by which agencies manage risk</li><li>▪ identify strategic opportunities for improvement in risk management.</li></ul>
<b>Scope</b>	<p>The scope of the audit is discussed in the Audit Office Survey.</p>
<b>Criteria</b>	<p>The audit reviewed whether:</p> <ul style="list-style-type: none"><li>▪ adequate policy for risk management exists at both the government and agency level</li><li>▪ agencies have implemented established policy or other appropriate methodology on risk management such as the Australian/New Zealand Standard.</li></ul> <p>The following criteria were applied during the audit (whether):</p> <ul style="list-style-type: none"><li>▪ risk management practices are integrated with corporate and business planning frameworks (the strategic and organisational context)</li><li>▪ a structured and systematic process exists for the identification of risks</li><li>▪ risks are analysed, evaluated and prioritised</li><li>▪ risks and the effectiveness of control measures are monitored and reviewed on a regular basis</li><li>▪ there is adequate reporting of risk.</li></ul>
<b>Audit Approach and Methodology</b>	<p>The audit compared practice by agencies (as advised in survey responses) with the above criteria. Where practice did not comply with the criteria, the finding provided the basis of the report.</p> <p>The audit approach and methodology included:</p> <ul style="list-style-type: none"><li>▪ research, review and analysis of relevant literature and studies undertaken in other audit jurisdictions (nationally and internationally)</li><li>▪ compiling/issuing a questionnaire to gather information and documents associated with the practice of risk management</li><li>▪ analysis of information and documents gathered from responses to the questionnaire</li><li>▪ discussions with representatives of the Office of Financial Management, NSW Treasury, the Strategic Policy and Reform Division of the Premier's Department and the Australian Prudential Regulation Authority.</li></ul>

### **The Audit Office Survey**

The Audit Office designed and developed a survey on risk management in consultation with the Premier's Department, NSW Treasury and an external consultant (PricewaterhouseCoopers). The survey asked agencies about:

- their understanding of risk and the importance of managing risks in terms of performance
- how agencies identify risks
- the steps they take to manage risks.

The development of the survey was based on research of risk management practice in Australia and overseas and was influenced by the Australian and New Zealand Standard on *Risk Management AS/NZS 4360:1999* (the *Standard*). The Audit Office also had regard to a survey prepared by the National Audit Office of the United Kingdom and a survey issued by CPA Australia.

### **Participating Agencies**

The Audit Office requested the Heads of authorities of twenty-six agencies from the General Government and Public Trading Enterprise sectors to complete the survey.

The agencies were chosen to reflect the diversity of government instrumentalities in terms of size, activity, function, and organisation. The response rate was 92 per cent.

<b>Exhibit: Agencies Requested to Complete the Survey</b>	
<b>General Government Sector</b>	<b>Public Trading Enterprise Sector</b>
Audit Office of NSW	Department of Housing
Australian Museum Trust	Freight Rail Corporation
Department of Community Services	Integral Energy
Department of Fair Trading	NSW State Lotteries Corporation
Department of Gaming and Racing	State Forests of NSW
Department of Health	State Transit Authority
Department of Juvenile Justice	Sydney Catchment Authority
Department of Mineral Resources	Sydney Ports Corporation
Department of Sport and Recreation	Sydney Water Corporation
Environment Protection Authority	TransGrid
NSW Fisheries	Waste Service NSW
NSW Fire Brigades	
Office of State Revenue	
Roads and Traffic Authority	
The Children's Hospital at Westmead	

The Departments of Community Services and Juvenile Justice did not participate in the survey.

The Department of Community Services advised in writing that due to a restructure occurring within the department, it would not be appropriate to respond to the survey. The Department of Juvenile Justice did not provide an explanation for not participating in the survey.

***Responses to the Survey***

The Heads of authorities were asked to reflect the corporate view of risk management policy, procedures and practices in their agencies.

Persons nominated by the Heads of authorities (Chief Executive Officers) compiled the responses to the survey. For the most part these people occupied positions that have responsibility for risk management.

Responses to the survey were returned to the Audit Office under the signature of the Chief Executive Officer or the person responsible for compiling the questionnaire.

***The Survey Results***

The findings of the audit are based on responses to the survey provided by agencies.

In presenting the survey results, no distinction is drawn by the size of the agency or levels of expenditure. Comparisons are drawn between the General Government Sector and the Public Trading Enterprise Sector in the way that the two sectors respond to risk.

The Audit Office did not validate individual responses provided by agencies but it did review supporting documentation supplied by agencies at the request of the Audit Office.

The questionnaire is available on the Audit Office web site: <http://www.audit.nsw.gov.au/repperf.htm>.

***This Report***

The report summarises the findings of the survey on Risk Management undertaken by the Audit Office. Limited information is provided in the report about the theory of risk and how to manage risk.

For more information about risk and its management, the Audit Office recommends the following publications:

- *Risk Management AS/NZS 4360:1999* issued by Standards Australia.
- *The Guidelines for Managing Risk in the Australian and New Zealand Public Sector (HB 143:1999)* also issued by Standards Australia.
- *Enterprise-Wide Risk Management: Better Practice Guide for the Public Sector (2002)* published by CPA Australia's Public Sector Centre of Excellence.

**Audit Cost**

The cost of the audit was \$276,135.

This figure includes the estimated cost of printing the report (\$7,000).

**Acknowledgment**

The Audit Office acknowledges the co-operation provided during the audit by the Premier's Department, NSW Treasury and the public sector agencies that participated in the survey.

The Audit Office acknowledges Standards Australia for its contribution to risk management.

The audit was assisted by the publications of Standards Australia, United Kingdom National Audit Office, Queensland Audit Office and Treasury.

The audit team comprised:

- D Streater (Engagement Controller)
- S Sullivan (Project Leader) and
- B Holdsworth.

### **Appendix 6.3      Key Tips for Managing Risk**

- Senior management need to own, support, promote, and lead the management of risk
- The management of risk should be fully embedded in the management processes of agencies
- The culture of agencies should support considered risk taking and innovation
- The management of risk should be closely linked to the achievement of objectives
- Risk management policies and benefits should be clearly communicated to all staff
- There needs to be a structured and systematic process to evaluate and address the impact of risks in a cost effective way by using appropriate skills to identify and assess the potential for risks to arise.
- The risks of working with other organisations should be assessed and managed.

# **Performance Audits by the Audit Office of New South Wales**

---

---

## Performance Auditing

---

### What are performance audits?

Performance audits are reviews designed to determine how efficiently and effectively an agency is carrying out its functions.

Performance audits may review a government program, all or part of a government agency or consider particular issues which affect the whole public sector.

Where appropriate, performance audits make recommendations for improvements relating to those functions.

### Why do we conduct performance audits?

Performance audits provide independent assurance to Parliament and the public that government funds are being spent efficiently and effectively, and in accordance with the law.

They seek to improve the efficiency and effectiveness of government agencies and ensure that the community receives value for money from government services.

Performance audits also assist the accountability process by holding agencies accountable for their performance.

### What is the legislative basis for Performance Audits?

The legislative basis for performance audits is contained within the *Public Finance and Audit Act 1983, Division 2A*, (the Act) which differentiates such work from the Office's financial statements audit function.

Performance audits are not entitled to question the merits of policy objectives of the Government.

### Who conducts performance audits?

Performance audits are conducted by specialist performance auditors who are drawn from a wide range of professional disciplines.

### How do we choose our topics?

Topics for a performance audits are chosen from a variety of sources including:

- ❑ our own research on emerging issues
- ❑ suggestions from Parliamentarians, agency Chief Executive Officers (CEO) and members of the public
- ❑ complaints about waste of public money
- ❑ referrals from Parliament.

Each potential audit topic is considered and evaluated in terms of possible benefits including cost savings, impact and improvements in public administration.

The Audit Office has no jurisdiction over local government and cannot review issues relating to council activities.

If you wish to find out what performance audits are currently in progress just visit our website at [www.audit@nsw.gov.au](mailto:www.audit@nsw.gov.au).

### How do we conduct performance audits?

Performance audits are conducted in compliance with relevant Australian standards for performance auditing and our procedures are certified under international quality standard ISO 9001.

Our policy is to conduct these audits on a "no surprise" basis.

Operational managers, and where necessary executive officers, are informed of the progress with the audit on a continuous basis.

### What are the phases in performance auditing?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team will develop audit criteria and define the audit field work.



At the completion of field work an exit interview is held with agency management to discuss all significant matters arising out of the audit. The basis for the exit interview is generally a draft performance audit report.

The exit interview serves to ensure that facts presented in the report are accurate and that recommendations are appropriate. Following the exit interview, a formal draft report is provided to the CEO for comment. The relevant Minister is also provided with a copy of the draft report. The final report, which is tabled in Parliament, includes any comment made by the CEO on the conclusion and the recommendations of the audit.

Depending on the scope of an audit, performance audits can take from several months to a year to complete.

Copies of our performance audit reports can be obtained from our website or by contacting our publications unit.

### **How do we measure an agency's performance?**

During the planning stage of an audit the team develops the audit criteria. These are standards of performance against which an agency is assessed. Criteria may be based on government targets or benchmarks, comparative data, published guidelines, agencies corporate objectives or examples of best practice.

Performance audits look at:

- processes
- results
- costs
- due process and accountability.

### **Do we check to see if recommendations have been implemented?**

Every few years we conduct a follow-up audit of past performance audit reports. These follow-up audits look at the extent to which recommendations have been implemented and whether problems have been addressed.

The Public Accounts Committee (PAC) may also conduct reviews or hold inquiries into matters raised in performance audit reports.

Agencies are also required to report actions taken against each recommendation in their annual report.

To assist agencies to monitor and report on the implementation of recommendations, the Audit Office has prepared a Guide for that purpose. The Guide, *Monitoring and Reporting on Performance Audits Recommendations*, is on the Internet and located at <http://www.audit.nsw.gov.au/guides-bp/bpplist.htm>

### **Who audits the auditors?**

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

The PAC is also responsible for overseeing the activities of the Audit Office and conducts reviews of our operations every three years.

### **Who pays for performance audits?**

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament and from internal sources.

### **For further information relating to performance auditing contact:**

Tom Jambrich  
Assistant Auditor-General  
Performance Audit Branch  
(02) 9285 0051  
email: [tom.jambrich@audit.nsw.gov.au](mailto:tom.jambrich@audit.nsw.gov.au)

## Performance Audit Reports

No.	Agency or Issue Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
64*	Key Performance Indicators	<ul style="list-style-type: none"> <li>▪ <i>Government-wide Framework</i></li> <li>▪ <i>Defining and Measuring Performance (Better Practice Principles)</i></li> <li>▪ <i>Legal Aid Commission Case Study</i></li> </ul>	31 August 1999
65	Attorney General's Department	<i>Management of Court Waiting Times</i>	3 September 1999
66	Office of the Protective Commissioner Office of the Public Guardian	<i>Complaints and Review Processes</i>	28 September 1999
67	University of Western Sydney	<i>Administrative Arrangements</i>	17 November 1999
68	NSW Police Service	<i>Enforcement of Street Parking</i>	24 November 1999
69	Roads and Traffic Authority of NSW	<i>Planning for Road Maintenance</i>	1 December 1999
70	NSW Police Service	<i>Staff Rostering, Tasking and Allocation</i>	31 January 2000
71*	Academics' Paid Outside Work	<ul style="list-style-type: none"> <li>▪ <i>Administrative Procedures</i></li> <li>▪ <i>Protection of Intellectual Property</i></li> <li>▪ <i>Minimum Standard Checklists</i></li> <li>▪ <i>Better Practice Examples</i></li> </ul>	7 February 2000
72	Hospital Emergency Departments	<i>Delivering Services to Patients</i>	15 March 2000
73	Department of Education and Training	<i>Using computers in schools for teaching and learning</i>	7 June 2000
74	Ageing and Disability Department	<i>Group Homes for people with disabilities in NSW</i>	27 June 2000
75	NSW Department of Transport	<i>Management of Road Passenger Transport Regulation</i>	6 September 2000
76	Judging Performance from Annual Reports	<i>Review of eight Agencies' Annual Reports</i>	29 November 2000
77*	Reporting Performance	<i>Better Practice Guide A guide to preparing performance information for annual reports</i>	29 November 2000
78	State Rail Authority (CityRail) State Transit Authority	<i>Fare Evasion on Public Transport</i>	6 December 2000
79	TAFE NSW	<i>Review of Administration</i>	6 February 2001
80	Ambulance Service of New South Wales	<i>Readiness to respond</i>	7 March 2001
81	Department of Housing	<i>Maintenance of Public Housing</i>	11 April 2001
82	Environment Protection Authority	<i>Controlling and Reducing Pollution from Industry</i>	18 April 2001
83	Department of Corrective Services	<i>NSW Correctional Industries</i>	13 June 2001

No.	Agency or Issue Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
84	Follow-up of Performance Audits	<i>Police Response to Calls for Assistance The Levying and Collection of Land Tax Coordination of Bushfire Fighting Activities</i>	20 June 2001
85*	Internal Financial Reporting	<i>Internal Financial Reporting including a Better Practice Guide</i>	27 June 2001
86	Follow-up of Performance Audits	<i>The School Accountability and Improvement Model (May 1999) The Management of Court Waiting Times (September 1999)</i>	14 September 2001
87	E-government	<i>Use of the Internet and related technologies to improve public sector performance</i>	19 September 2001
88*	E-government	<i>e-ready, e-steady, e-government: e-government readiness assessment guide</i>	19 September 2001
89	Intellectual Property	<i>Management of Intellectual Property</i>	17 October 2001
90*	Better Practice Guide	<i>Management of Intellectual Property</i>	17 October 2001
91	University of New South Wales	<i>Educational Testing Centre</i>	21 November 2001
92	Department of Urban Affairs and Planning	<i>Environmental Impact Assessment of Major Projects</i>	28 November 2001
93	Department of Information Technology and Management	<i>Government Property Register</i>	31 January 2002
94	State Debt Recovery Office	<i>Collecting Outstanding Fines and Penalties</i>	17 April 2002
95	Roads and Traffic Authority	<i>Managing Environmental Issues</i>	29 April 2002
96	NSW Agriculture	<i>Managing Animal Disease Emergencies</i>	8 May 2002
97	State Transit Authority NSW Department of Transport	<i>Bus Maintenance and Bus Contracts</i>	29 May 2002
98	Risk Management	<i>Managing Risk in the NSW Public Sector</i>	June 2002

\* Better Practice Guides

#### Performance Audits on our website

A list of performance audits tabled or published since March 1997, as well as those currently in progress, can be found on our website [www.audit.nsw.gov.au](http://www.audit.nsw.gov.au)



## THE AUDIT OFFICE MISSION

Assisting Parliament  
improve the  
accountability and  
performance of the State

### For further information please contact:

#### The Audit Office of New South Wales

**Street Address**

Level 11  
234 Sussex Street  
SYDNEY NSW 2000  
Australia

**Postal Address**

GPO Box 12  
SYDNEY NSW 2001  
Australia

Telephone (02) 9285 0155  
Facsimile (02) 9285 0100  
Internet [www.audit.nsw.gov.au](http://www.audit.nsw.gov.au)  
e-mail [mail@audit.nsw.gov.au](mailto:mail@audit.nsw.gov.au)

Office Hours: 9.00am - 5.00pm  
Monday to Friday

Contact Officer: Denis Streater  
Director Performance Audit  
+612 9285 0075

### To purchase this Report please contact:

#### The NSW Government Bookshop

**Retail Shops**

*Sydney CBD*

Ground Floor  
Goodsell Building, Chifley Square  
Cnr Elizabeth and Hunter Streets  
SYDNEY NSW 2000

**Telephone and Facsimile Orders**

Telephone

Callers from Sydney metropolitan area	9743 7200
Callers from other locations within NSW	1800 46 3955
Callers from interstate	(02) 9743 7200

Facsimile	(02) 9228 7227
-----------	----------------