

COMNET, Canberra

**Managing Risk:  
Perspectives from the ANAO**

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## Background

The recent MAB/MIAC Guidelines for Managing Risk in the Australian Public Service (APS) state that:

*'Risk arises out of **uncertainty**. It is the exposure to the possibility of such things as economic or financial loss or gain, physical damage, injury or delay, as a consequence of pursuing a particular course of action. The concept of risk has two elements, the **likelihood** of something happening and the **consequence** if it happens.'*<sup>1</sup>

As with any other aspect of public sector administration, risk management has to be considered in the context of the changing culture and framework of the public service.

In a keynote address to the Public Sector Accounting Convention earlier this month, the Chairman of the Joint Committee of Public Accounts (JCPA) noted that the new Government has some significantly different approaches to the role of the public sector and the way in which public services are delivered. He went on to say that the Government is looking for innovative and well considered strategies to improve APS operations and service delivery. He stressed:

*'...the need for APS managers to adopt, to a greater degree than in the past, prudent risk management strategies'*.<sup>2</sup>

Of particular importance is Mr Somlyay's observation that:

*'My Committee is not interested in making scapegoats of managers when mistakes happen. Rather our focus will be on investigating the risk management plans that were in place and considering what lessons can be learned and how the same mistakes can be avoided in the future.'*<sup>3</sup>

This is very encouraging.

It should be now clear that there is no return to the 'golden era' of the 1950s and 1960s. The public service cannot stand still. It has to meet the ever changing demands of its stakeholders - the people who work in it, the

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Executive Government, the Parliament and the Australian community in their myriad roles and capacities.

In discussing risk management it needs to be recognised that our evolving system of public administration and the ability of agencies to work within cash limited budgets, does depend on continuous improvement including, in particular, innovation. And innovation involves taking risks which need to be assessed and managed efficiently.

The MAB/MIAC Guidelines stress the desirability of developing a 'mindset' of being conscious about managing the risks in relation to every decision. The organisation's strategies should aim to encourage and reinforce such a mindset. It therefore follows that risk management is an issue for individuals as well as for agencies.

The Guidelines on Official Conduct of Commonwealth Public Servants, published by the Public Service Commission, focus on the individual's responsibility for acting in accordance with the law; dealing equitably, honestly and responsively with the public; avoiding real or apparent conflicts of interest; being responsive to governments; achieving results; observing the merit principle in staffing and accountability for performance. Some legislation provides only limited room for manoeuvre; other legislation provides for considerable discretion to public servants. The important principle is to 'know the law' and is an essential part of any strategy to minimise risk.

The Guidelines on Official Conduct also cover some important aspects of individual behaviour and the need for individuals to be aware of the sensitivities which can arise because of inappropriate or questionable behaviour. The guidelines note that failing to follow the law or to carry out accountability obligations are serious matters.

Managers at all levels need a clear statement of values and ethics (for example, a Code of Conduct). A good starting point is the MAB/MIAC publication on ethical standards and values. The report states that:

*'...it is important that agencies make APS principles and values relevant and applicable to the particular situations faced by their staff.'*<sup>4</sup>

That is, they must not only know what is to be done and how but also the manner in which their activities will be conducted. A systematic approach to risk assessment is quite useful in these respects. An effective plan to deal with risk ideally should include such an approach.

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Managers also need to be aware of and understand the relevant legislation as well as the myriad of rules, regulations and guidelines which impact on their business. Each of these has to be considered and if necessary complied with in the everyday process of managing the business decisions.

For most of us the issue is not really about the concept of risk management but what has to be done to identify and manage particular risks and, perhaps, more problematically, to have some practical guidance on the degree of risk a public servant should take in the various situations faced.

Managing risk is a necessary part of the way individual managers think about their management task. The risk profile can vary from low level criticism for mistakes in processes to a high level call to account for failure to meet program performance requirements. The broad guidance to managers is to seek to achieve 'value for money'. This basically means achieving effective performance at least cost. Guidelines, instructions or monitoring arrangements should therefore logically aim to encourage maximum value for money rather than minimum risk taking. However, that is running ahead of the main discussion.

Since prevention is better than cure, the key to any risk management approach is being proactive and well informed. Managing risks is far more pervasive than dealing with losses from fraud, theft or inefficiency, important though the latter might be. Less than adequate performance, for example is also a risk that has to be addressed. Risk-taking is a dynamic exercise. Continued monitoring and review are necessary for successful risk management because risks not only change over time but their relative significance may also change, as may the mechanisms and tools to manage the risks efficiently and effectively. Constant vigilance is the price to be paid where there is a possible loss or less than satisfactory use of the public's resources.

## **Focusing on Corporate Services**

Corporate service areas dealing with issues of financial and human resource management have and will continue to face change and uncertainty as well as a greater degree of scrutiny and contestability. Some of the reforms impacting generally on the public service and which have marked implications for Corporate Services include:

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- a focus on outcomes and therefore on customer/client satisfaction, constrained by the economic management imperative of doing more with less, in order to deliver a better public service;
- the matching of authority with responsibility by devolving the authority for making management decisions to those actually charged with the responsibility for administering particular programs and services;
- risk management, including the use of accountability, as a management focus;
- alterations to the framework for financial resource management and reporting, including:
  - the requirement for accrual reporting for all Government agencies;
  - changes to Program Performance Statements and Annual Reports;
  - the presentation of the Commonwealth's Budget in May;
  - the changes to the Portfolio Budget Measures Statements; and
  - the package of bills to be introduced into Parliament to replace the Audit Act 1901; the *Financial Management and Accountability (FMA) Bill*, *Commonwealth Authorities and Companies (CAC) Bill* and the *Auditor-General Bill*; and
- alterations to the framework for human resource management, including greater staff management flexibility, equal employment opportunity and other human resource management initiatives as well as performance appraisal and the rewarding of good performance through performance recognition.

These changes are being progressively implemented with marked implications for our organisational structures and the way in which we define and carry out our functional responsibilities.

The Australian National Audit Office (ANAO) supports the integration of appropriate risk management techniques into the day-to-day decision

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making of Australian Public Service (APS) managers. Such integration involves a systematic approach to identifying, analysing, assessing, treating and monitoring risks as part of the application of credible risk management. It is important that the approach is reasonably documented and can be reported on as required. This would apply, for example, to the development of more cost effective people management systems.

What is often needed in entities is a greater awareness of the processes that have been agreed by managers as an acceptable way to manage risks including a monitoring system which will provide early warning of the possibility of an unacceptable outcome. But these processes should be explicit if they are to be effective. An auditor, in common with any manager, should be concerned that any controls built into a risk management system are adequately monitored and periodically reviewed by responsible staff. In particular, the ANAO would be concerned that an informed and balanced risk assessment has been made including any implications for likely outcomes.

Managers at all levels in the public service are coming to grips with terms and concepts such as contestability, market testing, outsourcing, privatisation, purchaser/provider splits, intellectual capital, benchmarking, client choice, service quality standards, key results areas, business process re-engineering, seamless integration of systems, electronic documents and commerce, accrual accounting, activity-based costing, workplace bargaining and the learning organisation. Some of these concepts will facilitate risk management, others will simply add to its difficulty in day-to-day management. The pressing issue is to understand what they imply for your functions (business) in both a strategic and operational sense. The next imperative is to determine how they can be turned to advantage in improving individual and organisational performance. It is inevitable that they will change the management task. Therefore we cannot simply proceed with the same management approach almost Canute-like.

I will now address some of these changes:

## **Focusing more on outcomes**

Most recognise that some form of risk management has always been applied. Typically it has been related to financial loss or fraud. How effective that might have been is another question. In addition, it has also been associated with doing something wrong. As a result there has been a preoccupation with administrative processes and control rather than outcomes and performance. The various public service reforms of the past

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decade or so have attempted to tilt the balance more towards the latter. In particular, they highlight lack of performance as well as 'good or bad' outcomes. The focus for managers is basically on their business risks.

The paradox referred to above nonetheless remains real. This was the thrust of a paper I gave to a Department of Finance Executive Seminar in 1988 where I observed that:

*'Simply put, accountability or responsibility is seen by some as being primarily about process and by others as being more about performance.'*<sup>5</sup>

Note that this is not an 'either/or' proposition. It requires a judgement about the appropriate balance to be struck in terms of costs and benefits. But, significantly for the public service manager, there are also differing judgements about these costs and benefits. It would help if they are clearly articulated, even simply expressed as any loss of real control versus an improvement in performance. The situation is not helped if a narrow view is taken of the risks involved:

*'Risk management is really asking for a suitable balance to be found between the checks and controls on the one hand and the risks of fraud on the other.'*<sup>6</sup>

Unfortunately the concerns of a number of Parliamentarians have been expressed in similar terms reflecting a perception that the issue is basically about the loss of taxpayers' money. Although well intentioned at the time, with hindsight it may not have helped general understanding for the 1989 insertion in Section 1 of the Finance Directions to the Audit Act 1901 to state that:

*'Risk management has become an up market jargon term for good old fashioned commonsense.'*<sup>7</sup>

This insertion was influenced by an inquiry<sup>8</sup> conducted by the Senate Standing Committee on Finance and Public Administration in 1988 which picked up on an ANAO concern about insufficient guidance to departments on risk management procedures. The Department of Finance produced an information and discussion paper early in 1991.<sup>9</sup> Senator John Coates, who had been Chair of the Senate Committee, threw some cold water on the 'commonsense' approach in a related seminar:

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*'My experience in politics has been that for every common sense proposal that comes forward, there are two or three others that are hare brained and four or five others in which serious traps lie under a plausible surface. Unfortunately ideas don't come with labels that identify their common sense content. The statement that risk management is just common sense worries me because I don't think common sense is really all that common.'*<sup>10</sup>

What I think is the message from this debate is that the judgement about balance is relatively simple in principle but actually quite complicated in practice, particularly when based on different perceptions of accountability. It is therefore not surprising that tensions have emerged about perceptions concerning control of processes and achievement of required outputs or outcomes as major elements of public sector managers' accountability. Such outputs or outcomes can range from internal personnel services to external program delivery. And they are not divorced from efficient processes. But the latter do not necessarily guarantee effective results. That reflects the basic conundrum about the appropriate balance to be struck, particularly when there is pressure on resources because of budget stringency or simply the existence of many competing alternative uses.

## **A different perspective on control**

I have spoken extensively about the importance of internal financial controls as an element of risk management, particularly emphasising the role of internal audit.<sup>11</sup> There is no doubt about the priority being given to ensuring that such controls are effective in both the public and private sectors in recent years. In part this reflects public concerns about financial losses that have occurred in significant organisations. As such, these controls are much more likely to be the subject of discussion at senior executive and Board levels.

Section 1.6 of the Finance Directions refers to Internal Control as 'The Principle that Underpins the System'. It notes that 'Sound internal control procedures will ensure the reliability and integrity of financial and other operating information and will minimise the possibility of theft, fraud, inefficiency and waste'. Sections 1.8.1 to 1.8.4 outline the importance of internal audit as a key management tool and the role of a high-level Audit Committee. Sections 1.9, 1.10 and 1.11 refer to the need for risk management and the principles involved. New topics that are being addressed include the environment and the potential risk exposures which can occur.



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However, following on the theme of my earlier remarks, I would like to emphasise the need to orient internal controls more to an outcomes focus rather than simply be inputs based as they generally tend to be. There is a need for clear guidance to staff as to how essential such controls are and how they should operate in an integrated fashion. But they are not ends in themselves. Too often we can get confused between ends and means. However, more often our horizons fall short of just what ends we are meant to serve. In this respect the program management and budgeting framework provides the necessary discipline and facility to help us focus on our objectives and key result areas and the linkages between them and the strategies and operations that achieve those outcomes. Our people are quite capable of keeping their eyes on the 'main game'.

As you are aware, there is a changing public service culture being developed which is more client focussed and concerned with quality service delivery. It encapsulates key public service values and ethical standards, a clear emphasis on performance, leadership and people management as well as the pursuit of continuous improvement. Above all, it seeks to make us accountable for all these elements. Hopefully we will have a legislative base in place by next year that encompasses and reinforces such a culture. Included in this development is an issue which has given rise to concerns about risk management:

*'A central tenet of the Public Service reform agenda has been that managers are in the best position to judge what is needed in their areas of responsibility but, once given the flexibility to manage, they should be expected and of necessity made to manage within the resources allocated to them.'*<sup>12</sup>

Such devolution of authority has been seen by a number of parliamentary and other observers as a lessening of control and consequently involving greater risks in management. To the contrary, the developing culture heightens accountability and encourages prudent risk management to achieve better performance. As observed by MAB/MIAC:

*'Greater recognition of the place of risk management in maximising program effectiveness and greater clarity about what constitutes an acceptable risk not only at all (my underlining) levels of management but by those to whom managers are accountable) will encourage a more effective use of this technique. The Australian National Audit Office and the Parliament have important roles to play in assisting managers in this area.'*<sup>13</sup>

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That leads me into some relevant observations made in a series of articles in Canada last year referring to 'A new perspective on control in government', in short, from 'one that is input-based to one that is outcome-based'. The input or rules-based controls were seen as a centralised approach to decision-making. Such an approach was deemed to be ineffective for the following reasons:

*'a) It often creates a rigid, inflexible, and slow-moving organization*

*that is not adaptive enough when customer preferences and*

*technology are changing continually.*

*b) It assumes that knowledge and skills can be concentrated in the hands*

*of a few members of the organization.*

*c) Human behaviour experts argue that, by failing to involve and*

*challenge people, rules-based control provides a negative, rather than*

*a positive motivation for organization performance.<sup>14</sup>*

Nevertheless, the authors make it clear that controls should be seen as essential processes an organisation must put in place to help it achieve its objectives. This contrasts with thinking about controls solely as a constraint on resource input decisions 'to ensure that no rules are violated'. What this essentially means is that effective control does not depend on rules-based management. But this must be reflected in the organisation culture, communicated effectively, reinforced by good practice and certainly not assumed or taken for granted just because it is 'stated policy'. I have affinity with the Canadian's view that such a culture should include:

*'Shared principles and ethical values; the communication practices for consultation and information sharing; and the policies which provide the boundary lines for delegated authority, responsibility and accountability and related human resource management and practice.<sup>15</sup>*

I would also emphasise the growing importance of information technology to the more effective use of our people and information assets. Protective security is an important element of managing the various risks associated

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with those assets as well as with other physical assets. I recently remarked that:

*'Our (collective) responsibilities are to apply the concepts and principles of risk management to help ensure we have a security regime which is appropriate to the environment in which we operate and a proper assessment of the various risks made in the context of that environment.'*<sup>16</sup>

Security and other Guidelines are necessary for effective control of our corporate assets.

## Accrual Accounting

Accrual accounting is being introduced throughout the APS with entities being required to report on an accrual basis. A number are increasingly being managed on that basis. This change will also be reinforced by the Government's recent decision to move to accrual budgeting. Managing on an accrual basis will have considerable implications for the type of performance information that will be demanded in the future.

The new accrual based statements (which should include financial reports prepared on an ongoing basis as well as the end of year financial reports) should facilitate more effective scrutiny of agency performance and enable questioning of such matters as the efficiency of resource use, the full costs of administration, deployment of assets and their efficient management. For example, accrual accounting recognises the consumption of a depreciable asset's service potential through the depreciation expense calculation. In this regard, the ANAO's recent Financial Control and Administration Audit into Asset Management in Commonwealth entities found that improved asset management would result from the effective attribution of costs for the use and consumption of assets to the program level.<sup>17</sup> The recognition and attribution of such costs under accrual accounting assist us to identify the full cost of producing program outputs.

As noted by the Joint Committee of Public Accounts (JCPA):

*'The statements will contain a wealth of information which can be used to construct a range of specific performance indicators to monitor and assess the performance of agencies and of programs within agencies. The information can also be used in a predictive sense to help decision makers assess the impact of*

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*proposed resource allocations on other programs within an agency or on the whole agency.*<sup>18</sup>

In particular, the statements are designed to be relevant, reliable, comparable and understandable. While the main focus will be on performance in managing resources, the reports will continue to provide accountability for the proper use of public moneys. As well as assisting the management of individual agencies, the JCPA also observed that the information contained in accrual-based financial reports is presented in such a way as to facilitate comparisons between reporting periods and between different entities. This means it is comparatively easy to establish trends and identify performance benchmarks across the APS.<sup>19</sup>

Traditionally, the performance indicators which have been identified in the APS have focussed on inputs and outputs. It is generally agreed that performance indicators need to become more outcome focussed. This not only includes information on what has actually been achieved but also on the cost effectiveness of these achievements. Obviously, assessing the cost effectiveness of an organisation's activities depends upon the collection of performance information against financial indicators, among other imperatives. Such financial performance information will be increasingly provided through the use of accrual-based accounting systems.

The relevance of accounting information for measuring performance can be further enhanced through the use of activity-based costing systems. Such systems can be used to focus on the factors which drive the costs of those fundamental activities that are needed to produce outputs. The costs of these activities then provide the basis for assigning costs to other cost objects such as products, services or customers. While such systems may involve extra accounting costs, they have potential for improving the accuracy and usefulness of output costing in the public sector.

More broadly, managers will be looking for integrated management information to support their decisions. In essence, there is still a chicken and egg situation in many entities where demands are made for so called executive information systems, but limited use is being made of the technology we have and we do not express our requirements with any real clarity. On the other hand setting performance expectations presupposes the existence of appropriate information and the systems to deliver that information.

We cannot expect someone else to virtually second-guess the information we need to run our business or to indicate whether we are successful or not. We need to be involved in decisions about systems and the

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performance information they can deliver. This applies also to whole of government initiatives in the area of shared systems such as for Human Resource Management Information (HRMIS) and Financial Management Information (FMIS). The move to electronic commerce will have particular implications for Corporate Services areas in the way in which an entity's business is undertaken. As I mentioned earlier, the key to any risk management approach is being proactive and well informed.

## On being contestable

Most public servants are familiar with contestability of ideas and views and in their bids for resources. Many would argue that the contest has been often unequal - from both sides I might add. However, up until recent years, there has not been any serious consideration of government agencies generally being subject to competition in their delivery of services. That is not to say that there have not been bureaucratic battles over territory nor that the private sector has not delivered such services. Contracting out is not a new phenomenon as indicated by Gary Sturgess in a recent address in Canberra.<sup>20</sup> However, as he also pointed out, a major difference is that 'we are now contemplating competition in the central functions of government'.<sup>21</sup>

The Department of Finance published a useful outline of concepts, case studies and lessons learned in relation to contestability late last year. Their definition of contestability for the APS is:

*'the prospect of competition in public sector activities to improve both program efficiency and effectiveness.'*<sup>22</sup>

To many, prospect reads as a threat despite the comment that contestability 'does not imply transfer of provision of services to the private sector'.<sup>23</sup> However, it is more a challenge to increase efficiency and effectiveness. This does bring into question issues of 'competitive neutrality' or the so-called 'level playing field'. These present difficult problems to public sector managers both in defending apparent advantages of being in the public sector with, for example, its less risky environment and clear disadvantages of constraints such as confinement of areas of business and lack of similar management flexibility and additional accountability to that in the private sector. The major risk is not being able to show clearly that you are competitive, particularly where you are not operating in the marketplace. On the other hand, as some of the business managers in the Department of Administrative Services would no doubt assert, being in the marketplace per se does not necessarily provide a clear indication of one's competitiveness.

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In my view, while contestability does confront public service managers with a number of the risks of operating in a competitive market, it is very much a second best approach to improving efficiency and effectiveness if they do not at least eventually have to engage in genuine competition. Competitive neutrality would suggest this should probably be as a government business enterprise, preferably in corporate form. It is a matter for governments to decide as to the benefit of retaining such activities within the public sector. On the other hand, in a non competitive environment as for the ANAO, it is a discipline to engage in peer reviews particularly with audit firms in the private sector to assess our cost effectiveness. But we do not take the risks of being in competition which would be non productive to try to emulate. Nevertheless, we use this discipline to improve our performance. I note the Finance comment that contestability differs from, but includes, contracting out. The latter involves its own specific risks which I will touch on in the purchaser/provider discussion.

While contestability clearly involves new and increased risks to be managed by individuals and their organisations, there are broader risks that need to be considered as indicated by Finance:

*'Contestability in the Public domain carries with it greater responsibilities for CEOs and Ministers than for private sector CEOs. Businesses in the private sector enter the market exclusively for profit. Opening up new areas of the public sector to the prospect of competition carries additional responsibilities for policy makers. Issues relating to security, accountability and equity need to be taken into account.'*<sup>24</sup>

These issues bear directly on the question of what activities should be undertaken within government and why. The ANAO has defined its audit business in terms of the traditional core government functions, roughly coinciding with the coverage of the proposed Financial Management and Accountability legislation. Again, broadly, its non-core business coincides with the proposed Commonwealth Authorities and Companies legislation but not including budget dependent entities.

## **Purchaser/provider arrangements**

Once again I would like to draw on another very useful document<sup>25</sup> produced by Finance to talk about some of the issues and implications for managing risks efficiently in such arrangements.

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Broadly defined, a purchaser/provider arrangement is one in which: (1) the purchaser is the agent who decides what will be produced; and (2) the provider is the agent who delivers the agreed outputs or outcomes.<sup>26</sup> A purchaser/provider arrangement is the basis of most contractual and commercial arrangements operating in the public sector.

As the Finance document indicates, relationships between purchasers and providers are often outlined in internal agreements. These are commonly known as service-level agreements, memoranda of understanding or work-based protocols. These documents often articulate what results are expected, from whom, how results are to be evaluated and how differences are to be arbitrated. The new risks are in the service level agreements (or other similar agreements). It is important that such documents clearly articulate the results expected, from whom and how those results are to be assessed or evaluated and how differences are to be arbitrated. However, we also need to have a sound appreciation of the commercial nature of such agreements in the interests of both parties.

Conflicts can arise with contracts that are either too broad or too restricted in their coverage. The actions of government often need to be flexible to respond quickly to changing circumstances. This puts some pressure on having appropriate contingency clauses or at least an agreed mechanism for addressing problems. A complementary issue is that of assignment and acceptance of responsibility. This is an area where the trust and confidence needed in a genuine partnership to achieve the required results cannot be emulated in a contractual relationship. Nevertheless, there is sufficient evidence that performance clauses in contracts can be made to work effectively and not counter-productively.

Partnership arrangements depend importantly on soundly based agreements which can literally be put in a bottom drawer for reference purposes only. The success of such arrangements depends considerably on establishing a solid basis of trust with scope for a 'give and take' relationship within the terms of any agreement. This does add an element of risk because judgement can be involved often at relatively short notice. This is the essence of good management. However, the Commonwealth's exposure to any adverse implications must be clearly within the terms of the agreement. This not only assists WIN-WIN outcomes but also ensures transparency (accountability) of the decisions being taken.

Vague relationships do not assist either party nor lend confidence to the partnership arrangement. Clear definitions of the boundaries of a contract should assist in resolution of any disputes as to what is, or is not, covered including basic deliverables such as service levels and response times. As with any performance information, it is important to clearly state expectations as a basis for regular evaluation as the lynch-pin of accountability for performance.

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High transaction and compliance costs are often associated with purchaser/provider arrangements. As I noted earlier, we have to be careful about imposing excessive input controls on the arrangement to the possible detriment of efficient and effective resource use as well as inhibiting initiative and ideas which can contribute significantly to actual outcomes or results. To an extent, the trade-offs are dependent on making judgements about appropriate balances. This places a heavy burden on information systems and assessment of probabilities of occurrences or events. Any systems should be primarily aimed at preventing problems, providing scope for detection and ensuring that decisive action is taken to deal quickly and firmly with unwanted outcomes. Information Technology provides the means of extending a productive relationship between clients and service providers. We are witnessing innovative approaches in this respect from the social welfare and business oriented agencies.

A broader based risk which should be considered is in the context of the increasing cross entity and cross program focus for development, evaluation and review purposes. This is identified by the Finance paper as follows:

*'Under purchaser/provider arrangements, there is a risk that the vertical relationships within a portfolio or organisation will be strengthened at the expense of horizontal ones. Managers may place less emphasis on co-ordinating programs and policies across portfolios.'*<sup>27</sup>

The purchaser/provider arrangement can also add to the perennial problem of divorcement of policy and administration. The issue is how to get the two-way feedback loop to work efficiently and effectively so that experience with direct client relationships and observation of, as well as participation in, program implementation can answer important questions of the appropriateness of objectives and strategies and overall program effectiveness.

## **Concluding Remarks**

Much has been done particularly in recent years to streamline the effectiveness of the public service and orient it more towards accountability for results. However, some confusion still applies over concepts of accountability and responsibility of Ministers and public servants even though being responsible would seem to be assumed under the notion of accountability. For general purposes it would seem less confusing to treat the concepts in this latter way rather than attempting to make apparent distinctions which could be difficult to comprehend both by



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Parliamentarians and the general public. This is important for those making risk assessments and deciding on appropriate action to manage those risks as well as having to explain their actions or lack of them.

The Department of Finance has suggested that:

*'The existence of a formal risk management strategy will ... help in terms of satisfying accountability requirements.'*<sup>28</sup>

The key elements of such a strategy should be well documented in order to:

- \_ help ensure that the analysis is done;
- \_ it is available for review;
- \_ it is communicated to staff and others involved in the processes or program so there is a shared understanding of directions and associated risk; and
- \_ if ever required, it is available in defence of the organisation or particular program involved.

We need to take a disciplined approach if these elements are to become an accepted part of our management culture. While I stress such an approach is not the sole responsibility of Corporate Services areas, they can draw on considerable relevant experience to assist in its articulation and dissemination.

Another observation by Finance is worth stressing:

*'Risk management is not mysterious - it relies on judgement and analytical skills. It encourages managers to think about the risk to their programs and organisation and to optimise their protection against those risks, rather than to deal with problems on an ad hoc basis as and when they occur. Risk avoidance, in contrast, treats all risks as unacceptably high.'*<sup>29</sup>

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Above all, acceptance of risk management as an integral part of an organisation's culture, involving all staff, requires clear leadership and example from the top. This is seen by the Guidelines on Managing Risk as one of the key messages for managers in managing risk:

*'People should be encouraged and supported by these leaders to manage risk.'*<sup>30</sup>

As you would be aware the main requirements of an effective risk management approach are management integrity and ethical values; a control environment; clearly specified objectives; risk analysis; information systems; control procedures; effective communication; mechanisms to manage change; and monitoring arrangements. These elements need to be applied, on a holistic basis, to different types of risk. As the Guidelines note:

*'Risky management is not acceptable.'*<sup>31</sup>

I reiterate the view that controls need to be more outcome based and that our people are quite capable of understanding and operating in an environment that is not solely and narrowly oriented to input controls. This needs to be reflected in any risk management plan. Corporate Services can make a significant contribution to the development of a credible and useful plan.

In short, the ANAO supports a risk management approach because, managing risk is an essential element of good management practice and the concept of risk management is fundamental to our own auditing activities. The overriding aim of all the ANAO does is to improve public administration and the accountability framework through which its own performance will be judged.

Focussing on risk management will at least help to reduce risk, certainly to manageable proportions. It is imperative to know and understand your business as well as having a good understanding of your customers'/clients' business. Drawing on the Guidelines again:

*'In managing risk you need to strike a balance between the costs of managing the risks and the benefits to be gained.'*<sup>32</sup>

Let me make three final audit observations:

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- The audit function lends itself to the criticism that it focuses on individual mistakes. This is simply because of the very nature of our work and the fact that our reports are made to the Parliament and are therefore in the public arena. Our intention is to concentrate on what we can learn from such mistakes or any other failures or deficiencies. Therefore our emphasis will be on gain not blame.
  
- The ANAO has, and will continue, to play a key role in providing assurance to the Executive, individual public sector entities and the Parliament that the public sector is not being exposed to unnecessary risks. That will depend on entity's effective implementation of risk management.
  
- The ANAO will therefore be placing increasing emphasis on identifying areas of best practice, as well as noting areas where, in our opinion, improvements can be made or are necessary for good management. A lot of risk management is a benefit for the future, at least in the medium term, rather than accruing now (immediate or short term benefit).

Perhaps the ultimate challenge is actually as indicated by the Guidelines on Risk Management that:

*'Risk management is anyone's business.'*<sup>33</sup>

In my view it is the achievement of a sensible balanced judgement between costs and outcomes and accountability for the explanation and justification of that judgement. This can be encouraged by the support of a well balanced corporate framework which can be greatly facilitated by a proactive and organisationally aligned Corporate Services group. The most difficult task is to identify, assess and rank the various risks that confront us in achieving required results. That is the challenge for all of us.

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## Endnotes and References

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