

Comcover Federal Risk Manager
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**Managing Risk for Better
Performance – a challenge for
CEOs and Boards**

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Managing risk for better performance – a challenge for CEOs and Boards

- by Pat Barrett, Commonwealth Auditor-General

The growing recognition and acceptance of risk management as an important element of good corporate governance – particularly as a legitimate management tool to assist in strategic and operational planning - has many potential benefits for the Australian Public Service.

A sound risk management framework can help agency managers to be more confident of their approach to achieving required results as well as being able to publicly defend their decision-making as part of their overall accountability for agency performance. The latter is very relevant to Chief Executive Officers (CEOs) and Corporate Boards in the light of their specific obligations under the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*.

Such an approach encourages:

- a more outward-looking examination of the role and functions of the agency or entity;
- increased customer/client focus;
- a greater emphasis on outputs and outcomes; and
- concentration on resource priorities and performance assessment as part of management decision-making.

Risk management is clearly not a discretionary activity. It is an essential, underlying element of the reforms that are currently taking place in the public sector. The challenge is not risk minimisation per se but the active management of risk for better performance.

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Management of risk in the public sector does involve, among other elements, making decisions that accord with statutory requirements and are consistent with APS values and ethics. It is an important part of an organisation's control structures and the innate discipline that a robust control environment can provide for both internal and external confidence in management.

As well, with the increased emphasis on contestability and the greater convergence of the public and private sectors, there will be a need to focus more systematically on risk management practices in decision-making that will increasingly address issues of cost, quality and financial performance.

Another important aspect of an effective risk management framework is the transparency of decision-making processes as part of public sector accountability.

Transparency is achieved by genuine openness which includes ensuring that the decision-making process and the reasons for decisions made are adequately documented and communicated to stakeholders.

I note that one of the most significant additions to the Australian/New Zealand Risk Management Standard (AS NZS 4360:1999) is the requirement to identify stakeholders and communicate and consult with them regarding their perceptions of risk at each stage of the risk management process.

The results of such communication and consultation should, of course, feed into any decision-making process.

From an ANAO perspective, documentation of key risk management principles and related management decisions is an essential element of the public sector accountability framework. It is also good management.

As the ANAO is a key element of this framework, we have a particular need to understand the reasons behind agency decisions. As well, documenting and communicating key processes and decisions:

- improves the transparency and consistency of decisions made by the agency over time;
- contributes to the cost-effective achievement of stated outcomes throughout their organisation;

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- promotes a shared ownership of decisions throughout the agency; and
- places the agency in a considerably stronger position to defend to the Parliament and clients any decisions made.

The establishment in July 1998 of insurable risk managed fund arrangements for the Commonwealth (*Comcover*) is another expression of the increased attention being devoted to risk management in the APS and the significant initiatives being developed to support the concept.

Comcover replaces the Commonwealth's previous policy of non-insurance. The introduction of the new fund will for the first time require the systematic identification, quantification, reporting and management of risk across Commonwealth agencies.

Comcover provides for a single managed fund to cover all general insurance risks with the exception of workers compensation, (with formal pooling of risk, premiums and reinsurance) and requires all Commonwealth agencies (including departments) and entities in the General Government Sector to participate, unless specifically exempted.

The creation of such a fund is a timely reminder that failure to identify and treat risks properly and adequately is itself a significant risk for CEOs, Boards and public sector organisations, particularly, as noted earlier, the new financial legislation imposes personal accountability and responsibility obligations.

The development of the new fund arrangements responded, among other things, to issues highlighted in the performance audit report on *Commonwealth Guarantees, Indemnities and Letters of Comfort* (Report No. 6 of 1996-97). That report revealed:

- a need for improved recording and reporting of Commonwealth exposures;
- a need for improved risk management practices in relation to existing and future exposures; and

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- the absence of positive economic incentives for agencies to apply formal management principles to controlling risk exposure.

Although the new *Comcover* arrangements necessitate additional reporting and oversight of the Fund's arrangements, on the positive side *Comcover* aims to provide improved risk management benefits to the Commonwealth by:

- helping to protect programs and the Budget against unexpected insurable losses over time;
- achieving transparency and greater accountability in the management of the Commonwealth's insurable risks;
- requiring the full identification of risk exposures by each agency;
- enabling the Commonwealth to centrally accumulate risk knowledge and expertise;
- reducing costs by pooling and spreading of risk; and
- providing incentives for better risk management with the application of a claims sensitive premium and excess.

Despite the obvious benefits of such arrangements, we must remember that only those risks that can be covered as insurable losses are able to be treated through *Comcover*.

It therefore remains incumbent on public sector managers to manage risk actively without being unnecessarily risk averse. We should not fall into the trap of failing to manage risk simply because we have an insurance policy as a safety net.

With the increasing provision of public services by the private sector, part of our accountability to the Parliament and the public for the effective delivery of public services will be to manage, rather than simply insure against, the risks associated with any outsourcing where that is feasible.

The key message is that CEOs and Boards should aim to ensure that decisions made using risk management are not based on 'risky' management practices.

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We need to be conscious that mistakes will be made and look to ensure that management learns from such mistakes and implements effective processes to minimise the impact of errors in the future, as well as reducing the likelihood of their recurrence.

Responsibility for the implementation of effective risk management in Commonwealth agencies rests with individual agencies. *Comcover* Members therefore cannot expect *Comcover* to discharge their risk management responsibilities for them.

With the commencement of this important Commonwealth initiative, agencies can now look to *Comcover* to provide them with the necessary tools, professional assistance and advice to become better risk managers of insurable risks.

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