

Launch of MAB/MIAC Report 17 –  
Guidelines for Managing Risk in the  
Australian Public Sector – An Exposure  
Draft

**Risk Management – An ANAO  
Perspective**

7 August 1995

Pat Barrett  
Auditor-General for Australia

## INTRODUCTION

Given various perceptions by some people about auditors, I could suggest my presence on the podium on such an occasion may be seen as an example of risky management. However, I would prefer it to be seen as a good example of effective risk management! Having assessed the risks and benefits of my involvement, I have concluded that the benefits far outweigh the risks. In short, I consider we can assure the Parliament and the Executive that we are not throwing the baby out with the bath water.

Risk management is an integral part of the operations of the ANAO and critical to the effective functioning of the APS. I was, therefore, delighted to accept the invitation from Dr Keating and Russell Higgins to be part of the launch of the Exposure Draft of Guidelines for Managing Risk in the Australian Public Service prepared under the auspices of MAB/MIAC.

Let me say at the outset that, while the ANAO may have been critical of some aspects of the implementation of various reforms by agencies, it is nevertheless a strong supporter of the public sector reforms which have as their focus improvements in performance and accountability of the public sector. And the work of MAB/MIAC is, in my view, very important to the successful implementation of those reforms.

## THE ENDEMIC NATURE OF RISK MANAGEMENT

The reasons the ANAO supports risk management are quite straightforward.

First, managing risk is an essential element of good management practice, particularly in today's climate of increasing financial constraint, greater competitiveness and contestability for both advice and services. The overriding aim of all the ANAO does is to improve public administration and the accountability framework through which its own performance will largely be judged. Managing risk efficiently and effectively reflects one concrete way in which this can be achieved. As the Exposure Draft indicates, it is necessary to manage risk `all the time (page 6). And I would add `at all levels of your organisation.

Second, the concept of risk management is fundamental to our own auditing activities in the conduct of both performance and financial statement audits. In undertaking our financial statement audits, professional accounting and auditing standards require the ANAO to first identify, and then assess, risks which exist in the organisation subject to audit. It is only in this way that our resources are applied to those areas of greatest risk, in this case the risk of material misstatement of the financial statements. On the performance audit side, the ANAO has in place planning practices which help identify a range of risks in public sector entities. In this way, our resources can again be focused on areas of greatest risk to identified performance in achieving the required results.

# DRAFT

At the same time, the ANAO has a range of basic safeguards in place which help ensure that we are not exposed to unnecessary risks. These include, for example, the risk of issuing an incorrect audit opinion, or a performance report which lacks sufficient supporting evidence. The following comment is of interest in this respect:

Unquestionably, what frightens auditors as they move from certification into value for money assessments, and within the latter from economy through efficiency to effectiveness, is the difficulty in satisfying normal professional standards of evidence and the increasing risk associated with the greater use of judgement as opposed to supportable facts. Auditing the Three Es: The challenge of Effectiveness

John Glynn, Andrew Gray & Bill Jenkins

Public Policy and Administration Volume 7 No. 3 Winter 1992, p.67

Another area of increasing risk is our responsibilities under the Corporations Law. The corporatisation of greater numbers of public sector entities, coupled with the Government's decision to privatise or partly privatise a number of these entities, means that we are all subject to the full umbrella of the Corporations Law responsibilities and potential liabilities. As the external auditor of these entities, the ANAO is very well attuned to the increased level of risk in this arena, for example in due diligence processes related to asset sales. I can certainly endorse the Exposure Drafts benefit of 'no costly surprises' (page 8).

The need to be cognisant of, and observe due processes which ensure procedural fairness (or natural justice as some of us have been more used to referring to them) is another area of risk the ANAO deals with and has to manage on a day to day basis.

The point I want to stress in briefly discussing these examples is that the ANAO does understand and apply the concepts and principles underlying these draft Guidelines and recognises fully the real issues and challenges which the public sector must deal with in managing risk. It is not only an exercise in not exposing our organisations to undue criticism, challenge or financial loss but also in clearly showing we are managing our resources efficiently and effectively.

This sentiment was expressed succinctly in the Position Statement on Managing Risk by the Institute of Internal Auditors earlier this year as follows:

Managers have the responsibility for putting in place and monitoring the necessary internal management controls, dependent upon their level in the accountability continuum, to ensure cost effective results while mitigating risk. Position Statement on Managing Risk in the Australian Public Service Institute of Internal Auditors - Australia, Canberra Branch: Canberra, April 1995 (page (i)).

The Position Statement goes on to suggest that to achieve results with acceptable risks requires the establishment of internal controls to ensure:

# DRAFT

- Values and behaviours support honesty and integrity (ETHICS);
- Competent, committed people are held accountable for results for systems (PEOPLE); and
- Systems exist for cost-effective control of key result areas and risks (SYSTEMS). op. cit.; (page (ii))

The Exposure Draft urges us to make decisions in accordance with APS ethical standards and values (page 10). The Draft also makes an important observation on the use of internal controls in relation to our external clients as follows:

When you are streamlining procedures so as to reduce the level of checks or the cost of some processes, take care not to transfer unreasonable requirements or responsibilities to clients. (page 5)

## AN EMPHASIS ON ADDING VALUE

I will now comment briefly on some aspects of the Exposure Draft which refer to the possible impact that the ANAO may have on the adoption of good risk management practices. Having had the benefit of early access to the draft Guidelines, I can say quite emphatically that the ANAO endorses the principles and the sentiments expressed in the document and commends the Exposure Draft as a very useful framework and reference point for managers at all levels in applying a risk management approach in the Australian Public Sector. We will of course, as I hope you do, take the opportunity to review the document in detail and provide comments on it as part of the process of producing a final version. The essential message is that we can all add value through a thoughtful and accountable approach to risk management.

In looking through the draft I note, perhaps not surprisingly, that the ANAO is mentioned in somewhat less than endearing terms. There seems to be a perception in the minds of some at least, that the ANAO often focuses on individual mistakes and indiscretions and that this approach runs counter to the philosophy of risk management. To the extent that there is any validity in that view, the ANAO will be ensuring that it does get its own house in order.

I would however, like to make three observations on these perceptions. The first is that the audit function lends itself to such criticism, 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. That is the price of public accountability.

The second point is that 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 exposed to unnecessary risks. In this regard, I firmly state that our audit opinions on the financial statements of public sector entities provide an essential independent attestation of those financial statements and in doing so, provide an independent and objective assurance to all parties on the

# DRAFT

financial stewardship of the public sector and on the financial systems which support it.

The third point I wish to make is that, in its future work, the ANAO will 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. To this effect, the ANAO has issued several best practice guides and will continue to do so.

I have recently written to the heads of Departments and agencies advising of the ANAO's intention to conduct a program of audits of financial controls and administration. A focus of these audits will be on identifying best practice in common areas of administration, including in the area of risk management. I am very confident that with the goodwill and co-operation of agencies, the ANAO will be able to add value to public sector administration and accountability through these audits.

At the ANAO we will be focusing our efforts on being valued by the Parliament, the community and public sector entities as a major contributor to achieving excellence in the public sector administration and accountability. This is, after all, what we are here to achieve.

The ANAO will do this by contributing, to the extent practicable and within its mandate, to the ongoing public sector reforms including the adoption and implementation of risk management strategies and practices. We can add value from our across agency perspectives and the information gained from our audits.

The Exposure Draft itself does make the observation that, in some public sector agencies, there is a higher level of awareness and expertise in managing risk than in others. It also makes the point that, in many agencies, managing risk is not happening at an organisational level, nor necessarily in a systematic manner and, perhaps disappointingly, that the level of understanding of the principles and processes of managing risk is deficient at all levels in the APS. I read this as meaning that a much more concerted effort needs to be applied to informing and developing our staff at all levels in order for them to add value by better risk management. This needs to be done within the broader context of the reform framework.

As I indicated earlier, the ANAO will be doing its part to contribute to the development of the reforms generally, including the work of MAB/MIAC which is focused both on the strategic and operational requirements. In doing so, we will aim to ensure that our emphasis is on improving performance and accountability, while at the same time not losing sight for one moment of the fact that underlying everything we do is the need to maintain and indeed strengthen the integrity and ethical standards of the public sector. We have no intention of throwing out the baby with the bath water.

## THE SUPPORTIVE LEGISLATIVE FRAMEWORK

# DRAFT

The package of legislation comprising the Auditor-General Bill, the Financial Management and Accountability Bill and the Commonwealth Authorities and Companies Bill, currently being debated in the Parliament, will provide a framework to assist the APS in achieving the outcomes I have outlined. The requirements in the Financial Management and Accountability Bill for example, for Chief Executives to implement a fraud control plan, to establish and maintain an audit committee and, more broadly, to manage the affairs of his or her agency in the way that promotes proper use of Commonwealth resources for which the Chief Executive is responsible, will for the first time provide legislative backing for practices that have to date been implemented as a result of Government public administration reform policies.

Parliamentary endorsement of the financial management approach will be a major milestone in the overall public sector reform agenda. I am also looking forward to the new Public Service Act which will complete the overall public management legislative framework which will take us into the next millennium.

Before I leave the subject of the FMA and CAC Bills, as they are colloquially referred to, I would also like to put to you that the proposed framework will enable the public sector to further address the fundamental issue of what is core and non core business and the apparently different requirements for dealing with such a dichotomy. This is an issue which, in the future, if not already, has the potential to result in further challenges for the ANAO, for the APS generally and indeed for the Parliament and others interested in public administration.

The ANAO will be focusing its attention in the coming months on how it can best contribute to this change process, having established its strategic directions on the basis of clearly identifying our own core and non core business, as well as having, for many years, undertaken audits against different regulatory environments and the corporate knowledge that goes with that. We appreciate the Exposure Drafts comment that `agency culture may operate as a disincentive to managing risk (page 13). As well, we would agree with the following comment:

The reality is that managing risk in the public sector must comply with legislative requirements. Legislative requirements and possibilities should be considered as part of the risk management process. (page 12)

## CONCLUDING REMARKS

In conclusion, I want to reiterate the ANAO's commitment to the principles of risk management. Many of you will be aware that the ANAO has adopted as its theme program risk assessments (focusing on financial risks) for the 1994-95 financial statement audits. We will be providing public sector agencies and the Parliament with a commentary on this important aspect of public sector administration when we report on the results of our financial statement audits later this year.

We also have several performance audits underway which will be focusing specifically on aspects of risk management in the review of particular programs of public administration.

# DRAFT

In our examination of these areas, the ANAO will be reviewing, in particular, the progress made by agencies in identifying the risks which managers consider are relevant to their particular program, and also the linkages between those risks and the controlled environment which has been established for the purposes of managing those risks. Such risks that exist are, of course, not just dollar risks but include the whole gamut of administrative risks both quantifiable and qualitative which we as managers in the APS need to understand and manage.

I would like to congratulate MAB/MIAC on this initiative and record my thanks for the opportunity to contribute to the launch of the Exposure Draft on Risk Management. I would urge you to ensure that there is full consultation on the Draft in your organisations and to encourage further ideas and comments which will enhance its usefulness to managers at all levels of your organisations.

**(Special thanks are due to Russell Coleman for his contribution to this address for which he does not have to share the responsibility for the views expressed.)**