

An address to SES Officers in the
Australian Customs Service, Canberra

**Understanding Risk Management
in the APS: An Ongoing Challenge
– Perspectives from the ANAO**

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Understanding Risk Management in the APS An Ongoing Challenge

Perspectives from the ANAO

UNDERSTANDING RISK MANAGEMENT IN THE APS - AN ONGOING CHALLENGE

INTRODUCTION

SERVICE WIDE PERCEPTION

Focussing more on outcomes

A different perspective on control

Risk and complexity in a changing management context

INVOLVEMENT OF THE ANAO IN RISK MANAGEMENT

Applying Risk Management to our Audit Processes

Audit Reports which focus on Risk Management

CONCLUSION



Introduction

Risk management has evolved as a central strategy for the Australian Customs Service in its approach to the paradox of reconciling the high level of control required to achieve its charter with the equally important function of facilitating trade and international travel. In essence, the technique is used to sift transactions in order to allow focus of checking and validation effort on those considered to constitute high risk.

‘Managing Risk in Large Scale Services’, Colin Vassarotti
Risk Management Strategies Conference.
Sydney, 27 September 1994 (p.1.)

Managers at all levels need a clear statement of values and ethics (for example, a Code of Conduct). 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.

‘... the side arguing for risk management has the more political and administrative risks associated with it, the more so because no one has yet agreed about which risks ought to be put into the equation, or about how the blame is apportioned when a risk goes wrong.’


‘In the Service - PS faces risks in risk management’, Jack Waterford
The Canberra Times, 13 August 1989 (p7).

Greater complexity normally means more risks. It follows that as governance has become more complex the decisions in relation to risk identification and assessment have equally become more complex for public sector managers.

‘Simply put, accountability or responsibility is seen by some as being primarily about process and by others as being more about performance.’

‘Managing Risk or Risky Management’, address to a Finance Executive Seminar. Sydney, 24-28 October 1988 (abstract).

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.



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.

‘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.’

‘Building a Better Public Service’ A joint publication of MAB/MIAC.
Report No. 12. AGPS Canberra, June 1993 (para. 3.2.1, page 13)

‘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.’

‘The Role of Auditing in Promoting Security Awareness and Best Practice’
Address to the Security in Government 1995 Conference.
Canberra, 2 November 1995 (page 3).

‘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.’

‘Examining Contestability within the APS: Initial Information’
Management Improvement Discussion Series Paper No. 3.
Resource Management Improvement Branch, Department of Finance.
Canberra, November 1995 (page i).

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.

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.

‘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.’

‘Clarifying the Exchange: A Review of Purchaser/Provider Arrangements’ Management Improvement Discussion Series Paper No. 2. Resource Management Improvement Branch, Department of Finance. November 1995 (pages i and 2)

‘Feedback received by the team from survey responses, focus groups and interviews indicates that there is a perception that the ANAO perspective can be a deterrent to appropriately managing risk because of its focus on detail rather than on the integrity and cost effectiveness of entire processes.’

‘Managing Risk - Guidelines for managing risk in the Australian Public Service’ Exposure Draft. A Joint Publication of the Management Advisory Board (MAB) and its Management Improvement Advisory Committee (MIAC) Number 17. AGPS. Canberra, July 1995

The ANAO is a strong supporter of the concept of risk management and provided brief reasons for such support as follows:

- * First, the concept of risk management is fundamental to our own auditing activities in the conduct of both financial statement and performance audits:
- * Second, 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.

In performing the risk assessment of the entity's financial statement the ANAO considers the risk of a material error occurring. The Australian Accounting Standard (AAS5) describes the materiality concept and provides guidance on its application.

‘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.’

John Glynn, Andrew Gray and Bill Jenkins “Auditing the Three Es: The Challenge of Effectiveness”, Public Policy and Administration Volume 7 No 3 Winter 1992 (page 67)

With respect to risk management the audit found that:


- * 50% of entities audited have sound risk management practices in place; and
- * 48% were in the process of developing risk management practices.

The reports selected indicate the different perspectives and approaches taken by the relevant agencies to risk management issues. For many years the ANAO undertook what were known as ‘protective security’ audits. These audits varied in size and complexity. Their main focus was on an agency’s general security environment.

Just what is Corporate Governance?

I rather like Telstra's explanation that it is basically about how an organisation is managed 'through its structures, style, culture and policies'.

'Directors' Report' Telstra Annual Report 1995
(page 36)



‘The existence of a formal risk management strategy will ... help in terms of satisfying accountability requirements’.

‘Resource Management in the Australian Public Service’, Edition One. Department of Finance. AGPS, Canberra 1994 (page 59)

‘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.

‘Resource Management in the Australian Public Service’,
Edition One. Department of Finance. AGPS, Canberra
1994 (page 59)

‘There is no such thing as a correct response to a particular exposure and the dynamic nature of business and risks means that risk management cannot stand still either.’

‘Managing Risk - Guidelines for managing risk in the Australian Public Service’ Exposure Draft. A Joint Publication of the Management Advisory Board (MAB) and its Management Improvement Advisory Committee (MIAC) Number 17. AGPS. Canberra, July 1995



‘Risk management is an art, not a science.’