Australian Government
Australian Public Service Commission

State of the Service Report

State of the Service Series 2013–14

Effective leadership Diverse workforce Capable organisations and workforce Employee conditions APS Values

Contact and acknowledgement information

Enquiries and suggestions about this State of the Service report or the analyses are welcome, and should be directed to:

Human Capital Research and Evaluation Group:

Angie Sturrock
Director, State of the Service
(02) 6202 3716

Dr David Schmidtchen
Group Manager
(02) 6202 3707

Email correspondence should be directed to: <StateoftheService@apsc.gov.au>.

Electronic copies of the report are available at: <http://www.apsc.gov.au>.

Production team

David Schmidtchen, Angie Sturrock, Marie Rowles, Qiumeng Mao, Ellyse Paton, Tony Cotton, Alastair Warren and Miara Watson.

The report includes significant contributions and input from the Workforce Information and Planning team, Human Capital Research and Analysis team, the Capability Review team, Ethics Group and all other groups of the Commission.

The report was designed and typeset by Jayne Abel and Paul Joice.

Website design by Felicity Kennedy.

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Managing risk

The modern understanding of risk management has its origins in the insurance industry. Following World War II, the industry focused management attention on more rigorous efforts to reduce accidents and damage to equipment along with worker's compensation and third-party liability. As Russell Gallagher noted in a seminal article on risk management in 1956[1]:

> From catastrophic accidents involving executive personnel to little losses of pilferage and breakage, from obvious hazards of damaged machinery to hidden dangers of impaired good will, there is a wide and complicated range of problems calling for specialized analysis and for executive action.

Broadly, risk management is the culture, processes and structures directed towards realising potential opportunities while managing adverse effects.[2] The Australian Public Service (APS) manages risk and delivers long-term results for citizens while being responsive to the government of the day. Public servants are required to be proactive and forward thinking when developing policy advice, delivering services and managing the workforce. Consequently, risk management is an essential public service skill that is practiced daily. *Ahead of the Game: Blueprint for the Reform of Australian Government Administration* highlighted that the practice of risk management in the APS has, at times, become reactive, short term and process focused.[3]

The consequences of poor risk management can affect safety, as well as incur financial, administrative and/or reputational costs. Organisationally, remediating poor risk management is often expensive, complex, disruptive and lengthy. The Royal Commission into the Home Insulation Program (HIP) was established in December 2013 following claims that the deaths of four people may have arisen from programme implementation. The Royal Commission found that the identification and management of risks under HIP was seriously deficient.[4] The Royal Commission followed other inquiries by a Senate Committee, the Australian National Audit Office (ANAO) and by Dr Allan Hawke.[5]

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1 Gallagher, R 1956, 'Risk Management: A new phase of cost control', *Harvard Business Review*, vol. 34, no. 5, pp. 75–86.

2 Standards Australia 2009, *AS/NZS ISO 3100:2009 Risk Management—Principles and Guidelines*, SAI Global, Sydney, viewed 18 September 2014, <http://infostore.saiglobal.com/store>.

3 Advisory Group on Reform of Australian Government Administration 2010, *Ahead of the Game: Blueprint for the Reform of Australian Government Administration*, Commonwealth of Australia, Canberra.

4 Hanger, I 2014, *Report of the Royal Commission into the Home Insulation Program*, Commonwealth of Australia, Canberra, pp. 308, 321.

5 Hanger, I 2014, *Report of the Royal Commission into the Home Insulation Program*, Commonwealth of Australia, Canberra, p. 15.

The recently released Commonwealth Risk Management Policy (CRMP)[6] supports the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) framework, and requires the accountable authority of an Australian Government entity to establish and maintain appropriate systems and internal controls for the oversight and management of risk. The CRMP applies to all non-corporate Government entities and provides guidance to agencies on the establishment of appropriate risk-management frameworks to achieve compliance under the PGPA Act. Implementation of the CRMP is central to improving the quality of risk management across the APS.

This chapter reports on the state of risk-management capability in the APS, focusing on CRMP implementation. It assesses the elements of APS culture and practice that are necessary to improve risk-management capability.

The Commonwealth Risk Management Policy

The PGPA Act establishes the requirement for all Australian Government agencies to formalise how they manage risk. It has key objectives of improving the quality of planning, performance information and evaluation within government to improve accountability to Ministers, the parliament and the public and to ensure internal processes are more streamlined, risk based and better focused.[7]

The CRMP supports the PGPA Act framework by setting out the expectations for Australian Government agencies managing risk. It clarifies what is needed for agencies to implement their own effective risk framework. In particular, it requires agencies to define: agency tolerance for risk (including for government and community); agency ownership of risk; and agency engagement with risks for which it cannot take full responsibility.

Effective from 1 July 2014, all non-corporate Australian Government entities must comply with the CRMP, which supports the requirements of Section 16 of the PGPA Act. The CRMP sets out nine elements which non-corporate Australian Government entities must comply with to establish appropriate levels of risk oversight:

- establishing a risk-management policy
- establishing a risk-management framework
- defining responsibility for managing risk
- embedding systematic risk management into business processes
- developing a positive risk culture
- communicating risk
- understanding and managing shared risk
- maintaining risk-management capability
- reviewing and continuously improving the management of risk.

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6 Department of Finance 2014, *Commonwealth Risk Management Policy*, Commonwealth of Australia, Canberra, viewed 21 October 2014, <http://www.finance.gov.au/comcover/risk-management>.

7 Public Management Reform Agenda 2014, Department of Finance, Commonwealth of Australia, Canberra, viewed 18 September 2014, <http://www.pmra.finance.gov.au>.

The CRMP provides a focus for consistently improving maintenance of appropriate systems and internal controls for the oversight and management of risk across the APS.

The state of risk management in the APS

Recent assessments of risk-management capability suggest this is an area in which the APS needs to improve. In the 2013 State of the Service Agency Survey (agency survey), 70% of APS agencies identified a need to improve their risk-management capability. Separately, the 2013 Comcover Risk Management Benchmarking Survey reported that three-quarters of agencies were below their desired level of risk-management capability.

More broadly, a number of reports by the ANAO identified instances where risk management within the APS could have been better handled.[8] A key point that emerged from these reports is that while risks may have been appropriately assessed at the start of a project, often the project teams failed to keep the risks and controls up-to-date or recognise the implications of material changes in the risk environment that could affect success.

The *Report of the Royal Commission into the Home Insulation Program* called for steps to avoid failures in managing programme risk. The report stated that necessary steps include regular and ongoing engagement with risks so that risks are not simply named and dismissed; risk cannot be abrogated—if another party is identified as able to mitigate an identified risk it does not remove responsibility to manage that risk and ensure that others are doing the same; and that individuals need to be responsible for risk management.[9]

The following sections examine the practice of risk from five perspectives:

- the maturity of risk-management processes
- insights from the ANAO
- agency Capability Reviews
- a survey of APS agencies that focused on the way risk is managed and the level at which it is managed
- employee perceptions of risk management.

Assessments of risk-management maturity

In 2011 and 2013, the Australian Public Service Commission (the Commission) asked agencies to assess their risk-management capability using a capability maturity model approach. This approach assesses risk-management capability through three mechanisms not available through other methods: capability assessments are made over time; agencies self-assess their current maturity level for each capability and the maturity level they believe they require to conduct business effectively; and when looked at across the APS the capability maturity model approach assists in identifying systemic areas of weakness to which resources can be allocated with greatest effect.

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8 Australian National Audit Office 2013, *Defence's Implementation of Audit Recommendations*, audit report no. 25 2012–13, Commonwealth of Australia, Canberra; Australian National Audit Office 2013, *Agencies' Implementation of Performance Audit Recommendations*, audit report, no. 53 2012–13, Commonwealth of Australia, Canberra.

9 Hanger, I 2014, *Report of the Royal Commission into the Home Insulation Program*, Commonwealth of Australia, Canberra, p. 309.

By comparing current capability at more than one point in time (that is, current capability as assessed in 2011 and current capability as assessed in 2013), a judgement of whether agency capability has 'matured' can be made. This assessment also allows agencies to evaluate progress of earlier capability investments. By comparing their required level of capability maturity over time (as opposed to their assessment of their current capability), agencies can identify how their changing business context has influenced their capability requirements. This assists agencies to critically assess their likely future business and what it means for investment decisions in their business processes.

Table 3.1 shows that marginally fewer agencies in 2013 (28%) than in 2011 (32%) assessed their current level of risk-management capability as meeting organisational requirements.

Table 3.1. Agency risk-management capability assessment, 2011 and 2013 Source: Agency survey

	At required level (% of agencies)		Need to mature one level (% of agencies)		Need to mature two or more levels (% of agencies)	
Capability	**2011**	**2013**	**2011**	**2013**	**2011**	**2013**
Risk management	32	28	48	54	18	16

In 2011, risk management showed the smallest gap between current and required capability of the six capability areas assessed with the largest gaps reported by regulatory and small operational agencies. The same comparison between agency assessments of current and required risk-management capability for 2013 showed that while the gap was the second smallest across all the areas assessed, the largest gaps were now reported by large and small operational agencies.

Separately, in Comcover's annual risk-management benchmarking survey of Australian Government agencies, which uses a more detailed capability maturity approach to assess elements of risk-management practice, agencies assess their capability maturity for 10 practice elements against five levels: informal; basic; top down; structured; risk intelligent. The 2013 Comcover survey data indicates that while agencies' average capability levels improved—from 6.27 in 2010 to 6.82 in 2013 on a scale of 0 to 10—the gap between average capability and desired capability remains around 10%. Further, approximately three-quarters of agencies surveyed did not achieve their target capability level in 2013. Change over time, however, suggests the gap between current and required risk-management capability is closing.

Overall, the two approaches to assessing the maturity of risk-management capability across the APS confirm that it is improving, although more work is needed to close the gap between current risk-management capability and the maturity agencies believe they require to improve agency performance.

Managing integrity risk

Following the conviction of 14 members of the Australian Customs and Border Protection Service (ACBPS), with others awaiting trial for similar or related offences, this year saw a sharper focus on identifying and managing risks to the integrity of the APS and its agencies.

The Australian Commission for Law Enforcement Integrity reported on investigations into alleged corrupt conduct among officers of ACBPS at Sydney International Airport and private illicit drug use by three ACBPS officers[10], illustrating the challenges of integrity reform in law enforcement agencies. This has implications for the wider APS about the risks of failing to report misconduct or being reckless or indifferent with information security.

The ANAO report on the management of conflicts of interest in APS agencies[11] released in June this year drew attention to the variable compliance with the requirement for Senior Executive Service (SES) employees to make annual declarations of their private interests that could involve a real or apparent conflict of interest. The ANAO recommended that agencies pay specific attention to conflict of interest matters as part of their normal enterprise-wide risk reviews.

ANAO reports provide detailed insight into risk-management practice in the APS. While the capability maturity approach provides the opportunity to compare and contrast agency assessments of risk management as a business process, ANAO reports provide insight into how practices are implemented. Two ANAO audit reports highlight specific issues in the communication of risk, the culture of risk and the impact on programme implementation.[12] In particular, these reports highlight the need to continuously monitor risk profiles in line with changing circumstances and keep stakeholders informed of those changes.

This year the Commission asked agencies a new question about the strategies used during 2013–14 to manage integrity risk. Most agencies have policies designed to manage conflicts of interest that may arise through outside employment and the receipt of gifts and benefits, and a small number of agencies conduct drug or alcohol testing of employees. Perhaps most surprising is the high proportion of agencies (41%) that do not conduct regular ethics training as a strategy for managing integrity risk. New data was also collected this year on employee perceptions of integrity risk, and the experience of agencies in managing corrupt behaviours. This data is reported in Appendix 6.

Managing delivery risk

In relation to the maintenance of appropriate systems and internal controls for the oversight and management of risk, the 2011 ANAO report on the HIP made this observation about risk management[13]:

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[10] Australian Commission for Law Enforcement Integrity 2013, *Operation Heritage—a joint investigation of alleged corrupt conduct among officers of the Australian Customs and Border Protection Service at Sydney International Airport (Interim Report)*, investigation report 02/2013, Commonwealth of Australia, Canberra; Australian Commission for Law Enforcement Integrity 2014, *Operation Myrrh—An investigation into 'private' illicit drug use by certain Australian Customs and Border Protection Service officers*, investigation report 01/2014, Commonwealth of Australia, Canberra.

[11] Australian National Audit Office 2014, *Managing Conflicts of Interest in FMA Agencies*, audit report no. 47, 2013–14, Commonwealth of Australia, Canberra.

[12] Australian National Audit Office 2011, *Home Insulation Program*, audit report no. 12 2010–11, Commonwealth of Australia, Canberra; Australian National Audit Office 2011, *Medicare Compliance Audits*, audit report no. 26 2013–14, Commonwealth of Australia, Canberra.

[13] Australian National Audit Office 2011, *Home Insulation Program*, audit report no. 12 2010–11, Commonwealth of Australia, Canberra, p. 175.

> The potential consequences of residual risks, where significant, should be clearly communicated to, and understood by, key stakeholders, such as Ministers and central agencies, so that treatments reflect the Government's risk appetite. … In an uncertain environment, the assessment of a program's risk profile often changes during further development of a policy proposal and its implementation.

The issue identified here relates to the way in which risk is communicated to key stakeholders, in particular the need to identify the way risk profiles may shift with changing circumstances and the need to communicate these changes through programme or project implementation. The report of the Royal Commission into HIP made similar comments about the need to continually reassess risk. It also emphasised the importance of clear communication with Ministers, including in respect of risk.[14]

Broadly, there are two audiences for communicating risk—internal and external. Internally, risk conversations are necessary to inform good management. Externally, risk conversations with stakeholders are necessary to ensure risk is managed in accordance with the risk appetite of those stakeholders.

Internal risk conversations are about ensuring risk is part of the consideration of issues and part of normal routine. It should not be an exception. Processes such as programme and project planning, corporate planning, policy development and implementation planning all provide valuable opportunities to test and record an agency's appetite for risk, and the key risks relevant to activities and projects. Programme and project implementation plans, along with corporate planning processes, need to pay explicit regard to risk identification and assessment, and ensure planning processes routinely produce good quality risk outputs.

External risk conversations involve setting a risk appetite for the agency and testing that with the authorising environment. In particular, it involves establishing and maintaining appropriate risk frameworks and systems to ensure risks are communicated to the responsible Minister and other stakeholders.

Agency Capability Reviews

Capability Reviews assess the risk-management capability of agencies in the context of how organisational performance is managed. In particular, they ask if an agency has high-quality, timely and well-understood performance information, supported by analytical capability, that allows it to track and manage risk across its delivery system.

An agency's approach to risk management is also considered more broadly, specifically in terms of managing strategic, enterprise-wide risk. Indeed, the Capability Review programme was established partly because the public service had experienced significant failures in delivery resulting from problems in risk management at multiple points across organisational systems.[15]

[14] Hanger, I 2014, *Report of the Royal Commission into the Home Insulation Program*, Commonwealth of Australia, Canberra, p. 311.

[15] Australian National Audit Office 2010, *Green Loans Program*, performance audit report no. 9 2010–11, Commonwealth of Australia, Canberra; Australian National Audit Office 2010, *Home Insulation Program*, performance audit report no. 12 2010–11, Commonwealth of Australia, Canberra.

Capability Reviews have brought a fresh perspective on risk management in the public service, reflecting the contributions of private sector managers in senior review teams and extensive consultation with external stakeholders, who often comment on the overall risk averse approach of agencies. In summary, the Capability Reviews conducted to date have shown that agencies have been moving to address risk through frameworks, systems and instructions such that some agencies now have well developed systems for operational risk management.

The Department of the Treasury, for example, has:

> … a sound risk management framework and processes at the departmental, group and divisional levels. The Executive Board considers and updates the departmental risks, group specific risks and work health and safety risks at least twice a year.[16]

The Australian Taxation Office uses a risk assessment approach for mapping stakeholders based on size and their likely compliance with tax legislation. Similarly, the Department of Immigration and Border Protection has identified enterprise wide risks and implemented a new risk-management framework that provides consistency in managing risk.

Despite these examples, risk management remains a developmental area for the majority of agencies, most notably in terms of managing strategic, whole-of-agency risks as opposed to project-specific or operational risks. Capability Reviews have also identified that in some departments routine decision making has been elevated to senior executives resulting in disempowerment and reduced development opportunities for middle management. Although sometimes justified as a risk-mitigation strategy, this approach is a risk in and of itself that could lead to the inadequate development of middle managers and produce the opposite result to that initially intended. Capability Reviews have found that many agencies have a risk-averse culture and need consistent leadership in support of setting appropriate levels of appetite for risk.

Agency Capability Reviews led 11 agencies to take action to lift risk-management capability. Post review actions by agencies range from implementing risk-management policies, plans, processes, frameworks and reporting procedures to developing and adopting risk tolerance and risk appetite statements. Multiple agencies have also focused on reviewing risk frameworks to enable greater levels of innovation.

APS Risk Management Survey

In May 2014, the Commission administered a short survey of agencies to generate a consistent high-level picture of risk-management practice across the APS against the core elements of the CRMP. The survey focused on the nature of risks faced by APS agencies, the way in which risk is managed and the level at which it is managed. The main findings from the 79 agencies that completed the survey were:[17]

- 23% of agencies reported they did not have a documented formal risk appetite statement; 26% were developing a statement; and 49% had published risk appetite statements.

[16] Australian Public Service Commission 2013, *Capability Review: The Treasury*, Commonwealth of Australia, Canberra, viewed 18 September 2014, <http://www.apsc.gov.au/publications-and-media/current-publications/tsy>.

[17] Not all agencies provided a response to every question so percentages do not total 100.

- 7% of agencies did not have an agency-wide risk-management plan; and 23% did not have local risk-management plans (these were predominantly smaller agencies).
- 35% of agencies annually reviewed agency risks; 6% reviewed their risks less frequently; 13% of agencies used a variable schedule for assessing their risks; 34% of agencies reviewed their risks more frequently—in one case as frequently as weekly.
- 34% of agencies reviewed local risk-management plans annually; 25% reviewed them more frequently; 10% used a variable scheduled for reviewing these plans; 1% of agencies reviewed local plans less frequently than annually.
- 59% of agencies standardised their local risk-management plans and predominantly managed them at Executive Level (EL) or SES Band 1 level.
- 53% of agencies used a 'pre-treatment' view of strategic risk to drive organisational resource allocation.
- 16% of agencies did not include risk-management considerations in their agency's resource allocation.
- 43% of agencies included risk management as a component of formal individual performance assessments.
- 23% of agencies had not identified barriers to improving risk-management capability.

These findings indicate that a considerable body of work is needed by some agencies before they meet the requirements of the CRMP. These elements are focused on the extent to which agencies have the appropriate business processes in place to effectively manage risk.

APS employee perceptions of risk management

In 2014, for the first time, the APS Employee Census (employee census) sought a more detailed understanding of employee perceptions of risk management in their agency. Figure 3.1 shows employee perceptions of their supervisors' support for risk management. SES employees, perhaps due to greater visibility of the way risk is managed within the agency, were more positive about the management of risks. EL and APS 1–6 employees were less positive. The gap in how employees perceive risk is lower when the focus is on risks within a workgroup. It may be that agencies will need to make more effort to communicate agency level approaches to risk.

Figure 3.1. Employee perceptions of risk-management behaviours—supervisors, 2014 Source: Employee census

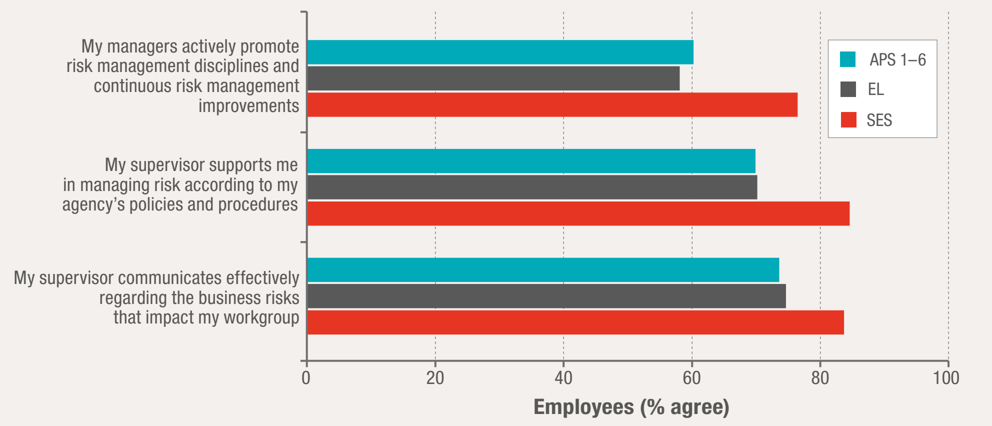


Figure 3.2 shows employee perceptions of their senior leaders' risk-management behaviour. Again, SES employees were substantially more positive than EL or APS 1–6 employees.

Figure 3.2. Employee perceptions of risk-management behaviours—senior leaders, 2014 Source: Employee census

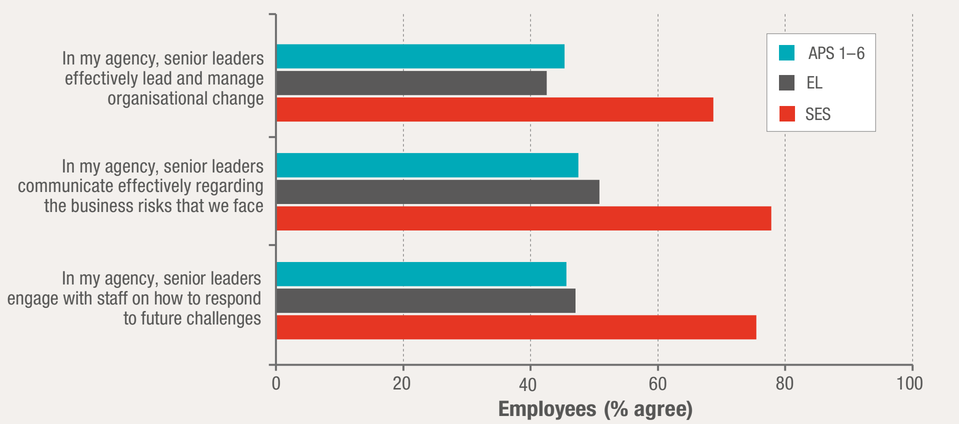


Figure 3.3 shows employees perceptions of how their agency manages business risks in general. The trend in perceptions is similar to those outlined in figures 3.1 and 3.2.

Figure 3.3. Employee perceptions of agency risk-management processes, 2014 Source: Employee census

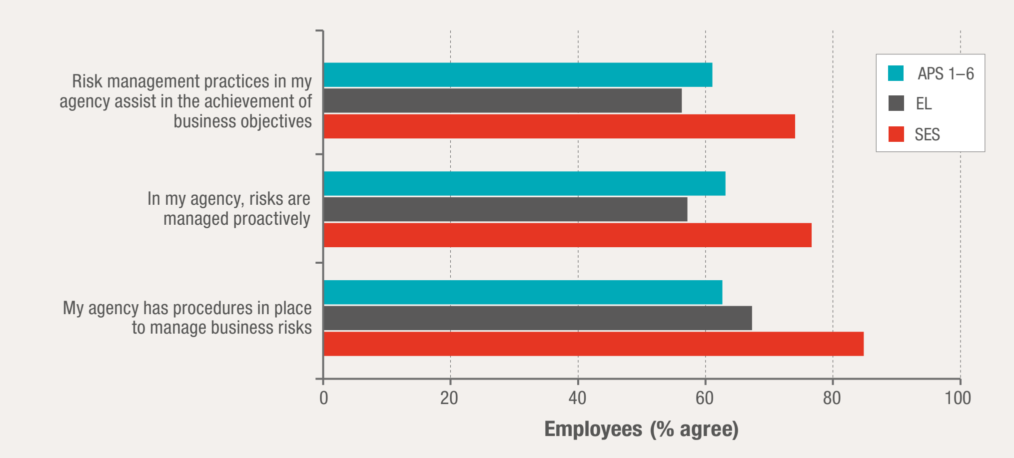
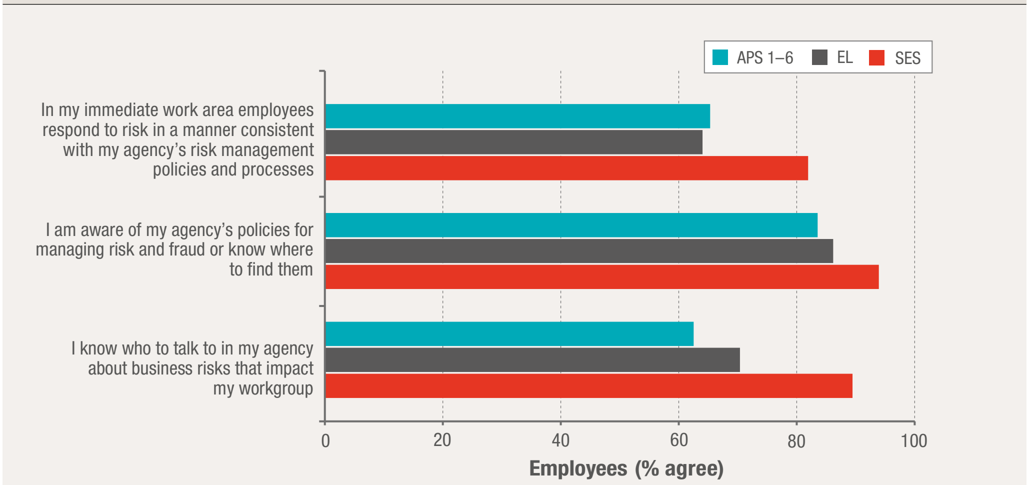


Figure 3.4 shows employee perceptions of how risk is managed in the immediate workgroup and whether employees know where to access policies related to risk. Overall, there was a strong positive response from all classifications on knowing where to access information on risk management. In terms of knowing who to talk to about business risks that impact on the workgroup, APS 1–6 employees were less likely to agree than either EL or SES employees. EL employees, in turn, were less likely to agree than SES employees.

When looking at how employees in the work area respond to risk, EL employees were less positive than SES, although comparable to APS 1–6 employees.

Figure 3.4. Employee perceptions of risk-management behaviours—work area, 2014 Source: Employee census



Overall, SES employees were consistently more positive regarding risk-management processes in their agency than were EL or APS 1–6 employees. Conversely, APS 1–6 employees were generally the least positive on how risk is managed within their agencies and workgroups.

Developing a positive risk culture

The APS Values require a commitment to service and accountability. The Australian Public Service Commissioner's Directions 2013, clauses 1.2(h) and 1.5(c), determines the scope or application of the APS Values. This requires APS employees to have regard to their duties and responsibilities, identify and manage areas of potential risk and demonstrate that their actions and decisions reflect appropriate consideration.

The APS Values underpin the CRMP which defines a positive risk culture as one that 'promotes an open and proactive approach to managing risk that considers both threat and opportunity.'[18] Agency risk-management frameworks are important in this regard but they rely on managers being held to account for their effective implementation. In a capability maturity sense, risk-mature agencies have a culture of openness, awareness and sensitivity to organisational risks and awareness of responsibilities to stakeholders and the public. In these agencies, proactive risk management is systematically incorporated into strategic planning processes and championed by senior executives such that it is an instinctive aspect of agency culture at all levels.

Culture as a barrier to effective risk management

When asked to identify the barriers to improving risk management in their agency, the majority of agencies reported barriers related to organisational culture and workforce capability. This reinforces the findings from ANAO reports[19] highlighting that improving risk management is not simply a matter of adding additional checks and balances in existing processes. Rather it involves:

- sustainable change that must take place in the way leaders and managers focus on risk
- the workforce being aware of and capable of managing risk
- the culture of the agency being positively disposed toward sharing the information that is essential to actively identifying and managing risk. In response to the APS risk management survey, one agency expressed it this way:

> The major barriers to improving risk management are the capacity and incentive of personnel to manage risks at all levels, technology and cultural barriers to sharing information of risks and controls, and developing the practical skills of leaders to move beyond risk as a compliance activity and embed it as a core element of basic management and leadership.

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18 Department of Finance, 2014, *Commonwealth Risk Management Policy—Public Governance, Performance and Accountability*, Department of Finance, Commonwealth of Australia, Canberra, p. 15, viewed 18 September 2014, <http://www.finance.gov.au/comcover/risk-management>.

19 Australian National Audit Office 2011, *Home Insulation Program*, audit report no. 12 2010–11, Commonwealth of Australia, Canberra; Australian National Audit Office 2011, *Medicare Compliance Audits*, audit report no. 26 2013–14, Commonwealth of Australia, Canberra.

Other barriers agencies identified to effective risk management included:

- not elevating risk to the appropriate level
- ensuring risk was managed at the appropriate level
- the sense that employees were unable to raise risks without adverse consequences.

These comments suggest that the APS, generally speaking, has a compliance oriented and bureaucratic approach to managing risk that is a potential barrier to improving risk-management performance. One agency observed that:

> Historically, there has been a fundamentally 'risk averse' culture evident in the Department, which in part is a reflection of the broader APS culture in this area. Risk management is seen as compliance, 'tick the boxes' exercise and an 'add on' to real work rather than seeing active management of risk as a critical part of the day to day way we manage our core business.

The case study on the National Blood Authority (NBA) outlines an approach to addressing cultural barriers to risk management through employee engagement. The NBA adopted an approach to improving the quality of risk management that was driven by the senior leadership but owned by all employees.

Independent assessment of the implementation and internal feedback from employees suggest that one outcome of this approach is a workforce that is both more knowledgeable about the nature of business risks and more collaborative in addressing them.

National Blood Authority: Risk management

The National Blood Authority (NBA) manages the risks associated with the delivery of a secure, safe and sustainable blood supply for Australia. It is responsible for managing an administered budget in excess of $1 billion within a complex stakeholder environment.

The NBA's risk-management framework emphasises:

- commitment of senior leadership
- a process that optimises employee involvement and ownership
- the creation of a positive organisational culture
- improvements in risk-management accountability and governance—in relation to decision-making and outcomes.

The NBA's approach emphasises the importance of identifying, analysing and treating enterprise risks at the appropriate management level. This is complemented by project and contract-specific risk assessments. At the core of the approach is a risk register used by employees on an ongoing basis to record identified risks and resulting actions. Risks beyond the scope of the level of the organisation at which they were identified are elevated to the next level for assessment. The organisation undertakes a three-phase annual review of risks, led by the General Manager, to reinforce the approach.

Reviews, both internal and independent, of NBA's risk-management framework have demonstrated the effectiveness of the approach and the importance of engaging employees at all levels across the organisation.

Embedding risk management into business processes

Maturity models used to assess risk identify risk-mature organisations as those in which the risk-management framework is defined and integrated with agency operations. Risk management is therefore part of the agency's business planning, budgeting and reporting processes. Similarly, CRMP encourages agencies to embed systematic risk into business processes. The objective of effective risk management is to improve organisational performance by:

> Considering risk is an integral element of the overall management capability of an entity and must include, and not be limited to, each of the following: strategic planning; the establishment of governance arrangements; policy development; programme delivery and decision making.[20]

The case study on the Department of Agriculture (Agriculture) shows a commitment over time to embedding risk management into business processes. Agriculture's approach addresses the barriers to risk identified earlier and demonstrates how these have been incorporated into business processes to improve performance. Agriculture identified four benefits of a more mature approach to risk management: increased visibility of risks; improved financial outcomes; increased workforce capability in managing risk; and the ability to share knowledge on better risk management across the APS.

Department of Agriculture: Enterprise-wide risk management

The Department of Agriculture (Agriculture) won the Enterprise-wide risk management category at the 2012 Comcover Awards for Excellence, after being highly commended in 2011 and receiving an honourable mention in 2010.

In 2009, Agriculture set out to revitalise its risk-management framework. The goal was to create a more agile, effective, adaptive and resilient department. The strategic approach was to enshrine risk management in all aspects of work, in particular the idea that risk is everyone's business. It signalled a shift in Agriculture's risk policy from a process-driven, descriptive approach to an accountability-based approach for managing risks.

The identification of strategic priorities and risks is now a key part of the department's annual business-planning cycle. Strategic priorities and risks are communicated as business planning begins. This process better aligns divisions with the department's strategic goals and more clearly defines business objectives and deliverables. Through the development of low-cost technology, business planning, risk assessment and reporting are combined in one system, known as 'e-plan'. The e-plan allows the Executive to quickly be informed of risk hotspots across the department and the sources of risks. Risk training is promoted as an e-module and forms part of the new starter induction package.

Agriculture's risk assessment process is designed to identify: contexts for internal and external risk management; risks in each division's strategic and operational contexts; treatments and strategies to implement business plans and opportunities, and balance these against risks.

The risk assessment process includes regular review of the risk profile by the Secretary and Executive Management Committee. The department seeks to: re-allocate resources for high-priority risk areas; respond quickly to external pressures; and communicate and consult with stakeholders on emerging risks.

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20 Department of Finance, 2014, *Commonwealth Risk Management Policy—Public Governance, Performance and Accountability*, Department of Finance, Commonwealth of Australia, Canberra, p.14, viewed 18 September 2014, <http://www.finance.gov.au/comcover/risk-management>.

Department of Agriculture: Enterprise-wide risk management

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Over time, Agriculture has matured in the way it manages risk. The benefits of this have been realised in these areas:

Greater visibility of risks. Strategic and operational risks are linked through a top-down, bottom-up approach to make high and medium risks in the department more visible. Strategic risks are also better aligned with the business planning cycle and shape Agriculture's key objectives and deliverables.

Financial benefits. The department's increasing risk maturity is resulting in many benefits. For example, the number of insurance claims fell by around half during the past four years, from around 80 in 2008–09 to around 40 in 2011–12. Meanwhile, its benchmarking discount rose dramatically during the same period from around $40,000 in 2008–09 to around $245,000 in 2011–12.

Increase capability. Training has dramatically improved the quality of risk assessments and knowledge across the department. In the past, officers were not accurately describing their risk statements, but now they more consistently set them out as source/risk/impact. Risk levels are also more uniformly described for the particular risk identified. The introduction of an e-learning module has reduced the demands for in-person training by the risk team. The e-learning training has also reduced the pressures on the risk team, allowing members to focus more on strategic priorities and risk across the department.

Shared learning across the APS. In 2012–13, 17 agencies visited the department to review its approach to enterprise-wide risk management and the tools and methods Agriculture has developed. The risk team also receives requests for risk workshops from across Australia. In this way the department shares its experience with other agencies allowing others to learn the lessons of implementation and management.

Understanding and communicating risk

The APS faces risks in a number of definable areas; some of these are strategic in nature and affect the whole agency while others are more operational. The APS also must consider and assess significant reputational risks. Communicating and consulting about risk underpins the successful management of risk. Effective communication requires consultation with employees, relevant stakeholders and the transparent, complete and timely flow of information between decision makers.

The case study on the Australian Antarctic Division (AAD) provides an example of the operational benefits to be gained from an integrated approach to understanding and communicating risk. It also highlights an approach to evaluating risk-management processes to continually improve performance. The case study also highlights the operational value of thorough pre-planning and risk assessment. The AAD approach demonstrates that good risk-management aids decision making when it reflects the agency's risk profile, is integrated, adaptive, evidence based, user friendly (with responsibilities made clear), encourages assurance through external scrutiny, and drives performance improvements.

Australian Antarctic Division: Risk management in the Australian Antarctic program

Australian Antarctic Division (AAD) is a division of the Department of the Environment. It contributes to advancing Australia's strategic, scientific, environmental and economic interests in the Antarctic and sub-Antarctic. One strategy aimed at achieving this objective is through the delivery of the AAD's Australian Antarctic program (AAp).

The AAp engages best practice operational risk management, minimising risks and maximising opportunities, in some of the harshest and most remote locations on earth. The task is enormous, with the AAp annually supplying four permanent stations in the region, supporting marine and field science, recruiting and training hundreds of expeditioners, providing transport and cargo logistics within a complex supply chain in collaboration with international partnerships, while complying with an array of national and international legislative obligations.

AAD aims to deliver a well-planned, integrated and safe Antarctic program. This is supported through robust, integrated and effective risk-management practices; the continual development of a positive AAD risk culture; and ongoing reporting, reviewing and managing operational risks.

Operating in Antarctica demands a risk-management framework that reflects AAD's risk profile and resources. AAp risk management is, by its nature, adaptive, rigorous and evidence-based. It must help the AAD meet obligations and deliver its program safely and effectively.

Through pre-planning and annual season risk assessments, a number of risks are identified and controls and treatments put in place. A key risk of operating in Antarctica is the possibility of a significant work, health and safety (WHS) incident.

During the 2013–14 AAp season, a helicopter incident occurred 150 nautical miles inland from Davis Station, seriously injuring three people. The worst case scenario was nearly realised, but because strong risk control measures were identified and implemented—such as standard operating procedures, training on safety and emergency response procedures, appropriate kitting, field team composition, helicopter flying protocols, Bureau of Meteorology weather forecasts, coordinated aviation logistics and the use of advanced telemedicine support—the injured were successfully retrieved and safely returned to Hobart.

Risk management is directly resourced through a dedicated risk manager and other risk-management roles across WHS, environmental management, security and financial risk. Examples of AAp-funded risk mitigations include engaging dual helicopters (which is often more than is needed for the task alone), wilderness first-aid training, communications equipment and survival equipment.

All areas undertake relevant risk assessments and check that controls are effective and/or implement treatments as part of planning, operation, monitoring and continual improvement processes when delivering the AAp.

The program undergoes an annual two-day debrief at the end of each season, analysing issues, risks and lessons learned. Annual planning includes revising the AAp season's risk assessment, standard operating procedures and manuals. Assurance is through an audit programme, including AAD, departmental and external regulatory audits. A continual improvement programme exists with a WHS Register of Targets and key performance indicators linked to risks and business objectives.

Reviewing and continuously improving risk management

The CRMP formalises the requirement for agencies to review and continuously improve risk management:

> Formalising and implementing risk management within an entity is not a 'one-off event'. The effective management of risk is a process of continuous improvement, requiring regular review and evaluation mechanisms.[21]

The 2011 ANAO report on the HIP highlighted deficiencies in the risk-management approach. The case study on the Department of Communications outlines the way in which lessons from the HIP were learned and incorporated into the implementation of the Household Assistance Scheme that formed part of the switchover to digital television.

Department of Communications: Household Assistance Scheme

As part of the switchover to digital television, the Household Assistance Scheme (HAS) was established to provide in-home practical and technical assistance with installation services (including antenna, cabling, set-top boxes and satellite access, where warranted) to eligible Australians receiving the maximum amount of specified government allowances.

The ANAO performance audit of the Home Insulation Program (HIP) provided valuable lessons for the Department of Communications in minimising risk in the development and implementation of the HAS including:

- outsourcing delivery to companies with previous experience in installing television services in homes
- performing extensive checks on installers before installation (safety, reliability, quality of work, experience, price, service and financial position)
- undertaking a programme of quality assurance, testing 5% to 10% of installations
- rolling out progressively, starting with smaller-scale regions, so the programme could be evaluated, adjusted and refined for future regions.

Risk was significantly reduced through the outsourced delivery model involving deeds with experienced service contractors requiring adherence to work, health and safety (WHS) standards designed to protect installers and householders. These standards specified the minimum technical standards for equipment installed in homes. The deeds also required installers to be trained before they began to install.

The formal quality assurance programme was also substantially provided by an outsourced experienced firm. It involved quality assurance of each service contractors' quality management system, performing WHS inspections while installations were being conducted and performing post-installation technical equipment inspections. This programme resulted in approximately 7% of installations being inspected. The programme improved installer safety and quality performance over time, particularly by introducing unannounced on-site inspections.

More than 320,000 installations were completed under the HAS from 2010 to 2013, representing approximately 4% of Australian households. Implementing the HIP learnings resulted in the HAS being completed safely, to a high quality and in the required timeframe. It provided an important safety net for vulnerable Australians in the transition to digital television.

21 Department of Finance 2014, *Commonwealth Risk Management Policy*, Commonwealth of Australia, Canberra, p. 17, viewed 21 October 2014, <http://www.finance.gov.au/comcover/risk-management>.

What does this tell us about the state of the service?

Reviews of risk management in the APS have highlighted that at times the practice is reactive, short-term and process focused. The recent Royal Commission into the HIP highlighted that the identification and management of risks in the programme was deficient. The introduction of the CRMP, which applies to all non-corporate Australian Government entities, provides guidance to agencies on the establishment of appropriate risk-management frameworks to achieve compliance under the PGPA Act. The effective implementation of the CRMP by all APS agencies is central to improving the quality of risk management across the APS.

The CRMP requires agencies to define their risk appetite and risk tolerance as well as identify who is responsible for determining these. Defining agency risk appetite and tolerance needs to include engagement with the agency's Minister. The risk conversation must cascade through the agency to inform process and practice.

More fundamentally, however, agencies need to develop a positive risk culture where conversations about risk are open and supported by a leadership climate that encourages risk to surface and be appropriately addressed. Improving risk management across the APS also requires management to focus on continuously monitoring risk profiles in line with changing circumstances rather than approaching risk as a one off, compliance-oriented assessment. It also requires agencies to keep stakeholders informed of changes, in particular Ministers.

This chapter shows that work is needed by most agencies in closing the gap between current practice and CRMP requirements. There are, however, positive examples of agencies tackling enterprise risk management as a central component of business reform. There are also examples of agencies integrating the lessons of previous reviews to deliver good outcomes for government and citizens. Many foundation pieces are already in place to improve risk-management capability across the APS. Substantial effort, driven by senior leaders who model appropriate behaviours, is required to address cultural deficiencies in many agencies.