

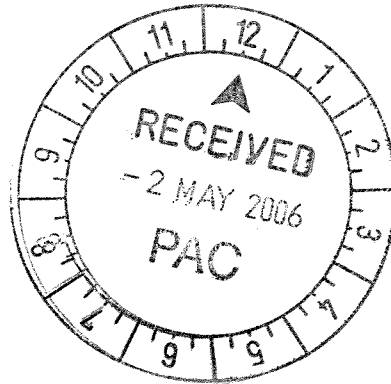


PAC-19
C06/1247

*Treasurer
Minister for Infrastructure
Minister for the Hunter*

Ms Noreen Hay MP
Chairperson
Public Accounts Committee
Legislative Assembly
Parliament House
Macquarie Street
SYDNEY NSW 2000

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Our Reference: T05/1408



Dear Ms Hay

**Government Response to the Public Accounts Committee Report 12/53
Risk Management in the NSW Public Sector**

The Public Accounts Committee (PAC) Report 12/53 sets out findings and recommendations of the PAC follow-up inquiry into issues raised in the Auditor-General's June 2002 performance audit report titled *Managing Risk in the NSW Public Sector*.

PAC Report 12/53 makes five recommendations for improving risk management practices in NSW public sector agencies.

In substance, the PAC recommends that a compliance-based public-sector wide risk management framework be introduced and that existing risk management guidelines be updated to take account of current best practice risk standards.

It is questionable whether a mandatory framework is either current good practice or effective in creating and sustaining risk management cultures in organisations.

As a consequence, the Government considers that an approach that actively promotes – rather than simply mandates – better risk management practices by agencies is more likely to integrate risk management with their strategic and business planning.

In the General Government sector, for example, the Results and Services Plan approach is one way that the Government encourages agencies to demonstrate how risk is managed as part of their strategic and business planning processes.

The Government considers that current risk management guidelines are consistent with generic risk management processes set out in risk standards.

However, it also acknowledges that best practice risk standards have been updated since the release of these guidelines. Consistent with the resources available, Treasury will update these guidelines for the relevant standards.

The Government's response to the PAC's five recommendations is at Attachment A.

Yours sincerely

A handwritten signature in black ink, appearing to read "Michael Costa". The signature is fluid and cursive, with the first name "Michael" being larger and more prominent than the last name "Costa".

MICHAEL COSTA



NSW Government Response to the Recommendations of the Public Accounts Committee Inquiry into Risk Management in the NSW Public Sector

	Committee Recommendation	Government Response	Additional Comment
1.	<p>The guidelines for preparation of Results and Services Plans (RSPs) need to be updated to incorporate current best practice standards. Treasury should continue to assist agencies with developing their Results and Services Plans. Additionally, external reporting of risks and risk management should be enhanced for example, annual reports to include performance indicators from the RSPs.</p>	<p>Agree</p>	<ul style="list-style-type: none"> • The Results and Services Plan (RSP) approach for General Government sector agencies is set out in Treasury Policy Paper (TPP 04-4) <i>What You Do and Why: An Agency Guide to Defining Results and Services</i>. It is a planning methodology that encourages agencies to integrate risk management with strategic, operational and resource planning. • The Government considers the risk management guidance contained in TPP 04-4 to be consistent with generic risk management processes set out in current best practice risk standards, eg AS/NZS 4360: 2004 <i>Risk Management</i>. TPP 04-4 does, however, refer specifically to earlier versions of best practice risk standards. Treasury has alerted agencies to the new standard and will be updating the policy paper consistent with AS/NZS 4360: 2004 by the end of 2006. • RSPs are prepared for use by the Cabinet Standing Committee on the Budget. They provide a summary of the key risks facing agencies and are used as one tool for agency monitoring throughout the Budget cycle. Treasury provides ongoing assistance to agencies with the development of RSPs. • The final part of the Committee's recommendation appears to refer to the reporting of performance indicators relating to risk and risk management. Schedule 1 of the <i>Annual Reports (Departments) Regulation 2005</i> requires agencies to report in their annual reports on the risk management and insurance arrangements and activities that affect them, and, where practicable, to include measures and indicators of performance.
2.	<p>The Toolkit either needs to be updated to reflect current best practice standards for risk management or be identified as a purely</p>	<p>Noted</p>	<ul style="list-style-type: none"> • The terms 'corporate governance', 'internal control', and 'risk management' all refer to organisational processes that ensure effective management accountability in the broad area of oversight. The terms are

<p>internal control tool. If the Toolkit is updated it should include sample policies, procedures and templates that agencies could adopt.</p>	<p>used interchangeably at times, and their definitions overlap in many cases, eg sound risk management is sometimes categorised as an important element of an internal control regime</p> <ul style="list-style-type: none"> • The Government considers that the existing <i>Risk Management and Internal Control Toolkit</i> (TPP 97-3), in conjunction with current approaches to integrating risk management with agency business planning (as outlined in TPP04-4), is a cost effective strategy for promoting better risk management practices. The Government, does however, acknowledge that risk standards have been updated since the release of the <i>Toolkit</i>, eg Committee of Sponsoring Organizations of the Treadway Commission <i>Enterprise Risk Management 2004</i> (COSO II). Consistent with the resources available, Treasury will update the <i>Toolkit</i> for the relevant standard. • Treasury issued the <i>Toolkit</i> as a tool to 'enable agencies to self-assess their position in relation to current best practice (as defined at that time) and to assist agencies in moving toward best practice through the provision of generic improvement strategies'. The <i>Toolkit</i> was not intended as a mandatory risk management framework. • The current <i>Toolkit</i> provides agencies with a set of practical guidelines to assess and improve their internal control and risk management processes. In applying the <i>Toolkit</i>, it is necessary for agencies to customise the evaluation questions to reflect the particular circumstances of the agency and the industry in which it operates. The customisation process should incorporate an evaluation of other relevant guidance material available, including that which promotes an enterprise-wide approach to risk management.
<p>3. The Government should provide public-sector agencies with a risk management framework that supports an enterprise-wide approach. The guidelines, directions, circulars or memorandums should require the following:</p>	<p>Noted</p> <ul style="list-style-type: none"> • This recommendation is for a public sector-wide risk management framework. It appears that the Committee is recommending a prescriptive compliance based approach, the specific elements of which are understood by the Committee to align with best practice. • The Government considers that a <i>prescriptive</i> mandatory framework for

<ul style="list-style-type: none"> • All agencies to have a risk management policy or risk management treatment plan; • All agencies to have business continuity and disaster recovery plans; • Communication and consultation that is two-way and involves both internal and external stakeholders; • Responsibilities for risk management to be included in performance agreements and linked to performance appraisals; • Independent assessment of the appropriateness and effectiveness of identifying and managing risks; • The heads of agencies to sign off on a corporate governance statement of responsibility; and • Improved reporting of risk management strategies in annual reports. 	<p>risk management is unlikely to be effective in creating and sustaining risk management cultures in organisations.</p> <ul style="list-style-type: none"> • Currently, under Section 11 of the <i>Public Finance and Audit Act 1983</i>, chief executives are responsible for ensuring effective systems for internal control over ‘financial and related operations’ of their agencies. This provision mandates internal control and risk management without prescribing requirements in detail, and operates in conjunction with current approaches to integrating risk management with agency business planning, eg RSPs. • The Government also considers that a prescriptive mandatory framework does not reflect current best practice. • In the public sector, mandatory risk management frameworks are not standard across Australian jurisdictions. While some jurisdictions have broad principles-based risk management policies in place (eg Western Australia, Australian Capital Territory), none currently require the key elements recommended by the Committee, eg a mandatory risk management plan, or chief executive officer sign-off. • Elements of the risk management framework proposed by the Committee appear also to stem from recent strengthening of corporate governance requirements in the corporate sector. As yet there is no clear evidence as to the success or otherwise of these developments. For example, the Australian Stock Exchange’s <i>Principles of Good Corporate Governance</i> recommend that responsible executives attest to the integrity of a company’s risk management and internal compliance and control systems. Recent surveys of the operation of this recommendation indicate low levels of compliance and incomplete disclosures (KPMG, <i>Across the Board</i>, August 2005). • Whilst the Government will maintain a watching brief on developments in both the public and corporate sectors, its preferred approach is one that actively promotes – rather than simply mandates – better risk management practices by agencies, eg by integrating risk management with strategic and business planning. This approach is also consistent with the Government’s stated objective of minimising compliance-based administrative requirements on service delivery agencies.
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			<ul style="list-style-type: none"> • It is more meaningful that agencies demonstrate how risk is managed as part of their strategic and business planning processes. Currently in NSW there is a suite of policies and guidelines that promote sound risk management planning. As set out in the Treasury submission to the inquiry, these include policies relating to the Treasury Managed Fund, Total Asset Management, RSPs and Business Continuity Planning. • The Government acknowledges the ongoing need to reinforce the benefits of risk management. The Government will consider how agency awareness of risk management practices can be strengthened. Options could include further development of the risk elements of the RSP and related policies, or emphasising existing risk management requirements through the Premier's Department's Strategic Management Framework / Calendar.
<p>4.</p> <p>The risk management framework should be supported by changes to NSW financial and annual reporting legislation. These changes should include:</p> <ul style="list-style-type: none"> • Defining risk management; • Assigning overall responsibility for risk management; and • Updating the annual reporting regulations to specify the minimum requirements. 	<p>Noted</p>		<ul style="list-style-type: none"> • The Treasury submission to the inquiry noted that key pieces of the NSW financial legislative framework are currently under review. • The first stage of this review is examining appropriations reform; the second stage will examine existing financial and annual reporting requirements. In addition, the <i>Public Authorities (Financial Arrangements) Act 1987</i> is also under review, including an examination of financial risk management by agencies. • Earlier it was noted that the terms 'internal control' and 'risk management' can be used interchangeably, and that their definitions overlap in many cases, eg risk management is sometimes categorised as an important element of an internal control regime. As already noted, under Section 11 of the <i>Public Finance and Audit Act 1983</i> chief executives are responsible for ensuring effective systems for internal control over 'financial and related operations' of their agency.
<p>5.</p> <p>Agencies should consider whether collaborating with other agencies with interrelated functions and common</p>		<p>Agree</p>	<ul style="list-style-type: none"> • The Government believes the Results and Services Plan (RSP) approach can encourage agencies to work together more closely. • All General Government budget dependent agencies prepare an RSP.

ATTACHMENT A

	<p>stakeholders would be beneficial to their risk management processes. For example, there may be an opportunity to perform multi-agency risk assessments or manage risks in partnership.</p>		<p>The RSP is a service delivery and funding plan that uses 'cause and effect chains' to explain how an agency's services are expected to work. This includes identifying and managing risks associated with both service delivery and organisational capabilities.</p> <ul style="list-style-type: none"> • In 2003 the Government established five Chief Executive Officer (CEO) Cluster groups in areas such as human services and criminal justice. CEO Cluster groups are one forum through which agencies working in similar areas are able to discuss common issues and identify opportunities for cross agency collaboration. • CEO Cluster groups are starting to apply the RSP approach to their work programs. It is expected that the development of CEO Cluster group RSPs will allow agencies to agree shared objectives, identify opportunities where joint working will improve outcomes, and target service delivery risks that could be better managed through collaboration.
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