

19 April 2005

## Submission

To:  
The Committee Manager  
Public Accounts Committee  
Parliament House  
Macquarie Street  
Sydney NSW 2000

### Parliament Inquiry - Risk Management in the NSW Public Sector

I would like to put for your consideration the following submissions:

1. That the NSW Government Agencies adopt a standard Risk Matrix for qualitative risk assessment that can be used to compare risks across all government agencies.

Unfortunately, the AS NZS 4360 is not prescriptive in terms of what Risk Matrix to use for qualitative risk assessment. My interpretation of this non prescriptive approach is that the standard leaves to each company/agency to ascertain what is the definition of each risk level to each organisation or corporation.

The problem with this approach, when applied to the NSW government, is that one agency may define as "Extreme High Risk" something that another agency may define as "Medium Risk". The real problem is that if the Government want to know what are all the "Extreme High" risks for the Government or even a ministry, the answer might not be correct.

My submission is therefore, to develop a standard NSW Government Risk Matrix, for basic qualitative assessment, applicable to all agencies and entities of the government.

This submission is in line with the 2002 Auditor-General's consideration that "there is clearly a role for greater consistency in the way risk management is considered and applied"

2. That the NSW government raise the standard and adopt Semi Quantitative Risk Assessment (SQRA) for all its risks classified as "Extreme Risks"

Qualitative Risk Assessment is a handy tool and a 'good start' for Risk Management, however it lacks the rigor of determining the cost, impact, value and exposure of a Risk.

To ascertain the real impact of a Risk, a quantitative approach is required, in particular to those risks considered "Extreme". Failing to do

so may not provide a clear appreciation of the importance, the impact and the severity of a Risk and therefore neglect the remediation process or miss allocate resources.

In addition, SQRA will provide ministries and groups of government agencies with a further filter to prioritise the extreme risks so that resources can be applied to the most 'expensive risks'.

Also, SQRA allows agencies to better determine the mitigation costs and exposure, i.e. better risk management - in line with the Auditor-General's consideration that "agencies need to recognise that being risk averse can deprive them of opportunities to improve efficiency"

The new AS NZS 4360 - 2004 raises for the first time the need for SQRA.

**3. That the NSW Government adopt the use of Bow Tie diagrams to explain risks considered as "Extreme"**

Bow Tie Diagrams are one of the best diagrammatic tools available to depict a risk. In a graphical format, it depicts to the right of a Risk, its Emergency Responses and the Potential Outcome. To the left of the Risk, it should depict the Causal Pathways, Contributing Factors and Controls. Colour coding should be used to qualify the quality of Controls and Emergency responses in place.

Bow Tie diagrams should be used to present Risk Assessments to senior management and to the staff. They are a fantastic tool to easily understand the impact of a Risk and how to mitigate it.

**4. That the NSW Government implement Business Analysis tools to analyse Risks across the whole of the government**

Business Analysis based on OLAP technology (OnLine Analytical Processing) is one of the best technologies available to analyse and manage information across enterprises. By being able to use these technologies, companies can better manage their risk profiles and exposures. There is plenty of literature available on this matter and no shortage of solution providers.

Some large organisations are already taking advantage of this technology in the area of Risk Management and it is suggested the NSW Government could do the same.

**5. That the NSW Government adopts Enterprise Wide Risk management.**

Traditional Risk Assessment is performed by most organisations as they assess the impact of a risk situation under a general context or assessment type e.g. Safety.



Enterprise Risk Assessment require that companies do assess each Risk in a number of Assessment types, i.e. assessing the impact on say Safety, Security, Financial, Environment, etc, all at once and done at the same time. This Enterprise wide approach gives the assessment much more validity and relevance.

I hope these submissions are of interest to the NSW Government.

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