



NEW SOUTH WALES

MINISTER FOR HEALTH

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M05/2215

Mr Matt Brown MP
Chairman, Public Accounts Committee
Legislative Assembly
NSW Parliament
Macquarie Street
SYDNEY NSW 2000

- 7 JUN 2005

Dear Mr Brown

I write in response to your letter of 23 March 2005 inviting the Department of Health to make a submission to the Public Accounts Committee's Inquiry into Risk Management in the NSW Public Sector.

Attached is a completed questionnaire dealing with risk management in the Department of Health and a paper that outlines some of the actions taken by the Department of Health to progress risk management in public health organisations, including Area Health Services, the Ambulance Service NSW, Justice Health, and the Royal Alexandra Hospital for Children.

I look forward to the tabling of your report on this inquiry. The NSW Department of Health contact for this matter is Steven Carr on telephone (02) 9424 5826.

Yours sincerely

Morris Iemma MP
Minister for Health

**PAPER FOR THE NSW PUBLIC
ACCOUNTS COMMITTEE
INQUIRY INTO RISK MANAGEMENT**

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Attachments:

A	Corporate Governance Guidelines for Chief Executives of Area Health Services
	Health Service risk management plans
B	Ambulance Service of NSW – Risk Management Paper
C	The Children’s Hospital Westmead – Risk Management Policy
D	Justice Health – Organisational Risk Management Framework
E	Greater Southern AHS – Integrated Risk Management Policy
F	Greater Western AHS – Draft Governance Framework
G	Hunter / New England AHS (using Mid North Coast Plan)
H	North Coast AHS- Risk Management Framework
I	Northern Sydney / Central Coast – Corporate Governance
J	South Eastern Sydney / Illawarra AHS – An integrated risk management framework
K	Sydney South West AHS (using Central Sydney Plan)
L	Sydney West AHS risk management transitional framework and plan

Introduction

The Department of Health has an ongoing role in promoting risk management across NSW Health and in providing advice and guidance to ensure a consistent and effective approach to risk governance. This submission outlines some initiatives undertaken by the Department and its commitment to future consolidation of risk management across NSW Health.

1. Corporate Governance Guidelines for Boards of Statutory Health Corporations

In May 1999, the Department of Health issued *Corporate Governance in Health - Better Practice Guide*, primarily as a guide to the Boards of Statutory Health Corporations. The Guide covered areas such as the role of the Board, better practice principles and fiscal accountabilities.

Board accountabilities listed in the Guide included ensuring that there was a risk management process in the organisation. A two page section on risk management set out a number of components to be included in a risk management process and referred readers to source documents including

- *Australian/ New Zealand Standard – Risk Management AS/NZ 4360:1995;*
- *NSW Audit Office publication – Fraud Control, March 1994;*
- *NSW Treasury – Statement of Best Practice for Internal Control and Internal Audit, June 1995; and*
- *NSW Treasury – Risk Management and Internal Control Tool Kit, September 1997.*

The Guide was supported by key stakeholders including the ICAC and the Auditor-General. The NSW Ombudsman made the following comment:

“I congratulate NSW Health and the Health Services Association of NSW on the development of what appears to be an excellent publication. I am sure it will be of great assistance to board members and senior managers of all Area Health Services and related bodies. I hope the guide is used as a model by other public sector organisations to address corporate governance issues.”

Section 3.6 of this publication specifically discusses risk management making reference to the Australian/New Zealand Standard and refers Boards to two NSW Treasury publications:

- *Statement of Best Practice for Internal Control and Internal Audit (June 1995)*
- *Risk Management and Internal Control Tool Kit (September 1997)*

While not stipulated as requirements for Area Health Services, the publication refers to the importance of Boards receiving appropriate and timely information from risk management, governance and audit committees¹ and provides a “model” checklist for Boards on risk management and liability. This checklist recommends

¹ *Corporate Governance in Health Better Practice Guide*, 1999, page 41.

Area Health Services develop a risk management strategy in accordance with NSW Treasury's publication Risk Management and Internal Control.²

The second edition of the Guide, published in December 2002, included an entire chapter on risk management; a Model Health Service Board Self Appraisal form that included evaluation of whether the Board had a risk management plan for the Health Service; and a Corporate Governance Checkup that included a checklist on risk management.

2. Corporate Governance Guidelines for Chief Executives of Area Health Services

NSW Health is in the midst of unprecedented health system reform. Key changes include:

- The amalgamation of 17 Area Health Services to form 8 new entities. These new organisations commenced operation on 1 January 2005.
- abolition of Area Health Service Boards as the corporate governance model for area health services. The new entities are controlled by the Chief Executive and Executive Management team of each Area Health Service.
- Establishment of HealthSupport as a division of the Health Administration Corporation to progress shared corporate services reform.
- Establishment of Area Health Advisory Councils to provide clinical, consumer and community participation.

In light of these significant changes Interim Corporate Governance Guidelines for Chief Executives of Area Health Services have been issued. A copy is provided with the Department's submission.

The Guidelines outline Chief Executive accountabilities around risk including:

- Ensure compliance by the Area Health Service with statutory responsibilities and obligations. Statutory obligations include the Occupational Health and Safety Act, Environment Operations Act, Privacy and Personal Information Act, State Records Act, Health Records and Child Protection legislation.
- Determine the level of risk to be taken by the Area Health Service and ensure that appropriate internal control and monitoring systems are put in place to manage and / or mitigate the impact of these risks.
- Approve the Area Health Service's internal compliance and control systems and ensure compliance with such systems.
- Ensure management identifies and manages risk that could have material impact on the Area Health Service's businesses, and ensure these risks are reported to the Chief Executive.
- Approve of codes of conduct taking all reasonable steps to ensure that the business of the Health Service is conducted openly, ethically and in accordance with such codes.

Acknowledgement is also made of the Australian/New Zealand Standard AS/NZS 4360:1999.

² *Corporate Governance in Health Better Practice Guide*, 1999, page 62.

Risk management plans for a number of Health Services are attached. Plans for Area Health Services continue to be refined as part of the amalgamation process and may reflect the merging of two or more plans of the use of a previous Area Health Service plan to encompass the new entity.

3. Performance agreements with Chief Executives

In 2003/04, performance agreements between the Director-General and Area Health Service Chief Executive Officers included risk management among their corporate accountabilities.

In 2004, following IPART's review of NSW Health, in 2004 the Department established a new division that focuses on health system performance and developed a key set of health system indicators (Dashboard indicators) that are contained in Performance Agreements of Chief Executives. These indicators encompass significant areas of health system risk including:

- Bed capacity
- Access block (patients waiting 8 hours in an emergency department for a ward bed)
- Ambulance response times
- Elective surgery
- Mental Health need
- Population health indicators including physical activity, and fruit and vegetable intake.

In addition, Section 6.2 of the Interim Corporate Governance Guidelines for Chief Executives of Area Health Services outlines a Corporate Governance Statement that the Department will require Health Services to complete for the 2004/05 year as part of the Director-General's annual performance review of Chief Executive performance. This requirement will be consolidated into the 2005/06 performance agreement for Health Service Chief Executives.

4. Enhanced monitoring by the Department of Health

From 1 March 2004, the Department's key governance committee that monitors monthly performance across NSW Health, the Finance and Performance Management Committee, was replaced by the Finance, Risk and Performance Management Committee, with monitoring and monthly reporting on risk issues and their management included as part of its responsibilities. The Finance, Risk and Performance Management Committee is a committee of the Department's Board of Management and as such involves the Director-General and Senior Executive.

5. Audit Division reviews of risk management

The Audit Division of the Department of Health has conducted several reviews of risk management designed to promulgate and progress implementation of consistent and effective models across NSW Health. Audit has also developed Information Technology (IT) based audit packs to assist Area managers to undertake risk analyses and control self-assessments.

During 1996/97, an audit team conducted a risk management appraisal of Department of Health activities. This project was initiated in response to the NSW Treasury's June 1995 *Statement of Best Practice on Internal Control and Internal Audit*. Audit facilitated self assessment by key Department managers of risks confronting the Department.

In April 2002, Audit requested the then 17 Area Health Services to forward copies of their risk management plans for comparative review, assessment and feedback. Feedback was also provided on risk management plans developed by the NSW Ambulance Service and Corrections (now Justice) Health.

In March 2004, Audit began a review of risk governance across NSW Health to determine the appropriateness of risk management activities in protecting the delivery of its strategic and organisational goals, namely

- Healthier people
- Fairer access
- Quality healthcare and
- Better value.

Using self assessment and audit techniques, the project

- Reviewed the risk management framework within the Health entity.
- Identified committees and persons with formal/informal responsibilities for risk management at each level of the organisation and documented them.
- Documented their reporting lines and the information requirements necessary to meet their responsibilities.
- Compared and contrasted this with what happened in practice, based on a review of job descriptions, minutes of meetings, etc.
- Documented and assessed mechanisms to ensure information in the risk management process was complete, accurate, valid and timely, from source to reporting systems.
- Benchmarked this against comparable NSW Health entities.

Action is now being taken to progress the following recommendations of the audit review that relate to improving risk management. These recommendations were approved by the Acting Director-General in February 2005 and circulated to the Chief Executives of the eight Area Health Service, NSW Ambulance Service, Justice Health, and the Royal Alexandra Hospital for Children.

The recommendations are:

Recommendation 1

That the generic performance agreement with Chief Executive Officers of public health organisations be revised to include corporate accountability for risk management, as follows: *to ensure that a comprehensive risk management system is in place and is reviewed regularly, and that the management information, audit and accounting systems in place in the public health organisation are integrated into the risk management system.*

Recommendation 2

That risk management be included in the terms of reference of all governance committees in NSW Health, and that reports, updates and assessments of identified and emerging risks, and of any failures in systems of internal control be included on the agenda of all governance committee meetings.

Recommendation 3

That any investment or expenditure proposed to improve a system of internal control, be supported by risk management documentation, to ensure the outlay is consistent with risk management practice, going to the area of highest priority, not exceeding the associated costs if the risk eventuates, and is focused on controlling the risk efficiently and effectively, not simply detecting and mitigating it.

Recommendation 4

That the duties and responsibilities of audit committees in NSW Health include an annual review of organisational risk management, including: an audit of key controls (including risk management procedures); review of the process for identifying and evaluating risk; review of the mapping of controls to risks, and an evaluation of whether there is appropriate ownership of risk in place, and an appropriate culture of risk management across the organisation.

Recommendation 5

That, to ensure a comprehensive approach, and to prevent duplication of effort in identifying and managing risk, the Department of Health, in consultation with public health organisations, set a standard NSW Health Risk Management Procedure that includes: a systematic identification of risk; a standard approach to communicate, aggregate and prioritise risks within and between the Department and public health organisations; and implementation of an issue management system to report performance against risk, high priority issues, and trends that may highlight emerging risks or control failure.

Progress on the implementation of these recommendations will be reviewed by the Department's Audit Branch in 2006.

5.1 Audit Packs

In 2004, Audit developed a series of IT based audit packs covering key business (administrative and clinical) and IT processes.

These audit packs relate management objectives, risks and key controls back to a comprehensive set of audit programs and record of tests. The intention is that Management of the Area Health Service can perform a risk analysis and control self-assessment independently or in consultation with its Internal Audit Unit.

The results are used to identify control weaknesses for immediate discussion and to direct assurance services to areas of highest risk.

6. Managing financial risk

The Department allocates an annual budget to each Health Service outlining budget and financial requirements.

The allocation letter to each Health Service details requirements for:

- Finance Committees
- Audit Committee
- Internal Reporting
- Budgeting

Area health services report monthly on financial performance. As received, Reports are reviewed, analysed and queried at a high level. Health Service budgets are complex with the larger Health Services involving \$1.3 billion in expenditure.

Advice on the financial activity of NSW Health compared to budget allocations is submitted on a monthly basis to NSW Treasury. Advice on NSW Health's capital works program is provided to the NSW Department of Commerce.

Where necessary, meetings occur with relevant Health Services. The objective is to have 3 per year (when satisfactory) and up to monthly or more frequently if required. These meetings involve not only the Finance Officer but also the Chief Financial Officer and/or Director, Finance.

Audited Financial Statements are prepared in a standard format based upon Departmental advice.

Audited Statements of all Health Services are consolidated with the Department (Parent) for the Department's audited financial statements.

In line with legislative requirements, the Department produces annual financial statements in accordance with Australian Accounting Standards that form part of the NSW Health's Annual Report to Parliament.

The annual financial statements of NSW Health are independently audited by the NSW Auditor-General each year and an audit certificate to this effect is included in each year's Annual Report.

In addition, the Auditor-General makes independent comment direct to the NSW Parliament on the financial, operational and performance results of NSW Health

7. Backlog infrastructure and equipment maintenance risk

The infrastructure and equipment base of the NSW Health System is extensive, varied, functionally diverse and widely distributed throughout the State. The net book value of property, plant and equipment at 30 June 2004 was over \$7.4 billion, with estimated replacement value in the order of \$10 billion. The health facilities range in age from nineteenth century to recent constructions, with many large hospitals evolving over a period of time.

This infrastructure base calls for a substantial maintenance commitment. The maintenance spending within Health has been growing steadily, from \$198 million in 2000/01 to \$262 million in 2003/04.

In response the Department of Health prepares an annual maintenance plan as part of its Strategic Asset Management Plan (State Plan). This documents Statewide current and future funding levels for asset maintenance and includes descriptions of initiatives to strengthen the maintenance management process.

Some of the major initiatives NSW Health has undertaken include the following:

- Implementation of Health Asset Management & Maintenance System (HealthAMMS), to allow Area Health Services to proactively manage maintenance and the Department to review asset performance across the total Health asset portfolio. HealthAMMS is currently implemented in three Area Health Services (Southern Eastern Sydney/Illawarra, Hunter/New England, Sydney South West,) and its implementation will be accelerated through the Shared Corporate Services Management Program.
- The Portfolio Management Information System has been developed to measure asset performance. Several of the Key Performance Indicators that have been developed in parallel are directly related to maintenance and can be used to compare maintenance activities across Areas.
- Participation in a Treasury Maintenance Study throughout 2003/04 to assist NSW Treasury to gain a thorough understanding of the broad maintenance planning and budgetary issues facing a large Human Service Agency.

8. NSW Health - best practice in indemnity

Treasury Managed Fund (TMF) is an indemnity scheme that covers all insurable risks of participating entities and was implemented by the NSW Government on 1 July 1989. Membership of TMF for budget dependent entities is mandatory. In size NSW Health is about 40% of the TMF.

Within NSW Health indemnity is provided for:

- Workers Compensation
- Motor Vehicles
- Liability (includes Medical Indemnity for employee medical practitioners)
- Property
- Miscellaneous

Under the TMF, the premium process is an actuarial estimate that provides funds to meet estimated costs. This premium is subject to further reviews. Two hindsight adjustments (an interim at 3 years and a final at 5 years) are made to consider the actual cost of claims, the actual costs of salaries and wages and any costs or savings that arise from external sources. The adjustments provide for return of surplus funds (or request for additional funds) based on the actual circumstances.

As such the scheme provides a commercial incentive for agencies to manage their risk effectively.

8.1 Workers Compensation

NSW Health is generally acknowledged as the lead Department within TMF for its administration and management of its TMF arrangements.

NSW Health's workers compensation results since 1997/98 show an annual surplus result to NSW Health of some \$33M. Hindsight results are to be added to Surplus with \$51M received in 2003/04 (paid in 2004/05) and a further estimated \$40M due in 2004/05 (paid 2005/06). These results indicate that NSW Health is performing well within its expected claims benchmark.

8.2 Medical Indemnity

In recent years NSW Health has been required to manage additional clinical risk as a result of the terrorist attacks in the US in September 2001, the collapse of HIH Insurance and liquidity problems with United Medical Protection (UMP). In the face of widespread concern by doctors in a range of specialities concerning medical indemnity, separate silos within TMF were set up from 1 January 2002 to cater for:

- Medical Indemnity for (contracted) medical practitioners ie Honorary and Visiting Medical Officers treating public patients in public hospitals
- Incurred But Not Reported (IBNR) claims as at 31 December 2001 for medical defence organisations (MDOs) for claims upon their members who were VMOs treating public patients in NSW public hospitals.

Lack of trained medical staff is a key issue facing health systems at a national and international level. Shortages are often hardest felt in rural areas and in certain specialties such as paediatrics.

A contributing factor to the nationwide shortage of medical officers in rural communities has been the requirement of medical officers to take-out their own medical indemnity coverage for treating private patients in public hospitals. In response NSW Health, NSW Treasury and the TMF expanded the VMO silo further to cater for:³

- 1 July 2003 - Rural VMO/HMOs including private inpatient indemnity
- 1 July 2003 - Rural VMO including private inpatient and non-inpatient indemnity (non-inpatient cover is subject to conditions)

³ Rural Hospitals include all the former rural health service public hospitals and nominated public hospitals in the Illawarra and Hunter.

- 1 July 2003 - Level 2 – 5 Staff Specialists indemnity for private patients in rural public hospitals
- 1 January 2004 - VMO/HMO indemnity for private paediatric inpatients
- 1 January 2004 - Level 2-5 Staff Specialist indemnity for private paediatric patients in public health organisations

9. Improving quality of health service delivery

Recognising the lessons learned from Camden / Campbelltown and NSW Legislative Council inquiry into complaints handling, NSW Health is investing \$60 million in improving frontline clinical care through the **NSW Patient safety and Clinical Quality Program**.

5 Key elements of this program are:

- The systematic management of incidents and risks both locally and state-wide to identify remedial action and systemic reforms;
- Operation of the Incident Information Management System (IIMS) to facilitate all aspects of incident management including, timely notification, tracking of investigation and analysis, reporting, particularly the provision of trended information by incident type, and to understand the lessons learned.
- Establishment of Clinical Governance Units (CGUs) in each Area Health Service to oversee the implementation of the NSW Patient Safety and Clinical Quality Program.
- The development of a Quality Systems Assessment (QSA) Program for all public health organisations undertaken by an external agency, to determine whether the above components are in place and working well. The focus of the assessment is on Area Health Service patient safety and clinical quality systems; and
- Establishment of a Clinical Excellence Commission (CEC) to promote and support better clinical quality and to advise the Minister for Health on where systemic improvements can be made. The CEC is a statutory health corporation established on 20 August 2004 (launched 24 August 2004) under the Health Services Act.

Professor Cliff Hughes has been appointed as the Chief Executive of the CEC and commenced work in mid January 2005. One of the key functions of the CEC is to assist Area Health Services to ensure that their systems are adequate to detect, analyse and prevent incidents and improve the quality and safety of care.

10. Risk management for people and property

In December 2003 NSW Health released the document *Protecting People and Property: NSW Health Policy and Guidelines for Security Risk Management in Health Facilities*. The policy guides all Health Services and affiliated health organisations⁴ in the areas of protection of a person from violence, threats and/or intentional harm, the protection of information from disclosure and the protection of property from intended damage and theft.

Reference is also made in the policy to Australian Standards for security for health care facilities, WorkCover NSW's policy on Violence in the Workplace and Occupational Health and Safety legislation.

In recent years NSW Health has made workplace safety and security a significant priority. In 2002 \$7.5 million in capital funding was made available to public hospitals to improve security of buildings.

Hospitals around NSW now have more CCTVs and duress alarms, more secure entry and exit points, improved lighting, and improved car park security. For example \$194,000 was predominantly allocated for Closed Circuit Television and duress alarm systems in eight (8) multi-purpose health facilities in the Greater Western Area Health Service. Other measures included security screens, doors and locks.

A further \$5 million per annum has been provided to increase the numbers of security staff. At the same time, rural health services received an additional \$1.5 million over three years, commencing 2001/02, for security improvements in rural hospitals.

During this period NSW Health has also released two policy circulars to guide Health Service activities:

- Zero tolerance Policy and Framework Guidelines (2003)
- Workplace Health and Safety: A Better Practice Guide (2004)

11. Workforce

A lack of skilled medical staff is a national and international problem. NSW Health is managing this risk on a number of fronts, including:

Successful existing recruitment strategies

- The "Nursing Re-connect" scheme has been highly successful in attracting nurses back to public hospitals who have been out of the nursing workforce for a number of years.
- Significant and progressive pay increases for nurses and midwives since 2000 means NSW nurses and midwives receive the highest basic pay rate in Australia.

⁴ Excluding Ambulance Service, which has its own specific service related standards.

- As a result, NSW Health employed 3,202 (or 9.4%) more nurses and midwives in December 2004 than in January 2002. In addition there has also been a noticeable decline in the number of nurses and midwives resigning from permanent employment in 2004 compared to the previous three years.

New recruitment strategies

- An additional 1800 nurses will be offered permanent jobs in the NSW public hospital system over the next two years.
- The plan involves:
 - \$8.1 million funding for an additional 300 trainee enrolled nurses and for the first time every graduate of the Trainee Enrolled Nurse course will be offered employment in the NSW public hospital system.
 - Targeted recruitment of up to 300 interstate and overseas nurses.
 - Support for more innovative school-based training for Year 11 and Year 12 students that gives them work experience in a public hospital.

Practitioner distribution

- Establishment of Basic Physician Trainee Networks to improve the distribution of the Basic Physician Trainee workforce with training positions being filled in a rural to metropolitan priority order.

Training places

- Establishment of Advanced Specialist Training posts in rural and regional NSW including:
 - Ophthalmology and Paediatrics at Broken Hill
 - Orthopaedics at Orange
 - Paediatrics at Bathurst
 - General medicine and Paediatrics at Lismore
 - Basic Emergency Medicine and General Surgery at Dubbo
- NSW Health has negotiated an increase in the number of new basic surgical trainees for NSW from 51 in 2004 to 79 in 2005.

Setting strategic directions

- Operation of a dedicated Nursing Branch within the Department of Health, headed by the Chief Nursing Officer, to focus on nursing recruitment and improving career pathways.
- Establishment in 2004 of a Workforce Development and Leadership Branch within the Department to advance leadership, skills and recruitment across a range of health disciplines.

12. Future directions

In April 2005, a review of the Department's Senior Executive Structure recommended that a Corporate Governance and Risk Management Branch be established in Health System Support Division, with its functions to include development and review of risk management policy and practice in NSW Health.

The Director-General has accepted the recommendations and it is anticipated that the Branch, when established, will, in consultation with public health organisations, develop and implement a standard NSW Health Risk Management Procedure as set out in Recommendation 5 above.

In February 2005, the TMF in consultation with public sector agencies and the NSW Public Sector Risk Management Association finalised the *TMF Guide to Risk Management – The RCCC Approach*.⁵ The Guide has since been circulated to Health Services across NSW.

A specific focus of the guide is the application of the four principles underpinning RCCC – Risk – Control – Capability – Culture.

In addition the TMF have developed a Risk Management Framework Self Assessment Tool (RMFSAT), linking with RCCC, that evaluates risk management process across six categories of:

- Leadership
- Strategic Planning and implementation
- Data, measurement and corporate knowledge
- People
- Risk assessment and management tools
- Results

The former Wentworth Area Health Service, Cancer Institute and Ambulance Service of NSW have been involved in piloting the RMFSAT.

NSW Health attended the launch and will be reviewing how the RCCC and RMFSAT can assist NSW Health's approach to risk management.

⁵ The Guide was launched on 25 May 05.

PUBLIC ACCOUNTS COMMITTEE'S INQUIRY INTO RISK MANAGEMENT QUESTIONNAIRE FOR SELECTED AGENCIES

This inquiry is a follow-up to the *Auditor-General's Performance Audit - Managing Risk in the NSW Public Sector June 2002*. This questionnaire is predominately based upon the requirements of the Australian/New Zealand Standard AS/NZS 4360:2004, *Risk Management (the Standard)*.

If you have any queries, please contact the Committee secretariat on 9230 2363.

Please complete this survey by 29 April 2005 and fax to the Committee on 9230 3052 or post to:

The Committee Manager
Public Accounts Committee
Parliament of New South Wales
Macquarie St
Sydney NSW 2000

Note: The Committee directed this questionnaire to the Department of Health. The survey has been complete in respect to the Department and where practicable comment has also been provided in relation to the position of the 11 Health Services.

NSW Public Sector Framework

The following have significantly contributed to the development and implementation of risk management within your organisation: *[Circle your response]*

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
• AS/NZS 4360:2004 Risk Management Standard	1	2	3	(4)	5
• Legislation	1	2	3	(4)	5
• Policies, directives and guidelines from central agencies	1	2	3	(4)	5
• Policies, directives and guidelines from non central agencies	1	2	3	(4)	5
• Internal Audit	1	2	3	(4)	5
• External Audit	1	2	3	(4)	5
• Private sector risk management consultants	1	2	3	(4)	5
• Other <i>[please specify below]</i>	1	2	3	(4)	5

To guide Health Services in effective corporate governance, including risk management, the Department has released the following:

- Corporate Governance in Health - Better Practice Guide, May 1999
- Corporate Governance and Accountability in Health – better practice reference guide (2002)
- Interim Corporate Governance Guidelines for Chief Executives of Area Health Services (January 2005) (attached)

The focus of the 2005 document on the role of Chief Executives reflects the abolition of Area Health Boards as part of recent health system wide reform.

Is your organisation aware of the Risk Management and Internal Control Guidelines and Self-assessment Toolkit, issued by NSW Treasury in September 1997 (NSW Treasury TPP97-3)?

(YES) NO

Has your organisation used the Toolkit to improve its risk management processes?

(YES) NO

Did Treasury or any other agency provide assistance with implementing the Toolkit?

(YES) NO

If your agency used the Toolkit, was an enterprise wide risk management plan developed based on the results of the Toolkit?

(YES) NO

Does your organisation have any comments or recommendations about the Toolkit?

12. Future directions

In April 2005, a review of the Department's Senior Executive Structure recommended that a Corporate Governance and Risk Management Branch be established in Health System Support Division, with its functions to include development and review of risk management policy and practice in NSW Health.

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The former Wentworth Area Health Service, Cancer Institute and Ambulance Service of NSW have been involved in piloting the RMFSAT.

NSW Health attended the launch and will be reviewing how the RCCC and RMFSAT can assist NSW Health's approach to risk management.

⁵ The Guide was launched on 25 May 05.

Following release of the Toolkit, Treasury sponsored a project case study of Mid North Coast Area Health Service as an initial trial of the package.

The Toolkit has since been used as an important reference point in the 1999 and 2002 Corporate Governance Guidelines prepared for Health Services.

Does your organisation's most recent Annual Report include:

- A description of the risks faced by your organisation? (mainly financial)
- A description of risk management activities performed by your organisation? (limited)
- A risk management declaration by the Board and/or CEO?

YES	NO
YES	NO
YES	NO

What other information does your agency provide on risk management to external organisations?

As one of the larger agencies in the NSW public sector, NSW Health is at times called upon to provide details on risk management strategies. The Department participated in the original survey of selected agencies by the Audit Office and has been invited to contribute to this current Public Accounts Committee inquiry. Provision of risk management information to other external sources includes:

Finance:

The Auditor-General assesses the financial position (including associated risk management) of the Department and its controlled entities (Health Services) for the Department's Annual Report. The Auditor-General's review ensures the financial report of the Department and its controlled entities complies with section 45E of the Public Finance and Audit Act 1983.

The Department also provides monthly details to NSW Treasury on any key budgetary information where variations arise from initial or expected budget performance.

In relation to specific Government funding priorities such as the Drug Summit, risk is managed through 6 monthly reporting to central agencies on expenditure compared to budget and on an activity / results achieved. The Commonwealth requires similar levels of reporting in relation to drug court diversion programs.

Capital:

NSW Department of Health provides regular updates to the NSW Department of Commerce in relation to expenditure and progress of the capital works program being implanted across NSW. The Department prepares a monthly progress report on capital works projects to risk manage the likelihood of program overruns.

Indemnity:

For the purpose of claims and premium setting, NSW Health reports to the TMF on indemnity matters relating to:

- Workers Compensation
- Motor Vehicles
- Liability (includes Medical Indemnity for employee medical practitioners)
- Property
- Miscellaneous

Further details are outlined in the Department's submission to the Committee.

Performance Audit Findings

Did the Auditor-General's findings in the Performance Audit report influence changes to your risk management policies, procedures and practices? If yes, briefly explain.

Operating as a parallel process to the Audit Office's Performance Audit Report, the Department's Audit Branch conducted a review of risk management practices in Health Services in 2002. The review found Health Services in varying stages of risk management development. Some were found to have adequate risk management plans in operation whilst others were developing or planning to prepare risk management plans.

Following on from the Audit Office Report, the Department wrote to all Health Services identifying Northern Rivers Area Health Service as a better practice template for Health Services to follow.

The Northern Rivers AHS risk management framework covers three main areas of risk:

- Clinical risks
- Staffing – occupational health and safety risks
- Financial and administrative risks.

For each of these main areas of risk, the plan details description, identification, classification and assessment of the risk, strategies to mitigate the risk and a timetable for review of the risk including officer responsible.

The Standard

What impact, if any, did the revised risk management standard have on your policies, procedures and practices?

The revised standard informed the updating of internal audit practices and programs.

Risk Management Process

There is no single overarching risk management policy for the Department and Health Services. The Department focuses on a range of risk management strategies including:

- Protecting people and property
- Finance
- Asset management, asset acquisition and capital works
- Dashboard indicators on health system performance and health of the NSW population
- Reportable incident management system that focuses on clinical and operational incidents (or near incidents)
- Medical indemnity for hospital staff and Visiting Medical Officers through the TMF (subject to conditions)

Health Services have in place varying levels of risk management plans and strategies.

The nature and extent of these strategies is currently under review as part of an unprecedented reform process involving amalgamation of 17 Area Health Services into 8 new entities. This reform took effect from 1 January 2005. Area Health Services are revising a range of policy, human resource, clinical and operating procedures, including risk management strategies.

The Department has engaged an independent consulting group to review governance arrangements, including risk management, for the new Area Health Services. To date the review has identified that Areas have varying levels of development of the following four key risk management documents:

- Risk management plans
- Internal Audit Charter or Plan
- Fraud Prevention and Control
- Worker's Compensation and OH&S plans

All of the 11 Health Services in NSW Health (8 new Area Health Services and 3 Health Services) have risk management plans in place that are presently up to date or were current in a previous Area Health Service prior to the amalgamation process. Copies of these risk management plans are attached.

Does your organisation have a risk management policy? (Department) YES NO

Who approved the policy?

When was the policy last reviewed and/or revised?

How is the policy communicated throughout the organisation (to both internal and external stakeholders)?

Development of a risk management policy specifically for the Department of Health will be one of the priorities for the soon to be established Corporate Governance and Risk Management branch of the Department.

Have your internal and external stakeholders been identified? (Not specifically for risk management)

YES NO
 YES NO
 YES NO

Has a stakeholder analysis been performed? (Not specifically for risk management)

Do you have a communication and consultation plan (formal document or checklist)?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Effective risk management is important to the achievement of your organisation's objectives.	1	2	3	4	5
Our risk management practice is well developed.	1	2	3	4	5
Our policies, procedures, systems and internal controls for risk management are defined and communicated.	1	2	3	4	5
Our organisation has appropriate resources to support risk management policy and practice.	1	2	3	4	5
In applying risk management processes and developing related plans, the following have been examined and documented:					
• strategic context: the relationship with the environment [SWOT analysis], (a formal SWOT analysis may not have been undertaken and documented in every case)	1	2	3	4	5
• organisational context: capabilities, goals and objectives, and	1	2	3	4	5
• risk management context: scope and boundaries for application of the risk management process.	1	2	3	4	5
Risk management is integrated into the following processes in your organisation:					
• corporate/strategic planning	1	2	3	4	5
• annual planning	1	2	3	4	5
• business unit planning	1	2	3	4	5
• project planning	1	2	3	4	5
• audit planning	1	2	3	4	5
• annual budgeting	1	2	3	4	5
• business unit budgeting	1	2	3	4	5
• management reporting	1	2	3	4	5
• external reporting	1	2	3	4	5
• Board reporting (NA if no Board) (N/A for Department or Health Services)	1	2	3	4	5
• project reporting	1	2	3	4	5
• performance evaluation	1	2	3	4	5

Does your organisation carry out a comprehensive and systematic identification of its risks relating to each of its objectives? (See comment below)

Does your organisation consider the following types of risk:

• political	YES	NO
• opportunity [risk of missing opportunities to improve on delivery of the organisation's objectives]	YES	NO
• environmental	YES	NO
• alliance [risk of working with partnering organisations]	YES	NO
• loss of intellectual property	YES	NO
• reputation	YES	NO
• financial	YES	NO
• project	YES	NO
• compliance	YES	NO
• public liability	YES	NO
• natural hazard	YES	NO
• technological	YES	NO
• human	YES	NO
• security	YES	NO
• other (please specify below) – clinical risks	YES	NO

The above risks are evaluated and mitigated as part of the day to day management and operation of the Department although not through a coordinated risk management process.

The Department's the Finance, Risk and Performance Management Committee reports on key health performance indicators, programs and projects across the public health system. Each of these includes details of the risk and associated risk management strategies. Issues of focus include:

- financial performance of Health Services,
- hospital activity,
- programs to improve hospital performance
- asset acquisitions
- programs supporting broader health system reform

Who is responsible for risk identification? All senior managers

Does your organisation:

- Have a risk register/database? (centralised)
- Make use of computer software for risk management?

YES	NO
<input checked="" type="radio"/> YES	<input checked="" type="radio"/> NO

What tools and techniques are used by your organisation for identifying risks:

- Audits
- Brainstorming
- examination of local/overseas experience
- SWOT
- interview/focus groups
- judgement
- surveys/questionnaires
- scenario analysis
- operational modelling
- past experience
- process analysis
- other (please specify below)

<input checked="" type="radio"/> YES	NO
<input checked="" type="radio"/> YES	NO
<input checked="" type="radio"/> YES	NO
<input checked="" type="radio"/> YES	<input checked="" type="radio"/> NO
<input checked="" type="radio"/> YES	<input checked="" type="radio"/> NO
<input checked="" type="radio"/> YES	<input checked="" type="radio"/> NO
<input checked="" type="radio"/> YES	<input checked="" type="radio"/> NO
<input checked="" type="radio"/> YES	<input checked="" type="radio"/> NO
<input checked="" type="radio"/> YES	<input checked="" type="radio"/> NO
<input checked="" type="radio"/> YES	NO
<input checked="" type="radio"/> YES	NO
<input checked="" type="radio"/> YES	NO

The Department administers an electronic Reportable Incident and Briefing System (RIBS) that operates across Health Services. The health system is responsible for identifying, reporting, investigating, analysing and acting upon health care incidents as they occur. These steps are required so that immediate risks that an incident may create are managed appropriately, effective action is taken to improve the systems of care in order to prevent the recurrence of such an incident, and to make health care safer for patients and staff.

The NSW Incident Information Management System (IIMS) identifies the means for the electronic component of the management of all health care incidents. This framework clearly articulates the roles and responsibilities for the implementation of the IIMS, management of incidents using the IIMS and outlines three of the key steps essential for effective incident management: being notification, management and classification.

In addition the NSW Safety Improvement Program ensures a coordinated approach to management of all incidents in the health system and includes the effective review, analysis and feedback on all incidents. Where appropriate Root Cause Analysis is undertaken of specific incidents with recommendations forwarded to the Health Service and Department.

In pursuing its objectives, your organisation views risk as:

- a threat?
- an opportunity?
- other? (please specify below)

YES	NO
<input checked="" type="radio"/> YES	<input checked="" type="radio"/> NO
<input checked="" type="radio"/> YES	<input checked="" type="radio"/> NO

Whether risk is a threat or an opportunity is dependent on the type, nature and acceptability of the risk.

Who is responsible for analysing and prioritising the risks facing your organisation?

These functions are performed at operational level across the Department and Health Services.

Who decides how to address risks?

Management / executive level

You respond to analysed risks by:	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
• evaluating the effectiveness of existing controls,	1	2	3	4	5
• assessing the costs and benefits of addressing risks,	1	2	3	4	5
• prioritising and selecting the risks that need active management,	1	2	3	4	5
• prioritising risk treatment where there are resource constraints.	1	2	3	4	5

To what extent is the organisation's risk assessed by using: (for Department)	Never		Sometimes		Very Often
• qualitative analysis methods [e.g. high, moderate, low]?	1	2	3	4	5
• quantitative analysis methods?	1	2	3	4	5
To what extent does your organisation use the risk treatment of: (for Department)					
• accepting / retaining the risk?	1	2	3	4	5
• avoiding the risk e.g. not proceeding with the activity?	1	2	3	4	5
• reducing the risk e.g. internal control?	1	2	3	4	5
• transferring the risk e.g. insurance?	1	2	3	4	5

NSW Health is a member of the Treasury Managed Fund (TMF) which is an indemnity scheme that covers all insurable risks of participating entities and was implemented by the NSW Government on 1 July 1989. In size NSW Health is about 40% of the TMF.

Within NSW Health, indemnity is provided for:

- Workers Compensation
- Motor Vehicles
- Liability (includes Medical Indemnity for employee medical practitioners)
- Property
- Miscellaneous

NSW Health is generally acknowledged as the lead Department within TMF for its administration and management of its TMF arrangements.

The Department has a keen interest in the operation of the TMF with the Chief Financial Officer chairing the TMF Advisory Board.

To what extent is effectiveness of risk management captured within routine management reporting?	1	2	3	4	5
To what extent are key indicators used to routinely monitor the:					
• levels of risk?	1	2	3	4	5
• application of risk treatment measures?	1	2	3	4	5
• effectiveness of risk treatments?	1	2	3	4	5

Does your organisation have an up to date: (for Department)

- | | | |
|-----------------------------|-----|----|
| • business continuity plan? | YES | NO |
| • disaster recovery plan? | YES | NO |
| • risk management plan? | YES | NO |

Are risk management processes subject to audit?

Who reviews and monitors:

- risks faced? Management and project committees
- application / effectiveness of risk treatments? Management
- opportunities? Management

How often is review and monitoring undertaken?

As part of the Department's broader risk management functions, monthly reporting is prepared for the health system on critical areas of health system performance including:

- Financial position of Health Services
- Emergency department performance
- Admissions to hospital
- Clinical workforce numbers
- Ambulance responses

Work is also being undertaken to develop more frequent estimates of bed availability.

In the last five years the level of risk faced by your organisation has:

Increased / Decreased / Not Changed / Don't Know

Risk varies overtime across a range of different health system activities

How regularly do you review your insurance coverage?

The Department has a full time Manager, Insurance and Risk that considers these matters on a day to day basis. In addition the Department also requires Health Services to have a Risk Manager position within their organisation and a Senior Executive overseeing the TMF arrangements.

Does your organisation have a Risk Management Committee? (Part of the Finance, Risk and Performance Management Committee)

YES NO

If no, does your organisation have an Audit Committee and is the risk management (no) and internal control framework (yes) covered in the Charter?

YES NO

The responsibility for risk management within your organisation is:

- documented and communicated? (For the Department risk management is documented and communicated on a strategy by strategy basis / Yes for Health Services)
- understood?

YES NO
 YES NO

Do performance agreements for executives cover their risk management responsibilities? (In the past, Corporate Governance Guidelines for Area Health Boards included risk management responsibilities.

YES NO

The Interim Guidelines for Chief Executives of Health Services also includes risk management responsibilities. It would be expected that this requirement would cascade down to other Health Service Executive).

YES NO
 YES NO
 YES NO

Have key performance indicators (KPIs) been developed to monitor whether executives are meeting their risk management objectives?

Has risk management training been provided to management? (for Department)

Has risk management training been provided to staff? (for Department)

Effective Risk Management

Which of the following components of risk management are effective in your organisation:

- Executive sponsorship, support and focus
- Line management ownership of risk management
- Effective culture and organisation
- Defined and communicated policies, procedures, systems and internal controls
- Linkage between risks and corporate aims and objectives
- Level of understanding of risk and risk management across the organisation
- Specification of the organisation's risk environment, including articulation of the organisation's objectives
- Linkage between risk management and individual performance appraisals
- Establishment of risk appetite, risk tolerance and risk treatment measures
- Establishment of criteria to evaluate risks
- Identification of risks
- Recording of risks

	Effective	Partially Effective	Ineffective	NA	Not in place
Executive sponsorship, support and focus	<input checked="" type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4	<input type="radio"/> 5
Line management ownership of risk management	<input type="radio"/> 1	<input checked="" type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4	<input type="radio"/> 5
Effective culture and organisation	<input type="radio"/> 1	<input checked="" type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4	<input type="radio"/> 5
Defined and communicated policies, procedures, systems and internal controls	<input checked="" type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4	<input type="radio"/> 5
Linkage between risks and corporate aims and objectives	<input type="radio"/> 1	<input checked="" type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4	<input type="radio"/> 5
Level of understanding of risk and risk management across the organisation	<input type="radio"/> 1	<input checked="" type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4	<input type="radio"/> 5
Specification of the organisation's risk environment, including articulation of the organisation's objectives	<input type="radio"/> 1	<input checked="" type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4	<input type="radio"/> 5
Linkage between risk management and individual performance appraisals	<input type="radio"/> 1	<input checked="" type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4	<input type="radio"/> 5
Establishment of risk appetite, risk tolerance and risk treatment measures	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4	<input checked="" type="radio"/> 5
Establishment of criteria to evaluate risks	<input type="radio"/> 1	<input checked="" type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4	<input type="radio"/> 5
Identification of risks	<input type="radio"/> 1	<input checked="" type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4	<input type="radio"/> 5
Recording of risks	<input type="radio"/> 1	<input checked="" type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4	<input type="radio"/> 5

• Analysis of risks	1	3	4	5
• Prioritising of risks	1	3	4	5
• Development and implementation of risk management strategies	1	3	4	5
• Resourcing of risk management strategies and processes	1	3	4	5
• Development of KPIs to measure success of strategies and emerging issues	1	3	4	5
• Monitoring strategies against KPIs	1	3	4	5
• Performance benchmarking	1	3	4	5
• Continuous review/feedback on risk management strategies and performance	1	3	4	5
• Regular reporting to senior management	1	3	4	5

Overall, at what stage of risk management practice development does your organisation consider itself to be? (Either best practice, well developed, reasonably well developed, basic or not started)

Reasonably well developed

What are the main obstacles to effective risk management in your organisation?

The Department is committed to a series of improvements in its formal risk management framework including:

- Development of an overall risk management plan
- Systemic identification of risk
- Aggregation and prioritisation of risks across the Department of Health and public health organisations
- Implementation of an issue management system to report performance against risk, high priority issues and trends to identify emerging risks or control failure.

Please attach any further comments you would like to make, including additional responses to any of the questions.

Glossary

Term	Definition
Business Continuity Plan	A document that defines the organisation's approach to ensuring key functions can continue under any events or circumstances that may develop to interrupt business continuity.
Monitor	To check, supervise, observe critically or measure the progress of an activity, action or system on a regular basis to identify performance levels.
Risk	The chance of something happening that will have an impact on the achievement of objectives.
Risk Analysis	A systematic process to determine the level of risk after consideration of sources, consequences and likelihood.
Risk Criteria	Measures / standards by which the significance of risk can be assessed.
Risk Evaluation	Process of comparing the level of risk against the risk criteria.
Risk Identification	Process of determining what, where, when, why and how something could happen.
Risk Management	The culture, processes and structures that are directed towards realising potential opportunities whilst managing

Risk Management Process	<p>adverse effects.</p> <p>The systematic application of management policies, procedures and practices to the tasks of communicating, establishing the context, identifying, analysing, evaluating, treating, monitoring and reviewing risk.</p>
Risk Management Framework	<p>A set of elements and an organisation's management system concerned with managing risks.</p>
Risk Management Plan	<p>A document containing the:</p> <ul style="list-style-type: none"> • strategic context and objectives for risk management, • analysis, assessment and prioritising of identified risks, and • approach to managing key risks.
Risk Treatment	<p>Process of selection and implementation of measures to modify risk.</p>
Stakeholders	<p>Those people and organisations who may affect, be affected by, or perceive themselves to be affected by a decision, activity or risk. They are both internal and external to the organisation.</p>