

REPORT OF PROCEEDINGS BEFORE

PUBLIC ACCOUNTS COMMITTEE

RISK MANAGEMENT INQUIRY

At Sydney on Friday, 10 June 2005

The Committee met at 9.30 a.m.

PRESENT

Mr M. J. Brown (Chair)

Mr P. E. McLeay (Vice-Chairman)

Ms G. Berejiklian

Mr G. R. Torbay

Mr J. H. Turner

Mr S. J. R. Whan

GILLIAN ELIZABETH CALVERT, Commissioner of the Children and Young People Commission, Level 2, 407 Elizabeth Street, Surry Hills, affirmed and examined:

CHAIR: I have been advised that you have been given a copy of our terms of reference and the relevant Standing Orders that relate to examination of witnesses, is that right?

Ms CALVERT: Yes.

CHAIR: We have received a submission from you, is it your desire that this will form part of formal evidence?

Ms CALVERT: Yes it is.

CHAIR: Would you like to make an opening statement?

Ms CALVERT: I would, thank you, Mr Chair. As a brief background for you, the Commission was established six years ago to provide an independent voice for the 1.5 million children and young people who live in New South Wales with bipartisan support. The Royal Commission into the New South Wales Police Service was a major catalyst for establishing the Commission and it found a number of serious systemic failures that put children and young people at risk.

At that time there was no single voice speaking out for the State's children and it was recommended by the Royal Commission that a Commission for Children and Young People should be set up.

After speaking with children and young people, it was decided that the focus of the Commission should be broadened to include all issues affecting children and young people, so we were established under the Commission for Children and Young People Act, which as I said, received bipartisan support.

The Commission reports directly to Parliament and is overseen by the Joint Parliamentary Committee on Children and Young People. We have the equivalent of forty five full time staff working for the Commission and in this financial year our budget is \$8.4 million and our projected expenditure for the next financial year is the same.

We have a clear vision, which is to make New South Wales a better place for all the children and young people who live here and our role is to promote the safety and welfare of these children and young people.

I will briefly describe how we fulfil our role because I think it is important for looking at how we manage our risk.

We hold inquiries and investigations and make recommendations to Parliament, Government and non-government agencies. We also work very hard to increase the involvement of children and young people in activities and decision making and the decision making processes. The Commission is a major source of information for children and young people and for the people who work with them.

Our "Ask the Children" publication, which set out the opinions of children and young people on a wide range of subjects such as alcohol use and education, are excellent examples of material we produce. We also carry out research as well.

The Commission also carries out what we call the working with children check and this has two elements, a background check and the prohibited employment declaration. These measures are designed to stop offenders and those that are high risk of offending from working with children

without supervision.

Last but not least, we also manage a voluntary accreditation system for counsellors who work with those who commit sexual offences against children.

Children and young people have told us that the very existence of the Commission that represents their interest is valued by them. People everywhere invest great hope in and for their children, and this creates an enormous reservoir of good will towards the Commission and we cannot let them down. In particular, we cannot let children down, which is why we place risk management at the centre of everything we do. Risk management is embedded into our organisational culture because we cannot afford to let down the children and young people of New South Wales and I will continue to work alongside the staff of the Commission to try and achieve our objectives to make New South Wales a better place for children and young people.

CHAIR: What sort of risks do you manage and how do you do that?

Ms CALVERT: We manage a number of risks and we have got quite a process in place for managing our risks. We have a risk management policy which we have developed and it is currently under review, which we expect to be completed by the end of July this year.

CHAIR: Sorry, you developed it?

Ms CALVERT: We developed the risk management policy in 2001, so we are now reviewing our policy.

CHAIR: Are you reviewing it as part of your risk management practice?

Ms CALVERT: Yes, we do.

CHAIR: Do you review it every now and then or have you found oversights?

Ms CALVERT: No, we routinely review our policies and part of our risk management strategy is to routinely review our risk management policy. So we are reviewing our risk management policy against the new standard that has come out. In addition to reviewing our risk management policy against the new standard we have just been developing a risk register, which each of the teams in the Commission, led by their managers, looked at risk and identified the risk in those areas. The managers then met as a group and developed a risk register. We now have a risk register of all the risks in the Commission or what we have identified as risks, what we think that risk rating is, what are the current means we have of ameliorating those risks and what some future strategies might be.

We are now going on to develop a risk plan in response to that risk register. That will be reviewed by our audit committee and then every year we will review the policy, the risk register and the risk plan to update it.

Mr WHAN: What is the sort of breadth of that register in terms of the issues that are covered and the risks that are covered, ranging from financial right through to your obligations in the community?

Ms CALVERT: The type of risks that we have identified - if I can go through them - they are political risks, we have looked at opportunity, so failure to respond to non-core activities, we might be spending all our time in a sense responding to peripheral requests and not focusing on our core activities. Environmental, so for example security of information, we have got to look at how we secure information. Alliances, so how we manage our external providers. Intellectual property is another. Reputation, so we have got to look at how we manage our reputation, if there is some sort of significant public relations problem. Financial, we look at how we are managing that. Projects, because we use project management a lot with the activities of the Commission, so we look at the risks of not achieving our project and risks inherent in terms of those projects. Compliance, so we

look at inaccurate reporting of data, for example. Public liability risk, natural hazard risk and how we establish services after a disaster. Technological risk, so maintenance of our key communication tools, which would be the website, what if someone broke into our website, our network and so on. Human, staff, for example, who review deaths of children, what are the risks in dealing with that sort of distressing situation, how we might ameliorate that and just straight security risks as well.

We also have another risk that we look at in the Commission which is what we call child protectiveness because we work a lot with children. We have particularly looked at reviewing our child protectiveness and how do we make our organisation safe. They are the sorts of risks that we have looked at and considered.

Mr McLEAY: Do you find the Australian New Zealand standard to be useful in dealing with the risk review?

Ms CALVERT: Yes we do and in fact the revised standard is the standard that we are using to review our risk policy. So yes, we are finding it useful.

Mr McLEAY: I notice you did not used to use the standard.

Ms CALVERT: No.

Mr McLEAY: But you are now using it?

Ms CALVERT: Yes we are now reviewing it in relation to that standard and we have reviewed some of the diagrams and various things like that with our staff and with our managers in developing a risk register and we will use it in developing the risk plan as well.

CHAIR: Did you notice any major differences between your risk management practice and procedure compared to the new standard?

Ms CALVERT: Our previous policy was not developed against the standard, so there were a number of differences. Our new policy is being developed against the standard, as with our risk register. For example, in our new process we are using the framework of the risk management process that is set out in the standard, and we will also use the matrix or the guidelines relating to the controls and review. So we are very much using the standards and this is very different to what we did last time. Compared to what we are doing this time and I think we will end up with a better result and much better understanding of our risk.

Mr McLEAY: Do you get any external assistance to do your review?

Ms CALVERT: This time round, no. We are not using external assistance. We are using our own resources and the resources of Central Corporate Services Unit (CCSU), which is our shared services, and we also are using the Internal Audit Bureau as well and the Audit Office, which we do for all our auditing purposes. The Internal Audit Bureau is a member of the Commission's Audit Committee and the Audit Office is an observer on our Audit Committee.

Mr McLEAY: What is the Audit Bureau?

Ms CALVERT: The Internal Audit Bureau is the group that we contract to do internal audits for the Commission.

Mr McLEAY: And that is a private sector company?

Ms CALVERT: Public.

Mr McLEAY: Was the review driven by management or by the Audit Committee?

Ms CALVERT: No, the review was driven by management.

Ms BEREJIKLIAN: My question relates to one of the answers you put in your survey response and that is why have you answered a neutral response to the issue of risk management being integrated into your business unit budget?

Ms CALVERT: Can you give me a reference to that?

Ms BEREJIKLIAN: It is on the second page of your survey response, towards the bottom where it says, "Risk management is integrated into the following processes of the organisation", and then "business unit budgeting" you have a neutral response and I am just wondering why you do not see running over your budget as being integrated or do you treat that separately as a risk management issue?

Ms CALVERT: The budget? I am just trying to find where we have got "neutral" down. "Business unit budgeting"?

Ms BEREJIKLIAN: Yes.

Ms CALVERT: The way in which we organise the budgeting in the Commission is against our results and services, so units are not given budgets.

Ms BEREJIKLIAN: So it is a structural issue?

Ms CALVERT: It is a structural issue rather than anything else. We have quite extensive internal controls around budgeting but it is just not done on a business unit basis.

Mr McLEAY: So it is not your whole business, that is your business unit?

Ms CALVERT: Yes. We do not use specific units for budgeting.

Ms BEREJIKLIAN: You do it on a macro level?

Ms CALVERT: Yes, that is exactly right. We do it on a project basis, so projects are funded, because that then focusses on results and outcomes rather than business units, which can tend to focus on processes and inputs.

CHAIR: That is a very interesting area for the Committee. We will be looking into that later this year, but can we address that at the moment, because we do like to measure against performance and outcomes rather than processes and the rest of it. In your survey response you claim to be effective in both the development of your key performance indicators to measure success of strategies and emerging issues and the monitoring of strategies against key performance indicators. Are you able to show the Committee any evidence to support that response?

Ms CALVERT: Yes, we use the results and services framework, which has been developed by Treasury, which sets out what the results of the organisation are, what the intermediate results are, how we might measure those intermediate results and then what are the service groups that underpin and feed into those results. Each of the intermediate results and the service group have performance indicators that are reported on either quarterly to the executive or annually through our annual report, which is then oversighted by the Joint Parliamentary Committee on Children and Young People.

Mr McLEAY: Did you say you report your KPIs annually?

Ms CALVERT: We report our KPIs annually to the executive but some of those also go into the annual report. We want to move in that direction where we report against the results and the indicators. I think we have come a long way in five years since we started. I would hope that we would be a lot further down the track in another five years because it is, from my experience, a developmental process and the KPIs that we had three years ago we have now refined and I think we have better KPIs now than we did before.

Examples of some perhaps routine management reporting would be things like a monthly budget review, and we have a target where we try to get a two per cent variation either way on our budget, so we will track that through quarterly reporting. We will quarterly report on the implementation of our audit recommendations and we have a KPI that says we try for 100 percent implementation within 12 months of the audit report being brought down, so we will track that on a quarterly reporting basis, and that is an example of routine management reporting.

Some examples of performance indicators against our business objectives would be the results around the working with children check. One of our targets is to have a certain percentage of requests for checks cleared or responded to within three days, and so we will report both on a quarterly basis and annually on how well we have gone in achieving that target. So they are examples of the sorts of way in which we use results and services as indicators to measure outcomes.

CHAIR: Can you describe how with that framework of your organisation you interrelate mismanagement with that?

Ms CALVERT: One of the ways is that we use the key performance indicators to monitor our performance, so if our performance starts to drop, then we have got risks in a sense. So if we are not responding to working with children checks in a set period of time, then the level of risk to the organisation starts to increase and so that is an example of using our KPIs to measure our risk. We can then look at what the reasons are and respond so that we get back on track and adjust our performance.

In the way in which we do our business, when we develop the projects and do our planning for the service groupings that are going to deliver us the results, managers have to fill a section called risks and responses. So we look at the risks associated with a particular project before we even look at funding it. So in the planning and the development of the project we consider risk. We also consider the risks of not doing the projects when it comes to budget allocation time. So while we might have ameliorated the risks internally to that project, we then go back and look at whether there are risks in not doing the project.

Those project proposals if they are funded feed into individual staff members' performance development plans, so that we set out each staff member's contribution to the achievement of the project and the objectives and results that the Commission is aiming for. The individual development plan is reviewed twice a year. So at the time we set the objectives and then six months later it is reviewed. So that is another opportunity to look at how we might consider risk.

The other thing that we do is that our staff generally have fortnightly supervision with their managers when they report on progress for the projects that they have under their control. Part of that is about reporting on things that have not been achieved within the timeframe. That enables me to explore with them what the risks might be. We also might also see if there are any other risks that we need to be aware of to manage in the achievement of that project. In supervision we will also talk about whether there are any other risks facing the organisation that they might have identified in their work. So we integrate our results and services and strategic planning into some very quite specific tools and processes within the Commission that mean that we continually review risk. That is in addition to more formal processes of a quarterly internal Audit Committee meeting.

Mr McLEAY: You made reference earlier to the development services plan. Do you find that to be a useful tool in assessing risk as well or does that just help you--

Ms CALVERT: It is helping us have a results focus and an outcomes focus. In a way the Commission is lucky in that we are quite a young organisation, so we do not have a whole history and culture that we have to turn around. When we set the organisation up we made a decision to be results focussed and then Treasury brought in this results and services framework, which reinforced what we had chosen to do anyway. The other thing that was fortunate about being a new organisation is that we were dealing with the content. We came out of the risk business, if you like, which was about child protection and we have a child protection function in the Commission. So we are very

attuned to the notion of risk and we have to place risk at the centre of the organisation, and we have been able to do that because we are a new organisation. So from the beginning we have had a results focus and we have had an awareness of risk that other organisations maybe do not have.

Mr McLEAY: Or would be envious of. Do you find the fact that you are small also assists you to quickly with your outcomes?

Ms CALVERT: Yes, I think that is true, we are a small organisation so we are much more flexible and responsive. The other thing about the Commission is that we have a much younger profile of our staff than the public sector generally and there are a lot of people who are new to the public service. That is both, in a sense, positive, because you have got people who think in fresh ways. However, it is also a risk, in that you have got people who do not understand the need for some of the accountability that you have to have in a public sector organisation.

CHAIR: Are there any other central agency policies or directives or guidelines that you have found useful or has contributed to the development of risk management within your organisation?

Ms CALVERT: Yes. Certainly our legislation helps us think about risk, the fact that we report to a Parliamentary committee and we have quite a level of scrutiny I think helps us think about risk, which has been very useful.

We have used the ICAC publications to also help us think about risk as well and of course directives around audits and so on, circulars and so on that remind us of our obligations and responsibilities also help us think about risk.

Mr McLEAY: Media as well?

Ms CALVERT: Well that sort of ties into the oversighting by Parliament in a way. I mean, I and my staff are very conscious of the fact that we are accountable to Parliament and that Parliament has ultimate powers. We are quite conscious of that and we are very respectful of that in our day to day work and in the systems that we have established.

What I would say is that for a small organisation like the Commission, we have requirements for central agency reporting that at times are significant for our size and it would be helpful if there could be some rationalisation of that process for, sort of, micro agencies like the Commission. I understand the need for large organisations like education and health but compared to them, we do not have the same level of risks.

Mr McLEAY: Business link or CCSU is your service provider?

Ms CALVERT: Yes. CCSU is out service provider.

Mr McLEAY: Do they actually assist?

Ms CALVERT: Yes but--

Mr McLEAY: Only to say, "You must do this".

Ms CALVERT: Yes. We still have to report centrally on a whole range of issues and there is no provision for us to do that jointly with other agencies or as a cluster of agencies, things like that.

Mr McLEAY: I am happy for you to put some of those on the record.

Ms CALVERT: I would like to table agenda item 3 from the executive committee meeting which looks at risk management for the Commission.

(The witness withdrew)

(Short adjournment)

GRAEME CHARLES HEAD, Managing Director, Sydney Catchment Authority, 311 High Street, Penrith, affirmed and examined:

GRAHAM BRIAN BEGG, Manager Business Planning, Sydney Catchment Authority, 311 High Street, Penrith, sworn and examined:

CHAIR: I have been told that you have been issued with a copy of the Committee's terms of reference and the standing orders, is that correct?

Mr HEAD: That is correct.

CHAIR: We have received a submission from you. Is it your desire that that submission form part of your evidence?

Mr HEAD: Yes.

CHAIR: Would you like to make an opening statement?

Mr HEAD: Yes I would. I understand that the Committee likes opening statements to be fairly succinct so that we do not take up too much of the question time but there are some fairly important contextual things that I thought would assist the Committee.

Firstly, thank you for the opportunity to talk about this topic, which is obviously one of great significance to a major water supply utility and catchment manager. Most of you would know that the Sydney Catchment Authority was established about six years ago and we are charged with the responsibility for providing a safe and reliable bulk water supply to Sydney, the Illawarra and the Blue Mountains. Because of that charter, risk management is a very central part of how we approach our work.

I want to talk just a little bit about the SCA's area of operation, to put into context our approach to risk management.

We supply a population of 4.2 million through our supply of bulk water, our three major customers being Sydney Water, Shoalhaven City Council and Wingecarribee Shire Council. We also have a number of small individual customers, but about 98 per cent of the water we supply is supplied to Sydney Water Corporation.

The catchment area that feeds that water supply is about 16,000 square kilometres. About 60 per cent of that land is privately owned. About 32 per cent is National Park or other Crown land and about 9 per cent is owned by the Sydney Catchment Authority itself.

We store about 2.5 million megalitres of water.

Mr McLEAY: Is that at the moment?

Mr HEAD: The storage when it is full holds about 2.5 million megalitres which in the way this is usually translated for the public is about 2.5 million Olympic swimming pools and that is stored in twenty one storages. Those twenty one storages include the major dams and very small weirs as well. 80 per cent of that water is stored in Warragamba Dam.

The SCA has inherited a whole raft of disciplines that are very well entrenched in the water industry around Australia in respect of risk management tools and I guess a culture that is focused on meeting international standards in the way of risk management approach. So while we are a relatively young organisation, we have in fact inherited from our predecessors a range of tools and disciplines and in the six years we have been established we have been further evolving that system.

Just to give you a couple of highlights in that process, the SCA developed initial corporate

management framework based on the Australian standard in 2001. That framework provides a consistent approach to the management of a wide range of the risks that we, as an organisation, must manage.

In 2003 we revised that framework by incorporating a new risk profile, including a range of minor, medium and major risks and also reviewed those risks we that have successfully mitigated in those previous two years and we will be revising that risk plan again by the end of this year. So there is a regular ongoing review of risks, assignment of risk rating, development of a program to mitigate risks and then a continuous review and updating of that process.

I will talk just about a few key areas that put the operation of that framework into context. The organisation, when it was originally established, developed a water pollution source risk management plan, which focuses on a very major risk for us, which is water quality; identifies potential sources of pollution in the catchment and helps prioritise mitigation strategies for those. The plan identifies 350 potential risks in the categories of sewerage systems, mining activities, waste disposal, infrastructure, industries, agriculture, urban development and other risks. All of those activities in that 16,000 square kilometres that can have an effect on water quality.

Importantly we have a corporate incident management framework which allows us to respond quickly and comprehensively when any of those potential threats become actual threats, because of an actual pollution incident or a bushfire or any one of a number of things that can have water quality impacts.

The first thing we have introduced is a range of processes for a structured response to risks associated with the operation of our infrastructure, dams, pipelines, pumps, etcetera. Essentially that program is one of undertaking a criticality assessment and condition assessment of all of assets, examining the outcome of that assessment in terms of what level of risk is attached and having a program of asset improvement and reliability to address any of the issues that arose.

Of course, lastly to address our business risks. In 2003 the organisation introduced a state of the art business, financial and asset management system, which we call FIMS, finance and integrated management system, which allows us to record in a state of the art system very, very up to date information on our entire asset base.

Our corporate risk management framework essentially keeps us concentrating on the primary risks associated with our core functions of work, supply and water quality and it ensures that we maintain efficiency by focussing our business activities back to those things that are a potential risk for us. It is also used to identify and prioritise our decisions regarding budget and capital expenditure claims, so that the investment that the organisation is making are always focusing back on those things that are most important to maintain a secure supply and to maintain the quality of the water through that supply.

That approach is consistent with the Australian standard. We establish the context for the risks, we identify those risks through a detailed knowledge, the status of the assets and what is happening in the catchments. Some of that latter point, members would be aware that under the Sydney Catchment Authority's legislation there is an independent catchment audit conducted every two years, which helps to identify those processes in the catchment that may be presenting water quality risks and allows for responses to be developed in relation to those.

We assess all the risks against established consequence and likelihood criteria. We evaluate the risks in determining the most appropriate treatment responses and there is a monitoring and reporting process to make sure that we do not only identify things but we understand where they are up to in their implementation.

Importantly, given the focus on this Committee's work, our internal audit processes, we oversee the implementation of our asset improvement and reliability programs through those internal governance processes.

Just broadly, and I will close off in a minute, our risk management framework groups our risks into three categories, the water quality incident, the risks associated with infrastructure failure and business risks. We use a whole raft of tools to respond to those risks.

The water quality risk management framework, which I am happy to talk about in detail later on, dam safety measures in compliance with the Dam Safety Act, security risk assessment, the asset criticality assessment that I talked about before, asset condition assessments, internal audit, IT risk assessments and environmental assessments. Through that over-arching framework there are a raft of internal processes to make sure that we identify key risks in a whole range of areas.

I might close off there, so as not to take up too much time with the opening statement and we are happy to take questions. Graham Begg, my colleague, he has been involved in a lot of the development of some of these core processes, so either of us are happy to take your questions.

CHAIR: Does workers' safety come under your business plan?

Mr HEAD: Yes, OH&S are assessed as part of those risk assessments undertaken.

Mr McLEAY: Do you find that that level of specific risk assessment, you need to develop a matrix just to make sure that you are actually complying with all your risk checks? I would almost imagine one of your risks would be complying with all those different multiplicity of risk proposals.

Mr HEAD: Well, I think in any organisation that is managing a complex array of potential risks, you need a systematic approach, not just the identification of those risks, but also too, the decision making about the mitigating actions and then the monitoring, reporting of how those decisions are tracking.

It does require strong internal discipline but it is a discipline that the organisation is strongly committed to at every level because it actually helps the whole organisation to be clear about, not just what we are focusing on, but why we are focusing on it, so we have internal management processes that allow us to keep track of those things.

I mentioned before the asset improvement and reliability program, which begins with the assessment of what role individual assets play and therefore the criticality of that role. An assessment of the condition of the assets and then an assignment of risk rating, and we actually, through our internal governance processes, regularly monitor our compliance with the decisions that we have made about which initiatives we are implementing at a particular period. It is a very structured approach and yes, it does require a lot of discipline and very, very systematic processes to manage it effectively.

Mr McLEAY: Does the review of the Australia New Zealand standard force you to bring it all together?

Mr HEAD: The standard focuses on a holistic approach, which is, in a sense, a common sense approach to how risk management ought to be dealt with. It is not prescriptive in terms of what your individual system look like. The standard really gives a conceptual framework of how you address those agencies and organisations and then dependent on your particular business, you can develop systems, disciplines, protocols that allow you to comply with the standard in a way that properly reflects your own businesses.

CHAIR: So do you use the standard to help develop your practices in the first instance and then you tailor them specifically to your organisation? You have outlined quite a detailed structure. How did you get there?

Mr HEAD: I will let Graham respond in some detail, but while it slightly predates my going to the SCA, the development of the initial corporate risk management framework, it did have as its starting point the broad framework that appears in the Australian Standard, so it was always central to the SCA'S thinking not just to go and invent an approach but to look at best practice in general but

also in the utilities sector and the water utilities sector. The water industry, as I said at the beginning, does have a fairly embedded culture of using best practice international standards for looking its own risks. Graham, did you want to add anything to that?

Mr BEGG: I think the point I would make is, as Graeme pointed out, a number of risk management disciplines came with the formation of the organisation. There was rigour already in place and there were systems and tools being used. What the framework has given us is an opportunity to pull together an umbrella over that which gives guaranteed consistency. I might just give you a couple of examples of that in practice. For example, we have specific OH & S processes for identifying risks, but the assessment level of that has been designed to be consistent with the corporate practice. So when a decision is made about the level of risk we are getting a level playing field in terms of risks from those various processes, coming up to a point where we can make organisation wide decisions about allocation of resources and responses and those sorts of things. Another example for that would be in the current security environment, we have applied the specific vulnerability and security assessment tools that have been developed by New South Wales Government and other agencies, and yet we have done that within the context of the corporate risks, so we can then evaluate those overall risks on that level playing field.

CHAIR: We have a question for you too, Mr Begg, because it was sometime ago in the organisation. The Treasury Toolkit issued in 1997, how has that been utilised, if at all?

Mr BEGG: When we developed our first corporate risk management plan, both the standard and the Toolkit were in place and we came along later and applied both and so both were fed into the thinking of the development of the framework. It is a little bit difficult to say in a specific instance one particular part of the Toolkit has led to this outcome, but certainly both went into the thinking process, and it and the standard, by my reading, are consistent and are encouraging the same sort of behavioural practices in organisations.

CHAIR: Just while we are on that central agency theme, has there been any other central agency that has contributed to the development or the treatment of risk management in your organisation?

Mr HEAD: If you look right across our entire business and the risks associated with different aspects of that, there were numbers of central agency led initiatives that are central to the way we need to think things through, the total asset management framework, the modifications to procurement guidelines that were produced last calendar year. Those processes for an organisation that has phases of activity that are quite capital intensive are extremely important and getting bettered in all of our own internal processes. So there are numbers of those initiatives which are led by central agencies which are quite central to what we are doing.

Ms BEREJKLIAN: When I read your survey response giving your core business, you do not have a business continuity plan. Is there a reason for that? I understand you are in the process of developing one.

Mr HEAD: We are in the process of completing a business continuity plan. The SCA is, as I said, a relatively new organisation, which of course is going to fly off in a particular context. It has been working in a very structured way to roll out initiatives as well as put in place very good corporate systems since it began its life and it has not attempted to do all of those things at once. Business continuity planning is of course extremely important to us and we are close to having completed that work, but there are a whole range of things that we are required to do through compliance with our operating licence and other provisions in the Act which ensure a focus on business continuity, but it has not been pulled together or the work to pull it together into a specific business continuity plan is not complete yet.

Mr McLEAY: Another interesting response in the survey, you say your level of risk has decreased over the last period?

Mr HEAD: If you look at the whole landscape that we deal with, there have been major

initiatives that tackle specific water quality risks. We have a five year, \$20 million initiative which is focussed at accelerating the upgrade of sewage treatment plants in the catchment which discharge into streams within the catchment. So a major force source of water quality risk is always related to sewage management, very very focussed and major activity to address those risks in terms of a different class of risk. If you look at the management of large capital projects, we have done a lot of work through the development of our new financial systems and protocols to make sure that we are managing those in the most appropriate way. The reality is that whilst, particularly during periods of extensive and intensive drought, there are perceptions obviously related to the risks to do with water supply, there are in fact also major projects under way to augment supply as well. So if you look at each major area of risk, there are very active and in fact aggressive programs in place to respond to those risks, and if you compare the situation now with the situation in 1999 when we were established, that is a legitimate and accurate perception.

We will always, because of the nature of the business, be dealing with potential threats to water quality. The framework we have in place, the water quality risk management framework, is about being able to identify which of those risks we are concerned about and which mitigating controls need to be put in place to deal with those. Clearly, sewage contamination is right up there at the top and a very big focus of the SCA's work since it was established is about tackling that issue and that is in response of course to the McLelland inquiry recommendations when the organisation was established.

Mr WHAN: How do different land tenures change your risk on water quality in areas where you own the land in the catchment versus farm land and so forth? How much more effort is there in areas that you do not own?

Mr HEAD: We have different tools and approaches for dealing with that. Clearly, where the issues are on our own land, we incorporate our own - whether it is a pest control program or some other kind of program to respond to that issue. With the land that is part of the national parks estate, we have joint management arrangements for those lands where they in special areas, which are the inner parts of the catchment. We have a program with the Department of Environment and Conservation which focuses on the priorities for water quality and also farm management in those jointly managed special areas. With land that is privately owned, we have a range of initiatives that are focussed on particular threats to water quality. For instance, in the southern highlands, in areas where there is still a concentration of dairy farms, we have run an incentive based program to look at reducing the problems associated with dairy farm effluent in receiving waters in the catchment.

The regional environmental plan for the drinking water catchment which is soon to be finalised has, as one of the requirements on the SCA, a provision that requires us to produce catchment rectification action plans across the catchment and those rectification action plans will identify the priority pollutants in different drainage areas of the catchment and the appropriate responses to those priority pollutants will form the basis of us either establishing priorities for our own work, establishing priorities for the joint management with the Department of Environment and Conservation in the parks estate, or it will assist us to define our programs for private landholders, and we have begun to embark on some joint initiatives with the two catchment management authorities that operate in our area as well, the southern rivers CMA and the Hawkesbury Nepean CMA to join up with them on programs which are essentially working with private landholders.

The most important thing about that is always to be starting with a clear sense of what is the problem, what are the pollutants you are concerned about and what are the sources of those pollutants and then what are the tools available to actually respond to that, and some of that involves work on land that we control or is controlled through other State Government agencies. Where it involves private landholders it is about looking at what the best solutions are and working with them on how to implement programs. That is particularly important in the outer catchments.

Mr McLEAY: Do you have a best practice standards matrix for all your risks? Have you developed a matrix in your organisation?

Mr HEAD: Me personally?

Mr McLEAY: Does the organisation?

Mr HEAD: The organisation does go through a comprehensive process, as I said before, of identifying risks through the water quality framework.

Mr McLEAY: There are a thousand things. Do you have one document that pulls it all together?

Mr HEAD: The corporate incident management framework. Graham, you might want to talk about that in detail.

Mr BEGG: The corporate risk management plan falls into two parts essentially. The first part provides the framework which is that umbrella framework consistent with the standard and other Government initiatives, and the second part is the risk register, which I think is the thing that you are referring to.

Mr McLEAY: Yes.

Mr BEGG: So the process is that we identify risks through whatever information is available, either through asset condition assessments or through information coming out of the catchment or the water processes or a range of other methods. Those identified hazards are then evaluated and ranked using the corporate framework, consistent with the standard. We have got a documented consequence table and a likelihood table that we use. The outcomes of those two processes then give you a ranking for the risk and we classify them as minor, medium, major or extreme, and they are all consolidated in the one place, in the corporate risk management plan in the risk register.

Mr McLEAY: Was that developed by your organisation and do you think there is a capacity for or a benefit in having utilities-wide or water industry-wide standard?

Mr HEAD: I think it is important to remember with the SCA's operation that all of our processes like this are picked up in either our Act or our operating licence as well. IPART, which is our licence regulator, annually reviews all those things that we are required to do. So our risk management processes, there are two independent processes which examine those responses by the SCA, the catchment audit, which looks at the state of the environment in the catchment and the appropriate responses to those things as they relate to water quality, but also IPART's annual review of our operating licence means there is a third party oversight of the SCA's approach.

Within the water industry itself there is, through the Water Services Association of Australia, which is the national industry body for urban water utilities, quite a focus on assisting utilities to benchmark themselves against world best practice and also against other Australian utilities. So there is certainly, I think, not just a strong culture within the industry now, but also quite a strong focus within these different processes of assisting utilities to not just focus inwardly but compare their practice and performance with like organisations, and certainly within the water industry that is a beneficial process.

Mr McLEAY: When it comes to your risk management register, there is not necessarily an industry standard. You are unique, because you said you have your own legislation and IPART and things like that. There are some things that will be in common.

Mr HEAD: There is not a specific template of what your corporate incident plan should look like but the Australian standard for risk management is the starting point for how we have approached developing our plan and I would presume that that is the case for many other utilities. Where there are existing standards and relevant standards, agencies tend to use them whether there is a formal requirement to or not, as part of their exercise of due diligence.

Mr McLEAY: Would you be happy to table that risk management plan, if it does not have

specific threats or things in it?

Mr HEAD: We are happy to provide to the Committee - I would just need to take on notice the need to review it for any security information or system operation detail. I think that is more specific to the risk register than the corporate risk management plan, which is not a public document.

Mr McLEAY: When you went through that process, did you identify any opportunities besides all these risks?

Mr HEAD: Opportunities in what sense?

Mr McLEAY: Opportunities like, a lot of people say when you start analysing all the risks of an organisation, it is not just a management of negatives, opportunities arise for that organisation as well.

Mr HEAD: Absolutely. If you look at one of the ways we address business risk in terms of setting up new system processes and the integrated management information systems, there were a range of specific problems that we wanted to address and rather than simply putting into place controls for each of those problems, we took a step back and asked the question, what would the best kind of financial and other information management system be for an organisation like this, and we now have a highly automated system which not only provides very comprehensive information on all of our assets, but which has automated modules on contract management, on procurement, on fixed financial management asset, on asset management and maintenance and that was essentially seeing beyond the immediate problems that needed to be solved and actually asking what kind of management tool is going to really help the organisation to respond to challenges in an efficient way. I think that that is not uncommon for organisations like ours but in not responding to risk invariably involves looking at opportunities for other forms of improvement.

CHAIR: In your survey response you confirm that performance agreements for executives are covered in your risk management responsibilities. Could we get a copy of the pro forma agreement to support your cause?

Mr HEAD: Yes. We have a program called the STEP program which is a performance agreement program right across the organisation. What the pro forma will show you is how we deal specifically with categorising performance outcomes for people. Performance agreements actually relate directly to position descriptions, so we can provide you with a pro forma of our performance agreement but more importantly for the Committee's work would be an example of a position description which has those responsibilities set out. It is then a requirement for either myself, with executives, or for individual executives, with their managers, to translate the requirements of that position into specific performance requirements for a twelve month period and measures for those performance requirements.

Mr McLEAY: In your opening statement you said in the nature of your business risk is pretty inherent in whatever you do. Therefore, do you find when you get central agency information, like reminders about the audit committee, is it useful or has there been anything significant? What is the most significant central agency advice you receive to assist you in your risk or is it you comply because you have got these other things?

Mr HEAD: I think it is part of the job of public sector executive teams to be aware of not just what is happening in your own agency but aware of improvement processes that are being implemented across government. So clearly I am involved in a range of collegiate processes with other executives in the public sector. It is part of my job to communicate to the SCA that those initiatives are happening and what we need to do to make sure we are responsible.

What you are trying to achieve there is a culture within the organisation that is not just looking inward but is also looking outward and looking outward for our organisation means looking at what is happening in the catchment, looking at what other water utilities are doing to continuously improve but also looking at whole of government improvement processes so that they are not a

surprise when the agency is required to respond because the total asset management framework within government is so critical to our business, we stay very much across any developments in that process, so that we are constantly asking the question when we update our own asset management processes, are there any issues or changes related to that process that we need to build in and we make sure that our managers and other executives are plugged into those whole of government processes.

So, the procurement reforms that were the Treasury public guidance material last year, we were aware that those things were happening because we were reviewing our own internal procurement processes which relate to an area of risk, as we do have large capital projects. We were aware of that process going on and we were able to anticipate the issues and build that into our own changes.

(The witnesses withdrew)

(Short adjournment)

NOEL FRANCIS KEAN, Chief Internal Auditor, Energy Australia, 570 George Street, Sydney, sworn and examined:

FRANCIS JOHN MARTIN, Audit Manager, Energy Australia, 570 George Street, Sydney, sworn and examined:

CHAIR: I have been advised that you have been issued with a copy of this Committee's terms of reference, as well as the Legislative Assembly's Standing Orders, is that correct?

Mr KEAN: That is correct.

CHAIR: We have received a submission from your organisation. Is it your desire that this form part of your formal evidence?

Mr KEAN: Yes it is.

CHAIR: Would you care to make an opening statement?

Mr KEAN: Yes I would. Energy Australia appreciates the opportunity to participate with this inquiry. As evidenced in our response to the questionnaire, Energy Australia believes its business risk management system operates at best practice levels, and is willing to share its experiences and practices for the Committee's benefit.

We believe at Energy Australia business risk management is about identifying risks which impact on Energy Australia's ability to meet its objectives and putting in place strategies that manage these risks.

EA's environment is full of risks which are managed on a day to day basis. Some examples of these are electrical safety for both workers and customers, physical systems failure, which incorporates risks associated with our capital program and our maintenance programs. We have wholesale purchasing risks. We have environmental risks and retail competition risks, which are documented in our statement of corporate intent.

Business risk management was implemented in Energy Australia in January 1992 as part of our commercialisation and change management program. Today we believe we have in place a formal systematic approach to identifying managing and monitoring risks. Our system applies to both strategic and operational risks. We have integrated our processes into our culture and our risk assessments as part of our everyday decision making process. We obtain sign offs at the highest levels regarding the management of risks. Risk management is an essential component of EA's governance and management practices.

In respect of the terms of reference for this inquiry, Energy Australia is satisfied that it fully complies with the principles of the 2002 Auditor General's report to Parliament; the requirements of the risk management standard and we believe we are operating at best practice levels in regard to risk management. We have with us today all the supporting evidence to our questionnaire responses, if you require them, and are willing to share all those documents with you.

CHAIR: I am pleased to hear that you do believe that you meet best practice standards. Can you describe briefly why business risk management at Energy Australia is considered best practice and have you had any third party verification of that?

Mr KEAN: I suppose the evidence as to how business risk management works and why we believe we are at best practice levels is borne out by the performance of the company and the exposures that we manage regularly in our business. Electricity is an extremely risky business and we manage those risks on a day to day basis without any major hiccups. Obviously all organisations will have the odd hiccup but generally the organisation functions well.

We have compared our system to risk management standards and we are fully compliant with that. We have had a couple of external reviews of our processes and have been mentioned in documentation, particularly the CPA, the certifying practising accountants, did a study of public sector risk management and documented our processes in their documentation as being at best practice levels.

I have been regularly invited to speak at a number of seminars on risk management and have contributed to those. We also contribution to the development of the New South Wales government Toolkit back in 1996/1997 and again we comply fully to those requirements.

Similarly, the Auditor General oversees our processes and there have been no adverse comments from him in respect to our system.

CHAIR: Was a specific risk management project undertaken to achieve best practice and what was the time frame, if there was one?

Mr KEAN: We have got to go back in history. Our organisation, back in the eighties and earlier, was a very technical autocratic organisation. The government of the day was well aware of the potential and the need to improve government trading enterprises and moved us out of local government control into a commercialised operation. So as a result, it appointed a new board in the early nineties and that board realised the need to move us from a risk adverse organisation to a risk aware organisation and they implemented a program of risk management back in late 1991, early 1992 and we have just proceeded on from there. It is a direct result of a commercially run board.

CHAIR: And it evolved over that length of time?

Mr KEAN: That is correct. We deployed it in probably 1992 across the organisation but it was probably at the leading edge and we had to move the whole organisation with it. It involved a fairly lengthy training program. We put 280 staff through a training program. We appointed risk champions in every division and from an internal audit point of view we drove the process because we could see what a vital component of corporate governance it was. In those days auditing was getting down sized and everything else, so if you have got your controls right and management accountable for them and have them documented, all you have to do is go and grab the risk management manual, if it is properly documented and you have got your exposures, we just hit on those issues, audit them and then tighten them up from there.

Mr McLEAY: You said you were involved in the Treasury Toolkit in 1996/97, is it still relevant?

Mr KEAN: Yes, I think the principles are very relevant. I believe, in my opinion, it probably needs to be updated because 1997 to 2004 seems to be a long time. These things are very iterative and they need to be continually pushed through organisation rather than become dust collectors on the shelves, which a document like that can become, so I think again, in the public sector or in any organisation, there needs to be champions for all these sorts of things.

Mr McLEAY: Do you find the Australian New Zealand revised standard may replace it?

Mr KEAN: It may replace it but I do not think it is as descriptive of how to go through the processes. You read these standards and the average person will fall asleep probably by the time they get to the second or third element.

CHAIR: Are you saying the standards lack detail in process?

Mr KEAN: They lack clarity I suppose, in my view, as to how you should implement a process. There needs to be guidance and interpretation of standards because they tend to be technically written, rather than written for the common man.

CHAIR: And the strength of the Toolkit is the process of implementation to a standard?

Mr KEAN: Yes. Of course the Toolkit was before this current standard.

CHAIR: Before the last one too. You say that your methodology complies with the 1999 standard. Was there any major change to the 2004 standard and if so, have you updated any of your methodology to reflect current best practice?

Mr KEAN: I have got to say I did read that memo before coming down. There is a mistake in it. We are compliant to 2004. There is a typographical mistake in the memo.

Mr MARTIN: I think they have gone to great length to communicate with people and they have listened to feedback on the standards and they have enhanced them. I think they have emphasised more on the monitoring role than the previous versions did and monitoring is very important in terms of ensuring that if any risks do change over the cycle of the review and your implementation of your action plans, that they are followed up and kept alive, because in a lot of the organisations we found, with the cultural background of the place, once they finished the project and passed it they thought their obligations were complete. What the new standard does emphasise is that monitoring is a vital part of success in risk management. You keep it as a working document, rather than a calendar, the document that is done at the planning process is looking forward and at 30 June looking back to ensure that you have done what you committed to do in the going forward process.

Mr McLEAY: Do you use a matrix for that?

Mr MARTIN: Yes, we do use a matrix. We have brought a copy of that with us. We have a whole set of our documentation here for what we have on business risk management and we would be glad to share that with you.

Mr McLEAY: I would appreciate it if you would table the matrix.

Mr MARTIN: Yes. [tabled in confidence]

Mr McLEAY: Did you develop the matrix yourself?

Mr MARTIN: I went to about two or three training sessions when Noel gave me the brief to be responsible for that. I would like to indicate I was schooled by a very good lecturer who was responsible for it in CSR back in 1991-1992 and from that he gave us a template.

Mr McLEAY: Feel free to put his name on the record.

Mr MARTIN: I would have to consult with him first as a courtesy I think, but I am prepared to get back to you with his name if that is okay. In regard to that matrix, we got some very good guidelines from him. When the standard came out we looked for comparisons and we modified that and we have a chart for setting out consequences and likelihoods and we have five consequences, which are catastrophic, major, medium, low and negligible, and we have relative likelihoods, five again, and that is high, substantial, medium, low and negligible. From that matrix we then come up with four levels of risk which is on a point system and from that matrix we can work out what the points are, and it is either high risk, significant, medium or low and it gets the appropriate treatment from the level of risk that is determined.

Following on from that you will see that our documentation reflects that for high risk we expect some action within nought to six months, for significant risk it is six to 12 months. For low risk, because it is a 12 month cycle, it gets picked up in the next 12 monthly review, and that would be slightly different from the standard in that regard, but we feel that ours adequately covers our requirements.

Mr McLEAY: Do you think there should be an industry or public sector wide, or even just an energy or utilities standard matrix?

Mr MARTIN: Yes. I believe there should be because the most obvious thing is the OH & S standard, which comes out of the safety regulation requirements, is a different matrix than the standard we use for business risk and when we are doing training sessions, which we did as recently 2004, this was asked by people who are now being asked to crank up risk assessment within the OH & S environment: Why can't we use the same? We are doing some review work on that to see if we can accommodate that request, but if it was a State issued matrix I think it would eliminate a lot of questions of that nature.

Mr McLEAY: Do you think it should be industry, energy only or public sector wide?

Mr KEAN: I have a view that I think, depending on who the Government body is, be it Treasury, be it the Government, be it Parliament, that it is important that that senior body should be able to measure risk across the whole of the State environment, so if they were based on the same matrix they would be able to compare the level of our risks with the level of risks in health, State Rail, what have you, and then be able to make a decision as to where best to place its resources I should imagine.

(Short adjournment)

CHAIR: Where is your statement of corporate intent published?

Mr KEAN: We have our copy of the statement. Remember we were clarifying as to whether that is published. There is the published document and the one that goes to Treasury. The public document is on the web site but this one is not.

CHAIR: Anything you would like to table in confidence can be treated that way.

Mr KEAN: Yes.

CHAIR: What methods have you found to be the most efficient and practical for documenting those strategies in an organisational and risk management context?

Mr KEAN: Certainly we should go through the process, Mr Chairman. Our strategic risks are identified in a workshop with the executive of Energy Australia. So annually I convene a meeting. The meeting happens every Monday anyhow, so I get a slot in the executive meeting for the strategic business risks analysis. At that meeting there is a brain storming session with the executive to identify those strategic risks that go across the whole of the organisation which the executive feel need to be managed at their level. Then the results of that workshop are documented. It is documented in a graphical presentation which identifies the risk. It goes back to the executive for confirmation and establishment of a timeframe for reporting back to the executive. Each risk is documented on the basis of a document like this, which I can table. The documentation has on it the risk issue, it has the nature of the risk, that is whether it is current or perennial, it assigns responsibility for the risk, it documents the causes and consequences, it documents the strengths and weaknesses and it establishes an action plan to address the weaknesses with due dates and responsibilities for those actions. That documentation is returned to the executive in accordance with the timeframes and it is managed from there.

From that process, the business risk management documentation moves to the operational level and each division of the organisation is required to analyse its operational risks and manage those within their divisions, which follows the same documentation format. Then as part of our audit program we audit that documentation to ensure that divisional management is implementing it in accordance with their documentation. They are also required to do a pre-budget sign-off, which indicates that they have conducted a business risk analysis of all broad areas deemed applicable to their division, the outputs and action plans identified have been considered and will be included as appropriate in the division's business plan and budgets for the following years. So that is ensuring that the resources are in place to keep implement the programs.

Then at year end there is an annual account sign-off for the financial year, which again each

divisional general manager signs off and presents to the managing director for him to sign off to say from an organisational perspective that all the risks have been addressed. That sign-off indicates:

I have reviewed the business risk documentation in the business risk management manual and have made the necessary inquiries and held relevant discussions which enable me to conclude that (1) the systems and practices of the business risk management in place within this division are accurately representative within the business risk manual and (2) subject to the matters discussed on the action plan regarding missing/ineffective controls, the controls in place to manage the identified risks are considered to be commercially appropriate and the risks are being effectively managed.

Also as part of the governance process the board has responsibility for monitoring the effectiveness of the business risk management system. That is also delegated to the Audit Committee. So once a year they oversight the process for the managing of business risks.

Mr WHAN: How do you link those risks to the individuals in the organisation and their performance?

Mr KEAN: As I indicated, the business risk management system is identifying those risks that impact the organisation's ability to meet its objectives. Our objectives are set out in "The Way Ahead" document, which outlines our objectives and outlines the performance measurements to meet those objectives. Then the KPIs of the divisional matters are cascaded downwards for these and are tailored to ensure that the performance measures and the objectives that are organisational-wide are cascaded to the relevant divisions, so that everything on this document somehow fits into all our KPIs, and hopefully then it all works, and again from an audit perspective, when we do our audits of our business units, ensure that the individuals' performance development agreements are aligned with this documentation.

Ms BEREJKLIAN: Can I ask a micro question, and I ask this question because other organisations have responded to this in different ways. How important do you regard business continuity plans and what component of your overall risk strategy does that play? If you start with a blank sheet of paper and have not yet done a risk strategy, where in the order of things would a business continuity plan come into play?

Mr MARTIN: In response to that I would like to say that EnergyAustralia is committed to business continuity management. We have been down the path now for about two years. We try and link it back in to risk management by the risks that general managers identify through their operational risks linked to the strategic risks, which are married together. We find there are areas which are vital to the business which would bring us undone, if we lost our data agency, our billing, we would be in trouble, if we lost our contact centre where we communicate with people. So we link those risks together and in the risk management documentation it says how is it managed or what is the strength of that risk and it is linked back through the business continuity plan and we have a network incident plan, we have a corporate incident management plan, we have data agency disaster recovery plans and information technology business impact analysis. They are all carried out to ensure that as the identification of the risk cascades out to the line of business, where the effect of that line of business is there should be a continuity plan in place and a disaster recovery to get us back up.

Mr McLEAY: What was the most essential tool that led you to do it? Was it an internal decision, was it the Australian New Zealand Standards, the Audit Committee?

Mr KEAN: It was an internal decision basically, and that came, I suppose, from the board of directors back in 1992 realising that they had to have in place this sort of a system. So that was the major driver, and you can have all the regulation you like, it needs commitment, and I suppose these people saw the need for it. They implemented it and then the regulation followed. So now we just ensure that we comply with the regulation, but none of those were major drivers for us. It was more to do with commercialisation of the organisation and this is a philosophy which the board felt would aid that process.

Mr McLEAY: What was the most significant driver on it was the board of management?

Mr KEAN: Yes, in 1992, yes, and the need for governance, proper governance.

Mr MARTIN: I would also like to offer as well that there are service agreement levels between our board and the Government and we have to control outages, we have to control cash flow, our dividend flow and what have you to the Government, but more in regard to if our business fell over, the service agreement that we have in regard to maintaining supply and even at the micro level of getting the street lights reinstated and all these service agreements that are set by the regulator and by agreement between the board and our major shareholder makes us go to this level so that we can get the disaster quickly attended to under an incident management system and then recovery in the business goes on, but it did start from the board initially back in 1991.

CHAIR: If we could get from you the numerous documents you referred to at any time in the future we might find it helpful.

Mr KEAN: Certainly.

(The witnesses withdrew)

PHILLIP GERARD O'TOOLE, Director Risk Management & Consulting Services, Internal Audit Bureau Services, Level 3, 507 Kent Street, Sydney, sworn and examined:

CHAIR: We have been advised that you have been given the terms of reference for this Committee as well as the relevant Standing Orders from the Parliament?

Mr O'TOOLE: That is correct.

CHAIR: We have received a submission from you. Is it your desire that this submission form part of your formal evidence today?

Mr O'TOOLE: Yes. I would like to thank Mr Chairman for the opportunity to appear before the Committee to discuss IAB's experience in assisting the New South Wales government agencies in relation to better manage their risks.

As I said, we were established by the New South Wales Treasury in 1989 to assist smaller agencies in maintaining a robust internal audit function. Since then we have grown with our clients and now we provide internal audit risk management and consulting services to around eighty agencies. We have noticed that the demand for risk management advice and assistance has grown considerably in recent years. In the last two years, for example, we have assisted more than thirty agencies in performing risk assessments.

We find that agencies are generally very responsive to the assistance we provide and can see the value we are adding but we are yet to see a pro-active action from departments in seeking us to come in and undertake risk assessments. It is usually as a result of our initiative, primarily as a precursor to development of internal audit plans.

CHAIR: Can you tell us a little bit more about your organisation? Are you totally self funded?

Mr O'TOOLE: Yes, we are a GTE, government trading enterprise. We have a managing director who reports to a board of directors, chaired by Ian Neale, New South Wales Treasury. So we stand alone. We do not receive any funding from Treasury. We have fees and services for all our clients. We only operate within the public sector, which can be State government, Federal government, provided they have a branch in New South Wales only and ACT and local council.

CHAIR: What is your staff and budget?

Mr O'TOOLE: We have staff but it is sort of like a virtual organisation. We operate with an executive of a managing director, four directors and six staff but we have about sixty consultants who operate for us. Our turnover last year was in the vicinity of \$4 million, \$4.5 million.

Ms BEREJIKLIAN: Does your role extend to actually, once you have made a suggestion to an agency that an agency develop an aspect or overall strategy for their risk management, is it then incumbent upon you to make sure they have done it or which body looks at whether or not they have done that?

Mr O'TOOLE: We recommend that the audit committee oversee the implementation of the recommendations and we are normally a member of the audit committee.

Ms BEREJIKLIAN: Of that internal agency?

Mr O'TOOLE: Of that particular agency. The majority of our risk assessments flow through to us from them performing an internal audit work of the high risk areas we have identified in the risk register and the internal audit plan.

Mr WHAN: You mentioned in your opening comments about most organisations that you

come across not being pro-active about that and that suggested that you were basically going and offering services to them, is that the right way to take what you said?

Mr O'TOOLE: Yes, the role of internal auditors have evolved and our organisation has evolved over recent years from being compliance based - what is referred to as tick and flick auditing, accounts payable, accounts receivable audit, those sort of asset items financially focussed to being more of a risk based program, which is operational based on the key objectives of the organisation. So rather than just recycling the previous programs, we go to speak to the executive or to the audit committee and recommend that as a pre-cursor for the development of a new focus for audit planning that we undertake a risk assessment. Once we get into the process they see the value of that.

Mr WHAN: I guess what worries me out of that is that there might be organisations in the public sector who are not doing anything, who you have not approached and got them to do a risk management plan.

Mr O'TOOLE: Probably twelve months ago I would say that. I would not know that there are any now that are not doing anything. I would say they are in various stages of maturity, because of course there are other companies apart from us who are helping agencies with the development of risk approach and risk management. All the big four firms and the second tier are assisting in that regard.

Mr WHAN: Who helps you to identify the organisations you should be going to? Is there some central agency involvement in that?

Mr O'TOOLE: No, not really. We have a core base of clients already and we have a prospective list of clients and one of the approaches I suppose for selling our services is to explain how we can undertake this risk based approach.

Mr McLEAY: Are you on all of your thirty client's audit committees?

Mr O'TOOLE: Well, we have undertaken thirty risk assessments for organisations in the last eighteen months, two years, but we have about eighty clients on our base. I could not say we are on the audit committee for all eighty. Not all clients have audit committees.

CHAIR: You have got eighty clients at the moment?

Mr O'TOOLE: Yes, in various capacities, either internal audit management consultants or risk management services.

CHAIR: You said there has been an increase in engagements over the last few years?

Mr O'TOOLE: There definitely has been.

Ms BEREJIKLIAN: For example, if a government department had a disaster happen to one of its business units, part of its operations, and then it was found there was no business continuity plan, who would be accountable for that? If they were one of your clients, would IAB be accountable for that?

Mr O'TOOLE: No, IAB only act as a part of the referral committee or part of the audit process to make recommendations to the CEO to implement strategies to address risk issues that could impact on business continuity. I would say ultimately responsible would be the DG or the CEO of that organisation. There has been quite a significant increase in activity in the last twelve months, again through business continuity, primarily resulting from the Premier's directive.

Ms BEREJIKLIAN: I was rather shocked that one of the people that came before us today did not have one, given what they look after.

Mr O'TOOLE: There have been a few agencies that we are aware of where their services

are not essential services and they have decided not to do it in the first go through of the BCP but maybe they will do it on the second range.

CHAIR: What areas have you found need improvement in the public sector?

Mr O'TOOLE: We find that the risk process that we undertook and the risk management approach is primarily a snapshot of what the risks in the organisation are at that particular time and I believe the process that we are involved in is still in its infancy in the first couple of years. There is not a lot of evidence at the moment that it is going to be regularly refreshed and treated as a living document and ongoing.

I think there could be more scope for greater reporting on risk management. I believe it should be enshrined into manager's personal performance agreements about what they are doing in terms of implementing strategies to mitigate risk, ensure that the accountability for management of risk is made clear, to develop a stronger risk awareness culture within the organisation and to involve external providers or external stakeholders in the process rather than just looking within the department because a lot of departments have impacted relationships with a lot of private and other organisations.

CHAIR: There has been a number of very high profile corporate collapses in Australia's history over the last number of years and a lot of them have been linked to inadequate corporate governance and mis-management and we have seen ASIC develop a lot of new laws to govern the private sector. Do you think any amendments to public sector legislation need to be made to strengthen the risk management framework?

Mr O'TOOLE: I don't know about legislation. I think that there could be guidelines attached to the Public Finance and Audit Act which would strengthen the risk identification and reporting to Treasury, make it a regular component of their reporting regime. I think there could be probably some sort of mandatory actions or recommendations arising out of audit committees. I know there has been a recent Public Accounts Committee came down with regulations from the departmental audit committee to the public sector and I believe that should include risk management, so it is not just internal audit.

Probably the same guidelines or directions should require agencies to undertake enterprise-wide risk assessments every three years and I think that each agency should be made to identify a risk manager within each agency, not necessarily a separate position but an existing person could adopt that role.

CHAIR: In your opinion how widespread is the adoption of an enterprise-wide risk management approach across the public sector?

Mr O'TOOLE: It is at various stages, some agencies have adopted it wholeheartedly, other agencies would not have a great awareness of it. Usually the larger agencies with the more commercial focus have embraced and it is part of their business. The smaller more traditional public service departments, depending on their size, it is very mixed, their adoption of it.

CHAIR: Have you encountered any opposition?

Mr O'TOOLE: I have not encountered opposition once they are made aware of the benefits that it can offer, because at first there is a cost in undertaking a risk assessment. They see the cost and they want to see the benefits of it, but by referral through other agencies I believe they see the benefit of that.

CHAIR: The particular tool we have heard a lot about is the use of matrixes for analysing risk. A lot of departments and organisations have set up their own and pretty much have a stand alone type matrix. Do you see any benefit of having consistent matrix for use across the entire New South Wales public sector or do you think it should be more tailored to certain industry groups?

Mr O'TOOLE: I can definitely see the benefits there. It would assist in benchmarking the risks across the sector but I suppose the downside or the difficulty of having a generic risk matrix would be it would be very difficult because a lot of the risks are related to the particular operations of the organisation. So there could be the potential for kindred industries or operations being combined. The entire process of risk assessment is very subjective and what someone classifies as extreme or high, moderate or whatever may not necessarily be the same as what another agency would necessarily do so and tailoring the risk rating approach to the organisation's activities is something which is actually encouraged in the Australia New Zealand standard 4360.

CHAIR: You spoke a little earlier about the role of internal audits in monitoring risk management, should this role be mandated, expanded, encouraged? Have you got any comment there?

Mr O'TOOLE: It should definitely be encouraged. I believe that the risk register which has developed as a result of a risk assessment and then the resultant internal audit plan should be reported on at least twice a year to the audit committee as to the progress of implementing recommendations from it and as I said before, there should be a mandate that the risk register be refreshed every three years and the audit committee should definitely be the organisation responsible for monitoring that implementation.

CHAIR: Would you like to make any closing comments or remarks?

Mr O'TOOLE: No, I think I have covered it all.

(The witness withdrew)

ROBERT MCGREGOR, Deputy Director General, NSW Health Department, Miller Street, North Sydney,

TERRANCE JAMES CLOUT, Chief Executive, Hunter New England Area Health Service, Lambton, Newcastle,

MARGARET RUTH HALLIDAY, Risk Manager, Sydney South West Area Health Service, Royal Prince Alfred Hospital, Missenden Road, Camperdown, and

MICHAEL SMITH, Director Clinical Governance, Sydney West Area Health Service, Nepean Hospital, Nepean, sworn and examined:

VICE-CHAIRMAN: I am advised that you have been issued with a copy of the Committee's terms of reference and also the Legislative Assembly's Standing Orders that relate to the examination of witnesses, is that correct?

Mr MCGREGOR: That is correct.

VICE-CHAIRMAN: We have received quite a detailed submission from your organisation. Is it your desire that this submission form part of your formal evidence?

Mr MCGREGOR: Yes.

VICE-CHAIRMAN: Do you care to make an opening statement?

Mr MCGREGOR: Just a very brief statement if I may. New South Wales Health is a large and complex organisation. As you would be aware, it has over a 100,000 employees. It provides a range of clinical services in a diverse range of settings. Our environment that we work in ranges from offices of area health services through to the somewhat hostile environments where ambulance officers provide rescue services and ambulance services within the community. Incumbent with all that are very significant risks that we face. The department felt it was appropriate and that it would be of assistance to the Committee for people representing the clinical area, the risk management area and the area of management to assist you in any way that you thought was reasonable today.

VICE-CHAIRMAN: We see from your submission that New South Wales Health takes risk management very seriously. We understand that an enterprise wide risk management policy will be developed when the corporate governance and risk management branch is established. Is that correct?

Mr MCGREGOR: That is correct. We undertook a functional review of the department late last year. We had undertaken a review earlier in 2004 by our audit branch, which looked at how risk management had penetrated the organisation through to area health services and we found that it had been variably implemented. We felt that we needed to put a focus across the system on both corporate governance and risk management, given the significant changes that had occurred with the abolition of area health boards and the implementation of direct line of accountability through to the Minister and to the Director General from area health services.

Mr WHAN: Do all area health services have a risk management plan of some kind or another? From what you are saying it is only just starting to get out to some of them.

Mr MCGREGOR: No, all area health services have risk management plans. As part of our review of corporate governance which we undertook in late 2004 and early 2005, it was clear to us, and the Auditor-General has commented on this before, that the implementation had been variable. That is not surprising given the very significant changes that occurred in September, with the removal of the boards, the change in structure and the creation of the new eight area health services. Some of the new areas, rather than going through the process from January to now, have adopted the risk management plans of the former areas. They now have to go back and redo the whole exercise, and

we hope to be able to give them a common framework across the system to assist them to do that.

Mr WHAN: What is your timeframe on doing that?

Mr McGREGOR: We hope to have the corporate governance and risk management plans in place in the next two to three months. We hope that by the end of the year the area health services will have a very clear framework to go forward with fairly uniform risk management frameworks.

Mr WHAN: What are you looking at basing that framework on?

Mr McGREGOR: We do have the Treasury guidelines and Toolkit which we have used in the past and Terry might talk about how that has been applied at an area level and of course there is the Australian Standard which we have also used. There is always a standard used by an Australian health care organisation made in New Zealand. Terry might talk about how it is being done at an area level.

Mr CLOUT: Yes, I am quite happy to do that. Probably the easiest way for me to talk about it is what is happening now in Hunter New England and what was put in place in Mid North Coast, which is the area health service that I was chief executive of prior to that. We looked at the documentation coming out from the Department of Health first and there were two documents there. One was the risk management framework document. The second was the corporate governance principles and guidelines, because of course risk management and corporate governance have to go very much hand in hand and that was the strategy that was being taken. In addition to that, we had Treasury guideline documents that had come out as early as 1997, audit reports and so forth that was going on. We looked very much also, as well as those, at the Australian New Zealand Standard and that really was there right through all of those documents and the principles behind it, and we based our framework, which we built up with the assistance of the Treasury Managed Fund, we had some specific funding to do that, in conjunction with the Department of Health a framework that we put in place. We had a timeframe for rolling that out, which was a four year timeframe, to permeate the whole organisation, because as Mr McGregor said very complex organisations, going across clinical, corporate, compliance, all of those areas.

In the new area that I am in, Hunter New England, we have adopted that same framework, the same principles that underlie it, and bear in mind in my case there are three areas coming together which started with three different plans. We have adopted the Mid North Coast one and we have a timeframe for putting that out across the whole area by the end of this calendar year. At that point in time we will have a timeframe of probably two to three years to fully permeate that whole organisation.

VICE-CHAIRMAN: With the changes in your boundaries, how high priority has the risk assessment been, seeing that we have all the screening?

Mr CLOUT: I suppose there are two places to start in answering that question. The first is that I have worked in health for 22 years and in my view we manage risk every day throughout the whole organisation at many levels. What I think has changed since say 1998, 1999, 2000, is not that we have stopped managing the risks that we had always, but rather that we recognise that it is fundamental that we have an integration between the structures, the processes, the committees and the reporting and monitoring in the context of something like the Australian New Zealand Standard in terms of corporate governance, and that we systematise that and I think that is the big change that has happened and I think that you have got to work at that all the time every day, but it is happening. It will take time to integrate the three areas and I think probably framework process procedures, structures in place by the end of this calendar year and then permeating the whole organisation is probably going to take a couple of years would be my view.

VICE-CHAIRMAN: Do you use a matrix?

Mr CLOUT: Yes, absolutely.

VICE-CHAIRMAN: Is it consistent across the area health services or do you develop your own?

Mr CLOUT: As Mr McGregor has said, the principles and the matrix are standard, certainly in the quality area that Dr Smith is probably able to talk on, but I can briefly, certainly we use corporately in my organisation a matrix that is based on the risk, the probability, the impact, then looking at analysing the risk, looking at what can be controlled, what can be eliminated and then mitigating those risks and having reporting and feedback and communication systems within it.

VICE-CHAIRMAN: Dr Smith, can you add to that?

Mr SMITH: I think in terms of the clinical risk management there is now a well established process for both the recognition and notification of particularly the area of clinical incidents. In that process there has actually been a standardised assessment tool which has been developed, which is known as the Severity Assessment Code, or SAC code, which is now being used very widely across the whole of the State, and that is the sort of tool that is now being used to look at near misses and other forms of potential incidents as well as the actual incidents. So there is quite a standardised process for that sort of classification.

VICE-CHAIRMAN: In some areas there is a standardised way of doing it standardised but not necessarily across the whole system?

Mr McGREGOR: With clinical risk there is a standard process. It has gone across the whole of the system over the last couple of years and we have an automated system now for that which is common right across the system. Everybody reports on standard format and undertakes an analysis of incidents in a standard way. So that is quite common. Whilst there has been change in the boundaries of the areas, we still have that in place in terms of our employees, risk managers in all of the areas, and Margie Halliday is one of those in one of our major area health services. She might like to talk about some of the issues in the continuing management of risks in relation to employees because that has not changed despite the boundaries changing.

Dr HALLIDAY: Every area made a commitment to have a risk manager, initially the liaison person between the area health service and the Treasury Managed Fund and initially with a focus on those insurable risks with the TMF scheme--

VICE-CHAIRMAN: Sorry, what scheme?

Dr HALLIDAY: The Treasury Managed Fund cover for insurable risks but those risk managers have widened their scope over the last ten years and encompass the broad range of risks that we see in area health services, to varying degrees depending on which area health service.

VICE-CHAIRMAN: Why is it to varying degrees?

Mr McGREGOR: In terms of risk management in relation to employees it is common across the system. What is not common is a framework and our own internal review suggested that what we needed to do was to provide some guidance to the areas with a standard framework. It would be of assistance to them, I think, if we had a fairly common format and framework for that. We have a common framework about the overarching corporate governance. We have had guidelines which have been common to all of the areas, which were issued first of all in 1999 and re-issued in 2004. With the removal of the boards and the direct line of accountability in January, they were re-issued again as corporate governance guidelines to the chief executives, and there is a specific reference to risk management in that document with all of the standards that we just talked about for them to apply. What we want to see over time is a common application of those standards.

Mr CLOUT: I do not think that we should be surprised that there are different levels. For example, if we talk about framework and matrix, the obvious thing to do is to take two or three or four areas and pilot the systems in the matrix, make sure it was right, look at the outcomes of those pilots and evaluate it and then correct it before you roll it out. That is exactly what happened. So you

would expect in that context that those who were in the pilots would be further progressed than those that were not.

That is true also in the areas of workers compensation, risk management for our staff and their safety. It is true also in the corporate areas of finance and so forth. The areas that we have been doing consistently, and you will find consistently done right across the State, and have been for many years after, traditional areas of compliance, finance, those standard ones.

The other comment I would make is that I do not think that we should expect that this will be static. It should be and we should be hoping that it will be dynamic and that we will be forging into areas and testing them and coming back and saying, does that give us better ability to identify and mitigate risk? So I do not think we should be surprised by that.

VICE-CHAIRMAN: What process will be undertaken prior to the chief executive signing corporate governance statements?

Mr CLOUT: In health there is a whole range and they are set out in the previous guidelines and the guidelines that have been issued to the chief executives by the Department of Health in relation to the accountabilities that chief executives make quite clear the areas that have to be signed off on. What I need to do, through instructions I have got and through the assistance of my clinical governance director, through my director of workforce and human resources that looks after the side of it relating to our employees, through our director of corporate services and through the audit committee and the external auditors looking at finance corporate service areas and through the director of, in my case, population health and planning, just looking at the issues and risks around community engagement and clinician engagement. Those will be looking and monitoring at all times as to whether the processes are in place and working, evaluating the outcomes and coming back to me and saying, are they working?

They are the questions that I will be asking and using the committee structures I have got in the governance structure to use those and at the end of the day I have to look at all of those and say, am I comfortable to sign off that the processes, protocols and procedures are in place and that there are no significant risks being identified that are not being dealt with. When I say dealt with, I mean controls put in place, actions being taken to mitigate them.

Mr WHAN: As things stand at the moment, obviously it will improve as this work you are doing goes on, are you in a position to be able to identify the system-wide risks which are not being addressed properly, as a department overall?

Mr McGREGOR: I would say all of the risks that we are exposed to have been addressed in one form or another, not necessarily through a formal risk management plan. Risks to our finances, we have risk analysis which must be done each year by our internal auditors, which are all positioned in area health services. There is a very clear set of documents that they must complete to ensure that financial risks are dealt with. I have here a whole range of documents that have been updated, policy directions have been updated on our website in January of this year, which gives them directions and policies in relation to risks to employees and how they are to deal with those.

I cannot think of a particular risk that has not been addressed in one way or another, even risks to plant and equipment are assessed through our asset management plans. This is one of the challenges for us, as to how we, in such a big organisation, bring all this together in one plan, when we have such a mass of documents and policy directions to the areas about what they will do with what and when and how we make sure that they are complying with those policy directions.

It may be at the end of the day rather than an absolute framework we will have a compendium that says, here is a framework, here are the polices, these are the areas that you must look to to cover your risks and have things like business continuity plans, which is an emerging thing at the moment.

VICE-CHAIRMAN: You do not have them yet?

Mr McGREGOR: Some do, the Department of Health has a business continuity plan. Part of your risk management plan is about business continuity. The business continuity plan is usually one you have in place in case of a fairly traumatic event, like a bomb or complete failure of plant or something like that, so it is quite a focussed plan.

Mr WHAN: When you have got these sort of guidelines or frameworks out there across all the area health services, what sort of processes are you going to have then to try and make sure everyone is at best practice in the information sharing to make sure that the area health services are all at the top level of it?

Mr McGREGOR: A number of ways, one, we will audit it, the risk management branch that we are setting up will be tasked to do that and do that effectively. As Terry pointed out, the department in January did issue to all of the chief executives of the new area a draft corporate governance statement and we said to them at the end of June in all of these areas, including risk management, you must give us certificates as to what you have done. We expect that in some cases it will be a qualified response and we will go through and look at all of those.

In the last few months we have surveyed all of their key documents that they hold in terms of risk management, internal controls, just to see that they now still have those in place and we are satisfied that by and large they are in place. There are a few that we are following up. He will have to self-regulate by certifying that he has all of those things in place, and each area will have to do that and then we will separately audit them to ensure that they are all in place.

Mr CLOUT: From my point of view, the things that have been in place for sometime now assist that enormously that the department have set up and have been there for sometime. One of the major changes was the establishment of the Clinical Excellence Commission and it has a major charter of working with the Department of Health and auditing in a sense, in the same way that you would the traditional areas, those clinical areas against standards that will be set by the department and that is a major mechanism for making sure that those are being implemented and we have lots of those. Accreditation is another one that has been there for a long time and will continue.

Quality programs and setting of quality standards, which the department does and is continuing to do and from my perspective, has been gearing up and ramping up and that is a challenge for us, over the last years. All of those things, when you put them together are pretty rigorous.

The other thing that makes sure that you have got that consistency, the department has had in place in area health services, an escalation process for levels of risk and risks that occur, and that has always been there and it would be my view that that is clear, that almost all people in the system know how that works. They know when things have to go up the chain, right up to the director general and they operate them well, and that is a very key part of how the department makes sure all the areas are acting at that consistent level in terms of identification.

Mr McGREGOR: In addition to the self-regulation of the area chief executive having to sign off that they are doing these things, in addition to the department conducting specific audits, there are firstly, automated systems in place that will allow us to test that the areas in fact have these things in place. For example, the Treasury managed fund provides us with regular reports, both to the areas and to the department about the level of incidents that are occurring and impacting on employees, workplace injuries for example.

We monitor those trends over time to make sure that Margie and her colleagues are really closely watching and dealing with rehabilitation in terms of what is happening in terms of those risks.

As I indicated earlier, we also rely on reports from the Treasury Managed Fund in respect of the issues affecting employees and they provide us with a mass of data about incidents, about premium costs and we are able to monitor that fairly carefully. I think TMF would say that health is probably among the best performers in terms of managing risk associated with injuries and illnesses for employees and in terms of prevention and rehabilitation.

Mr WHAN: How would you go about driving back down from that information you were getting from up above from the managed fund down to it being part of the day to day sort of work change or cultural change?

Mr McGREGOR: I think as Margie said, one of the things that we did early on, this was in the mid 1990s, historically what had occurred, that the cost of the insurance premiums was held by the department, which meant that we held the risk. In the mid nineties we devolved that to the areas and we said to them, if you can improve your performance, you may retain the benefit, but if you do not, that is a cost to you.

I think that has been a very substantial driver in terms of change and in addition, they saw the benefit in expending small amounts of money by employing full time risk managers, because the benefit in terms of their reduction in claims by millions of dollars outweighed the cost, but it was not really just an issue of cost or premiums, it was about providing a better work place for our employees and rehabilitation and I think we probably stand as the best performer in that group of agencies that are part of the TMF.

Mr CLOUT: The department is pretty hard nosed about it with us. We get that information three monthly, quite comprehensive information directly to the chief executive. We are given advice as to how we are going relative to others and what it means. There are formal meetings with the director of finance and budget in relation to those issues. Next month for example, I have coming up a meeting that will include Treasury managed funds, senior representatives from the department on the process for looking at last year's, looking at how it compares, looking at next year's premium, saying what it says, and what I am asked to do is to feed back to the department, well, what is happening in your area, what are you doing in your area to improve on that?

It is pretty rigorous and I agree with Mr McGregor, putting the risk out to the area health services, we in turn have progressively and now I think in most places have it right down to cost centre manager level and in my organisation we have 2,500 cost centre managers. That then loops back and feeds back very much right back through to the department and to the senior executive advisory board.

VICE-CHAIRMAN: Are those indicators part of your matrix?

Mr CLOUT: Absolutely.

Mr McGREGOR: They are a key performance indicator that we monitor. The other way, by way of example, in terms of using reporting systems to monitor, and I have asked Michael to comment on this, we have now an automated system which allows us to produce data fairly quickly about the performance in terms of clinical incidents.

Mr SMITH: I think probably the best thing would be to give you some feel for the fairly major development in the area of clinical risk management which has over occurred over the last 12 months and the biggest has been what is called the patient safety and clinical quality program. As Mr Clout has already indicated, there are a couple of components, such as the introduction of the clinical excellence Commission, which is part of that program, there has been the development of clinical governance units in each of the area health service, something which is now a standardised part of the structure with set directions and set functions for those units, and underpinning all of that has been the State-wide roll out of the program known as the Incident Information Management System or IIMS. IIMS in fact is a single electronic incident reporting system that allows all New South Wales Health employees to notify of any incident that occurs to a patient in the clinical incident arena and progressively as it is being rolled out it will also pick up on complaints, which is something which is now almost near completion for the whole State, also picking up on incidents regarding staff, hazards, security, et cetera. The clinical aspect and the complaint aspect are now almost completely finished. The clinical aspect is now completely rolled out, the complaints aspect should be finished within the next month or so, and those other components will be rolled out State-wide throughout the rest of this calendar year.

What that means is that there is then the capacity at the area health service level to interrogate that data and produce reports of almost any sort of variety really from that electronic data that the area health service can use in terms of how it manages its risks and how it manages those clinical incidents. At the same time, the department centrally can look at that information in a de-identified fashion and look for trends and look for events that are happening across the whole State, and the clinical excellence Commission will have access to that data, again in a de-identified fashion, to perform a high level analysis, which then indicates trends, patterns, groupings, et cetera, and it provides that information back to the department and to the area health services as an added analysis of the information that is actually contained within that system.

Terry also referred to the escalation process, and certainly in the clinical arena the incident management system now is the vehicle for doing that, and referring back to the SAC code that I was talking about earlier on, it is now both policy and is now legislative requirement that those events that are classified as an event 1 will be investigated in a particular fashion, through this thing called the RCA.

VICE-CHAIRMAN: Try not to use acronyms.

Mr McGREGOR: SAC is the Severity Assessment Code and it is based on four levels, the highest being a really serious event, death or very serious injury, and it is based on work done in the veterans' hospital and the airline industry overseas.

Mr SMITH: And the code is based upon both seriousness of consequence and the likelihood of frequency of recurrence. So the policy then states that those most severe incidents need to be reported within 24 hours to the Department of Health, and this is done through this reportable incident brief process, and that is a standardised process across the whole State now, and then those incidents of the highest severity will need to be investigated using a process known as root cause analysis, again which is a standardised process which is required of all area health services.

VICE-CHAIRMAN: The reportable incident briefing system and the incident information management system are rolled out across the State but I understand from your submission that they are not on a centralised register. Is that right? It is a system-wide process, but is it a State-wide report?

Mr McGREGOR: There is a State-wide report. All of the SAC ones must be reported in to the department. They are picked up every day and they are looked at by someone who then distributes to them to what we call a lead branch. If there is a serious issue which goes to the issue of quality, as well as having the root cause analysis done out at the work place, that would be referred to the quality branch, which would become the lead branch to follow up and make sure that is done and then get a report on that, and occasionally a SAC one may be a major industrial issue, then that will go to the industrial branch to look at and if there is a major injury they are looked at and followed up, but they are reported daily. They appear on my screen and other screens of senior officers every day. There is a summary and then the actual report is attached to it.

VICE-CHAIRMAN: How does that then fit on your area boards or other business units matrix?

Mr CLOUT: At an area health service level it is the same process or same matrix. So the department has, in consultation with the area health service and the clinical branches, looked at what the incidents, sets of incidents that would fit under various categories within the matrix and agreed, so we know if it fits this situation. If, for example, there is a death of a worker, we know that is severity assessment 1 and it must be reported, there must be a formal process put in place to do that. That is how it is standardised, while all of the monitoring and looking at it and checking up that actions are happening at the department's level, is happening at an area health service, it must come to the chief executive if it is a reportable incident category 1 or 2, and I have to make sure that the process of the actions that are said to be done are appropriate, that they have been followed through in a timely fashion. There is actually a timeframe in which all of this has to be done, which says it is a severe

incident that requires a root cause analysis to be undertaken, the recommendations from that process need to be back to me and signed off within a certain number of days.

VICE-CHAIRMAN: Do you have a risk management plan for the area health services?

Mr CLOUT: Yes.

VICE-CHAIRMAN: Does the Department of Health itself have one?

Mr McGREGOR: No, we do not at the present time have a risk management plan. We know we are going to have to have one. We do have, as I said, dealing with the major, mainly physical risks, we do have a business continuity plan, but being in an office environment it is important that we have one, but it is more important we think to have a business continuity plan, but we cannot continue to require the area health services to have a risk management plan without having one ourselves. So we accept that we will do that. Ours will be not as complex and complicated as theirs because we largely work in an office environment, but we understand we do have to have one.

Mr WHAN: Is it just that you are being driven to do that by a do as I say, not what I do--

MR McGREGOR: No.

Mr WHAN: --or is it central agencies that are pushing you in that direction or is it something that you--

Mr McGREGOR: I think it is a combination of a whole range of things. It is that if we are asking them to do it, then we should do it ourselves, there is no doubt about that; the work done by Treasury, and the most recent work done by the TMF, which I think is really important. In the last few months the Treasury Managed Fund has developed an automated risk assessment tool, which I believe we can commonly apply back to the department and to area health services. So I think there is now a fairly robust new tool that we will be able to use in a fairly uniform way across the system. The challenge, again, for us will be how do we underpin it with all of these other--

Mr WHAN: How broad is that? That risk presumably is things that might cost you money or cost the Treasury Managed Fund money. Is it broader than that?

Mr McGREGOR: Well, no. You would have to identify the risks, regardless of what they are, and as part of the assessment tools, whether you have in fact identified those risks and understand what they are, whether they are a clinical risk or not a fuller risk, we have to identify that. Having that tool, and then underpinning with all of these other vast array of policies and directions that we have is the challenge for us to have it fitted together. We will do that. It is a matter of finding a way of making sure that it is sensible, understandable and people can use it effectively.

VICE-CHAIRMAN: The department does not have a risk management plan. Do all area health services have a risk management plan?

Mr McGREGOR: All area health services now have a risk management plan or a risk management framework. As I said, some of them prior to the abolition of the boards did not but the new areas have in a number of cases adopted the plan of the former area. So they all now have a framework or a plan at the moment, and the challenge for them now, as I said, is to update them into a full, new area risk management plan.

VICE-CHAIRMAN: Do all area health services have a risk manager?

Mr McGREGOR: Yes.

VICE-CHAIRMAN: Do you hope to get a standardised matrix?

Mr McGREGOR: I think the matrix is fairly standard. The matrix is part of a framework,

and what I think we need to do is have that common framework across the system, and that is something that the department can impose upon itself as well.

VICE-CHAIRMAN: Clinically, did you say there was an international standard, the New Zealand based one?

Mr SMITH: No, the framework that we have developed, and in particular the matrix which has been developed, is actually work which originally came out of the veterans department of the United States. That was the origin of it. That has been modified to make it more relevant to New South Wales circumstances, and that has been the basis for that and that is now standard.

VICE-CHAIRMAN: Do you think there is a benefit in having an industry consistent standard?

Mr McGREGOR: Certainly, and in the clinical area the IIMS system, I understand, has been accepted as the standard that should be applied by all other agencies across Australia, and we are in the forefront of doing that. My understanding is it has been largely adopted by the other States. They have not quite got there yet but we were I think the first to fully implement it, and, in fairness, it is only in recent times that we have been able to do that with the technology, but we have done it, and the other States will, so then we will have nationally a common system, with common standards, a common approach to root cause analysis, some major changes. It emerged work done in the mid 1990s nationally by the quality framework. That was done very early on. It has taken time but I think the pace has now escalated.

VICE-CHAIRMAN: We have talked about area health services and the Department of Health. We are not missing anything are we?

Mr McGREGOR: There is the Ambulance Service of New South Wales, which does have, last time I looked, a very robust risk management plan, a very comprehensive one, and Justice Health, the former prison medical service, or Corrections Health, they also have a robust risk management plan. I am not sure about the clinical excellence Commission, given it was only established in the last very short period of time.

Mr CLOUT: They are certainly intending to. The other answer to question which is even broader than that, it depends on exactly what you mean by the question, but of course things like disaster plans go across not only area health services and the Ambulance Service and the department but other Government agencies and they are, by their very essence, risk management plans, and of course they are very well codified, operated, monitored, exercised, practised, et cetera, as well.

Mr McGREGOR: And our disaster unit, the Ambulance Service is part of that State-wide response to disaster.

Mr WHAN: I know a lot of other departments such as DoCS are involved in that as well.

Mr McGREGOR: Yes, absolutely.

VICE-CHAIRMAN: Would you be prepared to take questions on notice if we have any at a later stage?

Mr McGREGOR: Certainly.

VICE-CHAIRMAN: Do you have any additional comments or recommendations you would like to make in respect to risk management?

Mr McGREGOR: Not at this stage, no.

VICE-CHAIRMAN: Is the private sector in health, from your awareness, looking at risk as seriously as you are or are you behind them? And, two, do you think the public sector in general is up

to industry standard?

Mr McGREGOR: When the Treasury managed fund launched its revised approach to risk management, its assessment tool, about a month ago, it said in terms of the public sector, we can all do better. I am not able to assess where the other agencies are in terms of their development but certainly I think every agency can do better and I would suggest to you that we are in many ways ahead of the private sector in terms of risk management and particularly around compliance risk.

I managed to pull up an article that I am happy to leave with you, that said although something like 97 per cent of chief executives in the private sector said they were fully committed to management of risk and compliance, when a study was done by Ernst & Young in 2002 they found that only 42 per cent of them - they did not see compliance as a standard part of their business practice. Perhaps I might leave the Committee with that article to have a look at. It is more than just about risk, it is about compliance risk, which in the private sector is very significant but for us even more important. We have laws that we have to comply with, rules and regulations and government policies and the like.

I think compared to many areas of the private sector we are doing very, very well but I think there is room for further improvement. As Terry said, it is a moving feast. New risks emerge, internationally and now nationally. In Australia we have seen the emergence of new super bugs in fairly recent times and we have to respond to those as they emerge. SARS is another one that has just emerged. A lot of these are clinical risks but we have to be alert and able to respond to those as they come. To say you have a static plan, I think is deluding ourselves.

VICE-CHAIRMAN: What is your significant driver in terms of legislation, new boards, management?

Mr McGREGOR: I think it varies according to the nature of the risk. In terms of risk with our employees, there is the driver to make sure we do the best we can, that we do look after our employees and make sure that they are safe from risk as best we can. That is underpinned by the premium costs, but that is only part of the driver.

In terms of clinical performance, I have got no doubt that there is the desire for people to improve their clinical performance all the time. So those drivers are always there.

Mr CLOUT: I was just going to add, I sit on a private sector board and therefore I have some exposure to that particular industry.

VICE-CHAIRMAN: In the health industry?

Mr CLOUT: In the health insurance industry and I think that it is exactly the same in the private sector as it is in the public, and that is that it is variable but there is an absolute awareness of the need for everyone to continue improving on it and to get it right and there is a recognition that the issues around frameworks and standardisations and systems of work back on an escalation up in organisations is occurring.

Just in terms of the other organisations, you would be aware of the Premiers awards on risk management that occur each year and the framework in mid north coast - I suppose I am allowed to say this - won the top award in that in terms of risk management the year before last and I think that is a recognition also, in partnership with the Department of Health and other areas, that we are doing reasonably well, but of course I am biased on that one.

Mr McGREGOR: I happen to be at the moment the company secretary and a director for Port Macquarie Hospital Pty Limited, a now government owned company, and I have not seen their risk management plan. We are about to pull that company down.

VICE-CHAIRMAN: Before we close up would you like to table that article?

Mr McGREGOR: Yes I will. It was an article entitled Achieving Repeatable Measurable Real Time Risk and Compliance, Analysis and Business Case by a company called Lawlex Compliance Solutions 2003. It went on to quote NROM, One-Tel, HIH, Scarff and others.

(The witnesses withdrew)

(The Committee adjourned at 3.50 p.m.)