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Celebrating 10 years as the peak body for Risk Professionals in the Asia Pacific region

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28th March 2014
Mr David Brunoro
Committee Secretary
Joint Standing Committee of Public Accounts and Audit
House of Representatives
Parliament House
Canberra ACT 2600
Delivery by email to: jcpaa@aph.gov.au

Inquiry into Public Governance, Performance and Accountability Act 2013 Rules Development

Dear Sir,

1. The Risk Management Institution of Australasia (RMIA) is pleased to exercise the opportunity, through this submission, to provide progressive comment in relation to the PGPA Act 2013 Draft Rules.
2. The RMIA is the peak body in Australasia in the field of risk management with responsibility and ownership of education and professional development pathways that result in the awarding and ongoing retention of Certified Practising Risk Manager (CPRM) and Certified Practising Risk Technician (CPRT) credentials. This capability provision provides industry with levels of assurance in relation to professionalism, conduct, ethics, thought leadership and currency of knowledge and best practice.
3. The RMIA is the leadership entity in the development of Risk Management standards specifically AS 4360 and escalation of this standard into ISO 31000:2009.
4. The RMIA commends the spirit of the Reform, the inclusion of an overt requirement for engagement with Risk Management, and a broader approach to Commonwealth entity performance than simple financial consumption performance. The RMIA notes and commends the Commonwealth Risk Management Policy Submission 1.1 Attachment A 18 March 2014
5. Importantly, the RMIA does not view risk management as the panacea for better decision making, just one of a number of core enablers.
6. The RMIA seeks to present to the JCPAA that, at this juncture, it considers there to be risk in relation to outcomes realisation, more so than any key areas of risk or deficiency in relation to the Draft Rules, noting commentary further in our submission.

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7. Importantly, it is our interpretation of the overall reform agenda, that the PGPA Act 2013 is intent on the provision of refreshed frameworks in which Commonwealth entities can operate to advance overall performance across, we expect, a range of parameters from baseline and resident compliance requirements, through to cost saving at a unit cost level, and perhaps at a gross cost level, but importantly also perspectives and measures such as improved social and economic returns for Australia through finely tuned program selection and service delivery that is both focused in terms of contribution to the social and economic agenda, but is also administered well.

8. Risk process and risk culture, must play a role at various stages in the performance lifecycle, from definition of strategic intent through to on the ground operationalisation. This is to extents embedded in the Rules and Guidance.

9. A risk that we see presents is that of skill, competency and attitude in relation to the development of and integration of risk management as a key enabler of organisational performance. The public sector has traditionally held a broad risk averse stance and whilst we note this has begun to change over the last decade, the conflicts between overt scrutiny of individuals and the regulatory nature of control frameworks do not lend support for a culture of developing a balanced appetite for risk in the pursuit of innovation and value propositions for constituents.

10. To this end, we commend the Reform to consider what mechanisms could and should be implemented in order to support staff in entities to deeply understand risk management, to utilise risk management as a tool, and not simply as a compliance mechanism, and to engender a supportive rather than prosecutorial approach to real or perceived inadequacies by senior executives to employ and engage with risk, particularly in the transition period over the coming years.

11. We consider that there is material risk in implementation. Already the RMIA, through our member base, observes uncertainty, doubt, and perhaps a modicum of scepticism within Commonwealth entities in regard the Reform. Whilst the RMIA understands that there has been significant consultation, entities have a relatively high level of uncertainty in regard what, by when, and what support capabilities will be available to assist in transition.

12. The Government has historically adopted a variety of better practices to reduce risk and increase performance. However, we observe for example that agency staff still demonstrate difficulty in the nature of Cash Budgeting, Cash Accounting and Accrual Accounting, yet that transition occurred some time ago.

13. If as we interpret, the Reform has a primary outcome of higher levels of entity performance, across a spectrum greater than simple financial consumption perspective, and measured perhaps through the degree of earned autonomy by entities, then it behoves the Reform Agenda to provide the richest possible support, recognising the current risks in relation to culture, behaviour, scrutiny and capacity.

Draft Rule Commentary

The roles and function of Audit Committees in a future state.

14. If, as we understand is the intention, that Audit Committees will play a material role, alongside Internal Audit capabilities and ANAO, in the entire breadth of the PGPA, then some guidance would be beneficial in relation to the composition of such bodies.
15. Audit Committees have historically looked to matters of compliance and have been an aid to assisting organisations attain and sustain necessary levels of compliance. The RMIA notes the refreshed information in relation to Audit Committees.
16. A question to ponder is that – *will the historical approach to Audit Committee makeup be satisfactory in order to effect a possibly broader charter in relation to Risk and Performance?*

Cascading of Risk and Performance responsibilities to Service Providers

17. We ask the JCPAA to ponder the management of risk associated with the growing trend of industry/private sector involvement in public sector decision making and service delivery. Whilst there are extant vehicles, such as contracts and associate service level agreements, we ponder to what extent will/should the obligation for engagement with risk cascade to public services service providers, and to what extent this requirement should be stated overtly in any policy or guidance artefacts.

Opt Out opportunities embedded in Rules and Guidance

18. The RMIA expresses concern in relation to opt out opportunities that present throughout the PGPA document Set. The following sample of extracts are provided as a snapshot:

To fulfil its obligations under the PGPA Act, the accountable authority of an entity should.....

Principle 3—tailored to the needs of the entity and proportionate to its risks

Who decides what is proportionate to its risks, and who and how will an organisations' approach be assessed, against what yardstick and with what consequences if found to be wanting?

Effective risk management requires an entity to adopt an appropriate level of capability and resources to manage their risk. The nature and scale of these should be commensurate with the characteristics and complexity of the entity's risk profile.

In assessing an entity's risk management capability requirements it should consider its risk appetite, key stakeholders and those risks shared with others. Similarly, entities should collaborate to make best use of shared risk management capabilities where sensible to do so.

To determine the appropriate level of risk management capability and resources entities should consider:

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- a. engaging people with the appropriate competence, experience and authority and where appropriate subject matter expertise or specialist advice;*
- b. documenting processes, methods and tools for managing risk; and*
- c. establishing review, evaluation, continuous improvement programs and reporting mechanisms that provide information for recording and monitoring risks.*

19. This terminology, we feel, introduces risk to the achievement of the overarching outcomes. We feel it would be more appropriate to specify absolute requirements and allow variability in the implementation of those requirements by entities, as befits their circumstance. In this way, there would be a baseline common to all entities, with variance in content and perhaps approach on an entity by entity basis. This would enable high returns on investment by guiding entities, such as Finance, lower overall cost of investment, and commonality on which reviews and audit could be executed, again at lower cost, but higher returns. It would also enable transferability of thinking and experience from one entity to another, as is our understanding of one aspiration of the Reform Agenda.

Risk Themes requiring mandatory consideration

20. For consideration by the JPCAA, the RMIA offers that the PGPA document set as is, has a clear and overt statement of focus and associate artefacts in relation to risk, such as a generic reference to risk management in form of artefacts such as the Draft Risk Policy, and a content specific references such as Section 10 and associate material in relation to one form of risk – Fraud.

21. What is absent from the material to date is the identification of other common and mainstream risk themes, that, if the spirit of the Reform is *increased performance*, perhaps should be addressed overtly. Streams such as vulnerability, business continuity, reputation, legal/constitutional, unforeseen, et al are all risk streams that if not considered and managed, and manifest, could cause material loss to the Commonwealth.

22. Whether the document set should deal directly with this matter overtly, or that express guidance be developed and provided to ensure all entities consider core streams of risk, is a subject for implementation discussion.

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