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Architects for Productivity and Risk

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Ms Sandra Kennedy
Inquiry Secretary
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

**Development of the Commonwealth Performance Framework
Supplementary Submission**

Dear Ms Kennedy

Thank you for the opportunity to make a supplementary submission to the Committee's inquiry into the *Development of the Commonwealth Performance Framework*.

The Committee has stated that it is interested in how the Commonwealth's performance framework can be changed or amended among other things to improve the management of risk, recognising that the starting date was the 1st of July, 2015 and the first corporate plan is required by October, 2015.

Our Submission describes a number of flaws in the present frameworks that can lead to unrecoverable consequences. In brief, the key areas are:

- Vulnerability as the key risk policy metric;
- The social reality of authoritative control without knowledge (the most serious potential catastrophe);
- Systemic risk (the collapse of a whole system or market);
- No self-correction under ISO31000 (no inbuilt self-correcting process for checking if the agency has identified every problem (threat or risk) hence no checks on the implementations until too far into each agency's risk management process to have any reasonable Pause-and-Verify in order to save millions/billions of dollars);
- Need to transition beyond causality to properly address uncertainty.

This Supplementary Submission makes three recommendations and proposes a Risk Rule to complement to address these flaws in the present frameworks.

1. The key risk policy metric must be Vulnerability, as opposed to Likelihood or Uncertainty;
2. A Risk Rule be developed and incorporated into the performance framework as a complement to the Audit Rule;
 - a. A Draft Risk Rule is attached.
 - b. A Risk Policy-based approach would beneficially anchor the requirement for some statement by Departments and Agencies in respect of Risk Appetite and Risk Tolerance recognising that these concepts are largely irrelevant absent the concept of Vulnerability and the ability to identify risk chains and the 'real' risks and 'real' consequences that they are supposed to relate to.
3. Departments and agencies to develop a tool to identify-and-track signs of "a thing that may be starting to go off the rails" as a first step toward recognising and deploying vulnerability as the key risk policy metric.

We would be pleased to discuss our supplementary submission with the committee and the Department of Finance.

Yours sincerely

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Attachment: Risk Rule

1. The Agency has a Risk Policy

Risk policy confers coherence, an integrated comprehension of risks, their identification, their consequences, and who is responsible for attending to each activity relating to risk.

The Risk Policy establishes the mission to bring risks under management and is defined by what it looks at. That is to say, what are the things it has something to say about, and what is the extent of its focus (i.e. what is its “scope”).

The Risk Policy recognises that the core assumption of modern risk management is no longer adequate:

- Risk is not about balancing probabilities and costs on the basis that if something is improbable we shouldn't spend too much;
- Some risks are so unthinkable the question is not cost but how to spend to reduce vulnerability.

The Risk Policy recognises the need to anticipate and avoid major risk events that imperil the agency.

The Risk Policy recognises that leaders will govern fully appreciating our systems can fail and expecting the unexpected.

The Risk Policy recognises that organizations have to change the intent of their risk management task, from managing known risks that will imperil their successes or their own vulnerabilities, to one of recognizing and managing—individually or where necessary collectively through networks—activities that would imperil others and their enterprises. Effective Risk Policy is needed to manifest that intent and inform risk management.

The Risk Policy encompasses separate consideration of Risk Governance and Risk Management to enable and assist government to better address the issues of governance and management of both opportunity and risk within the Commonwealth's performance framework. This represents an important shift in our thinking from organisation-centric thinking and acting to network-centric thinking and acting which is critical in our increasingly interconnected and interdependent world.

2. The Agency has a Risk Committee to inform and guide the development of the Risk Policy.

With smaller bodies someone should be responsible for the governance framework for the Risk Policy.

3. The Agency requires the application of a 'fitness-for-purpose' principle in regard to the identification, confirmation and response to significant risks.

This would enable the organisation to determine whether and to what extent existing approaches to the management of risk have rigour and have been implemented with rigour.

4. The Audit Committee provides independent assurance to the accountable authority on the performance of the Risk Policy in assisting the accountable authority to meet their obligations under the provisions of the PGPA Act

Such assurance may usefully be provided in the first instance to the Risk Committee of the Agency.

Risk Policy Benefits

The adoption of a Risk Rule enables Risk Policy to be an integral part of a corporate governance framework to help address the following Duties:

- To establish and maintain systems relating to risk and control;
- To encourage cooperation with others;
- In relation to requirements imposed on others; and,
- To keep responsible Minister and Finance Minister informed.