Comcover

Risk Management Benchmarking Program 2018
Key Findings Report

July 2018

Contents

Inherent Limitations

The Services provided are advisory in nature and have not been conducted in accordance with the standards issued by the Australian Auditing and Assurance Standards Board and consequently no opinions or conclusions under these standards are expressed.

Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made.

Our work is performed on a sample basis; we cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud.

Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Recommendations and suggestions for improvement should be assessed by management for their full commercial impact before they are implemented.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy, or reliability is given in relation to the statements and representations made by, and the information and documentation provided by Comcover personnel. We have not attempted to verify these sources independently unless otherwise noted within the report.

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31 July 2018

Dear Tracie-Ann

Re: Risk Management Benchmarking Program – 2018 Key Findings Report

We are pleased to provide Comcover with our observations in relation to the key findings of the 2018 Risk Management Benchmarking Survey.

Should you have any questions or comments, please do not hesitate to contact me on (03) 9671 7261.

Yours sincerely

Matthew Fraser
Partner
Deloitte Touche Tohmatsu

Executive summary

1 Executive summary

1.1 Program overview

The Risk Management Benchmarking Program (the Program) is a key element of Comcover's risk management services. Fund Members complete a self-assessment survey that measures the maturity of an entity's risk framework against the following nine elements of the Commonwealth Risk Management Policy (the Policy)[1]:

The Program is based on a six state maturity model, as illustrated below:

These six maturity states are described, for each of the nine elements of the Policy, at: https://www.finance.gov.au/sites/default/files/rm-capability-maturity-states.pdf.

This is the fourth year of the current iteration of the Program. Participating Fund Members are able to access their prior years benchmarking survey results and utilise this information to inform how successfully risk management has been integrated into business operations and to assist in identifying areas for improvement and prioritising risk management activities.

This Key Findings Report serves to inform Comcover on the capability and risk management performance of its participating Fund Members collectively against the Policy by providing analysis of the following:

- Overall Fund findings for each of the nine elements
- Achieved and target maturity at the element level, and
- Current and emerging risks.

[1] The colours used in this graphic align with the actual average maturity achieved for each element in 2018.

1.1.1 Participants and results

In 2018, the Survey was completed by 150 General Government Sector entities, which is an increase of four additional entities participating than the prior year.

The average overall risk management maturity of the Fund has continued to increase on prior year results within the *Integrated* state, demonstrating a consistent overall increase in risk management capability across the Commonwealth for each year of the current iteration of the benchmarking program, as depicted in Table 1 below.

Table 1 – Element and Overall Fund Maturity (2015 – 2018)

Year	2015	2016	2017	2018	Change over four years (%)
Element					
1. Establishing a risk management policy	4.04	4.16	4.17	4.23	5%
2. Establishing a risk management framework	3.55	3.79	3.77	3.85	8%
3. Defining responsibility for managing risk	3.67	3.87	3.90	3.97	8%
4. Embedding systematic risk management into business processes	3.75	4.04	4.05	4.11	10%
5. Developing a positive risk culture	2.75	3.01	3.08	3.16	15%
6. Communicating and consulting about risk	3.26	3.43	3.47	3.49	7%
7. Understanding and managing shared risk	2.46	2.90	2.87	3.06	24%
8. Maintaining risk management capability	2.37	2.61	2.68	2.77	17%
9. Reviewing and continuously improving the management of risk	3.28	3.52	3.50	3.54	8%
Overall maturity score of the fund	**3.28**	**3.53**	**3.55**	**3.61**	**10%**
Overall maturity level	**Integrated**	**Integrated**	**Integrated**	**Integrated**	

Legend and score definition

The increase in the average maturity of the Fund this year can be attributed to increases in the average maturity of all of the nine elements of the Policy. This is in contrast to the 2017 Program where interestingly there was a small decrease in the average maturity of three elements (Element 2. Establishing a Risk Management Framework, Element 7. Understanding and Managing Shared Risk, and Element 9. Reviewing and Continuously Improving the Management of Risk). Importantly, the increase in maturity for these three elements in this year's program has been greater than the decrease in maturity in the previous year. Also of note is that all elements in 2018 have achieved their highest average maturity score for the four years of the current program.

The 2018 survey results indicate that once again the highest scoring elements across the population, in descending order are:

- Element 1. Establishing a risk management policy
- Element 4. Embedding systematic risk management into business processes
- Element 3. Defining responsibility for managing risk.

These elements are the foundational risk management concepts, and therefore are the building blocks to embedding consistent risk management practices. Given the sustained performance of these elements, it is not surprising that the average target maturity of each of these elements is closest to the actual maturity achieved.

The following elements have been identified as the lowest scoring for each of the four years of the Program, in descending order:

- Element 5. Developing a positive risk culture
- Element 7. Understanding and managing shared risk
- Element 8. Maintaining risk management capability.

It was pleasing however to note that each of these three elements had the largest percentage increase of maturity of all nine elements, both in the 2018 survey and over the four years of the Program. In particular, Element 7. Understanding and managing shared risk achieved a 7% increase in average maturity score from 2017 to 2018, which was the largest increase of all nine elements. Further, the survey results demonstrated that these three elements also had the largest gap between target and actual maturity, which indicates that entities are looking to improve the most in these more complex areas of risk management.

These and other key insights from this report are highlighted on the infographic in section 1.2 and summary of key findings in section 1.3.

1.2 Element insights

The following graphic provides a high-level overview of the average performance of each of the nine elements of the Policy. Further detail is provided in Section 2.3. *Risk management capabilities – element state analysis.*

Element	Insights
Establishing a risk management policy 1	• Highest performing element for fourth consecutive year • Has maintained an average maturity rating of *Advanced* for each of the four years of the Program
Establishing a risk management framework 2	• 75% of entities achieved an average maturity of *Integrated* or *Advanced* • The increase in average maturity in 2018 exceeded the minor reduction encountered in 2017
Defining responsibility for managing risk 3	• 84% of entities achieved a maturity state of *Integrated* or higher • Third highest performing element for the fourth consecutive year
Embedding systematic risk management into business processes 4	• 59% of entities achieved a maturity state of *Advanced* or *Optimal* • Second highest performing element for fourth consecutive year
Developing a positive risk culture 5	• 43% of entities recorded average maturity states of *Fundamental* to *Systematic* • Third lowest performing element, yet increased in average maturity by the third highest amount
Communicating and consulting about risk 6	• Recorded the smallest percentage improvement on 2017 • The only element not to have any entities achieve *Optimal* maturity
Understanding and managing shared risk 7	• Recorded the largest percentage improvement in maturity from 2017, moving from *Systematic* to *Integrated* • Has also recorded the largest percentage improvement in maturity over the four years of the Program
Maintaining risk management capability 8	• The lowest performing element for the fourth consecutive year, yet increased in average maturity by the second highest amount • The largest variance of all nine elements when comparing *Actual* to *Target* maturity
Reviewing and continuously improving the management of risk 9	• 73% of entities achieved a maturity state of *Integrated* or higher • The increase in average maturity in 2018 exceeded the minor reduction encountered in 2017

1.3 Summary of key findings

Presented below is a summary of the key findings noted through our review of the survey responses this year, and the element, or elements, which they relate to. The detailed findings and other analysis is discussed in sections 2 to 4 of this report.

#	Key finding	Report Reference	Related element(s)
1.	**The overall maturity of the Fund continues to develop** This year, 77% of the Fund has achieved an overall maturity of either *Integrated* or *Advanced,* with the overall maturity of the Fund deemed *Integrated*. Overall attributes of entities that achieve *Integrated* maturity include: • Risk Management Framework being part of the overarching governance and management framework • Risk appetite statements include qualitative and quantitative elements which are linked to strategy and communicated to all staff • Regular review of the risk management program to identify improvement opportunities • Readily accessible risk information and data maintained in a central repository. It is important to acknowledge that risk management maturity must be fit-for-purpose, and therefore not all entities will be striving for *Optimal* maturity.	2.1	All elements
2.	**The average maturity of all elements has increased this year** The largest improvements in element maturity were seen in the more complex elements of the Policy, which are also the lowest rated in terms of maturity (Elements 5, 7 and 8). While smaller increases were noted in the higher performing elements (Element 1, 2, 3 and 4), we note that the average maturity of these elements was in excess of the overall average maturity of the Fund. These results demonstrate that entities are striving to continuously improve their risk management capabilities, not only in the foundational elements, but also in the more complex areas such as Shared Risk and Risk Culture.	2.2	All elements

#	Key finding	Report Reference	Related element(s)
3.	**Target maturity for elements has continued to increase** Our review of the results of the differences between actual element maturity and target element maturity found that there is a direct relationship between the number of entities achieving or exceeding target element maturity to the actual element maturity, for example: • The four highest performing elements (Elements 1, 2, 3 and 4) also had at least 80% of entities achieving or exceeding their target maturity for each element • The three lowest performing elements (Elements 5, 7 and 8) had at least 40% of entities not achieving their target maturity for each element. The survey results also demonstrated that in addition to an increase in the actual maturity of each element, the target maturity has also increased. Further, there were no instances where target maturity was set below the average overall maturity of the Fund. These results indicate that entities are continuing to re-assess target maturity as their actual risk management maturity and capability changes year-on-year.	3	All elements
4.	**Entities continue to prioritise finance as the biggest source of both current and emerging risk** The top four sources of current risk identified by participants in 2018 were: • Service and / or program delivery • People • Financial, and • Stakeholder management. These results remain unchanged from 2017, which is unsurprising given the close alignment to the top five sources of emerging risks in recent years. Notably, technology risk has increased significantly in terms of an emerging risk priority for entities, moving from fourth to second in 2018. Service and / or program delivery was also a top four priority for the Fund as both a current and emerging source of risk.	4	All elements

Overall Fund findings

2 Overall Fund findings

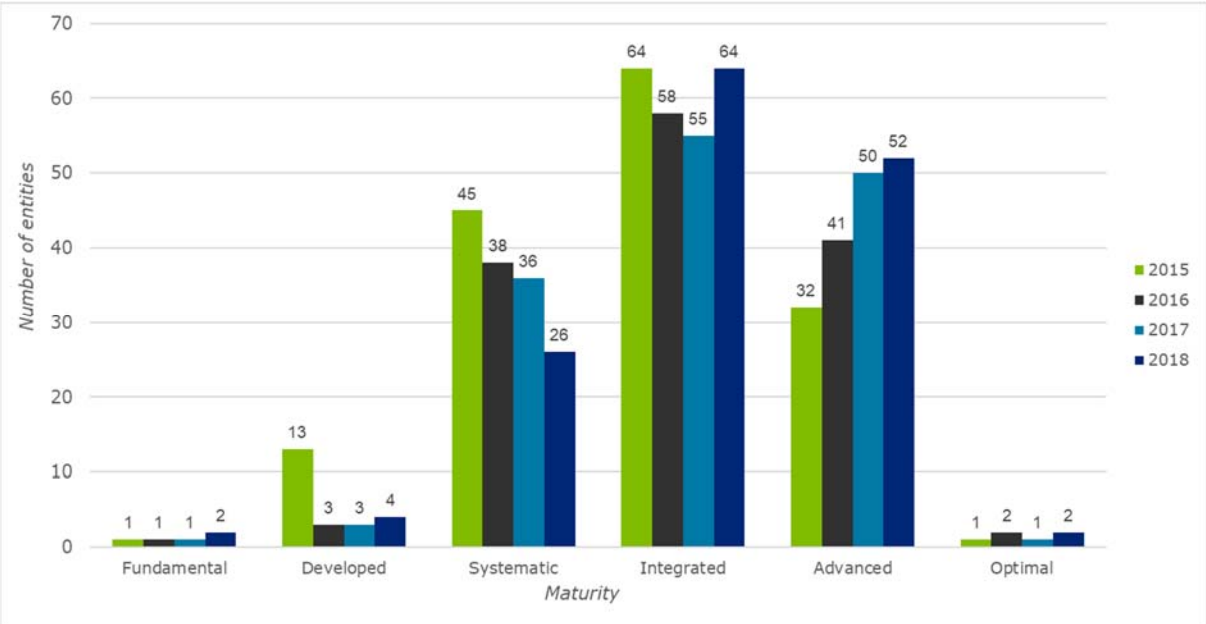
The following section provides commentary relating to survey results at both an overall entity level, and by each of the nine elements of the Policy.

2.1 Overall performance of Fund

Survey results are collated to determine not only an overall average maturity of the Fund, as referred to in Section 1.1.1, but provide individual entities with their own overall maturity score. Graph 1, below, depicts the distribution of overall maturity scores for participating entities over the life of the current program.

2.1.1 Maturity distribution

Graph 1 – Distribution of maturity levels achieved by participant's overall



The results of this year's Program identified that 60% of entities achieved a risk maturity state of *Systematic* or *Integrated*, and 36% of entities achieved *Advanced* or *Optimal* maturity in 2018. These results indicate that a significant number of entities continue to align their risk management practices with the Policy and have produced a fourth consecutive year of upward shifts in maturity across the Fund. The increase in the number of entities recording *Fundamental* or *Developed* maturity this year was as a result of an additional four entities participating in the Program from 2017.

Unlike 2017 where the largest changes were seen in the proportion of entities achieving the *Advanced* maturity state (increase from 29% in 2016 to 34% in 2017), 2018 results demonstrate the largest changes were seen at the *Systematic* and *Integrated* maturity states. *Systematic* maturity reduced from 25% in 2017 to 17% this year, while *Integrated* maturity increased from 38% in 2017 to 43% in 2018. These results not only continue to indicate that many entities have made positive progress in building their risk management capability over the past year, but also suggest that those entities that have previously achieved an *Advanced* maturity, have been able to maintain this level of risk management capability in their current operating environment. These results once again align to the Program's objectives – assisting entities to continuously improve their practices year on year in order to build greater resilience in a rapidly changing risk environment.

2.2 Average maturity across the elements

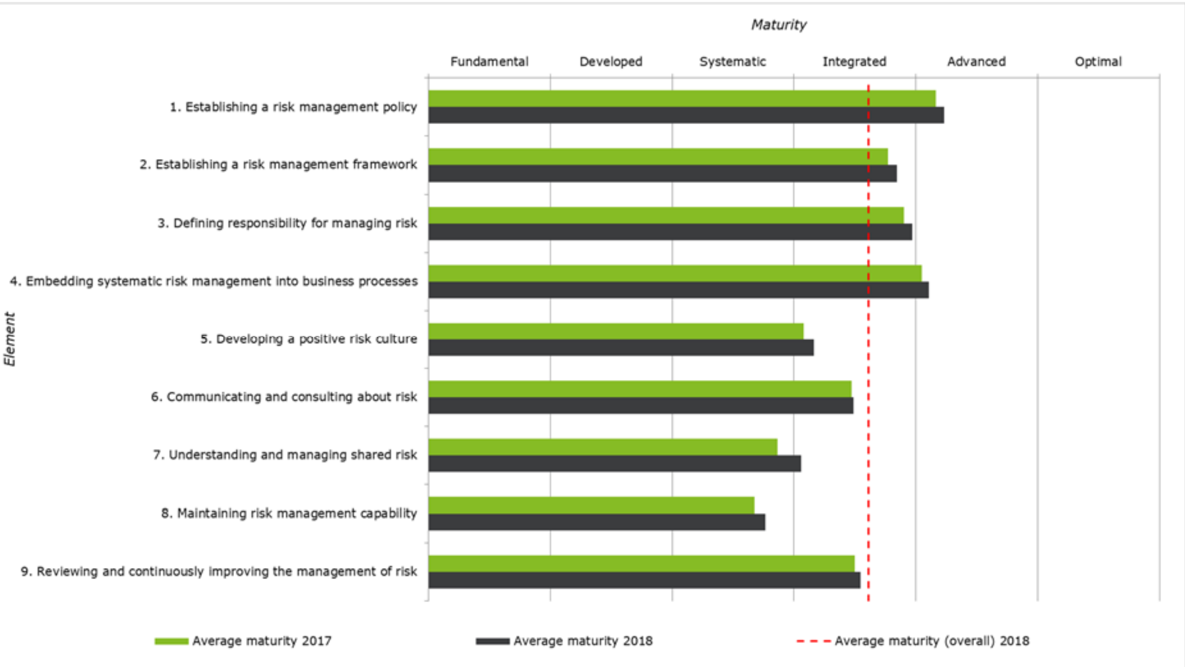
When considering the average maturity rating of each of the nine elements of the Policy, it is important to recognise that the concepts underpinning each element range in complexity and consequently some variability in maturity across the elements is to be expected. For example, Elements 1 to 4, and 9 are considered to represent the foundational elements of risk management and require the development and implementation of documents and tools to facilitate risk management practices. Elements 5 to 8 are considered more complex as they are more reliant on human factors such as capability and capacity, which can often take time to influence or change.

Given risk management practices should be fit-for-purpose, entities may not always be striving towards *Optimal* maturity, either at an overall or individual element level. The benchmarking program asks entities to consider their desired target maturity for each element, details of which are provided in Section 3 of this report.

2.2.1 Risk management capabilities

Graph 2 below, depicts the average maturity of the Fund for each of the nine elements.

Graph 2 – Performance of the Fund across each element



There has been a positive increase in the maturity of each element this year from 2017, which indicates that entities are continually striving to improve. Not only have improvements been realised for traditionally high performing elements, but the largest improvements have been seen within the more complex elements. For example, this is the first year that Element 7. Understanding and managing shared risk has increased from *Systematic* to *Integrated* maturity, now leaving only one element (Element 8. Maintaining risk management capability) as being classified as *Systematic* on the maturity scale.

2.3 Risk management capabilities – element state analysis

This section of the report provides details of the survey results for each of the nine elements. For each element, a definition and context, overview of the survey results and further analysis of key survey questions is provided.

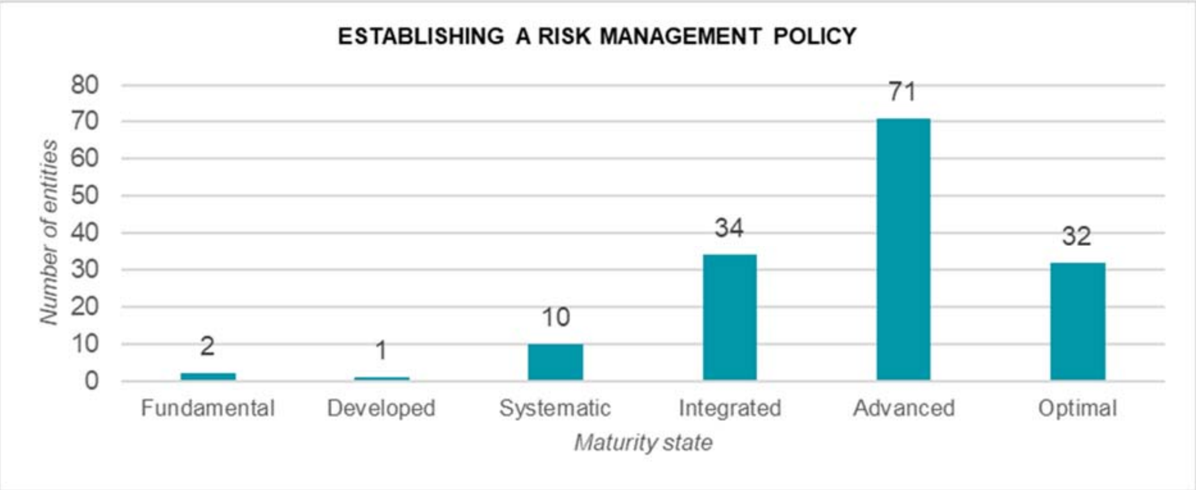
Element 1 – Establishing a risk management policy		Advanced	#1 Maturity score

Definition and context

An entity's risk management policy defines the linkages between risk and strategy within the entity. The policy is a critical foundational element to communicate the principles, objectives, accountabilities, responsibilities and expectations of how risk is to be managed, and ensure a common understanding and application across the entity. It is important to consider risk appetite and tolerance in a risk management policy, as it provides guidance on how much risk officials can take for each source or category of risk and empowers them to make considered and appropriate risk-based decisions.

The Policy, effective from 1 July 2014, references Section 16 of the PGPA Act (2013), which requires accountable authorities of Commonwealth entities to establish and maintain appropriate systems of risk oversight, management and internal control. As such, an entity specific risk management policy is a key element to ensure compliance with the Act.

Analysis overview



The survey questions and capability assessment has been largely unchanged for the last four years. During this time, Element 1 has consistently been the highest performing element across the Fund. This year, 69% of the 150 participant entities achieved either *Advanced* or *Optimal* maturity, which were the highest results for each of these two maturity states across the nine elements. Further, consistent with overall maturity results described at Section 2.1, the largest decline by maturity state has been seen at the *Systematic* level (-41% from 2017), as entities have transitioned up the maturity scale.

Notably, the average maturity of this element has continued to increase across each year of the Program, indicating that entities are continuing to refine their policy in line with their enhanced risk maturity capability.

Response drill-down

In considering the four mandatory requirements of the Policy for Element 1, this year, the survey results demonstrated:

- 99% of entities have a risk management policy
- 93% of entities risk management policies define the approach and rationale for the management of risk, while 79% agree that their policy provides a clear link to the objectives of their entity, and how risk management contributes to their achievement
- 96% of entities have defined their risk appetite
- 97% of entities note that their risk management policy includes accountabilities and responsibilities for the management of risk, while 93% also outline the accountabilities and responsibilities for implementing the risk framework, and
- 95% of entities have their risk management policy endorsed by the entity's accountable authority. This is an increase of 3% on prior year results.

There are a number of contributing factors that are driving the high average maturity of this element, include the following:

- 91% of entities have identified that their risk management policy aligns with better practice standards. This is an increase of 6% on prior year results
- 83% of entities have noted that their policy includes specific risk appetite statements which articulate their entity's philosophy towards taking risk. Further, 82% of participants note that their entity's risk appetite is periodically reviewed and updated based on changes in the internal and external environment, which is an increase of 4% on the previous year.

There has been an improvement in the number of entities defining risk appetite statements at the category level (63% in 2017 to 69% in 2018), however this should remain an area of focus for entities to ensure risk appetite statements are set at an appropriate and meaningful level. Further, opportunities for improvement of maturity of this element include the frequency at which entities review their risk management policy. Only 62% identified that their policy is reviewed at least annually.

The survey results demonstrate that the majority of entities are compliant with Policy requirements and in fact, often achieve above the overall fund maturity for the Program. However, considering the importance of this element in establishing the foundations for successful risk management practices, care should be taken to ensure the design of an entity's risk management policy is regularly reviewed and amended as required to meet contemporary approaches to risk management.

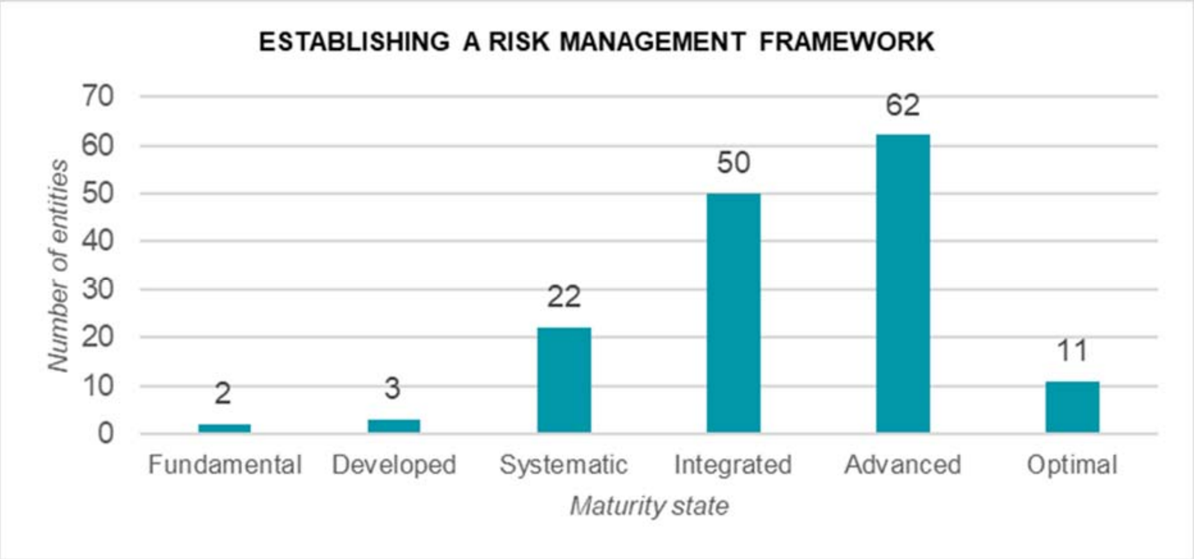
Element 2 – Establishing a risk management framework		Integrated	#4 Maturity score

Definition and context

A risk management framework is the set of components and arrangements that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the entity. It is important for a risk management framework to be suited to the purpose, structure and size of an entity, and aligned with key business planning, management and decision-making processes.

Relevant existing standards and guidelines such as the AS/NZS ISO 31000:2009 Risk Management – principles and guidelines and the recently released ISO 31000:2018 Risk Management Standard are useful resources to consider in the development of an entity's framework.

Analysis overview



Survey results suggest that while entities generally have well-developed risk management policies, the broader risk management framework is a more complex topic. This is reflected in the fact that the average target maturity for this element is 9% greater than actual average maturity (a target of *Advanced* maturity was recorded while actual average maturity was *Integrated*), which suggests entities are seeking to further improve in their maturity against this element (see also Section 3 of this report).

This analysis must be balanced with a comparison of the overall maturity of Element 2 against the average maturity of the Fund as reflected at Section 2.2 of this report. While both are *Integrated,* the overall maturity of Element 2 is still greater than the average maturity of the Fund overall, indicating a generally strong performance for this element.

Response drill-down

When asked about the core components of participant's risk management frameworks, the following positive responses were noted:

- A standardised and consistent risk management framework is applied across all or most business units, processes, services and projects (74%). Only 21% of entities identified as having a degree of decentralisation in the consistency of application of the framework
- Requirements for communication and consultation to internal and external stakeholders (81%)
- The attributes of risk culture that your entity seeks to maintain (79%)
- Reporting on the status of key operational risks occurs at least every 3 – 6 months (75%)
- Aspects that entities should consider further include: Definition of critical success factors, including measuring the effectiveness of the risk management framework (only 35% of entities noted the framework includes consideration of these factors). Consistent with the proportion of entities achieving *Advanced* maturity, only 35% of entities identified as using key risk indicators as a means to measure risk management performance
- Similar to the risk management policy, only 63% of entities reported reviewing their framework annually or more frequently as required to ensure the framework remains current and relevant. Further, reporting relating to the effectiveness of the framework at least every 3 – 6 months was recorded at only 26% in the positive.

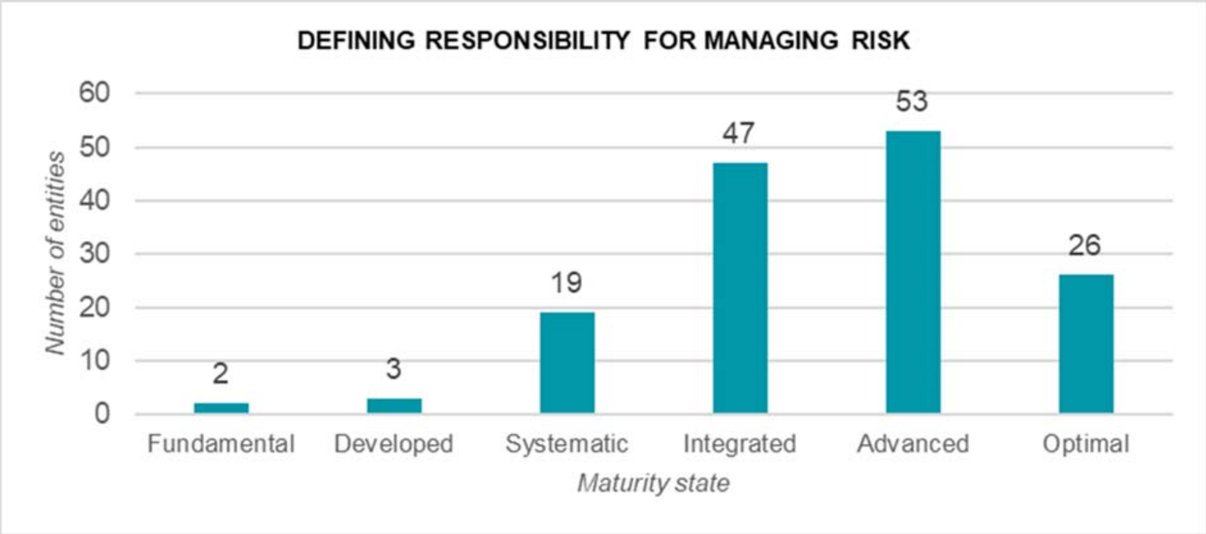
Element 3 – Defining responsibility for managing risk		Integrated	#3 Maturity score

Definition and context

The Policy requires an entity's accountable authority to allocate responsibility for determining the entity's appetite and tolerance for risk, implementing the entity's risk management framework and defining entity roles and responsibilities in managing individual risks.

The accountable authority of an entity is ultimately responsible for establishing appropriate systems of risk oversight and management and in doing so, sets the tone from the top. However, responsibility for the day-to-day management of risk lies with officials across the entity. Consequently, entities need to have in place effective communication and learning programs to ensure officials are aware of their responsibilities and risk taking limits.

Analysis overview



Element 3 has remained the third highest performing element across the Fund for the four years of the current Program, with an average maturity state of *Integrated*. Improving 2% on 2017, this element is now on the cusp of reaching an *Advanced* average maturity state with 84% of survey participants reaching a maturity of *Integrated* or above. Notably, the largest growth in maturity has been seen in the number of entities recording *Optimal* maturity, up 23% on the prior year.

Response drill-down

The survey asks questions regarding the roles that are defined and documented relating to risk management. A significant proportion of entities agreed that the following are present:

- Audit committees (98%)
- Senior management (93%) and
- Accountable authorities (93%).

However, entities were less likely to have defined and documented roles for specialised risk responsibilities, such as risk managers (65%) and risk committees (55%).

Further, in alignment with the relatively low overall maturity relating to shared risk (Element 7), only 33% of entities identified as having defined and documented those external parties responsible for managing shared risks.

Consequently, there is an opportunity for entities to strengthen their risk management capabilities by formalising and documenting these important risk management roles and responsibilities, where resources permit and the roles exist in practice. The recently released draft PGPA Act and Rule Independent Review report also highlights the benefits of a separate risk committee (where the entity is sufficiently large or complex) to 'not only allow for greater focus on and attention to risk management… but… build the capability of the entity to manage and engage with risk.'[2]

94% of entities identified a core component of their risk framework as outlining risk governance structure and accountabilities and 97% of entities agreed that audit or risk committee charter or terms of reference were also a valuable mechanism to communicate risk management roles and responsibilities. Conversely, only 58% of entities include risk management responsibilities in employee position descriptions or via other means such as a responsibility matrix (17%).

Consistently over the last four years, only approximately one quarter of entities have identified as having a risk function solely or primarily dedicated to the management of risk (26%). In the absence of a dedicated risk function, entities more commonly utilise shared risk functions, responsible for both risk and non-risk management activities (47%). This is an important consideration in interpreting entity results across other elements, as the absence of a dedicated risk function and associated resources can inherently limit the risk management maturity achievable by an entity.

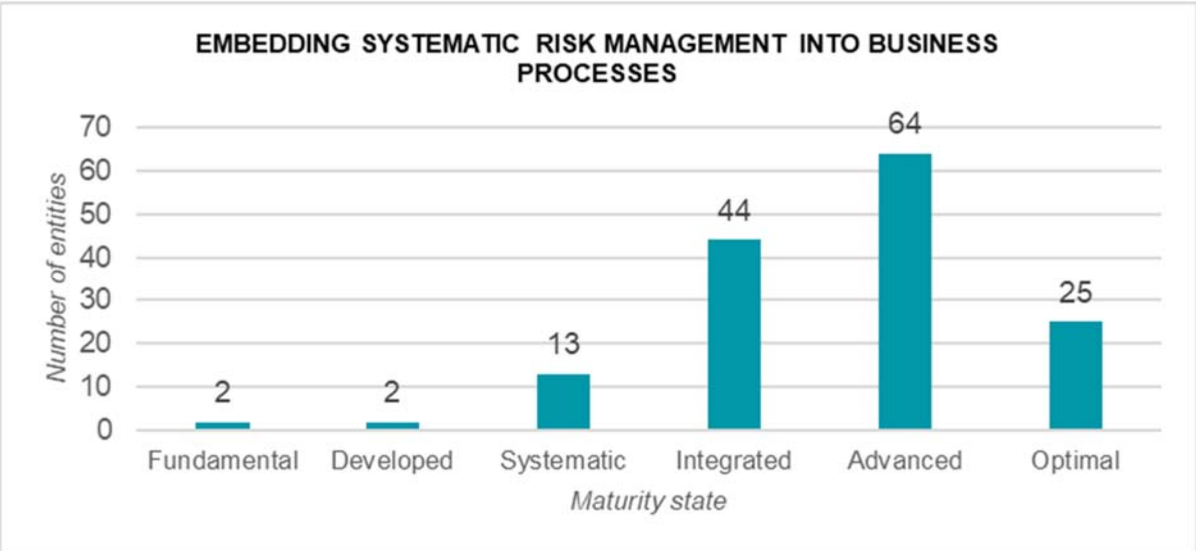
Element 4 – Embedding systematic risk management into business processes		Advanced	#2 Maturity score

Definition and context

Effective risk management, based on sound judgement and the best information available, enhances an entity's ability to identify, manage and derive maximum benefits from new challenges and opportunities. Risk management must be an integral element of the overall management capability of an entity and integrated into key business processes.

Successfully embedding risk management into business processes requires a tailored approach to align the entity's objectives, risk management framework and its operating environment. For process changes to be truly embedded and become accepted as 'business as usual' it can take time, especially for larger and more complex environments.

Analysis overview



[2] PGPA Act 2013 and Rule Independent Review Consultation Draft Pg. 20

Element 4 has maintained its place as the second highest performing element for the four years of the current Program. Elements 1 & 4 are the only elements to receive an average maturity of *Advanced*, with 59% of all entities achieving an *Advanced* or *Optimal* maturity for this element. Reflective of the relatively high average maturity that has been sustained for this element is the minor increase in maturity from the prior year (1% growth). Unlike other elements, there has been little overall movement in the spread of entities across the maturity states.

Response drill-down

The slight increase in maturity from 2017 has been reflected in associated minor changes to the responses of survey questions for this element.

Consistent with the observations relating to Element 2, 96% of entities identified as having a standardised and consistent risk management framework that is applied to business units, processes, services or projects.

In terms of the business processes identified as having risk management practices being integrated, entities recorded the following results:

- Annual strategic planning and budget processes (84%)
- Entity's governance structures (85%)
- Policy development (81%)
- Projects and programs (88%).

Further, entities continued the positive results realised in 2017 and scored well in the application of risk management processes beyond core business activities into more specialist risk categories such as Work Health & Safety (93%), fraud control (96%) and protective security (83%).

Despite only 17% of entities reaching *Optimal* maturity, an overwhelming number have demonstrated strong performance in the mechanisms used to build and maintain organisational resilience. Similar to 2017, 95% of entities reported having business continuity plans and 92% disaster recovery plans. Of note though, only 51% of entities reported having succession planning processes in place.

Opportunities remain for entities when considering how more advanced risk management techniques can be embedded into business processes. For example, 66% of entities identified utilising risk appetite to inform the allocation of resources to drive greater alignment of business functions or processes with the entity's risk appetite. Similarly, the use of quantitative risk analysis across functions such as asset management, operations & quality and information technology averaged only a 46% positive response rate.

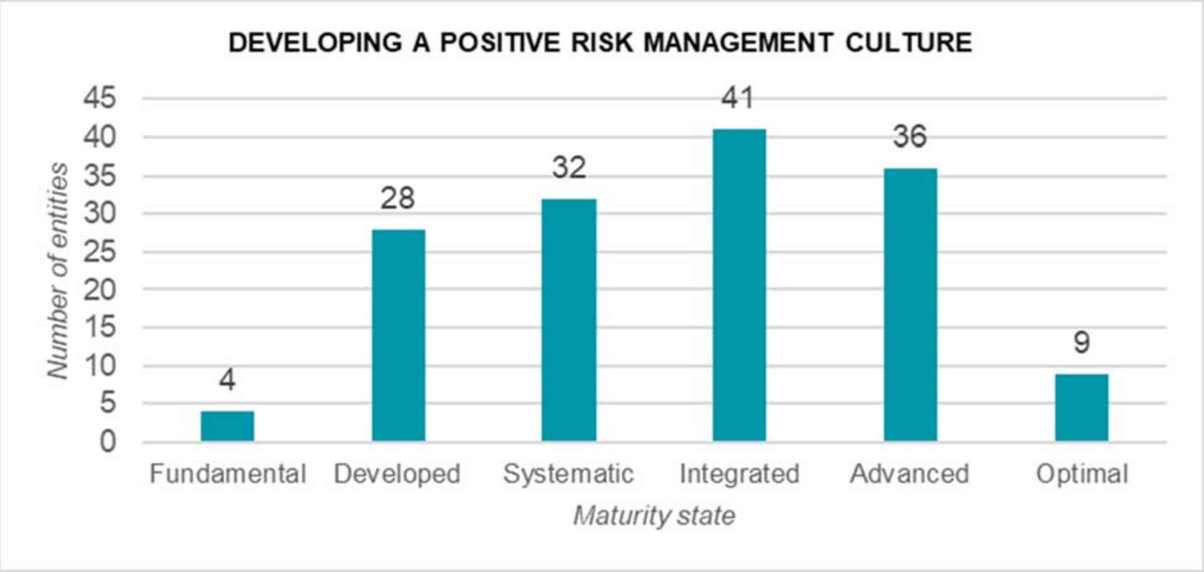
Element 5 – Developing a positive risk management culture		Integrated	#7 Maturity score

Definition and context

Risk culture is the set of shared attitudes, values and behaviours that characterise how an entity considers risk in its day-to-day activities. A positive risk culture promotes a proactive approach to managing risk that considers both threat and opportunity.

Not only is risk culture closely linked to the first four foundational risk management elements of the Policy, but it is intrinsically linked with Element 6. Communicating and consulting about risk, and Element 8. Maintaining risk management capability. Without open dialogue, or sufficient risk resources, an entity's efforts to develop a positive risk culture will be impacted.

Analysis overview



Given the complex interrelationship of this element with many others of the Policy, it is unsurprising that this element has consistently been among the lowest three performing elements over the last four years. On a positive note however, this element has not only seen the third highest percentage improvement on 2017 results (3%), but also the third highest growth over the four years of the current Program at 15%. This element actually outperformed the overall growth of maturity across the Fund for the same period (2% growth in 2018 and 10% growth over the four-year period). These results demonstrate that entities are not only continuing to focus on these more complex topics, but are also seeing the associated benefits from continued increased maturity across the other related elements.

The overall increase in maturity for this element was as a result of fewer entities recording *Fundamental*, *Developed* or *Systematic* maturity (47% in 2017 down to 43% in 2018), with increasing *Integrated*, *Advanced* and *Optimal* states (53% in 2017 up to 57% in 2018).

Response drill-down

98% of survey participants have assigned accountability for defining the desired risk culture of the organisation, which is consistent with 2017 results. However, a minor reduction has been seen in the assignment of this responsibility to the entity's accountable authority (down 3% to 75%), shifting to the chief risk officer or equivalent, or head of corporate services. This change may be attributable to Professor Peter Shergold's 2015 report on government processes for implementing large programs and projects, which was again highlighted in the recently released draft PGPA Act and Rule Independent Review. Both reports highlight the value for large or complex entities in appointing a chief risk officer to support the accountable authority to implement a strong risk culture and behaviours across all levels of the organisation'.[3]

This year has seen a marked improvement in the number of entities undertaking risk culture assessments, an increase of 5% on 2017 results to 73% of entities. In addition, the techniques employed by entities to do so have seen an increase in the number of positive responses, including:

- Focus groups or workshops (increase of 4% to 47%), and
- Culture or engagement surveys that include specific risk culture questions (increase of 4% to 38%).

However, opportunities to strengthen this element remain relating to the frequency of the assessment (only 38% do so at least annually), and variability persists as to the responsibility for

[3] PGPA Act 2013 and Rule Independent Review Consultation Draft Pg. 19

the assessment program across functions including human resources, internal audit and the risk function.

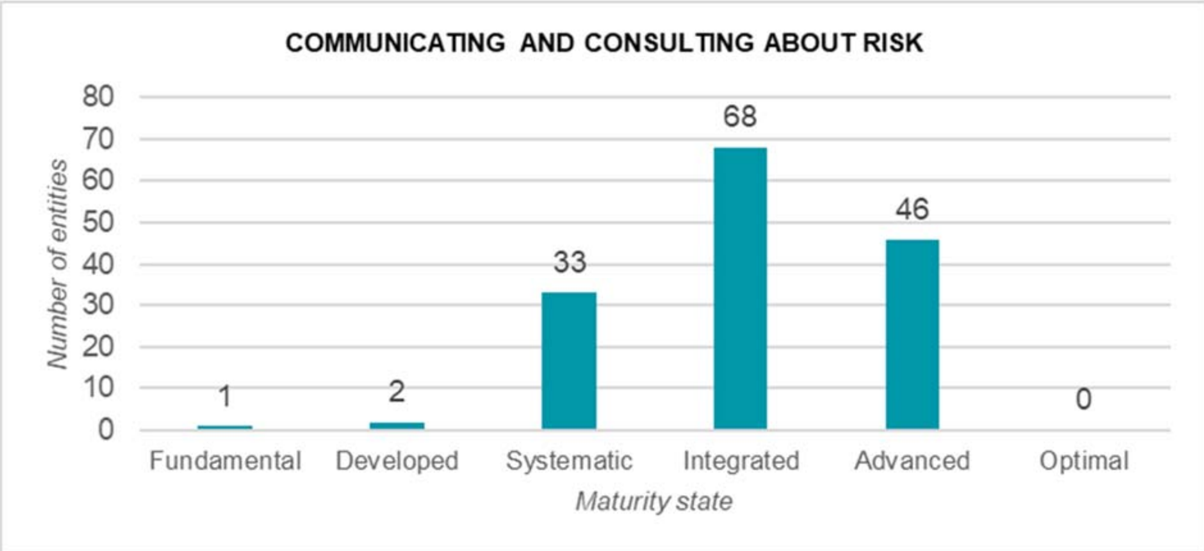
Element 6 – Communicating and consulting about risk		Integrated	#6 Maturity score

Definition and context

Communicating and consulting about risk underpins the successful management of risk. Effective communication requires consultation with relevant stakeholders (both internal and external) and the transparent, complete and timely flow of information between decision makers. Communicating risk information with stakeholders is important as it maintains confidence and trust and develops a common understanding of the entity's risks. Effective risk communication and consultation practices are not only a key component to an effective risk management framework (Element 2), but are also an enabler for developing positive risk culture (Element 5) and critical for an entity to understand and effectively manage shared risks (Element 7).

Section 7 of the recently released draft PGPA Act and Rule Independent Review focuses on cross-government cooperation and emphasises the importance of coordination and collaboration for entities into the future. The report identifies cultural barriers to communication and collaboration, which may also impact the ability of entities to improve their maturity not only in this element, but also Element 7 related to shared risk.

Analysis overview



This element has seen the least improvement in maturity from 2017 to 2018 of all nine elements (less than 1%). Further, over the last four years, this element has seen the second lowest overall maturity growth of 7%. While this is the second consecutive year that no entity has recorded an *Optimal* maturity, there has been an overall increase in the number of entities achieving either *Integrated* or *Advanced* maturity from the prior year (up 5% to 76%).

While growth in maturity has been relatively slow for this element, this element has the fourth-largest gap between average target maturity and average actual maturity. This suggests entities have a desire to continue to strengthen risk management practices in this area, which will be important for the continued development of those other elements that are closely linked to this one.

Response drill-down

Accessibility of risk related information is a key component of effective communication. This year, 92% of entities (a 2% improvement on last year) reported storing risk information in a central repository accessible by key staff. However, the frequency at which this information is updated varied considerably, from ad-hoc to monthly.

To promote active communication about risk within their entity, 97% of entities stated that risk information is an agenda item for discussion during periodic meetings with representatives across multiple business units / divisions. Further, risk information is provided to the following internal stakeholders at least every 3 – 6 months:

- Senior managers as risk owners (73%)
- Senior management committees (78%)
- Audit or risk committee (86%)
- Accountable authority (74%).

Survey results relating to information sharing with parties external to the entity have remained consistent with that of 2017, suggesting further opportunities to enhance maturity in this space.

While 95% of entities acknowledged that risk information is an agenda item for discussion during periodic meetings with representatives across multiple entities, 50% noted this is on an ad-hoc basis. Also, while 90% of entities have identified that they share information with other entities, 77% of participants do this on an ad-hoc basis only.

Element 7 – Understanding and managing shared risk		Integrated	#8 Maturity score

Definition and context

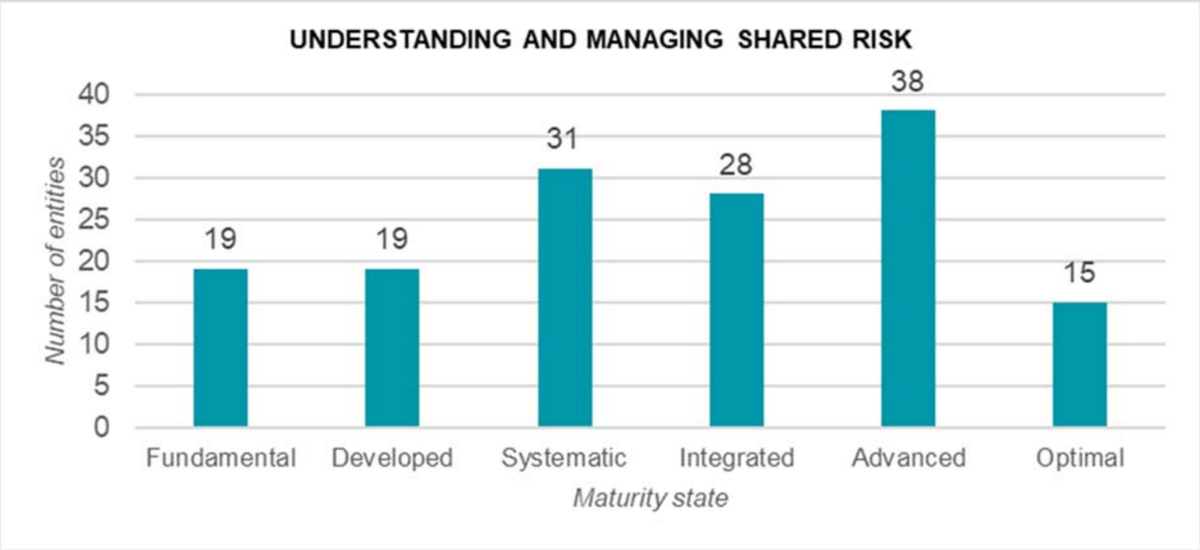
Shared risks are those risks extending beyond a single entity which require shared oversight and management. Accountability and responsibility for the management of shared risks includes not only risks that may exist within an entity across business units or divisions, but also risks that extend across entities and may involve other sectors, community, industry or other jurisdictions.

Although shared risks will differ in nature and scale, they have a number of distinguishing characteristics:

- A shared risk may have no naturally apparent owner. Shared risks often require a network of distributed responsibilities and relationships
- Shared risks can have complex causes, and can be influenced by the actions (or inaction) of a range of participants in different ways
- Should a shared risk be realised, they can affect different organisations in different ways and can have complex and widespread impacts.

The growing use of collaborative approaches, such as through shared services, public-private partnerships and inter-agency task forces, brings an increasing importance to how entities consider and manage shared risk.

Analysis overview



Element 7 has consistently been the second lowest scoring element over the life of the four-year program. However, this element has seen not only the largest percentage increase in maturity for 2018 (7%), but also across the last 4 years (24%). These considerable improvements have resulted in this element achieving an average maturity of *Integrated* for the first time in 2018.

While this element continues to record the highest number of entities achieving *Fundamental* maturity, there has been a 4% decrease of this state on prior year results. Further, the number of entities achieving *Optimal* maturity has continued to increase, up 3% on last year to 10%. Remarkably, this element has achieved the fifth highest number of entities achieving this maturity state. These gains suggest that once entities are able to bed down the more foundational aspects of this element and define processes to manage the complex and uncertain nature of shared risk, increases in maturity can be rapidly achieved.

In addition, benefits from a continued focus on the topic of shared risk across the APS are now being realised, indicating that, with continued support, entities are able to enact change and enhance their maturity.

Response drill-down

93% of entities reported that responsibility has been assigned for the identification of shared risks at an inter-entity level. Pleasingly, the decline in the proportion of entities proactively identifying inter-entity shared risks witnessed in 2017 has been offset in 2018, with 94% of entities now responding positively to this question. The most common means by which shared risks are identified are through collaborative efforts such as senior management meetings or forums (e.g. Secretaries Board or APS 200) (up 6% on last year to 68%) and analysis of risk registers, including operational and functional (63%) and project or program (59%).

Given the high expected levels of collaboration across government, it is unsurprising that 93% of entities responded that shared risk at an inter-entity level currently exists. In terms of processes to manage these risks, the most common ways to do so were unchanged from 2017:

- Senior management oversight (up 2% to 73%)
- A memorandum of understanding (MoU) between the entity and other entities (up 3% to 59%)
- Organisational working groups or committees – across operational or functional areas (up 6% to 59%), and across projects / programs (up 1% to 58%).

Consistent with the observations noted at Element 6 relating to information sharing, there are also opportunities to improve how entities report on shared risk. While there has been a 3% improvement on prior year results, only 43% of entities responded that their risk management reports include information relating to inter-entity shared risk.

More entities are engaging in conversations relating to shared risk. However, challenges remain as to how best document and report on these, particularly if uncertainty exists relating to factors such as visibility and understanding of the risk, controls and treatments that may need to be co-designed and implemented and variable exposure across entities to potential consequences and effects should the risk be realised.

Element 8 – Maintaining risk management capability		Systematic	#9 Maturity score

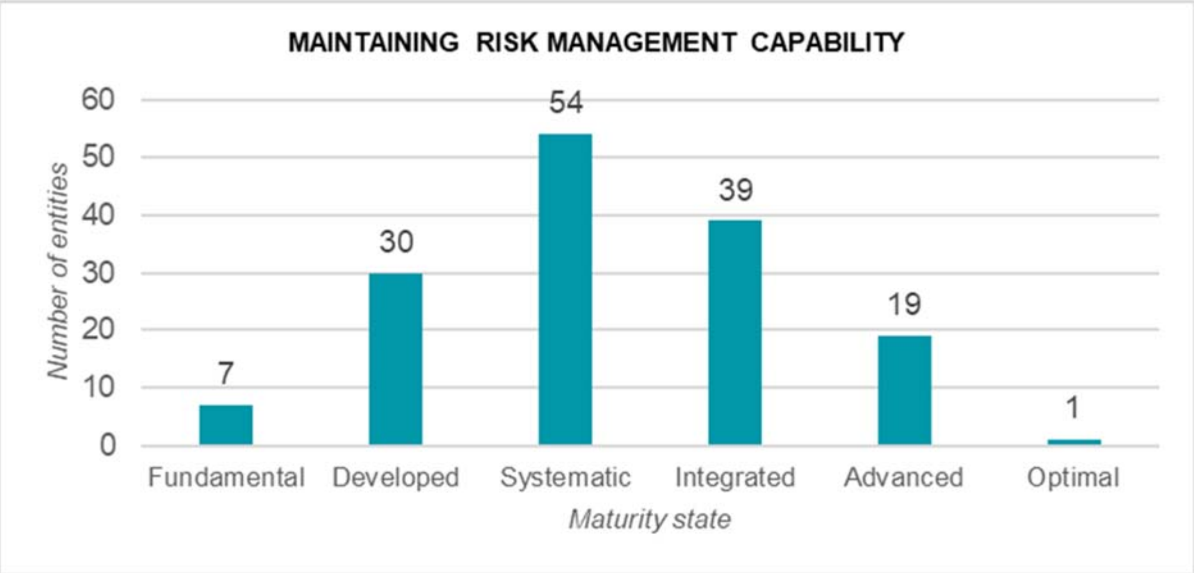
Definition and context

Effective risk management requires an entity to maintain an appropriate level of capability to manage its risk management program and its risks. The nature and scale of this capability must be considered in the context of an entity's current resource and capability profile and be commensurate with the characteristics and complexity of its risk profile.

Building risk management capability requires developing a vision for risk management and tailoring resources to areas that will have the biggest impact. This includes not only people capability, but also the risk systems and tools to complement the risk management process.

A sufficient level of risk management capability is required not only to ensure risk management can be effectively embedded into business processes across the entity, but also to promote a positive risk culture.

Analysis overview



Despite Element 8. Maintaining risk management capability consistently being the lowest performing element across each of the four years of the Program, the maturity of other interrelated elements continues to develop. This is suggestive that entities are either developing more creative ways to enhance risk management practices across their entity, or perhaps are seeking greater capability that may be required given the operating context of their entity. This is supported by the largest variance between average actual maturity and average target maturity for this element for the past two years.

This element remains the only element to receive an average maturity of *Systematic.* However, similar to other elements at the lower end of the maturity scale, this element outperformed the average maturity growth of the Fund, achieving the second largest growth from prior year (more than 3%), with 17% growth realised across the four years of the current Program.

Response drill-down

Investment in risk management capability often requires allocation of budgeted funding. Only 7% of entities responded as not having any key risk management related costs identified in their entity's operating budgets. For the majority of entities that do allocate funding, it was dedicated to the following areas:

- Insurance (93%)
- Consultants used to support the risk management process (63%)
- Dedicated risk management resources (45%, which has increased 3% on prior year).

In addition to allocating funding towards risk management, entities can also undertake a range of activities to build and support the development of their risk management capability. It is positive to note that 97% of entities agreed that specific initiatives are in place within their entity. The most common mechanism was via on-the-job training (89%). This is a valuable resource, however care must be taken to ensure that where reliance is placed on knowledge sharing of peers, that a positive risk culture exists to ensure messaging is consistent with the overall risk goals of the entity. Other more formal mechanisms such as face-to-face training (71%) and induction programs (68%) also remain popular tools.

The number of entities that noted specific training is provided to build and support risk management capability has improved by 2% on the prior year, now at 92%. In understanding where entities are focusing their training efforts, the following cohorts were recognised:

- Executive level staff (76%)
- Senior executive service level staff (72%)
- APS level staff (71%).

Training at the chief risk officer level continues to be the largest growth area with an additional 9% increase on 2017 to be at 49% in 2018, a 17% increase over the last two years.

To ensure that staff are able to sustain their capability beyond the training, as in 2017 entities should be encouraged to further utilise supplementary materials such as risk management fact sheets (up 8% from 2017 to 47%) and undertake skills analysis to identify capability gaps (up 8% to 35%). By understanding where capability deficiencies lie, targeted training can be put in place to more effectively align needs of the entity and staff.

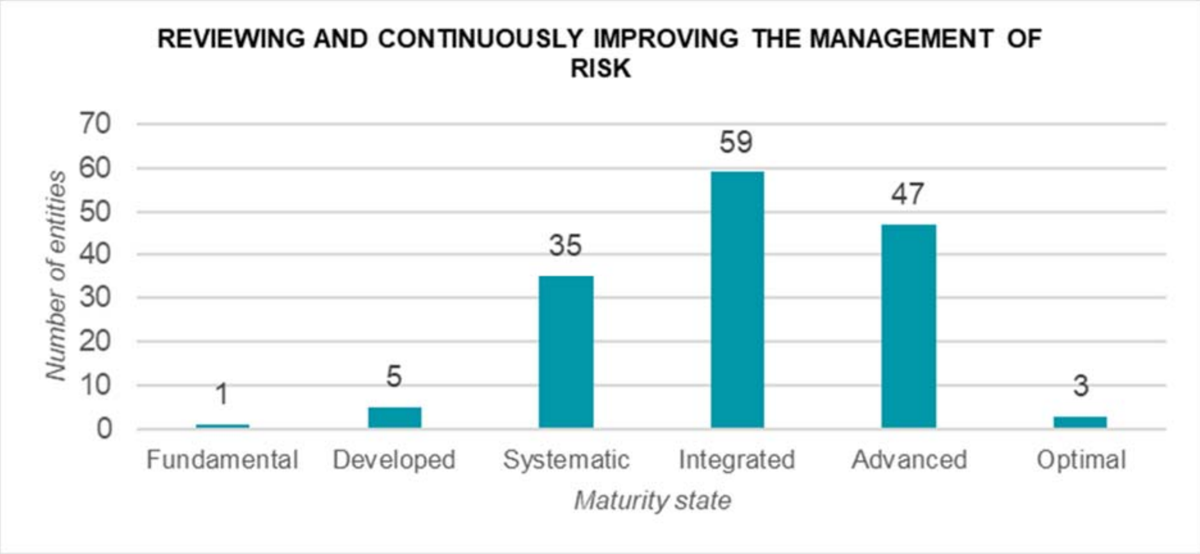
Risk management capability goes beyond the human element and also considers systems and tools to ensure accessibility and ease of use to promote effective and efficient risk management. From a budget perspective, only 31% of entities recorded allocating funding to risk management systems (technology or otherwise), which is in alignment with the recognition that only 42% of entities have IT risk management solutions that support their processes. Rather, entities most commonly identified Excel spreadsheets as the mechanism used to capture risk information (51%). Consistent with prior year results, only 11% of entities reported utilising governance, risk and compliance software or modules. While such tools may not be necessary for smaller entities, this may be a significant contributing factor to the low maturity of this element overall.

Element 9 – Reviewing and continuously improving the management of risk		Integrated	#5 Maturity score

Definition and context

Formalising and implementing risk management within an entity is not a 'one-off event'. The effective management of risk is a process of continuous improvement, requiring regular review and evaluation mechanisms. Entities need to continuously review their risk management framework and the risks being managed so that they are equipped with the information to enable new risk identification and adjust their risk profile to make it relevant and meaningful. Effective review and evaluation mechanisms enable entities to check whether their respective approach to risk management is consistent with their objectives, while also enabling a platform to reward good performance as it links to risk management activities.

Analysis overview



Element 9 continues to rank as the fifth strongest element across the Program. Approximately 73% of all entities have attained a maturity of at least *Integrated* and the overall Fund average for this element is only marginally less than the maturity of the Fund as a whole. Given we are faced with a continuously evolving risk landscape, the overall maturation of the Fund at a program level, and against individual elements, would not be able to occur without entities seeking to continually improve. While overall maturity of this element has only increased 1 % on 2017, a 2% increase was realised in those entities achieving *Advanced* maturity this year.

Response drill-down

As highlighted in the drill-down sections for Elements 1 and 2, there are opportunities to improve the frequency at which core risk artefacts such as the risk management policy and framework are reviewed (62% and 63% of entities respectively noted annual review). As internal and external factors in the risk environment are constantly changing, it is important that these foundational documents are kept relevant through regular review.

Similarly, an entity's risk profile should be at front of mind when considering any periodic review to ensure its relevance in the current operating environment. Entities noted that the following activities were employed, at least annually:

- Consultation with a range of stakeholders, including the audit or risk committee (98%), accountable authority (96%) and senior management (96%)
- Update of existing operational and strategic risks (91%)
- Environmental scanning and benchmarking (81%, an increase of 6% on the prior year).

Monitoring and measuring performance to identify areas of strength and opportunities for improvement is an important activity that should inform document and / or process revision as part of a continuous improvement program. Internal audit outcomes continue to be the primary way in which entities do so (91%), closely followed by monitoring and review activities of senior management or the accountable authority (89%). This year, there has been a 6% (to 45%) increase in the number of entities seeking to measure how risk management has supported the achievement of entity objectives. Where results are positive, entities could utilise this information to share good news stories and contribute to the positive risk culture within their entity.

Target maturity findings

3 Target maturity findings

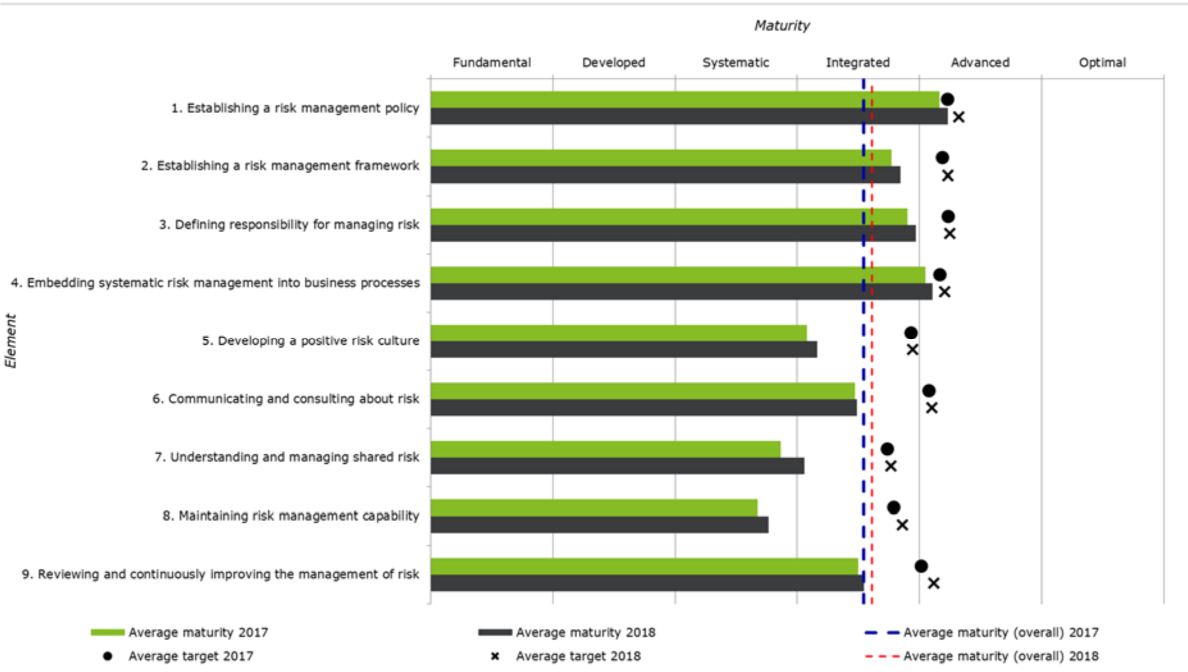
3.1 Setting target maturity states

During the survey completion process, all entities were asked to select an individual target state of risk maturity for each of the nine elements of the Policy, representing where they would like their risk management capability to be at an element level within the next 12 months.

In considering the appropriate state of risk maturity for an entity to work towards, entities are encouraged to align their investment in risk management with the needs of the entity with respect to the size, complexity, operating environment and agreed expectations of their accountable authority.

3.2 Achievement against targets

Graph 3: Comparison of current and target maturity of the total population for each element



The survey results this year demonstrate that each element has seen an increase in both actual maturity and target maturity from last year. Also, while the actual maturity of some elements has been below the overall average maturity of the Fund for the past three years, the average target maturity for all elements has consistently been set at levels above the overall Fund performance. These results indicate that entities are continually striving to improve.

The average increase in target maturity from 2017 to 2018 has been conservative, with the largest increase being recorded at Element 6 of 3%. We think it remains critical that Comcover continue to educate entities on how to set target states recognising that not all entities need to have or even be close to the *Optimal* capability.

The following sections provide analysis relating to:

- Entities with maturity scores below their targets
- Entities with maturity scores above their targets
- Entities that achieved maturity scores in alignment with their targets.

3.2.1 Entities with scores below their targets

The setting of target maturity states is designed to drive improvements in entity capabilities. As a result, we would expect targets to consistently sit above the scores entities are achieving for each element, with both figures increasing in parallel over time.

In line with this, Table 2 illustrates the number of entities that achieved maturity below the target for each element. Consistent with observations made in Section 2, this demonstrates that the greatest area for improvement sits across Elements 5, 7 and 8. Element 8 has the largest percentage of entities below target (more than half), which is reflective of this element also scoring the lowest actual maturity.

Table 2: Distribution of achieved maturity below target for each element

Element	Number of entities below target	Percent of entities below target	Average of percentage difference in score
1. Establishing a risk management policy	15	10%	38%
2. Establishing a risk management framework	28	19%	32%
3. Defining responsibility for managing risk	27	18%	38%
4. Embedding systematic risk management into business processes	18	12%	36%
5. Developing a positive risk culture	72	48%	46%
6. Communicating and consulting about risk	55	37%	31%
7. Understanding and managing shared risk	62	41%	55%
8. Maintaining risk management capability	80	53%	44%
9. Reviewing and continuously improving the management of risk	33	22%	3%

3.2.2 Entities with scores above their targets

Table 3 illustrates the number of entities with actual scores above their target for each element. This demonstrates that the strongest area of achievement has been in Elements 1, 3 and 4. These target results are once again aligned to the three highest performing elements in actual terms.

Table 3: Distribution of achieved maturity above target for each element

Element	Number of entities above target	Percent of entities above target	Average of percentage difference in score
1. Establishing a risk management policy	95	63%	28%
2. Establishing a risk management framework	48	32%	17%
3. Defining responsibility for managing risk	60	40%	14%
4. Embedding systematic risk management into business processes	68	45%	20%
5. Developing a positive risk culture	22	15%	9%
6. Communicating and consulting about risk	21	14%	16%
7. Understanding and managing shared risk	33	22%	16%
8. Maintaining risk management capability	21	14%	33%
9. Reviewing and continuously improving the management of risk	51	34%	29%

Where entities are achieving maturity above their target state, it is an opportunity for entities to consider refocusing effort to areas of lower capability and to reassess whether current investment in these areas is fit-for-purpose. It is interesting to note that the average of percentage difference in score where entities exceed their target maturity is, on the whole, much lower than the score variance where entities do not achieve their target. This may serve as a useful guide to entities in quantifying the degree to which resources could be re-deployed to those elements that may require more attention.

3.2.3 Entities that scored within targets

Table 4 illustrates the number of entities with actual scores equal to their target for each element.

The lowest number of entities achieving their target maturity was recorded for Element 1. Establishing a risk management policy, however, this result is unsurprising given the high number of entities that exceeded their target maturity for this element. Similarly, the second lowest number of entities achieving target maturity was recorded for Element 8. Maintaining risk management capability, which was due to this element recording the highest number of entities not achieving their target maturity state. For all other elements, at least one third of entities achieved their target maturity.

It is important that, where target maturity is achieved for any particular element, entities do not become complacent and cease to invest in continuous improvement of their capability in these areas. As the risk landscape continues to evolve each year, failure to incrementally build and enhance capability in these areas will undoubtedly see entities go backwards in actual maturity.

Table 4: Distribution of achieved maturity equal to target for each element

Element	Number of entities achieving target	Percentage of entities achieving target
1. Establishing a risk management policy	40	27%
2. Establishing a risk management framework	74	49%
3. Defining responsibility for managing risk	63	42%
4. Embedding systematic risk management into business processes	64	43%
5. Developing a positive risk culture	56	37%
6. Communicating and consulting about risk	74	49%
7. Understanding and managing shared risk	55	37%
8. Maintaining risk management capability	49	33%
9. Reviewing and continuously improving the management of risk	66	44%

As risk is a contributor to the strategic planning process, the timing for achievement of the target maturity state should align to the timing of the entity’s strategic planning life cycle. This will enable an entity to measure their progress in achieving its target maturity state in line with its organisational strategy.

Current and emerging risks

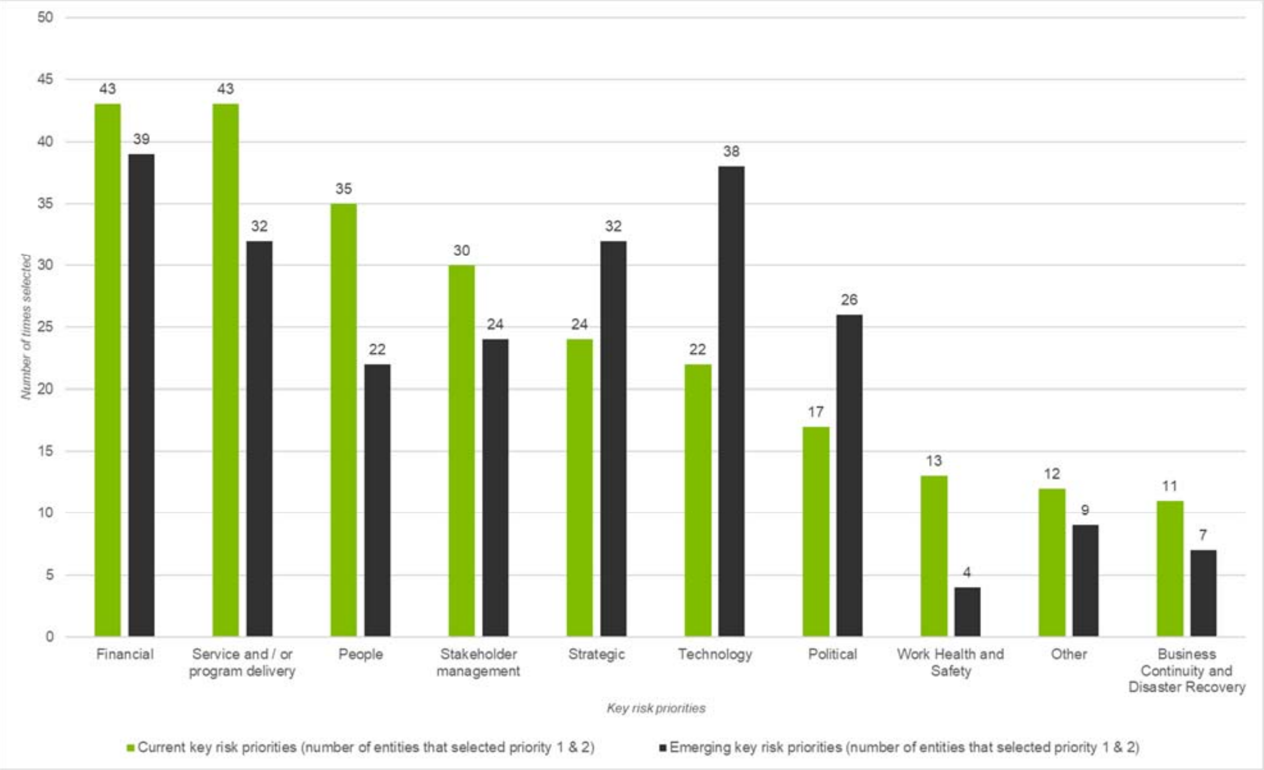
4 Current and emerging risks

4.1 Current and emerging risk priorities

As part of the Survey, entities were asked to prioritise which sources of risk are most relevant and important to them, both from a current and emerging perspective. Each entity selected five predetermined options and ranked these in order of importance from one (high priority) to five (low priority).

4.1.1 Top 10 prioritised sources of risk

Graph 5: Key current and emerging risk priorities (bases on the first and second selected priority sources)



The above graph summarises the most frequently nominated current and emerging sources of risk selected by the 150 participants in this year's survey. Key risk priorities are derived from the frequency of a risk source being deemed as an entity's first or second priority.

Entities indicated that the following sources of risk were most relevant to their current risk profile, which remains consistent with prior year results:

1. Financial
2. Service and / or program delivery
3. People
4. Stakeholder management.

The top eight risk sources remain unchanged from 2017, however, 'other' and 'business continuity and disaster recovery' have replaced 'protective security' and 'regulatory risk', which have moved to 13^{th} and 14^{th} overall ranking respectively.

Looking forward, entities saw the following as the most significant emerging sources of risk:

1. Financial
2. Technology
3. Service and / or program delivery
4. Strategic.

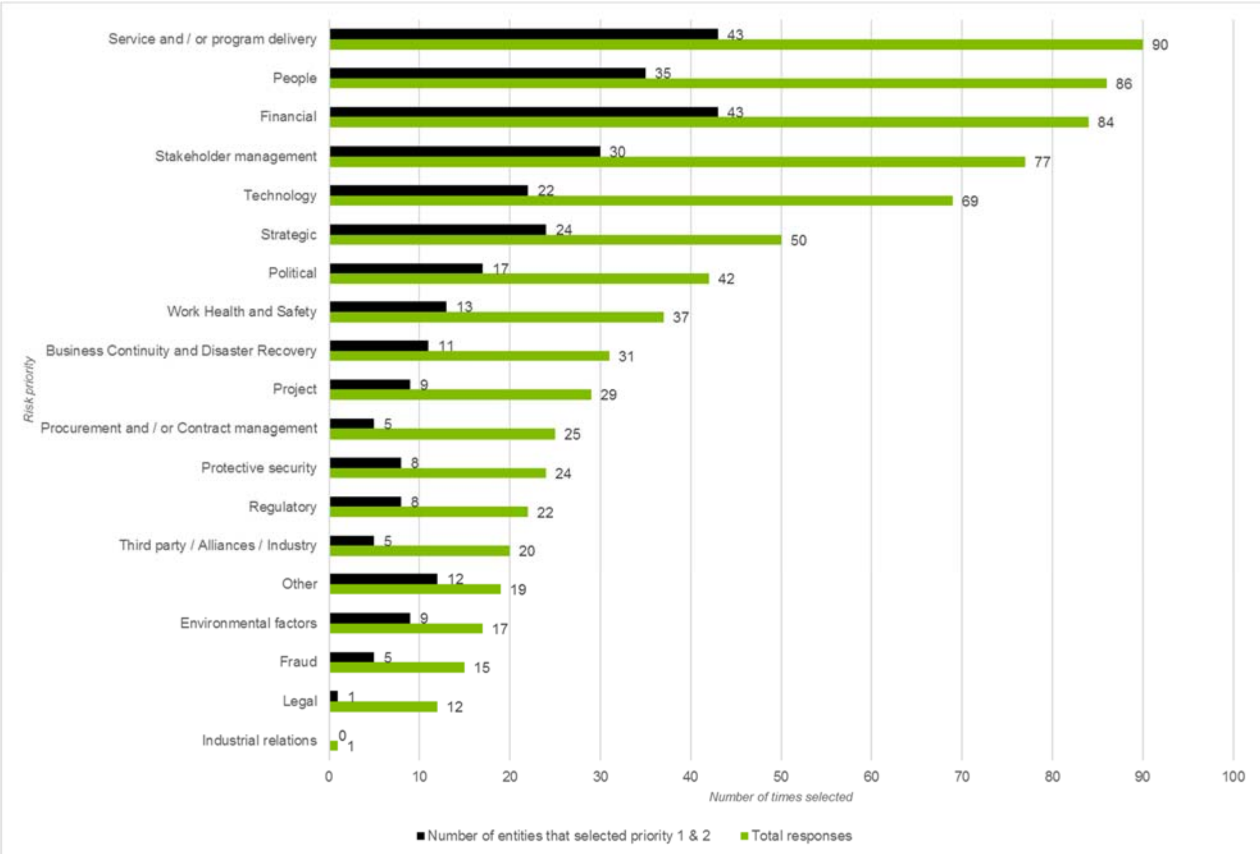
The top four emerging sources of risk remain unchanged in terms of risk category from the prior year, however, 'technology' has moved from fourth last year to second in 2018. Importantly, while 'protective security' and 'regulatory risk' are deemed less of a current risk for entities, they have received a higher priority in the emerging risk category than 'other' and 'business continuity and disaster recovery'.

'Financial' and 'service and / or program delivery' remain sources of risk most relevant for the Fund both currently and into the foreseeable future, as was seen in 2016 and 2017. There has been little change in the number of entities placing high prioritisation on these risks from the prior year.

4.1.2 Current risks

The following sections provide further detail of how entities ranked all risk categories with consideration to both current and emerging risks for their entity. Given the variety of entities participating in the program, a broader view may provide valuable insight.

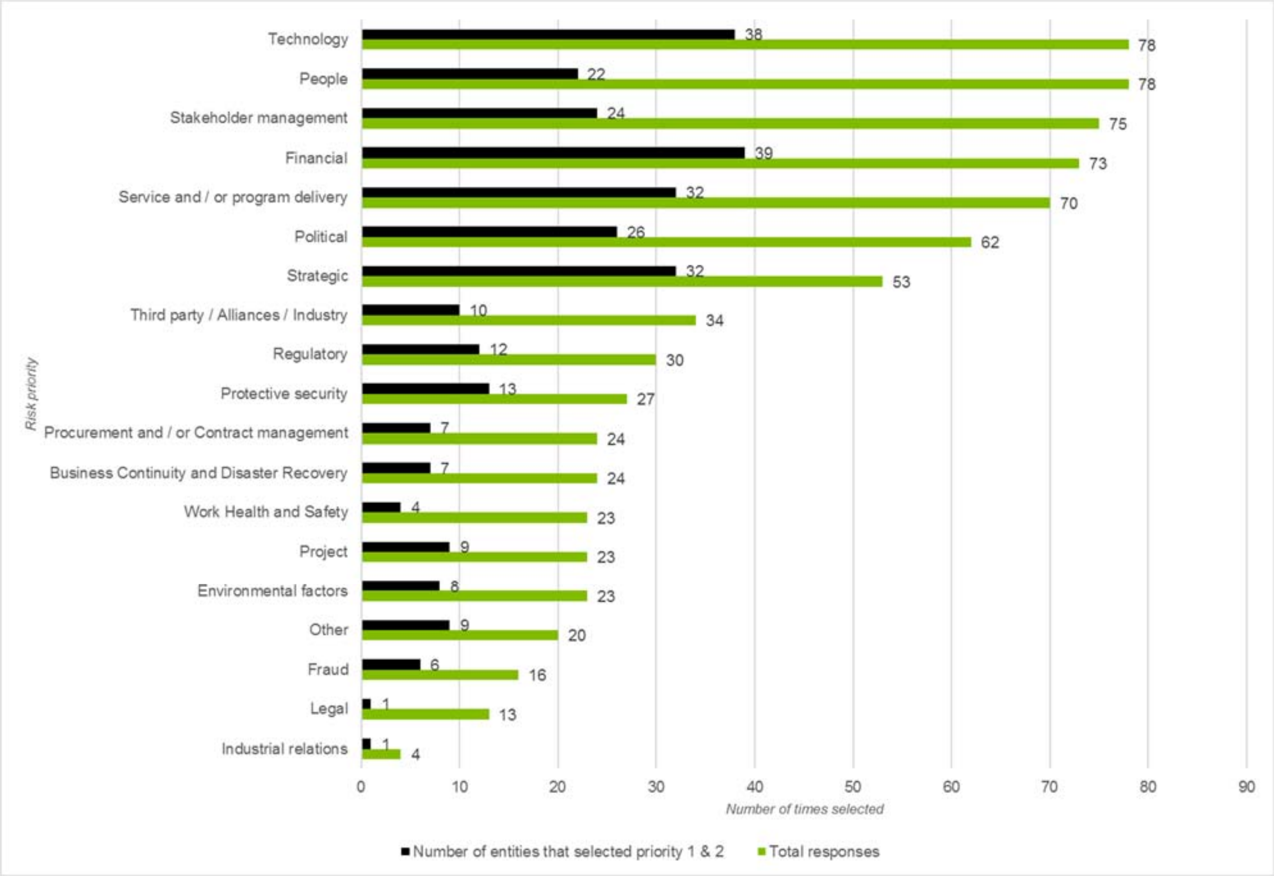
Graph 6A: Current sources of risk ranked by total response



Graph 6A shows that for the top four current risks that entities prioritised as either first or second, at least 50% of entities placed these risks in their top five risks. This demonstrates the importance of these risks across the Fund.

4.1.3 Emerging risks

Graph 6B: Emerging sources of risk ranked by total response



Similar to results shown in Graph 6A, the results depicted in Graph 6B indicate that, for the top four emerging risks that were either first or second priority, the largest proportion of entities also rated these as being included within their top five emerging risks overall. The only exception to this being 'people' which rated second highest overall, however was omitted from the top four prioritised emerging risks.