October 2019

NSW GOVERNMENT | Treasury

Treasury Risk Maturity Assessment Tool Guidance Paper

NOTE:

This document is a draft only.

It is not official policy and is not an official NSW Treasury publication and does not have official status until it has been approved and cleared for publication.

Contents

Overview

Treasury Risk Maturity Assessment Tool

The draft **Treasury Risk Maturity Assessment Tool** (Tool) has been developed through a collaborative process sponsored by NSW Treasury. This involved collaboration from a working group[1] comprised of cluster and other key agency chief risk officers and risk managers, as well as input from Protiviti. These contributions are gratefully acknowledged.

The **purpose** of the tool is to support the improvement of risk management, culture and capability across the NSW public sector. The tool provides agencies with a systematic, uniform approach of self-assessment that will allow agencies to measure risk maturity, identify areas to improve, and communicate results to leadership teams (agency and cluster) and Audit and Risk Committees.

The **key benefits** of the tool include:

- helping agencies to assess their own maturity level
- identifying specific areas to improve risk culture and capability
- supporting whole of government improvements to risk management through a uniform tool and
- allowing agencies to compare their results over time.

The use of the Tool provides further assistance to agencies in meeting their requirements under section 3.6 of the *Government Sector Finance Act 2018,* which requires the Accountable Authority (i.e. Secretaries and agency heads) “to establish, maintain and keep under review effective systems for risk management … that are appropriate systems for the agency.” Refer to the below risk related policies and resources.

The **Risk Maturity Assessment Process** on page 5 explains how to conduct a risk maturity assessment using the **Risk Maturity Matrix** and supporting information. The accompanying Spreadsheet on the Treasury website enables agencies to apply this Guidance Paper to their agency and produce a summary of their risk maturity assessment including presenting a current maturity state and a program of activities to reach the future desired maturity state.

Risk related policies and resources

The Tool supports agencies to meet their risk management requirements, based on the following foundational policies, standards and legislation:

- Internal Audit and Risk Management Policy for the NSW Public Sector (TPP15-03) and supporting guidance
    - Risk Management Tool kit for NSW Public Sector Agencies (TPP12-03a)
    - Risk Management Tool kit for NSW Public Sector Agencies (TPP12-03b)
    - Risk Management Tool kit for NSW Public Sector Agencies (TPP12-03c)
- AS ISO 31000:2018 Risk management – Guidelines
- *Government Sector Finance Act 2018*.

Note
General inquiries concerning this document should be initially directed to:
Financial Management Governance & Analytics, NSW Treasury; finpol@treasury.nsw.gov.au.

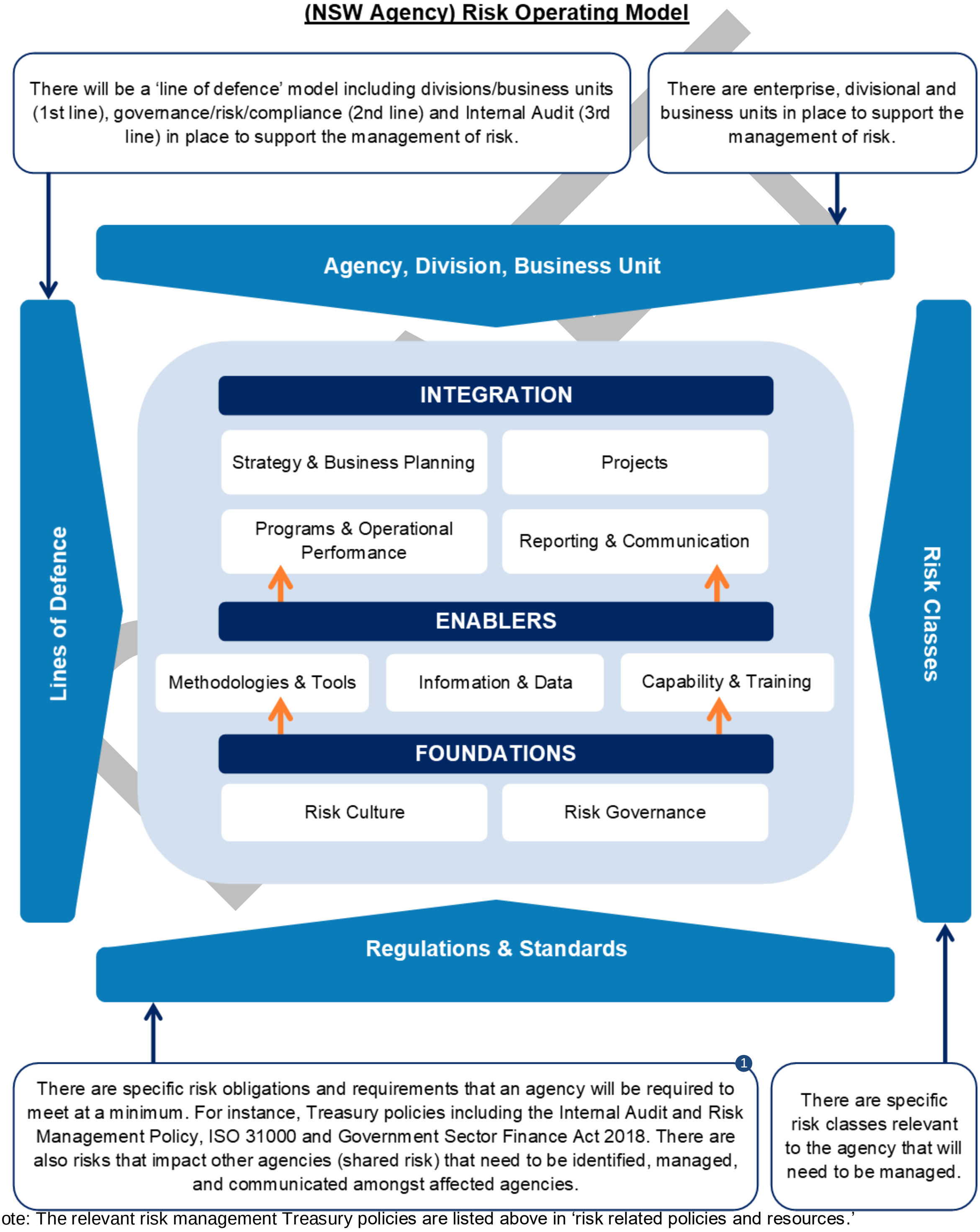
This publication can be accessed from the Treasury’s website www.treasury.nsw.gov.au/.

[1] The working group was drawn from the Enterprise Risk Management Community of Practice facilitated by icare.

NSW Agency Risk Operating Model

The **NSW Agency Risk Operating Model** below shows the three elements and nine attributes contained in the **Risk Maturity Matrix** that should to be considered when assessing the risk maturity of an agency. This should be considered in the context of the agency itself to ensure an appropriate risk management discipline is applied. The Risk Operating Model considers risk classes relevant to the agency (including shared risk), relevant risk regulations and standards (including but not limited to Treasury Policies and AS ISO 31000:2018 Risk management – Guidelines), the lines of defence model utilised by the agency and the structure of the agency and its divisions and business units.

(NSW Agency) Risk Operating Model



There will be a 'line of defence' model including divisions/business units (1st line), governance/risk/compliance (2nd line) and Internal Audit (3rd line) in place to support the management of risk.

There are enterprise, divisional and business units in place to support the management of risk.

There are specific risk obligations and requirements that an agency will be required to meet at a minimum. For instance, Treasury policies including the Internal Audit and Risk Management Policy, ISO 31000 and Government Sector Finance Act 2018. There are also risks that impact other agencies (shared risk) that need to be identified, managed, and communicated amongst affected agencies.

There are specific risk classes relevant to the agency that will need to be managed.

[1] Note: The relevant risk management Treasury policies are listed above in 'risk related policies and resources.'

Definitions

Attributes

(NSW Agency) Risk Operating Model	Definitions
INTEGRATION	**The integration** supports the application of risk management in the agency
Strategy and Business Planning	**Strategy & business planning** considers the key risks and their management as an integral part of developing the corporate and business planning process based on the external business environment.
Projects	**Projects** considers the key risks and their management as an integral part of delivering major projects and change initiatives that support the delivery of an agency's priorities.
Programs & Operational Performance	**Programs & operational performance** considers the monitoring of key risks and their management over time relative to defined tolerances to support the delivery of the agency's operations and government programs. This also includes the key risks related to managing the budget and resource planning (including capital expenditure, operating expenditure and associated assumptions).
Reporting and Communication	**Reporting and communication** considers the ongoing dialogue across the agency that support the flow of risk related data information and insights to those responsible and account for the management of key risks.
ENABLERS	**The enablers** support the risk identification, analysis, evaluation, treatment, monitoring, reporting and communication process.
Methodologies & Tools	**Methodologies and tools** consider the common approach to supporting the application of risk management framework and processes across the agency.
Data & Information	**Data and information** considers the data and information required by the agency to support the application of the risk management framework / processes on an ongoing basis and the systems to support the efficient and effective collection of data to support risk based decisions.
Capability & Training	**Capability and training** considers the risk capability and knowledge and experience of resources across the agency. Increasing capability assists with improving the risk management framework / process and manage key risks.
FOUNDATIONS	**The foundations** support the tone and structure of the Risk Operating Model
Risk Governance	**Risk governance** refers to the agency framework of rules, responsibilities, systems and processes by which risk management is structured in an agency. This also includes risk tolerance, which is the maximum level and type of risk the agency is willing to take or accept to deliver their objectives. Risk governance could include frameworks, policies, procedures and roles & responsibilities.
Risk Culture	**Risk culture** is the set of encouraged and acceptable behaviours, discussions, decisions and attitudes towards taking and managing risk in an agency.

Maturity Level

Maturity Level	Distinguishing Factors	Capability Description
Advanced	Continuously Improving Process	Risk management is optimised, delivers to stretch objectives and is subject to continuous improvement
Embedded	Predictable Process	Risk management is formally defined, predictable, consistently delivered and meets defined objectives
Systematic	Standard, Consistent Process	Risk management is proactively managed, supported by defined process and is stable and measurable
Repeatable	Disciplined Process	Risk management is established and repeatable, documentation is limited and continued reliance on individuals
Fundamental	Un-coordinated	Risk management is unpredictable, vague and highly dependent on individuals

Note: The definitions relating to risk and risk management are contained in the ‘related policies and resources’ listed above.

Risk Maturity Assessment Process

This process flow should be followed to conduct a risk maturity assessment using this Tool. The result will be a comprehensive program of activities that will assist agencies to move from its current maturity to its future desired state. Each attribute should be assessed against the **Risk Maturity Matrix** in the next section.

Agencies should consider the context of the agency when determining its maturity (i.e. a larger more complex agency may have more complex risk governance needs than a smaller agency). The purpose of the Tool is not to focus on a specific score or maturity level but to understand the activities required to move the agency from its current maturity to its desired maturity.

1 Gather supporting evidence

- **Gather risk evidence** to enable assessment of the current risk maturity level (examples of risk evidence are shown in the supporting information section).
- **Engage key risk stakeholders** in the 1st, 2nd and 3rd lines of defence to discuss and comment on risk maturity.

2 Assess current state

- **Select the maturity level** that best fits the Agency's **current** position.
- **The maturities for each attribute are progressive** and elements of earlier maturities are assumed as maturity levels progress.
- **Appropriate evidence** gathered in step one should be used to support the selected maturity level.

3 Assess future/desired state

- **Select the maturity level** that best fits the agency's **desired future** state of risk management.
- The future risk maturity should **consider the complexity, context and constraints** faced by an agency.
- **Not all agencies** would be expected to have a desired future state of advanced. This will depend on cost/ benefit, complexity and context of the agency.

4 Create a program of works

- **Determine the activities required** to move from current to future state for each attribute in the operating model.
- **Develop a program of work** for the Agency to move from current to future state recognising the interdependencies arising between different elements and attributes.

An overall maturity level can be assigned for both current and future maturity states by:

- allocating a score of 1 to 5 for each attribute
- summing the scores for the 9 attributes to calculate an overall maturity score, and
- applying the score to the below table to determine the overall maturity level.

Score	Maturity level
1-9	Fundamental
10-18	Repeatable
19-27	Systematic
28-36	Embedded
37-45	Advanced

The overall maturity level may be used for general discussion and comparisons but should not be the primary outcome for the Tool. The focus should be on understanding the activities required to move the agency from its current maturity to its future desired maturity. Refer to the accompanying Spreadsheet to calculate an overall maturity score and level.

Risk Maturity Matrix

The risk maturity matrix describes what an agency may be like at a specific maturity level for each attribute in the operating model. It is not definitive and should be considered in context. The **evidence and best practice examples** in the following section support assessing the risk maturity of an agency.

		Maturity level				
Element	**Attribute**	**Fundamental**	**Repeatable**	**Systematic**	**Embedded**	**Advanced**
Foundations	Risk culture	There is limited or unclear accountability for risk management and key decisions only consider risk and reward on an ad-hoc basis. There is limited definition of the agency's desired risk culture and behaviours.	Risk culture is considered and communicated and there is an awareness of risk culture and the required behaviours to manage risks across the agency.	There is a defined approach to consider and manage risk culture across the agency. Risk behaviours that effectively manage risk to agreed tolerances are rewarded and poor behaviours managed. Drivers of the entity's risk culture are understood and reported on.	Executive decisions drive a positive risk culture and have early warning mechanisms in place to identify areas of poor behaviour. Key risks are owned by 1st line management and risk behaviour is directly linked to performance.	Executive management continuously improve culture through the operating model design, key decision making, performance management and effective communication. Collaboration on risk culture best practice occurs inter and intra agency.
	Risk governance	Key elements of risk governance are not defined, formalised, consistent or documented, nor repeatable. Positive risk outcome relies solely on well-intended individual efforts. Risk tolerance is considered on an ad-hoc basis and is not consistently applied across all risk classes.	Basic building blocks of risk governance are documented and roles and responsibilities for enterprise risk operating model elements are defined and agreed. Risk tolerance is understood for all material risks across the agency. Accountability for risk tolerance decisions and tolerances has been assigned.	Clearly defined risk governance procedures (including standard policies and procedures, roles & responsibilities) exist across the agency. Evaluation of risk governance is performed using relevant and appropriate key risk indicators. Proactive management of risk relative to tolerance by those accountable.	Policies and procedures are consistent across the agency and align to agency objectives. There are defined risk roles and responsibilities embedded in the organisational structures and risk is a core element of decision making and oversight of the agency. Early warning signals and data is monitored to allow changes to risk tolerance over time.	Risk governance practice is regularly reviewed and evolved by all those involved in risk management. Management and employees proactively review roles and responsibilities and take ownership for risk management at every level. All levels in the agency consider risk tolerance and dynamically determine risk responses.

		Maturity level				
Element	Attribute	Fundamental	Repeatable	Systematic	Embedded	Advanced
Enablers	Capability & Training	Risk management depends on well-intended actions of individuals with limited 'risk management' capability. Risk roles, responsibilities and accountabilities are poorly defined and there is minimal training in risk management.	Risk is a required competency for specialised functions, and some formal risk management training may be offered to the wider organisation.	Standard risk management training is run for all staff with deeper training provided for specialists. All staff are expected to have a knowledge of risk management and apply it in their role.	The agency is recognised as employing experienced risk personnel with embedded knowledge & expertise in place. Risk training is provided in areas of emerging practice and comprehensive risk training is provided to all staff.	Risk management knowledge and skills are continuously upgraded and benchmarked against leading practice both in the NSW public sector and the corporate sector.
	Methodologies & Tools	No models / methodologies / tools used to support risk decision-making and heavy reliance upon key people and their instincts.	Simple risk models used for some risk decision making using measurement methods which are specified and documented.	Standardised risk models / methodologies consistently utilised for decision-making with defined measures of performance and process / risk variability. Evaluation and monitoring of risk management is performed.	Risk management uses reliable and proven models & methodologies for risk decision-making and utilises a range of risk tools to support a predictable and consistent risk management process. Evaluation of the effectiveness of the risk management framework and the management of risk by an agency is performed on a regular basis.	Enterprise-wide risk management methodologies and tools are consistently applied and are considered best in class. The agency is recognised as a leader in the field of risk management methodologies and tools.
	Data and Information	Data quality is inconsistent with limited confidence. Quality of risk information is low and therefore risk decisions are not based on quantitative evidence.	Some data collection undertaken that is used to evaluate and monitor risk on an ongoing basis. Stable set of data and information.	Standard suite of integrated risk data that supports consistent risk analysis across the agency allowing trend analysis and risk-based decision making.	Comprehensive set of data that allows dynamic risk management based on stable and high-quality data sets for all risk classes. The quality data enables agencies to identify lessons learnt and emerging risks and opportunities.	Advanced suite of analytics and data that enables dynamic risk management and monitoring with effective and intuitive dashboards based on a breadth and depth of high-quality data. Continuous development of data and analytics in line with leading practice.

		Maturity level				
Element	**Attribute**	**Fundamental**	**Repeatable**	**Systematic**	**Embedded**	**Advanced**
Integration	Strategy & Business Planning	There is minimal focus on risk when developing or executing strategies or business plans. Where risk is considered it is inconsistently applied across the agency.	Risk is considered in strategies and business planning but is not consistently applied and is not consolidated across the entity.	Strategy setting and business planning consider risks in a consistent manner and document the responses.	Risk is integrated into planning and strategy across all business units and aligns to agency objectives. All key risk classes are considered when developing and implementing strategies and business planning.	Strategy and business planning process is dynamically sensitive to internal and external risk factors. Risk is considered on a consistent basis and aggregated to monitor changes to risk profiles over time.
	Projects	There is a minimal or ad-hoc consideration of project risks or the impact of projects on the risk profile of the agency.	Project risk accountability is assigned, and projects consider risk during project design and evaluation and throughout the project lifecycle.	A consistent and documented approach to risk management is applied to all projects. Ownership for project risk is understood and followed through.	Key project risks (e.g. interdependency, benefits management, staff impact, customer, budget, resourcing) are evaluated and combined to support risk-based decisions on a project and portfolio basis, covering both delivered and delivery risks.	Project portfolio is consistently evaluated for risks and interdependencies. Resourcing and funding are dependent on the effective risk management practices that assess all risk classes.
	Programs & Operational Performance	Program and process risk is not defined, formalised, consistent, documented, nor repeatable. Programs and process risk responses are reaction driven, unpredictable, and outcome relies solely on well-intended individual efforts.	Critical programs and processes have defined and documented financial and non-financial risk management procedures in place.	Defined, documented and consistent financial and non-financial risk management procedures are included in all programs & processes, including budgeting & resource planning.	Risk management is a critical input to program and operational performance and is considered a core competency. Programs and processes are dynamically risk assessed and developed in response to emerging risks.	Continuous benchmarking and improvement of how financial and non-financial risks are identified and managed is performed enterprise wide for all programs and processes. Proactive redirection of funding and resources occurs based on periodic monitoring of risk profile and assumption changes.

		Maturity level				
Element	**Attribute**	**Fundamental**	**Repeatable**	**Systematic**	**Embedded**	**Advanced**
	Reporting & Communications	Reporting is sporadic, ad-hoc, and informal with reporting often incomplete, inaccurate, and untimely.	Risk reporting is performed with regular / actionable reports and key metrics identified based on a standard set of data.	Senior Management is comfortable with content and consistent format of risk reporting. Reporting identifies exceptions and "near misses".	Risk reporting uses dynamic risk measurements based on quantitative and statistically based data to allow responsive risk decisions to be made.	Fully developed & automated risk reporting supported by high-quality data and dashboards that are used to manage and monitor risks, and to proactively and dynamically drive continuous improvement in risk management across the business.

Evidence and best practice examples

The table below describes the types of information that could be referenced when assessing the risk maturity of an agency (note: the list of information is not considered exhaustive). When assessing maturity an agency should reference supporting information that is available in the agency and consider how this information will support selecting a particular maturity level. The illustrative better practices help agencies to understand the nine attributes and provide a reference point for an increased level of maturity.

Element	Attribute	Supporting information	Illustrative Better Practices
Foundations	**Risk culture**	• Agency values and behaviours • Risk Culture Assessments (staff survey, internal review or internal audit) • Reward and recognition programmes: ○ Formal performance recognition feedback (e.g. program specific) ○ Social recognition (e.g. social events, team meetings, conference, etc) ○ Recognition through communication channels (e.g. emails, newsletters, etc) • Award certificates (e.g. individual award, team award, division award, business award) • Consequence management procedures • Incident and lessons learnt information • Risk roles and responsibilities (including risk champions) • Learning & development programmes • Performance measures for risk management	• The Executive is regularly involved in significant risk-related discussions • The agency's desired risk behaviours and attitudes are defined and communicated across the agency • The agency has adopted appropriate methods to assess the level of risk culture across the agency and close gaps with desired risk culture • Risk culture elements (e.g. personal risk attitude and risk management competency) are considered when hiring / promoting staff • Staff report concerns about inappropriate or excessive risk taking and act without fear of retaliation or intimidation • The agency has programs to ensure the desired risk culture is built and driven across the agency (e.g. training programs, awareness initiatives, etc.)

Element	Attribute	Supporting information	Illustrative Better Practices
	Risk governance	- Governance structures, roles and responsibilities - Risk frameworks / operating models - Policies, procedures, standards, checklists covering key risk classes, incident management, customer & complaint management etc - Roles and responsibilities - Delegations of Authority - Terms of reference for key governance committees - Risk Tolerance Statements - Risk reporting related to tolerance	- The role of the Executive / Audit & Risk Committee is formally defined in relation to its role and responsibilities on risk oversight. - The agency has in place Management Committees which regularly meet to address and oversee all key risks - Roles, ownerships and responsibilities of risk management are clearly defined, assigned, communicated and understood across the agency - Risk escalation processes and related roles and responsibilities are clearly defined - The agency has a process to define, articulate and communicate specific tolerance for risk taking which is formally approved and periodically reviewed by the Executive / Audit & Risk Committee - All key decision-makers understand and act in accordance with the risk tolerance defined by risk management activities
Enablers	Methodologies & Tools	- Consistent risk taxonomy - Risk assessment methodology (scales, likelihood, consequence, rating) - Root cause analysis / classification - Risk profile / register - Risk and control matrix - Specific industry / risk class models - Risk analysis and trending - Risk dashboards	- Guidelines, metrics or scoring scales / methods have been defined to help individuals understand how to assess risk (e.g. financial and reputational impacts, likelihood, velocity, risk management capabilities in place) - The agency's portfolio of risks is analysed to determine whether any risks are interrelated or whether a single event may have cascading impacts - Risk profiles are formally approved and periodically reviewed by the Executive / Audit & Risk Committee - The agency has implemented specific techniques and tools (which might include defined performance indicators) to evaluate and monitor top risk exposures and / or the effectiveness of risk responses
	Data & Information	- Dedicated IT solutions for data collection, modelling, monitoring and reporting - Risk specific analysis systems - Risk and incident management and reporting systems - Data integrity and security systems - Quantitative and qualitative data analytics - Data governance procedures	- The agency has adopted systems to better support dynamic risk assessment and monitoring activities, and to store risk-related data. - Collection of quantitative and qualitative data (as required) assisting performance analysis and insightful value-added reporting to support decision making.

Element	Attribute	Supporting information	Illustrative Better Practices
	Capability & Training	• Risk management competency and skills definitions • Induction / on-boarding risk training • On-going risk training programs • Specific risk capability training • Performance assessment risk measures	• Hiring and development of management are periodically reviewed to ensure competency levels are appropriate and support the business objectives. • Gaps in risk management competency are recognised and addressed to ensure capability evolves as the agency risk profile changes (internal/external). • Formal training and development of staff with a focus on agency wide risk management.
Integration	**Strategy and Business Planning**	• Strategic risk profiles • Business plans include risk considerations • Horizon risk scanning • Scenario analysis • Stress testing •	• The agency identifies and understands the potential risks and opportunities of each strategy being considered when evaluating strategic options. • The risk management function partakes in the strategy setting process • When conducting strategy and business planning, agencies should consider strategic and performance goals with reference to State outcomes.
	Projects	• Project risk registers • Risk and control matrices • Project risk committees (including terms of reference) • Gateway assurance reviews including risk management focus	• The agency considers not only typical time, cost and quality risks but wider risks (program and project interdependency, benefit management, staff impact and customer) and the distinction between delivered and delivery risk.
	Programs & Operational Performance	• Process flow diagrams and procedures • Risk profiles for critical processes • Risk and control matrices • KRI monitoring for critical processes	• Critical financial and non-financial risks have key risk indicators that are monitored. Mitigations are in place as risks increase or emerge.
	Reporting and Communication	• Dynamic risk reporting • Risk dashboards • Risk heatmaps	• Risk reporting is dynamic and undertaken in real time, allowing management to utilise a combination of heatmaps, dashboards and key risk indicators to proactively manage risk in the business.

Further information and contacts

For further information, please contact:
Financial Management Governance & Analytics, NSW Treasury
Telephone: 02 9228 3764
Email: finpol@treasury.nsw.gov.au