The current state of play
The future of risk in the Australian health sector
Foreword

Welcome to the EY series on the future of risk in the Australian health sector.

We hope this series will help to both foster debate around the risk agenda in the health sector and drive continuous improvement.

This publication, the first in the series, draws on the findings of an extensive survey of health sector leaders from public and privately owned organisations around Australia.

Titled “The current state of play”, it reveals the areas of strength these leaders believe the sector can build upon and identifies other areas of need.

The survey provides a base on which to build a series which will explore various aspects of risk.
We look forward to sharing with you our views on how the sector can better harness risk to improve both performance and health outcomes.

We hope you find this publication of interest and look forward to your contribution to this important debate around the future of risk in the health sector.
Introduction

The Australian health sector is world-leading and innovative in many aspects of clinical care. There is however a great opportunity to better harness risk management to drive improved outcomes across the performance and compliance agenda in the health sector.

Australia’s health sector is at a tipping point. Never before have competing demands been so pronounced, and the pressure to improve performance so acute. Quality and safety, finance, workforce, stakeholder engagement, strategic and other operational improvements all need to be achieved. This, in the context of growing demand, funding pressures, shifting models of care, technological innovations and efficiency targets.

Navigating these competing demands while accumulating measurable improvements across all areas of operations requires risk management that complements the rhythm of a business and helps decision makers say ‘yes’ to the right risks and ‘no’ to the wrong ones.

Health sector companies that succeed in turning risk into results will create competitive advantage. They will deploy increasingly scarce resources more efficiently, improve decision-making, and reduce their exposure to negative events. To get to this point, however, the leaders of health sector organisations need to widen the lens through which they view risk. What’s required is a cross-organisational focus that will throw the risks that matter into sharp relief and reveal their impact on the wider strategy of the organisation.

Summary of key findings

Our survey of health sector organisation leaders unlocked some compelling insights into the state of risk management in the sector. These include:

1. 82% of respondents believe they have clarity on what they want to achieve from their investment in risk management, however one in four don’t have a plan to realise this ambition. Furthermore, one in three of those surveyed felt staff across their organisation lacked a clear understanding of their risk management responsibilities.

2. Embedding risk management into the rhythm of their business remains a challenge for most. Organisations need to extend consideration of risk from the confines of risk registers into business decision-making and effective governance. Part of the problem is a cultural one; too many still view corporate risk management as a compliance or policy requirement, not an essential part of operations.

3. This challenge, however, is also an opportunity to align internal control systems and activities with the risks that matter. Freeing up direct costs and sunk time through optimising control efforts would be a win-win for time poor executives, clinicians and staff operating in the current environment of fiscal constraints.

4. The majority of respondents believe their systems and technology do not enable effective, organisation-wide, risk management. Such management requires: a holistic view of clinical, corporate and strategic risk; integrated reporting of governance, risk and controls information; and the ability to analyse emerging risks.

Survey respondents

- C-Suite (CE)/CFO/COO
- Board/Audit Committee
- Other, e.g. risk manager, quality and safety manager
- Internal Audit
The survey suggests that health sector entities have a good understanding of their risk strategy. Most understand what they want to achieve from risk management. Less uniform, however, is the presence of a clear path to achieve these goals.

Over the past decade, the practice of risk management has evolved and expanded. It was previously expected to yield a documented framework and register that would assist in identifying and preventing risks occurring.

Risk management is now used to help organisations meet their objectives by:

- Providing freedom within boundaries for organisations to take risks that will enhance their ability to achieve and exceed objectives, while avoiding risks that would impact negatively on those goals
- Adopting an insight-driven and performance-oriented approach to risk management, one that becomes intrinsic to the business and is embedded in key business processes

The health sector needs to consider these developments, which reflect the fact that the benefits of risk management flow from not just avoiding some risks. Successful and effective risk management also identifies risks an organisation should take.

“To improve risk management we need to eliminate the temptation to undertake it as just a discrete issue and to properly integrate consideration about risk management issues into all key decision-making.”

(Survey respondent)
Incident and risk management are not one and the same, however they are directly linked. One focusses on the management of a risk that is occurring currently and needs to be addressed immediately. The other requires an understanding of, and preparation for, the possibility that an event will occur that will affect the wider organisation and the achievement of its objectives. The preparation that is carried out is vital for effectively managing risks that do occur.

The sector generally believes the differences between incident management and risk management are understood, however the survey results suggest that in some large organisations, there is poor alignment of risk management and clinical incident reporting systems.

Although 81% believed that incident management is used to inform risk reporting:

- This reduced to 70% when asked whether there was strong alignment between clinical incident and risk management systems
- It fell further to 66% when respondents were asked about the clarity that staff have on their responsibilities regarding risk management

1 in 3 believe staff at all levels do not have a clear understanding of their responsibilities with regard to risk management

“Leadership is committed to implementing and directing risk management across the organisation, however, management continues to focus on issue management, not risk management.”

(Survey respondent)

Linking incident and risk management systems allows for greater transparency and predictability of key risk events. Monitoring of clinical incidents can act as ‘Key Risk Indicators’ where particular incident types are linked to identified risks. Using this approach, the likelihood of a risk occurring can be monitored continually and escalated appropriately when specified limits have been breached.
Governance over risk management

Although the majority of respondents agreed that the risk information reported to governance bodies is important in strategic decision-making, approaches to risk governance differed across the sector.

Who should be responsible for governance over risk?

Both risk-savvy management and strong governance are vital for successful risk management. Management owns the management of risk and needs to ensure this occurs throughout the organisation within the parameters set by the Board; i.e. the risk appetite.

Sub-committees play a key role in assuring risk frameworks and strategies are well designed and operate effectively. These subcommittees can also take on an oversight role for certain risk areas on behalf of the Board.

However, the Board has ultimate responsibility for oversight of strategy formulation and organisational performance. This includes ensuring the risk appetite is clear and that the risks that matter are managed well. This does not mean that the sub-committee role is not important, in fact the co-ordination and consolidation of the Governance of key risks across the organisation can only occur effectively if these groups work closely together to plan, monitor and report on their risks consistently.

Our survey respondents told us that within their organisations, governance of risk is the responsibility of...

There should be..."recognition that risks need to be managed at ALL levels by ALL employees and that risk management is not simply a policy requirement."

(Survey respondent)

“Effective risk management requires strong leadership (both in terms of policy framework and implementation) from Audit Committee Chair, CEO and key clinical leaders.”

(Survey respondent)
Achieving high quality health outcomes is integral to the mission and success of most, if not all, organisations in the health sector. However realising this ambition requires effective risk management across all aspects of the business from front line clinical operations, to non-clinical ‘corporate’ aspects such as financial management and asset management.

Many organisations have established clinical governance, clinical incident management systems and processes for the identification, assessment and management of clinical risks. However, sometimes there can be a disconnect between clinical risk management practices and those applied to corporate risk management.

This can manifest itself in an inability for Boards or executive to be able to gain a real view of all material risks facing the business and how to prioritise the risks that matter.

Equally, it can present challenges in gaining a holistic understanding of all the implications of potential risk decisions - e.g. the financial and workforce risk implications of a key clinical decision or the clinical risk implications of a major corporate decision (e.g. asset maintenance strategy).

It is important to consider the following when addressing these concepts:

- **Risk management approaches should be consistent across corporate and clinical risks without impacting on the effectiveness of managing both.**
  A consistent (but not necessarily uniform) approach to evaluating and prioritising risk means those risks most important to the organisation are highlighted and managed appropriately, whether they are clinical, or corporate in nature.

- **It is important for staff at all levels to understand their roles in relation to both clinical and corporate risk management and why both sets of responsibilities are important.**
  Buy-in from all areas of the organisation will help to ensure that risk management forms part of everyday thinking, without adversely impacting on the day-to-day management of key services.
Cost of Control

- 59% do not know what impact control activities have on productivity and staff time
- 56% do not know how much the organisation spends each year on maintaining its internal control environment

67% of organisations have not benchmarked themselves in terms of their internal control environment and cost of control

“IT IS NOT CLEAR HOW RISK IS CONSIDERED IN BUDGETING AND RESOURCE ALLOCATION PROCESSES.”
(Survey respondent)

Smart controls
For those organisations that feel they do have a good understanding of their cost of control and are confident they are spending the correct amount, the following may apply:

- These organisations may have implemented analytics and technology-enabled automation of controls. These tools are becoming increasingly common and can reduce the cost of controls.
- There organisations may also assume that spending on ‘compliance’ (i.e. increased investment in controls) should not be increased as it does not directly benefit the organisation.

Organisations spend a significant amount of time understanding and managing the cost of undertaking certain processes, however such investigations have, until comparatively recently, not extended to controls. This may have been due to the lack of a widely-used method to accurately cost control activity that would identify changes, additions/removals while maintaining mitigation and management of key risks. However, over the past few years, organisations have begun to do this, which has enabled the production of ‘Smart Controls’ that are cost-effective while maintaining effective mitigation of risks (for example through automation).
While 70% of respondents said risk management reporting is helpful in making informed decisions, the sector finds it difficult to form a holistic view of risk exposure due to lack of aligned/appropriate systems, tools/technology and reporting. Effectively using technology to support risk management represents both the greatest weakness and clearest opportunity for most organisations.

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54% of respondents said it is not easy to get a holistic view of all potential material risks and how these inter-relate through the systems and reporting they have in place.

57% said they lack strong systems (technology) to support the risk management process.

53% said it is not easy, through the systems and reporting that are in place, to get a complete and holistic view of all potential material risks and how they inter-relate.

The right systems and technology to fit your needs

There is no ‘one-size fits all’ solution to using technology in managing risk. You should consider the following when making decisions relating to technology to support your risk management journey:

- The cost and timeframes involved in implementation and support of the system.
- The ability for the system to integrate with, and work alongside, other systems, such as the incident management system.
- The type of reporting you need and what level of flexibility you require.
- Functional and technical requirements (further details on these are outlined in EY’s March 2013 edition of ‘Insights on governance, risk and compliance’).

Better risk management requires an improved technology platform and improvement in the systems used to report and monitor risks.”

(Survey respondent)
Next steps

Five key steps for successful risk management in the health sector.

1. Risk strategy

Strong governance and a clear strategy setting out what the organisation wants to achieve from risk management and how it will do so. This should specify risk management roles and responsibilities at all levels from the Boardroom to the wards/clinics.

2. Embed risk management

Health sector organisations that embed risk management practices into business planning, decision making and performance management cycles are more likely to achieve strategic and operational objectives. Risk identification, analysis, treatment and reporting are aligned wherever possible with existing business practices so as not to create a disjointed, siloed endeavour.

3. Optimise risk functions

Most health sector organisations will spend hundreds of thousands, if not millions, of dollars each year on various risk functions including internal audits, clinical governance, external audits and accreditation audits. By aligning and co-ordinating risk activities across all risk and compliance functions, organisations can reduce their risk burden (overlap and redundancy), lower their total costs, expand coverage and drive efficiency.

4. Improve controls and processes

Health sector organisations that optimise controls around key business processes, harness automated (as opposed to manual) controls and continuously monitor critical controls and key performance indicators using GRC (governance, risk management and compliance) software tools to improve performance and reduce the cost of controls.

5. Enable risk management, communicate risk coverage

Some health sector organisations can suffer by rejecting opportunities because they are too risk averse either in perception or reality. Moving from being risk averse to risk ready requires leaders to walk the talk with ‘tone from the top’ support. Regular and open communication with all stakeholders, smart use of enabling tools and fostering a culture that supports managed risk taking are all necessary factors for success.
Checklist – What do you need to think about?

Based on the results of our survey, you should consider the following questions in relation to your own organisation:

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<th>✓ Plan</th>
<th>✗ Embed</th>
<th>✓ Optimise</th>
<th>✓ Enable</th>
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<tr>
<td>Do you know what you want to achieve from risk management?</td>
<td>Is risk considered in business planning, decision-making and performance monitoring?</td>
<td>Are your risk and assurance activities (e.g. internal audit, clinical governance, external audit, accreditation audits...) aligned?</td>
<td>Do you leverage GRC (Governance, Risk, Control) software to assist in managing and monitoring of risk?</td>
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<td>Do you have a clear strategy on how you will achieve this?</td>
<td>Does executive management and the Board have a clear view (in some form of risk coverage map) of how each significant risk is being managed on an ongoing basis?</td>
<td>Are your risk, control and compliance resources and capabilities residing in the right function and location to minimise their cost while maximising compliance, scalability, agility and transparency?</td>
<td>Do you capitalise on opportunities through a consistent approach to evaluating when to take risk as well as avoid them?</td>
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<td>Is your risk, control and compliance operating model aligned to your long term business strategy?</td>
<td>Does the Board feel that the right risk and compliance activities are being performed for the organisation's key risks?</td>
<td>Do you understand the capacity and capabilities that exist in lower cost countries that support risk, control and compliance activities that other organisations are already tapping into?</td>
<td>How do you ensure third parties who play important roles in your health value chain and patient journey have sound risk management capabilities?</td>
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<td>Have you defined your risk appetite and is it communicated and understood throughout the organisation?</td>
<td>Does the Board feel that risk management is embedded in the organisation and is part of day-to-day culture?</td>
<td>Does the Board feel that there are no gaps in risk management?</td>
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<tr>
<td>Does management understand the Board's risk appetite and is it evidenced in the reporting on risks?</td>
<td>Is the Board comfortable that there are no gaps in risk management?</td>
<td>Does the Board have visibility on action being taken on any gaps in risk management?</td>
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<tr>
<td>Have risk management roles and responsibilities at all levels and across all risk areas (e.g. clinical and corporate) been defined and communicated?</td>
<td>Is risk management aligned and supporting established business practices?</td>
<td>Has your risk, control and compliance operating model kept pace with the rest of your business?</td>
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