

RISK MANAGEMENT AND INTERNAL COMPLIANCE AND CONTROL

• Risk Management

Australia Post operates a rigorous system of risk oversight, management and internal control. Taking and managing risk is a fundamental part of business and building shareholder value. The Corporation's approach is to identify, assess and manage risks that affect its business, enabling risk to be balanced against the appropriate rewards.

This approach to risk management incorporates risk principles into the decision making process at all levels and overlays the Corporation's management structure to cultivate a culture of personal responsibility to recognise and appropriately treat risk.

The Board oversees a comprehensive Risk Management Policy Framework covering all potentially significant business risks and strategic considerations. This framework ensures the Board has a clear understanding of the Corporation's Risk Profile, with emphasis on potentially significant risks, and allows the Board to influence and monitor the effectiveness and adequacy of risk mitigation strategies.

The Board monitors the Corporation's risk profile, risks and their mitigating strategies primarily through the [Audit Committee](#) [link].

To support the Audit Committee the Corporation has established a Risk Management Committee comprising senior Executive Management. The purpose of the Committee is to implement the Risk Management Policy Framework, develop processes and systems to identify and manage risk and to monitor and report on the Corporation's risk profile.

The Corporation's risk management processes are supported by the RISKMAN database system. The RISKMAN database is an intranet based computer system that provides a repository for the Corporation's risk information and automates many of the risk management processes.

Risk Management Coordinators have been appointed and trained in each Division. The Co-ordinators are employees that provide a focal point for risk management activities in each of the major divisions of the Corporation. They facilitate the implementation of the Corporation's Risk Management process and the supporting RISKMAN database system.

The Corporation's philosophy is that the "risk takers are the risk managers". Therefore, senior management in each business unit are responsible for identification, assessment and management of risk. This is undertaken primarily through a self-assessment process, with the assistance of the Corporate Risk Management Unit, and with independent evaluation of mitigating strategies and controls undertaken by Corporate Audit Services Group.

Each business unit reports quarterly and presents annually to the Risk Management Committee on their existing and emerging risks, associated mitigation strategies and progress against their implementation. Outcomes are reported, in turn, to the Audit Committee.

Risk identification, measurement and mitigation strategies are included in business-related proposals considered by the Board. A number of programs are also in place to manage risk in specific areas – such as fraud, the environment, injury prevention and management, legislative compliance, fire-safety and emergency procedures and business continuity planning. The potentially adverse financial effects of catastrophic risk exposures are limited by the purchase of appropriate insurance cover.

The Corporation's Risk Management Framework and underpinning processes are closely aligned with the principles of the Australian Risk Management Standard (AS/NZS 4360:1999). The ongoing effectiveness of the framework is reviewed annually by the Board. Also, to ensure the maintenance of better practice, independent external reviews of risk management throughout the Corporation are commissioned periodically. The next external review is scheduled to be completed by 31 December 2004.

• Internal Compliance and Control

As part of the treatment and management of risk, Australia Post operates an integrated framework of financial, operational and compliance controls. The internal controls framework consists of several elements consistent with the Committee of Sponsoring Organisations (COSO) internal control model. Among other things, the internal control framework includes processes categorised into the following control layers:

- **Monitoring** eg Board, Board Committees, Executive, Risk Management and other senior Committees, Internal Audit and Corporate Security functions;
- **Information and communication** eg ongoing management and Board, Board Committee and Ministerial reporting, management forums, information dissemination to staff;
- **Control activities** eg internal procedures to mitigate risks;
- **Risk assessment** (described above); and
- **Control environment** eg vision and values, code of ethics, delegations, budgetary and financial reviews, legislative compliance reporting, fraud control.

These control layers operate across all parts of the Corporation and are fundamental to maintaining the integrity of Australia Post's business.