

## **PRESS RELEASE**

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### **MANY RISKS IN LOCAL GOVERNMENT BEING OVERLOOKED, SAYS SURVEY**

A survey of local government authorities in New South Wales has revealed that many councils were undertaking risk management initiatives, but overlooking many business and operational risks due to a focus on insurance and liability risk issues.

This is the conclusion of specialist risk management consultants, InConsult, who conducted a survey of New South Wales (NSW) Shires and Councils.

Local government in NSW is a \$6 billion industry that serves a population of 7 million people and covers a geographic area of around 800,000 square kilometres. Collectively, councils have 1,600 elected representatives, employ 40,000 people and manage \$55 billion in infrastructure assets.

According to Mr Tony Harb, managing director of InConsult, the underlying theme of the survey results were that councils in NSW do have risk management systems and processes in place, but there was considerable room for improvement.

“In particular, the context of risk management needed to be broadened, involve councillors more and processes applied more consistently across councils,” Mr Harb said.

“When managing risk, councils predominantly focused on insurance related risks where risks can be treated by transferring the risk to an insurer, rather than broader business risks associated with managing operational risk, infrastructure assets, technology or fraud.

“While insurance can be an effective form of managing specific insurable risk, there are many more risks that local government are exposed to that insurance simply cannot treat.

“This broader risk exposure is where local government needs to pay more attention - formal, structured risk management will help councils meet their objectives, build resilience to undesirable events and increase stakeholder confidence.

“It is a critical management function, gaining increasing acceptance in business and several Australian regulators including APRA\* require organisations to have a formal risk management strategy or plan.

“Local governments operate in an increasingly complex political, technological and legal environment and in the survey reveal that they are exposed to more risks than three years ago.

“In recent years, the reputations of a number of councils have taken a battering due to unpopular decisions, questionable activities, poor financial management and poor governance matters with eight councils dismissed in the last eight years,” he said.

InConsult's 2006 Council-wide Risk Management Survey, examined risk management systems and processes within NSW local government to see how well they managed their risks, how sophisticated their systems were and where the gaps were in identifying, managing and monitoring risks.

Key findings of the survey include:

- Most councils are thinking about risk management BUT NOT council-wide risk management
- Almost all councils discuss "risk management" at senior levels but much of this revolved around insurance related risks and less than 1 in 5 involved their councillors.
- More than half believed they could manage their top five risks better (52%) with only 16% stating they managed these risks well
- While most councils have a risk management policy (81%), half say it requires improvement
- All councils have a code of conduct but only two in five have a fraud management policy
- Less than half of the councils surveyed have an audit committee or a risk management committee to support risk management
- Less than one in five councils reported key risks to councillors (9%)
- Only two in five councils have a formal risk register to monitor risk and evaluate controls (43%)
- Finding a 'home' for risk management within the council's structure remains an issue with responsibility for risk varying considerably between each council
- Most councils (67%) are either undecided about implementing council-wide risk management or planned to do it in one to two years.

According to Mr Harb, it is important to align the risk management strategy to council strategies/objectives and identify all risks affecting council not just insurable risks.

"The key questions to ask are what can go wrong? How can this event occur? Are the risks internal, external or random? How important is the risk to stakeholders? Can the risk be managed?" Mr Harb said.

"Most councils in the survey recognised the major benefits of applying risk management principles - for example, they cited better governance, more confidence in operations and clarity in decision making, better risk culture and reduced risk levels," he said.

An Executive Summary is available for free download from the InConsult website: [www.inconsult.com.au](http://www.inconsult.com.au). A copy of the detailed survey report with the results, commentary and suggestions for improvements is available to all councils at no charge via InConsult's website.

InConsult is a leading professional services firm with extensive local and international experience in risk management. Since October 2005, InConsult has worked with business advisers BKR Walker Wayland in an alliance covering risk management and accounting issues for businesses and government organisations. BKR Walker Wayland is an association of independent member firms with offices across Australia and New Zealand.

**\*Australian Prudential Regulation Authority**

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