

Councils ignore risk

Christopher Jay

NSW shires and councils, and presumably local government bodies in other states, still see risk management as mainly about buying insurance and managing public liability issues, ignoring other risk areas in the process.

This emerges from a survey of NSW shires and councils by specialist risk management consultant InConsult.

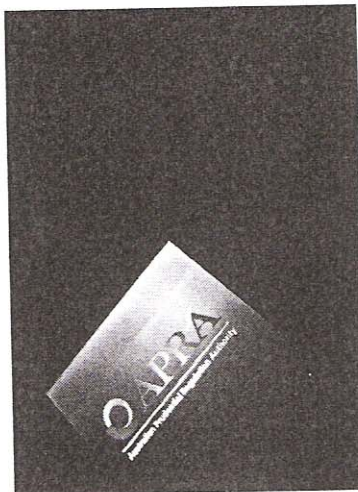
The traditional insurance focus suggests local government is yet to embrace the private enterprise move towards all-round risk management, including measures to forestall possible risk (mitigation) rather than just buying insurance (risk transference).

Councils did have risk management systems and processes, but most conceded there was room for considerable improvement.

"In particular, the context of risk management needs to be broadened, involve councillors more and [have] processes applied more consistently across councils," said InConsult managing director Tony Harb.

"When managing risk, councils predominantly focus 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."

The survey indicates most councils are thinking about risk management, but not council-wide



Structured risk management is gaining acceptance with regulators like APRA.

risk management. Almost all discuss it at senior levels, but mostly in the context of insurance.

Four-fifths had a risk management policy but half felt it needed improving. A little more than half believed they could manage their top five risks better, and only 16 per cent thought they managed them well.

All councils had a code of conduct, but only two in five had a fraud management policy. Less than half had an audit committee or a risk management committee, and less than one in five reported key risks to councillors.

Only two in five councils had a formal risk register to monitor risk and evaluate controls, and two-thirds were undecided about

implementing council-wide risk management, or would take another one or two years to get into it.

Finding a home for risk management within the council's executive structure remains an issue, with responsibility for risk varying considerably between councils.

"While insurance can be an effective form of managing specific insurable risk, there are many more risks that local governments are exposed to that insurance simply cannot treat," said Mr Harb. "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.

"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.

Mr Harb said it was important to align the risk management strategy to council strategies/objectives and identify all risks affecting council.