State of Risk Management in 2014

It has been eight years since InConsult's inaugural 2006 Council-Wide Risk Management (CWRM) Survey. That survey concluded that whilst NSW councils had various forms of risk management systems and processes in place, most councils heavily focused on insurable risk areas, many had not identified all their major risks and the majority felt their risk management frameworks needed improvement. How far has NSW local government come in the last eight years? Mitchell Morley from InConsult presents some of the key findings from InConsult's 2014 CWRM Survey.

Risk Management Plans and Framework

A risk management plan or strategy is a crucial document that outlines how a council intends to go about implementing, monitoring and improving its risk management framework. It also typically provides the tools and processes to be used in identifying analysing and managing risks across the organisation. In 2006, around 50% of councils indicated that they had a formal risk management plan or strategy. This figure has improved significantly to 70% in our 2014 survey. This is a very positive result which indicates that a growing number of councils have recognised the need to document their approach to risk management.

Key Challenges

Lack of time and resources are the major challenges for councils when implementing a council-wide risk management framework. This may be a reflection of the increasing pressures on councils generally to deliver an increasing volume of services without a commensurate increase in resources.

Getting commitment from management and staff was also a major challenge. This may be due to the perception that the benefits of good risk management are only somewhat offset by reduced efficiency. The level of commitment from management and staff may also be a reflection of the aforementioned time and resource pressures across the organisation.

Establishing Risk Appetite

Risk appetite is effectively the amount of risk that a council is prepared to accept in pursuit of its objectives. Documenting and articulating risk appetite is important as it sends a clear message to decision-makers across the organisation about the limits of acceptable risk-taking. In 2006 only 31% of councils had formally documented their risk appetite. This figure has grown to 50% in 2014. Whilst this is an improvement, it highlights the need for more to be done in this area.

Strategic Risks

Strategic risks are future uncertainties that have the potential to significantly impact the core objectives of the organisation. It is important to identify and monitor these risks given their potential consequences. However, whilst 65% of councils have undertaken a formal assessment of these risks, more than a third of councils have not. This would also appear to be an area of risk management requiring further attention.

Formal Risk Register

Documenting risks in a formal risk register is important not only to demonstrate to stakeholders that risks are being identified and managed in a systematic way but also to enhance the organisation's ability to review and monitor risks over time. Nearly 70% of councils indicated that they have documented their risks in a formal risk register which is a significant increase (from 43%) since 2006.

Frequency of Risk Register Review

A common situation in many organisations is that the risk register is not reviewed on a regular basis. This results in the information contained in the register quickly becoming outdated and meaningless. Encouragingly the survey revealed that over 73% of councils review their risk registers at least annually. Compared to the results of the 2006 survey the percentage of councils reviewing their registers at least quarterly has increased significantly (from 7% to 29%). This may be due to greater alignment between risk management processes and the integrated planning and reporting framework which requires quarterly review of operational plans and budgets. If this is the case then this is a positive development showing a level of integration of risk management into key organisational decision-making processes.

Risk Management Maturity

The results of the 2014 survey show a slightly higher percentage of councils (3.3%) believe that their risk management maturity is proficient. This is an improvement from 2006. For the first time, some councils (1.3%) rated their maturity as "Advanced". The percentage of councils who rated their maturity as basic has decreased from 13% to 8% whilst the percentage at a "Developing" level has remained relatively static at around 65%. This indicates that whilst there has been some growth in risk management maturity, the majority of councils still rate themselves as "Developing". This is a key finding and highlights that there is still much to be done to ensure that risk management frameworks are appropriate to the needs of the organisation and contribute positively to the achievement of organisational objectives.

Business Continuity Planning

An 80% affirmative response indicates that councils are concerned enough about business disruption risks to at least have a Business Continuity Plan (BCP) in place for their Administration Centre. This may well be a product of relatively recent council disasters such as the building fires experienced by Bankstown and Liverpool councils. However, the majority have not reviewed their plans in the last two years and 55% have not tested their plans in the last 12 months.

Established Audit Committee

The release of the Division of Local Government's Internal Audit Guidelines in 2008 and the updated version in 2010, appears to have spurred a significant increase in the number of councils that have established an audit committee. According to our 2006 survey only 38% of councils had established an audit committee at that time. By 2014 this figure had grown to 79%. These numbers are encouraging but still indicate that there are a number of councils that do not currently have an audit committee.
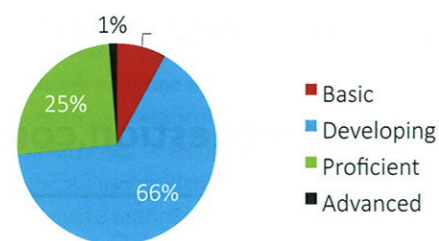
The Bottom Line

This is a brief snapshot of the 2014 CWRM survey results. Overall, we see improvements in risk management processes in NSW local government. In particular, the context of risk management has widened to reflect the diversity of council activities and establishing an Audit Committee helps with monitoring risks and internal controls. However, the areas of risk appetite and strategic risks still need to be improved. Councils that would like a free copy of the summary report can email info@inconsult.com.au to request a copy.

Which Risk Areas Are Managed Best?

Political Risks, Fraud and Corruption Risks, Regulatory & Compliance Risks, Business Disruption Risks, Physical Property & Asset Risks, Public & Legal Liability Risks, Reputation Risks, Work Health & Safety Risks, Environmental Risks, Financial Risks — scale 1 Very Poor to 5 Very Well
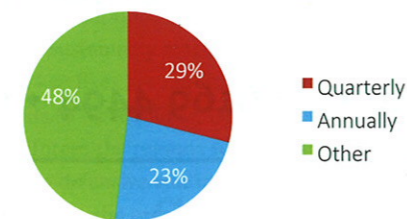
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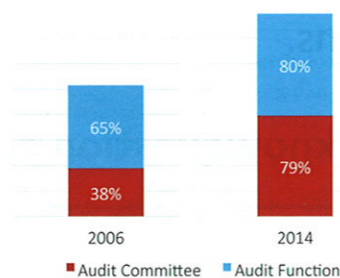

Current Stage of Risk Management Maturity
- 1% / 25% / 66% / Basic / Developing / Proficient / Advanced

Frequency of risk registers reviews
- 29% / 48% / 23% — Quarterly / Annually / Other

Internal audit is gaining momentum
- 2006: 65% Audit Committee 38%, 2014: 80% Audit Function 79%
- Audit Committee / Audit Function