The Auditor-General
Audit Report No.3 2003–04
Business Support Process Audit

Management of Risk and Insurance

Australian National Audit Office

ISSN 1036–7632

ISBN 0 642 80728 0

Australian National
Audit Office

Canberra ACT
27 August 2003

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a business support process audit across agencies in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Management of Risk and Insurance.*

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

P.J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Contents

Abbreviations

ANAO	Australian National Audit Office
ABS	Australian Bureau of Statistics
APS	Australian Public Service
CAC Act	*Commonwealth Authorities and Companies Act 1997*
CEO	Chief Executive Officer
CFO	Chief Financial Officer
FMA Act	*Financial Management and Accountability Act 1997*
HSR	Health and Safety Representative
IT	Information Technology
KAE	Key Area of Examination
KPI	Key Performance Indicator
MAB/MIAC	The Management Advisory Board/Management Improvement Advisory Committee
OHS	Occupational Health and Safety
OHS(CE)Act	*Occupational Health and Safety Act 1991*
SRC Act	*Safety, Rehabilitation and Compensation Act 1988*

Glossary

Where possible definitions have been sourced directly from the Australian and New Zealand Standard on Risk Management, and Comcare and Comcover publications.

Claim	A writ, summons, application or legal notice served or written or verbal notice of demand for compensation.
Comcare	Administers the Commonwealth's workers' compensation scheme under the SRC Act and it also administers the OHS(CE) Act 1991.
Comcover	Comcover manages the Commonwealth's managed fund for insurable risk with the assistance of private sector providers of insurance broking and risk management services. It was established in 1998 as a means of delivering a range of insurance services to Commonwealth organisations. In 2003, Comcover has advised the ANAO that its purpose is to foster improved and more efficient government operations by integrating risk management into Government activities and business practices and providing a comprehensive insurance program to protect the Commonwealth's assets and Budget against insurable losses.
Comcover client	For the purposes of this report, Comcover member agencies will be referred to as Comcover clients.
Commonwealth group	Refers to the 50 Commonwealth organisations that responded to the survey. The FMA Act governed 47 of these organisations.
Cost of claim	Total dollar value, including direct and indirect costs, of a claim.
Cost of risk	Cost of activities, both direct and indirect, involving any negative impact, including money, time, labour, disruption, goodwill, political and intangible losses.
Current insurable value	For the purposes of this report, is the appropriate basis for assigning a dollar value to the item being insured and can include: • replacement value for assets; • current value for insurable liabilities; and • the value specified in contracts for indemnities.
Incident	An unplanned or unexpected event with undesirable or unfortunate consequences.

Framework	Includes a policy and a set of procedures to support application of the policy.
Incident investigation	Information collection processes completed by a nominated officer of an organisation upon receipt of an incident report. The results of the investigation should satisfy the insurer's information requirements and, where applicable, satisfy the internal risk management framework by recommending action to prevent or minimise reoccurrence. The investigation should not compromise the organisation's or insurer's position in relation to a potential insurance claim.
Incident reporting	Procedure that involves reporting incidents (which can include personal injury, motor vehicle accidents, property damage) to a nominated central point in the organisation. An incident report form that satisfies both the internal and insurance provider's information needs may be used to support incident reporting. This enables the organisation to report the incident to management and/or appropriate insurance provider.
Insurable risk	An identified risk that that has a financial value which can be covered or transferred to some extent by insurance.
Insurance frameworks	For the purposes of this audit, the insurance frameworks include all policies and procedures established for the management of general insurance, and OHS and workers' compensation insurance.
Key Performance Indicator (KPI)	KPIs are measures of performance/success. For example, CPA Australia states that KPIs for risk management indicate the success of an organisations risk mitigation strategies, level of acceptance or avoidance of risk, any reduction or increase in risk and the level of transfer or sharing of risk within an organisation.
Maximum possible loss	Represents the total value of the exposure. An estimate of the impact of potential losses should include direct, indirect, immediate and long-term costs. In relation to general insurance this may include current insurable value for assets, liabilities and indemnities.
Maximum probable loss	Represents the total practical value of the exposure. For example, it is unlikely that an organisation that owns multiple buildings in several states will be exposed to the loss all of those buildings in an insurance period.

Opportunity	A combination of favourable circumstances or situations that, if acted upon, provides a benefit to an organisation.
Organisation	Includes all Commonwealth Government departments, authorities, agencies, or other bodies established under the FMA Act or the CAC Act.
Organisation-wide risk management	Organisation-wide risk management takes a view of risk across an organisation and its 'silos'.
Policy	A statement of overall objectives, intent and responsibility for an activity, function or process. The statement should reflect the expectations of senior management.
Procedure	Procedures support the essential steps in managing an activity, function or process or activity by providing guidance and instruction to staff on how to achieve the objectives of the relevant policy.
Re-insurance	Is a transaction whereby one insurance company (the 'reinsurer') agrees to indemnify another insurance company (the 'ceding' or 'primary' company) against all or part of the loss that the latter sustains under a policy or policies that it has issued. The ceding company pays the reinsurer a premium.
Residual risk	The remaining level of risk after risk treatment measures have been developed and implemented.
Risk	The chance of something happening (an event) that will have an impact upon objectives. It is measured in terms of consequences and the likelihood of a particular risk.
Risk framework	The policy and procedures developed by an organisation to be used when identifying, analysing, evaluating, treating, reporting, monitoring, reviewing and communicating insurable and non-insurable risks. The risk management framework should govern risk management at all levels in the organisation.
Risk context	The strategic, organisational or operational environment in which a risk occurs. The context includes the goals, objectives, strategies, scope and parameters of the organisation/activity in which the risk management process is being applied.
Risk culture	All business behaviours relating to an organisation's performance. It encompasses informed decisions based on a reasonable analysis of foreseeable risks, opportunities and their associated impacts on the corporate objectives.

Risk identification	Determining what risk events can happen, why and how.
Risk level	A risk level is a rating assigned to a risk based on the likelihood and consequences of a risk, which is compared against pre-established criteria for risk classification in the risk management framework. For example risk level ratings might include: • extreme risks–the classification system might specify that immediate action is required; • high risks–the classification system might specify that senior management attention is required; • moderate risks–the classification system might specify that management responsibility must be established; and • low risks–the classification system might specify that these risks can be managed by existing procedures.
Risk management	The culture, frameworks and structures that are directed towards the effective management of potential opportunities and adverse effects. Risk management involves the systematic application of management policies, procedures and practices to the steps of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk.
Risk management plan	A document which outlines the methods and strategies to identify, collate and evaluate, and manage risks within an organisation.
Risk prioritisation	Ranking identified risks in order of importance or urgency by applying established criteria.
Risk profile	A risk profile is a prioritisation of key identified risks, which is generally represented as a matrix of likelihood and consequences.
Risk register	A risk register is a comprehensive record of insurable and non-insurable risks across an organisation, business unit or project depending on the purpose/context of the register. The register records: • the risk; • how and why the risk can happen; • the existing internal controls that may minimise the likelihood of the risk occurring;

	• the likelihood and consequences of the risk to the organisation, business unit or project; • a risk level rating based on pre-established criteria in the risk management framework, including an assessment of whether the risk is acceptable or it needs to be treated; and • a clear prioritisation of risks.
Risk transfer	Transferring the responsibility or burden for loss to another party through legislation, contract, insurance or other means. Risk transfer can also refer to transferring a physical risk, or part thereof, elsewhere.
Risk treatment	Selection, development and implementation of appropriate options for dealing with risk.
Risk treatment plan	Identifies responsibilities, schedules, the expected outcome of treatments, budgets, performance measures and the review process to be set in place.
Risk/insurance coordinator	The officer nominated by the organisation to manage or facilitate the day-to-day coordination, advice and assistance in managing risk and insurance activities within the organisation.
Senior management	The layer of management in an organisation that makes decisions about direction, focus, policy and corporate governance.
'Silo'	A 'silo' describes a business unit, division or activity within an organisation, or an agency, organisation or reporting entity within a portfolio or industry group.
'Sponsor'	A senior manager of the organisation that provides support and access to required resources to assist with the achievement of objectives.

Summary and Recommendations

Summary

Risk management and insurance

Risk management

1. Risk management is the term applied to a logical and systematic method of establishing the risk context, identifying, analysing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process in a way that will enable organisations to minimise losses and maximise opportunities. Risk management is considered to be an integral part of good management practice[1] and a key element of good corporate governance.[2]

How are risk and insurance linked?

2. Insurance is one of the risk treatment strategies available to organisations. Organisations should consider a variety of treatment strategies including the most cost effective combination of:

- deciding to avoid or eliminate exposure to the risk;
- developing treatments to reduce and control the impacts of any losses that could result from exposure to the risk; and
- transferring the potential loss associated with the risk to a third party.

3. Insurable risk is any risk that can be covered by an insurance policy. This may include:

- damage to property and persons;
- professional and public liability;
- security threats to personnel; and
- threats to business safety, such as cash arrangements, vandalism, theft, and illegal entry.[3]

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[1] Joint Standards Australia/Standards New Zealand Committee on Risk Management, 1999. Australian and New Zealand Standard 4360:1999 on Risk Management, Standards Association of Australia, p. 1.

[2] The Australian Stock Exchange (ASX) Corporate Governance Council has developed a set of guidelines, *Principles of Good Corporate Governance and Best Practice Recommendations.* This document establishes 10 essential principles that the ASX believes underlie good corporate governance. Recognising and managing risk is the seventh of the 10 essential corporate governance principles.

[3] CPA Australia, 2002. *Enterprise-wide Risk Management. Better Practice for the Public Sector*, Public Sector Centre of Excellence, Melbourne, p. 38.

Commonwealth government requirements for risk and insurance

4. Risk management in the Commonwealth public sector is not new. The introduction of the Australian and New Zealand Standard 4360:1995 on Risk Management in 1995 (updated in 1999); the establishment of Comcover in the Commonwealth public sector; and an organisation-wide approach to the management of risk are significant events in the introduction of modern risk management practices in the Commonwealth public sector. The establishment of Comcover has also emphasised the need to link risk management and insurance practices at an organisation-wide level.

5. Most Commonwealth organisations have been required to take out insurance for insurable risks of a general insurance nature since late 1998 and insure workers' compensation matters since 1988, through Comcover and Comcare respectively. Comcover's active promotion of organisation-wide risk management since 1999, has given organisations the opportunity to raise the maturity of risk management to a level at which they can seek to refine existing plans and procedures to better link risk treatments (such as insurance) to the organisations' risk exposures and priorities.

6. Improved links between risk management and insurance are driven by increasing insurance costs and reductions in available cover, particularly, for public liability risks. Organisations also seek to improve risk management and their corporate governance frameworks and practices, to enhance overall results.

Comcover

7. In October 1997, the Government agreed in principle that the Commonwealth non-insurance practice be replaced by a single managed fund covering all insurable risks. The Government was advised that the non-insurance policy, which had been in place since 1909, did not provide any comfort or direction to ensure that organisations were managing their risks effectively. The policy of non-insurance also hindered public sector reforms and provided Commonwealth organisations with little incentive to apply good business practices as they were not required to pay for any significant losses whether preventable or otherwise; even if it was not always certain that they would be provided with additional funding in such cases.

8. In 1999, Comcover launched a risk management program to provide Commonwealth organisations with assistance in risk management planning and education, including the release of a risk management guide, and provision of mentoring and advisory services and training programs to client organisations.[4]

[4] Comcover refer to client organisations as Comcover member agencies.

In 2000, Comcover requested that organisations develop and implement risk management plans by 31 March 2001. The introduction of risk management plans was seen as a necessary step for effective identification and management of insurable risks and as a tool to ensure that organisations had appropriate insurance arrangements in place.

Comcare

9. Comcare administers workers' compensation insurance arrangements within the Commonwealth, covered by the *Safety, Rehabilitation and Compensation Act 1988* (SRC Act) and other associated legislation,[5] for the majority of Commonwealth organisations.[6]

10. The SRC Act establishes a fully-funded premium-based system and a licensed self-insurance system of compensation and rehabilitation for employees who are injured in the course of their employment. The SRC Act emphasises prevention, active claims management, rehabilitation and safe return to work. It has a comprehensive benefits structure with limited common law rights.[7] Prevention includes the promotion of a risk-managed approach to Occupational Health and Safety (OHS).

Audit objectives and scope

11. The objectives of the audit were to evaluate the administrative systems and frameworks in Commonwealth organisations used in the management of risk and insurance. Specifically, the audit evaluated the adequacy and effectiveness of:

- the development and application of risk management and insurance frameworks and plans within organisations;
- organisations' records for the determination of risk treatments, including insurance cover; and
- procedures, and their application, for actively managing risk exposures and insurance experience.

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[5] Other associated legislation includes the *Occupational Health and Safety Act 1991*.

[6] *The Safety, Rehabilitation and Compensation Act 1988 covers all Commonwealth employees, including members of the Australian Defence Force (ADF), and employees of certain private sector corporations. ACT Government employees are also covered by virtue of the ACT Government having been declared a Commonwealth authority for the purposes of the SRC Act on 30 June 1994.* Comcare Annual Report 2001–2002, p. 42. The Military Compensation and Rehabilitation Service in the Department of Veterans' Affairs administers workers' compensation arrangements on behalf of the ADF.

[7] Comcare Annual Report 2001–2002, p. 42.

12. This audit was also undertaken by the ANAO to provide recommendations for improvement (where necessary), and identify and disseminate better practice observations. Accordingly, recommendations and opportunities for improvement arising from better practice observations are identified in this Report. In keeping with the arrangements made for this type of audit, findings are presented generically and are not attributed to individual agencies.

13. The audit focused on examining the application of risk management and insurance practices in five small to medium-sized Commonwealth organisations. The organisations selected were clients of Comcover,[8] with:

- two organisations being governed by the CAC Act; and
- three organisations covered by the FMA Act.

Survey of 50 Commonwealth organisations

14. In addition, a survey was undertaken of risk management and insurance practices in 50 organisations to provide an overview of the systems and frameworks that Commonwealth organisations use (refer to Appendix 3 for the survey methodology and background information).[9] The 50 organisations surveyed are referred to as the Commonwealth group throughout this Report. Information from the survey is used throughout this Report to provide more widely applicable comment on the issues arising from the audit of five organisations. As a result, the ANAO considers that this Report identifies areas of opportunity for all Commonwealth organisations in their own risk management and insurance frameworks, based on the lessons learnt from the organisations that have been audited.

Audit conclusion

Overall conclusion

15. The initiatives, such as the establishment of Comcover and other developments in risk management practices, as well as changes in the insurance market, have resulted in organisations introducing organisation-wide risk management practices and general insurance activities since 1998. Despite the stimulus that this created to apply sound management practices, the maturity of risk management and insurance practices across the five organisations audited (and of the 50 organisations surveyed) generally needed to be improved.

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[8] There are approximately 180 organisations in the Commonwealth covered by Comcover.

[9] The organisations were governed by the FMA Act or CAC Act.

16. Overall, based on the five organisations audited, the ANAO concluded that general insurance frameworks and practices had the greatest potential to be improved, notwithstanding the training, education and consulting support provided by Comcover. Organisations audited had at least applied basic OHS and workers' compensation frameworks and, in some cases, had good frameworks and practices in place. The quality of risk management frameworks and practices tended to be better than general insurance practices but were often not as sound, or as well supported, as OHS and workers' compensation frameworks.

17. Despite the divergence of activities undertaken by the organisations audited and surveyed, consistent principles and objectives were established, by all organisations, for the management of risk and insurance. However, the level of maturity of the practices of these organisations varied significantly. A major factor that contributed to a lack of maturity in risk management practices was the dominance of management 'silos', which limited the ability to take an organisation-wide perspective.

18. The ANAO observed some significant improvements in the consideration of factors that could vary the cost of general insurance between the 2001–2002 and 2002–2003 annual renewal exercises in the organisations audited. While, Comcover provides guidance to its client organisations regarding risk profile, level of insurance and deductible, the ANAO found that the cost of insurance and level of deductibles was generally not being considered by organisations in relation to their risk profile, or their incidents and claims experience.

19. The audit also concluded that, based on the organisations audited and in most cases the organisations surveyed, improvements are required in relation to:

- better understanding and articulation of the links between risk and insurance;
- better utilising risk management in business planning;
- consistently applying the risk and insurance frameworks in a timely manner;
- improving record-keeping and reporting of risk management and insurance activities;
- reviewing risk and insurance practices and performance on a regular basis;
- better resourcing of risk management and general insurance activities; and, most importantly,
- an improved level of promotion and participation in applying the risk management framework by senior management.

20. Recent audits and studies conducted by State Audit Offices and CPA Australia identify similar findings and opportunities for public sector organisations in Australia.[10]

Key findings

Risk and insurance

21. The audit observed that most organisations audited and surveyed were only beginning to understand the link between risk management and insurance. The link was better understood in relation to OHS, as a result of the ongoing guidance and support provided by Comcare. However, the organisations audited tended to follow the Safety, Rehabilitation and Compensation Commission's risk management model, even when there were differences between it and the organisation-wide risk management framework.

22. The establishment of Comcover focused organisations' attention on the requirement for organisation-wide risk management and the requirement for general insurance. Comcover has commenced an education process for organisations that are willing to attend. Comcover encourages organisations to link risk management and general insurance and see them as interrelated, whereas organisations have a history and understanding of them as largely unrelated activities of the organisation.

23. The ANAO found that organisations audited were largely reliant on Comcover, or its agents, to provide advice on appropriate types of insurance, including levels of cover and deductibles. Insurance is a specialist field, and organisations will necessarily require advice from Comcover or insurance brokers. The ANAO found, however, that the extent of the reliance on Comcover suggested that the link between risk management and general insurance had not been adequately managed and integrated, as organisations have generally not sought to obtain insurance based on their risk profile and tolerance. They have preferred to focus on:

- the ability to insure the exposure; and
- the most affordable insurance alternative from a deductible and premium cost perspective.

24. The audit found that another inhibitor to integration is the immaturity of the general insurance program and the absence of a basis for properly assessing the performance of general insurance activities. This problem is exacerbated by a lack of generally accepted performance indicators for risk management that link it to insurance. Comcover has indicated that there are some insurance KPIs,

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10 Refer to Appendix 2 to for further information on these audits and studies.

including loss ratios, average claims cost and number of claims. Comcover intends to provide leadership in this area as a mature and sufficient volume of claims experience for organisations and across the Commonwealth becomes available.

25. Comcover has attempted to promote the link between risk management and general insurance through a benchmarking program. While this initiative is welcome, it is only a partial approach to the problem. Comcover offers a discount for organisations that maintain or improve their risk management rating,[11] but not for organisations gaining a better appreciation, and demonstrating stronger management, of their insurable risks.

Comcover Comment

Comcover's Benchmarking Survey is a tool designed to assist member agencies to monitor and manage their organisational risk management performance, including management of general insurance.

As Comcover's claims experience matures, Comcover premiums will become more claims-sensitive and better reflect each individual agency's management of insurable risks specifically.

26. The audit found that another major impediment to the effective management of insurance as a risk treatment is the existence of organisational 'silos'. Risk management, general insurance, OHS and workers' compensation were also often represented as 'silos' within an organisation, and managed as separate, rather than related, functions.

Risk management

27. The majority of organisations audited and surveyed had developed a risk management framework but did not systematically review the framework and improve upon it. In addition, a majority of these organisations had developed organisation-wide risk management plans in response to the Comcover request to develop a plan by March 2001. However, most plans were incomplete; were not consistent with the requirements of the risk management framework; and had not been reviewed. In particular, few organisations:

- identified risks and developed risk registers on an organisation-wide basis;
- reported to a central area on key unacceptable risks and progress in treating them to assist with forming an organisation-wide view of risk, or sought to incorporate reporting on these risks over time as part of their performance management system; and
- documented treatment strategies to address identified risks.

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[11] Refer to Chapter 1 and Appendix 1 for details of the Comcover risk management benchmarking program.

28. The audit found, that for most organisations audited, risk management frameworks and plans needed to be more strategically focussed, timely, and consistent with organisational objectives, policies and procedures. Most organisations also needed to improve documentation of risk management activities. Those organisations audited that had reviewed their risk management plan, tended to improve their understanding of risks, sources, likelihood of risks occurring, and of which risks could reasonably be managed.

29. Some organisations audited did not sufficiently appreciate the risk environment in which they operated. In particular, they did not understand the cause of risks, even though significant risk events had occurred in their recent past. As a result, they had developed lower quality risk management frameworks and plans. The ANAO found that their approach to risk management impaired their ability to limit the likelihood and consequences of risks, including the reoccurrence of significant risks, nor to take advantage of such experience and opportunities.

30. Another impediment to effective risk management was that organisations audited did not enforce organisational policies, procedures and plans for risk management. The problem tended to be exacerbated in organisations audited that did not have active involvement of senior management in promoting, or participating in, the application of risk management frameworks. This was demonstrated by the absence of the identification of strategic risks in organisation-wide risk management plans. Other consequences of a lower level of senior management involvement included:

- organisations placing a lower level of priority on developing risk management plans at the business unit and division level;
- an inadequate level of resourcing and training available to support the risk management framework; and
- organisations engaging in a 'silo-based' approach to the management of risk, rather than adopting an organisation-wide approach. In some situations, organisations audited had difficulty identifying organisation-wide risks, stating that the business of the 'silos' was so different that it could only be managed at that level.

31. The silo-based approach could result in the organisation not effectively applying its resources to the greatest sources of risk. Also, the silo-based approach could result in each 'silo' within the organisation developing a different treatment to the same type of risk. This is likely to represent at least a duplication of effort. For example, each 'silo' could insure 100 per cent of its property exposure as a maximum possible loss. However, when considered on an organisation-wide basis, 100 per cent exposure annually would be unlikely on a maximum probable loss basis.

32. Organisations audited that had developed treatment strategies for risks, in some cases, did not develop or implement treatments within required timeframes or assess whether the treatment sufficiently addressed the risk. Overall, the audit found that most organisations audited did not ensure that identified risks were adequately treated.

Risk management and business planning

33. Organisations audited and surveyed also needed to improve the link between risk management and business planning activities. Most organisations audited required risks to be considered as part of the business planning process. However, the robustness and consistency of the risk management in this context suffered, as organisations tended to provide no, or limited, guidance on the requirements for developing risk management plans as part of the business planning process. Where guidance was available, it did not refer to, or require, compliance with the organisation's risk management framework.

34. Similarly, organisations audited and surveyed also needed to improve the link between insurance and business planning processes. This link would be best developed through the risk management framework. Organisations audited also needed a central coordination role for risk management to ensure that there were robust processes for quality assurance monitoring and forming an organisation-wide view of risk.

General insurance

35. Organisations audited and surveyed had commenced some form of general insurance activity to obtain annual cover, and report incidents and claims to Comcover. However, for most of these organisations, these activities were not supported by a general insurance framework or training. All of the organisations audited needed to further develop procedures to provide a robust and focussed framework for applying organisation-wide general insurance management. Organisations audited also needed to improve documentation and records to support general insurance activities, including identifying current insurable values of all assets, liabilities and indemnities to assist in quantifying the insurable risk exposure of the organisation.

36. A further inhibitor to the cost-effective management of general insurance was that the medium and large-sized organisations audited and surveyed, generally performed the function on an ad hoc basis, without any specialist skills, and with little management responsibility beyond the finance area. This meant that the function was more likely to be separated from risk management coordination in the organisation. General insurance practices in smaller organisations audited and surveyed tended to be linked to organisation-wide risk management activities through the officer that performed central coordination responsibilities for both activities. As a result, in the smaller organisations audited, procedures tended to be better developed and communicated.

37. Organisations audited generally did not seek to learn from the management and experiences of other insurance activities undertaken in the organisation, namely, OHS and workers' compensation activities. If mentoring or communication between those responsible for these two activities had occurred, their general insurance frameworks and practices may have been more robust.

OHS and workers' compensation

38. All organisations audited, and most organisations surveyed, had a basic framework in place for OHS and workers' compensation. Where aspects of the internal framework were not developed, for example, rehabilitation policies, organisations were able to use Comcare guidance as a basis for any activities. Most organisations audited needed to further develop procedures, to address gaps in the current framework.

39. The ANAO found that, where organisations audited did not enforce organisational policies and procedures, or implement the recommendations of Comcare and internal audits on a timely basis, this was an impediment to effectiveness of their OHS and workers' compensation frameworks.

Internal reporting and review

40. OHS and workers' compensation reporting to OHS and Senior Management Committees tended to be better supported and more strategically focused than risk management and general insurance activities. Most organisations audited were not providing useful or regular reports on risk management and general insurance activities of the organisation.

41. The audit found that there was limited evidence of monitoring activities in relation to risk management and general insurance. In addition, most organisations audited were not providing sufficiently strategic or performance-based information to relevant Committees. This was a factor of organisations not having a clear understanding of their objectives for risk management and insurance activities or how to measure performance.

42. Comcover intends to provide leadership in this area as a mature and sufficient volume of claims experience for organisations and across the

Commonwealth becomes available, which would be equivalent to between five and 10 years experience since the introduction of Comcover.

43. Some organisations audited also needed to improve their understanding of the relevant legislation, and requirements, in respect of timely notification of reportable incidents and claims.

44. The reporting and monitoring functions tended not to be resourced appropriately in the organisations audited, as it was not recognised as an individual's or section's responsibility. Most organisations audited did not have adequate records to support the production of reports. Most organisations audited were more likely to use information technology to store data rather than to assist with the provision of meaningful summary information to management.

45. The ANAO found that even the more effective OHS and workers' compensation data bases developed by the organisations audited, tended to have a focus that was limited to supporting overall performance information. This does not support the information needs of senior managers, who also need to assess basic compliance with internal frameworks and external requirements, as compliance ultimately affects performance.

46. The ANAO found that senior managers were not able to monitor and recommend changes to risk and insurance practices and plans because they were not receiving regular reports on the performance of these activities. Furthermore, because of the poor integration between risk management, business planning and reporting activities, most organisations audited considered reporting on risk management (in particular, plans) to be an additional administrative burden that did not need to be performed more frequently than bi-annually or annually. This indicates that these organisations have not sufficiently developed an understanding of the benefits of managing risks to their business on a timely basis. Organisations that have an effective corporate governance framework in place receive reports on the progress of all business activities on a more frequent basis.

Resourcing risk management and insurance

47. Most organisations audited and surveyed had committed at least some resources to their risk management and insurance frameworks. The ANAO found, however, that organisations audited needed to improve:

- cost tracking and develop budgets for risk management coordination, general insurance and OHS and workers' compensation;

- articulation of coordinators' responsibilities in relation to central reporting, monitoring and review to ensure that these responsibilities are appropriately resourced;
- the use of consultants, without the consultants undertaking, or excessively directing, the application of the frameworks; and
- enforcement and monitoring of risk management and insurance activities.

48. Most organisations audited and surveyed had provided initial internal training for risk management, and OHS and workers' compensation, but not for general insurance. Organisations needed to develop and provide on-going refresher training that better articulated the links between risk management and insurance.

Organisation responses

49. Each organisation audited received a management letter outlining findings, conclusions and recommendations specific to their organisation. The organisations agreed with the conclusions and recommendations and have advised the ANAO of action being taken to address the recommendations. The organisations audited have also generally agreed with the findings, conclusions and recommendations presented in this Report, while noting that some recommendations would involve resource issues that they would need to address.

Recommendations

Set out below are the ANAO's recommendations with Report paragraph references. The ANAO considers that other Commonwealth organisations can apply the recommendations presented below when establishing, applying, managing and improving risk management and insurance activities. Organisations should consider these recommendations in the context of their own risk management and insurance environment, Comcover and Comcare requirements and the Australian Standard 4360:1999 on Risk Management.

Risk and insurance frameworks

Recommendation No.1
Para 2.77

The ANAO recommends that organisations which do not have a risk management, general insurance, and/or OHS and workers' compensation framework, develop the framework(s) in accordance with principles established in the guidance provided by the Australian and New Zealand Standard 4360:1999 on Risk Management, or by Comcover and/or Comcare.

Recommendation No.2
Para 2.78

The ANAO recommends that organisations that have developed risk management and insurance frameworks improve their frameworks by:

- ensuring the frameworks address all critical activities that are performed in relation to the management of risk and insurance;
- articulating, and documenting, the links between the risk management and insurance frameworks, and their links with other strategic documents and processes;
- explicitly recording staff contact officers, roles and responsibilities;
- updating the frameworks in a timely manner to reflect restructures, changes of key personnel, or changes in the external requirements and guidance; and
- enhancing or developing reporting, monitoring and review requirements to assess both performance of, and compliance with, the frameworks. This should include the development of standard reporting templates and an adequate set of Key Performance Indicators (KPIs).

Senior management involvement

Recommendation No.3 Para 3.29

The ANAO recommends that organisations improve senior management involvement in, and promotion of, risk management and insurance frameworks by:

- the Chief Executive Officer or Senior Management Team formally endorsing, and more actively encouraging the use of, the key policies and procedures for risk management and insurance;
- appointing a member of the Senior Management Team as the risk management 'sponsor'. The 'sponsor' should be actively involved in promoting, monitoring, reporting, and reviewing the risk management and insurance framework; and
- improving the level of the Senior Management Team's participation in organisation-wide risk management through identification and review of strategic and key operational risks.

Resources

Recommendation No.4 Para 3.35

The ANAO recommends that organisations implement procedures to track the costs of risk management and insurance activities. This should assist organisations to develop future budgets for risk management and insurance activities.

Recommendation No.5 Para 3.63

The ANAO recommends that organisations review the resourcing levels dedicated to risk management and insurance, including:

- the adequacy of administrative support for reporting and review of risk management and insurance;
- implementing or improving the existing data bases for risk management and insurance to improve centralised and summary record-keeping, as well as supporting performance and progress reporting; and
- the use of external consultants, where appropriate, to supplement internal resources to ensure that risk management activities are completed within a reasonable timeframe.

Training

Recommendation No.6
Para 3.71

The ANAO recommends that organisations consider providing appropriate risk management, insurance and risk-related awareness training to all staff, and ensure that staff receive periodic refresher courses after the initial training is held.

Application of the frameworks

Recommendation No.7
Para 4.52

The ANAO recommends organisations improve the application of the risk management and insurance frameworks by:

- ensuring that the risk management and insurance frameworks, and any external requirements, are applied and undertaken in a consistent and timely manner;
- increasing the level and quality of documentation for risk management and insurance activities;
- recognising insurance, where appropriate, as a treatment in risk management plans;
- improving risk management plans; and
- implementing treatments within timeframes established in risk management plans.

Reporting and review

Recommendation No.8
Para 4.75

The ANAO recommends that organisations improve monitoring and reporting, and review of risk and insurance activities by reporting to senior management:

- in accordance with timeframes established in the risk management policies, procedures and plans. Reporting on risk treatments should occur at least quarterly (for high risks) and bi-annually for other risks to assist management to monitor and make timely assessments of the appropriateness and effectiveness of risk treatment strategies;
- on general insurance matters (including summarised incidents and claims experience, and current insurable value of assets, liabilities and indemnities) on a periodic basis. This would assist on-going monitoring, as well as facilitating modelling the cost and benefits of existing general insurance arrangements against alternative insurance arrangements (such as levels of cover and deductibles); and
- more strategically on risk management and insurance matters.

Audit Findings and Conclusions

1. Introduction

This chapter provides an overview of risk management and insurance objectives and requirements in the Commonwealth. The chapter ends with an outline of the audit objectives and scope, and the structure of the remainder of this report.

Risk management

What is risk management?

1.1 Risk management is the term applied to a logical and systematic method of establishing the risk context, identifying, analysing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process in a way that will enable organisations to minimise losses and maximise opportunities. Risk management is recognised as an integral part of good management practice.[12]

Risk management and corporate governance

1.2 Risk management is an integral part of an organisation's management and control structures and, therefore, its corporate governance. This view is supported by the Australian Stock Exchange, which considers it to be an essential principle of good corporate governance. To ensure that organisational objectives are being met, and priorities are being addressed in the correct order, an organisation-wide view of risks and controls is necessary.[13]

Risk management and business planning

1.3 The role of risk management in corporate governance, and specifically, in determining organisational exposures, opportunities and priorities, creates the need for risk to be considered during strategic and business planning activities. Risk management strategies must be fully integrated with the strategic and business planning approaches of entities so that:

- planned business outcomes, outputs and activities do not expose the organisation to unacceptable levels of risk;
- utilisation of resources is consistent with organisational priorities; and

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[12] Joint Standards Australia/Standards New Zealand Committee on Risk Management, 1999. Australian and New Zealand Standard 4360:1999 on Risk Management, Standards Association of Australia, p. 1.

[13] Barrett, P 2002. *Expectation, and Perception, of Better Practice Corporate Governance in the Public Sector from an Audit Perspective,* Address to the CPA Australia's Government Business Symposium, Melbourne, 20 September.

- the risk management strategies are integrated into the management actions of staff at all levels in the organisation,[14] including a recognition that all staff have a responsibility to manage risks.

1.4 This requires the organisational planning timetable to allow for risk identification and treatment to be contemplated ahead of the traditional strategic and business planning processes.[15] Risk management and business planning should also be linked as business objectives and strategies provide a structure and context for identifying risks and opportunities.[16]

Insurance

1.5 Insurance is defined as a legal contract that protects people from the financial costs arising from loss of life, loss of health, lawsuits, or property damage. Insurance provides a means for individuals and societies to cope with some of the risks faced in everyday life. Contracts of insurance, called policies, can be purchased from a variety of insurance organisations. Insurance provides individuals and organisations with the ability to replace the risk associated with uncertainty, with known costs of buying insurance.[17]

1.6 Figure 1 illustrates the link between corporate governance, risk management and insurance frameworks and their application.

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[14] McPhee, I 2002. *Risk Management and Governance,* Address to the National Institute for Governance, Canberra, 16 October.

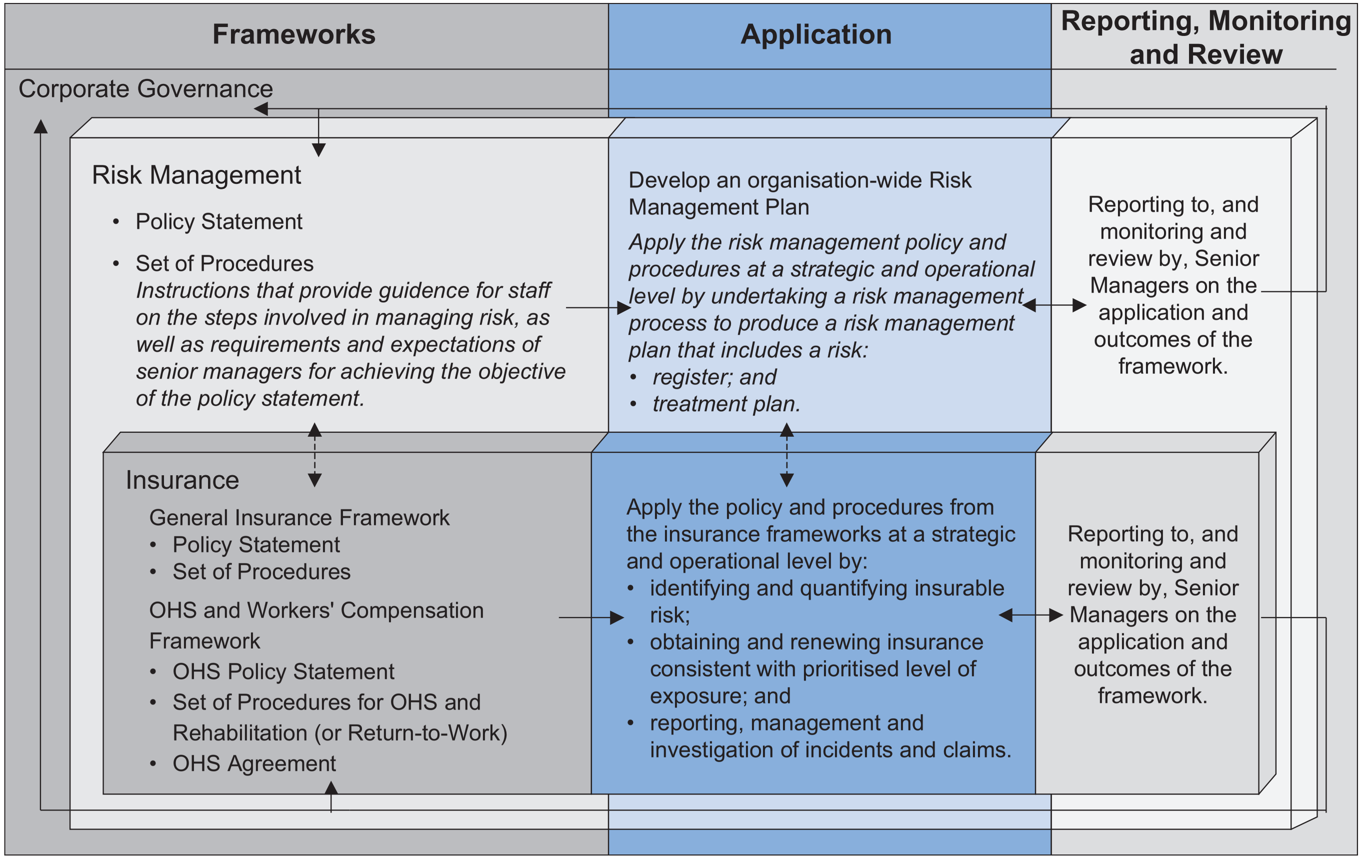
[15] ibid.

[16] Deloach, J W 2000. *Enterprise-wide Risk Management,* Arthur Andersen and Pearson Education Limited, Great Britain, p. 92.

[17] Microsoft® Encarta® Online Encyclopedia 2003, *Insurance*, <http://encarta.msn.com> © 1997–2003 Microsoft Corporation.

Figure 1

The link between corporate governance, risk management and insurance frameworks and their application



Source: ANAO 2003.

How are risk and insurance linked?

1.7 Insurance is one of the risk treatment strategies available to organisations. Organisations should consider a variety of treatment strategies, including the most cost effective combination of:

- deciding to avoid or eliminate exposure to the risk;
- developing treatments to reduce and control the impacts of any losses that could result from exposure to the risk; and
- transferring the potential loss associated with the risk to a third party.

1.8 Risk transfer occurs when an organisation cannot economically afford to retain the residual risk. The organisation must then select the most cost-effective method of financing the potential consequences of unacceptable risk exposures that cannot be avoided, minimised or eliminated through the application of cost-effective treatments, such as additional internal controls. Insurance has traditionally been one of the primary methods of risk financing[18] because of its simplicity and accessibility. Figure 2 illustrates the risk management and insurance considerations of both insurance companies and organisations when entering into an insurance contract.

1.9 Insurable risk is any risk that can be covered by an insurance policy. This may include:

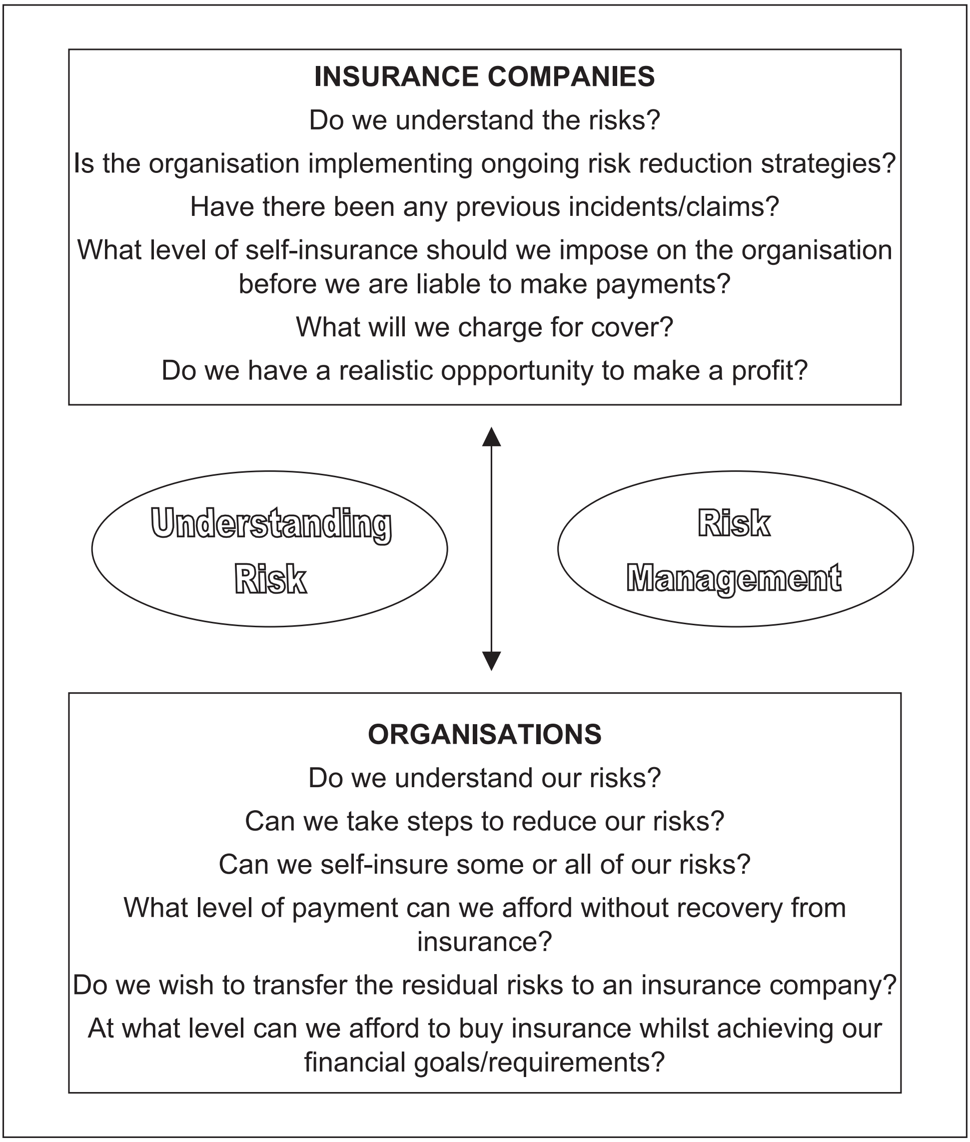
- damage to property and persons;
- professional and public liability;
- security threats to personnel; and
- threats to business safety, such as cash arrangements, vandalism, theft, and illegal entry.[19]

[18] Risk financing is a type of risk treatment that is applied after other treatment options have been applied to identified risks. This form of risk treatment seeks to finance the potential financial consequences of risk exposures.

[19] CPA Australia, 2002. *Enterprise-wide Risk Management. Better Practice for the Public Sector*, Public Sector Centre of Excellence, Melbourne, p. 38.

Figure 2

Converging interests of insurers, insured and self-insured organisations



Source: Thomson CPD 2002. *Public Liability Handbook—Balancing risk and opportunity*. July, p. 57.

Background

1.10 Risk management in the Commonwealth public sector is not new. The introduction of the Australian and New Zealand Standard 4360:1995 on Risk Management in 1995 (the Standard [updated in 1999]); the establishment of

Comcover in the Commonwealth public sector; and an organisation-wide[20] approach to the management of risk are significant events in the introduction of modern risk management practices in the Commonwealth public sector. The establishment of Comcover has also emphasised the need to link risk management and insurance practices at an organisation-wide level.

Comcover

1.11 In October 1997, the Government agreed in principle that the Commonwealth non-insurance practice be replaced by a single managed fund covering all normal insurable risks. The Government was advised that the non-insurance policy, which had been in place since 1909, did not provide any comfort or direction to ensure that organisations were managing their risks effectively. The practice of non-insurance also hindered public sector reforms and provided Commonwealth organisations with little incentive to apply good business practices as they were not required to pay for any significant losses whether preventable or otherwise; even if it was not always certain that they would be provided with additional funding in such cases.

1.12 It was envisaged that Comcover's establishment would for the first time, require the systematic identification, quantification, reporting and management of risk across Commonwealth departments and agencies.[21] The Commonwealth Government recognised that risk management via a managed fund is the preferred choice of most of the State Governments and a number of major corporations both within Australia and overseas. Experience with similar funds in both the public and private sectors has seen significant reductions in overall costs through better and more visible management of risks.[22]

1.13 In particular, it was expected that Comcover would assist Commonwealth organisations to address a number of gaps in risk management and insurance activities, including: training and awareness at all levels; appropriate resourcing; maintaining appropriate documentation of incidents and claims; development of risk management plans; lack of integration of, and senior management accountability for, risk management and insurance activities; and development

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20 For the purposes of this Report organisation-wide risk management is considered to be interchangeable with enterprise-wide risk management. Enterprise-wide risk management takes a view of risk across an organisation and its silos, and is a concept promoted by James Deloach. Refer to James W. Deloach, *Enterprise-wide Risk Management. Strategies for linking risk and opportunity*, Arthur Andersen, 2000.

21 The Hon John Fahey, MP (Minister for Finance and Administration), 1998. *Responsible Risk Management for the Commonwealth Government*, Media Release, Comcover 60/98, Canberra, 30 June.

22 The Hon John Fahey, MP (Minister for Finance and Administration), 1998. ibid.

of a reporting framework for risk management at the organisation and Commonwealth-wide level.[23]

1.14 From 1 July 1998, Comcover commenced operations to provide general insurance to Commonwealth organisations governed by either the *Financial Management and Accountability 1997* (FMA Act) or the *Commonwealth Authorities and Companies 1997* (CAC Act). Comcover provided organisations with a Policy Manual and Schedule of Cover that outlined, among other things, the types of insurance provided and guidance on incident reporting and claims. The Manual also indicated that Comcover clients[24] had a responsibility to improve their understanding and management of risk.

1.15 In 1999, Comcover launched a risk management program to provide Commonwealth organisations with assistance in risk management planning and education, including the release of a risk management guide. In 2000, Comcover requested that organisations develop and implement risk management plans by 31 March 2001. The introduction of risk management plans was seen as necessary for effective identification and management of insurable risks and as a tool to ensure that organisations had appropriate insurance arrangements in place.

1.16 To assist organisations to fulfil their responsibilities in relation to risk management and insurance activities, Comcover developed guidance material, which is available to clients and the general public on the internet.[25]

Limitations with the links between risk management and general insurance

1.17 In late 2000, Comcover introduced a pilot risk management benchmarking program which was available to clients, state, local government, and private sector organisations. The purpose of the program was to enable participants to measure their performance in managing risk relative to other participating organisations. The program was officially launched in 2001. The first two cycles of benchmarking were completed in 2001 and 2002, and were based on organisations completing a self-assessment questionnaire. A third cycle is due for completion in 2003. The 10 Key Performance Indicators (KPIs) for the benchmarking program are matched against the key areas of examination for the audit in Appendix 1.

1.18 Comcover has offered organisations that achieve an improvement in the rating given for their risk management activities, between benchmarking cycles, a premium discount of between three and five per cent.

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[23] Barrett, P 2001. *Some Recent Professional Initiatives and Issues in Risk Management*, presentation to 25th National Conference of the Association of Risk and Insurance Managers of Australasia Ltd, Canberra, 20 November.

[24] Comcover also refers to its clients as 'members'.

[25] Refer to <http://www.Comcover.gov.au>.

1.19 Comcover has indicated to its clients that when there is sufficient incident and claims history, the Commonwealth will be in a better position to negotiate with individual clients and reinsurers on a reduction in premiums for good risk experience. The opportunity to maintain or reduce the cost of insurance premiums, and/or to be able to access insurance if a risk occurs, is an additional incentive for organisations to have an adequate risk management framework and plan in place.

1.20 The benefits of integration of risk management and insurance have been demonstrated by Comcare activities and Wollongong City Council's approach to obtaining general insurance.[26]

Drivers for improving links between risk management and general insurance activities

1.21 Annual premiums have been increasing significantly since 1999–2000 because of a hardening insurance market and an increase in claims numbers. Claims costs have been increasing significantly since 1999–2000 because organisations are becoming aware of incidents that may be claimed from general insurance. In 2002–2003 the estimated total annual premiums increased by 87 per cent to $121 million. The basis for the premium increase would have included the claims experience of 2001–2002, which included an 89 per cent increase in the number of claims and a 60 per cent increase in the dollar value of claims (refer to Table 1.2 on page 43). This trend will continue for the determination of premiums for 2003–2004, as claims costs in 2002–2003 will exceed 2001–2002 costs by more than 68 per cent.

1.22 The major types of general insurance claims are property and liability claims.[27] The Commonwealth has experienced increases in the numbers of both of these types of claims. Comcover reported that liability claims increased by 255 per cent in 2000–2001.[28]

1.23 Comcover, in its publication the *Federal Risk Manager*, has cited a number of reasons for increasing premiums.[29] Table 1.1 (on page 42) outlines both Commonwealth specific and general insurance market pressures causing increases in the cost of insurance.

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[26] Interview on Channel 9's Today program, between Rod Oxley (Wollongong City Council), and Tracy Grimshaw and Steve Liebmann (Comperes), 31 May 2002 at 7.13am.

[27] Refer to Appendix 3, Tables B, C and D. These tables indicate that these two categories of claims were the major types of claims made by Commonwealth organisations that were surveyed.

[28] Federal Risk Manager, Spring 2002, *Comcover's Fourth Year of Operations—an Overview of 2001–02*, Issue No.11, pp. 7 & 8.

[29] Federal Risk Manager, Summer 2003, *Col's Insurance Update*, Issue No.12, p. 12. Federal Risk Manager, Winter 2002, *"Buying power" of Comcover helps contain premium cost increases*, Issue No.12, pp. 4 & 5.

Comcare

1.24 In addition to the Comcover general insurance arrangements, Comcare administers workers' compensation insurance arrangements within the Commonwealth, covered by the *Safety, Rehabilitation and Compensation Act 1988* (SRC Act) and other associated legislation,[30] for the majority of Commonwealth organisations.[31]

1.25 The SRC Act establishes a fully-funded premium-based system and a licensed self-insurance system of compensation and rehabilitation for employees who are injured in the course of their employment. The SRC Act emphasises prevention, active claims management, rehabilitation and safe return to work. It has a comprehensive benefits structure with limited common law rights.[32] Prevention includes the promotion of a risk-managed approach to OHS.

1.26 Comcare's outcome is to 'Minimise the human and financial costs of workplace injury in Commonwealth Employment.' The performance measures for this Outcome are a low premium rate and a declining trend in outstanding scheme liabilities. These are indicators of both occupational health and safety and workers' compensation performance.[33]

1.27 Comcare has developed extensive guidance material, which is available to clients and the general public on the Internet to assist organisations to fulfil their responsibilities in relation to occupational health and safety and workers' compensation.[34] Comcare recommends that organisations regularly monitor injury trends and claim costs to: help inform the development of prevention and injury management strategies; measure the effectiveness of those strategies; and help identify what is driving organisations' workers' compensation costs. Comcare has advised organisations that, if injury and claims information is not monitored and appropriately addressed, premium rates would increase (refer to Table 1.1).[35]

1.28 In 2002–2003 premiums for Commonwealth organisations, that were not licensed self-insurers, rose by 13 per cent. Comcare has foreshadowed that the 2003–2004 premium rates will increase by 27 per cent for these organisations as a result of increased claims duration and frequency.

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30 Other associated legislation includes the *Occupational Health and Safety Act 1991*.

31 *The Safety, Rehabilitation and Compensation Act 1988 covers all Commonwealth employees, including members of the Australian Defence Force (ADF), and employees of certain private sector corporations. ACT Government employees are also covered by virtue of the ACT Government having been declared a Commonwealth authority for the purposes of the SRC Act on 30 June 1994*. Comcare Annual Report 2001–2002, p. 42. The Military Compensation and Rehabilitation Service in the Department of Veterans' Affairs administers workers' compensation arrangements on behalf of the ADF.

32 Comcare Annual Report 2001–2002, p. 42.

33 Comcare Annual Report 2001–2002, p. 38.

34 Refer to <http://www.Comcare.gov.au/publications>.

35 Comcare, *Safety, Rehabilitation and Compensation: The Commonwealth's Performance and Challenges Ahead*, Publication 2002.

Table 1.1

Rising cost of insurance

General Insurance	
Commonwealth Pressures (Internal)	• provision of poor quality information to insurers, for example, on historical claims experience and insured values leads to difficulty for Comcover and its reinsurers in pricing risk; • the end of three year reinsurance agreements for liability insurance; and • steadily increasing claims numbers over the last three financial years.
Market Pressures (External)	• the continuing hardening insurance market;[36] • insurance industry analysts anticipate that the hard insurance market will continue for two to three years; • fewer reinsurers operating in the market place and those remaining in the market seek higher premiums and deductibles; • recent terrorist attacks in the United States; • collapse of HIH; • the public liability and indemnity crisis; • overall declining profitability for insurers; • rationalisation of the industry; • lower investment returns; and • new APRA solvency requirements.
Workers' Compensation Insurance	
Commonwealth Pressures (Internal)	• increase in the average cost of claims[37] and in the frequency of claims (Comcare considers an organisation's previous four years claims experience); • poor management of OHS risks and Return-to-Work programs by organisations contribute to the increases in the frequency and average cost of claims; • the estimated lifetime cost of claims; and • the number of FTEs.
Market Pressures (External)	• lower investment returns; • superimposed inflation; and • new APRA solvency requirements.

Source: Compiled from the Federal Risk Manager, Spring 2002, *Comcover's Fourth Year of Operations —an Overview of 2001–02*, Issue No. 11, pp. 7 & 8; Queensland Government—Report Liability Insurance Taskforce February 2002 p. iii; <http://www.comcare.gov.au/publications/ohs_premium01–02/premiums.pdf>; and 2001–2002 Comcare Annual Report, p. 44.

Commonwealth organisations' premium costs and claims information

1.29 The total risk exposure of the Commonwealth and individual organisations within the Commonwealth is unknown. Of the Commonwealth organisations

[36] The *Australian Financial Review* in January 2003 quoted premium rate increases of 135 per cent for individual organisations, and the expectation of increases in premiums in the coming financial year of 30–50 per cent.

[37] This is influenced by particular types of claims that are considered high cost claims as they take longer to resolve and involve more time off work. For example, stress related claims, strains, back injuries and occupational overuse syndrome claims.

that have purchased general insurance from Comcover (refer to Table 1.2 for premium costs and claims information), their cover against potential property exposures is in excess of $40 billion. However, the total value of the exposure uninsured is not specified because total risk exposure, including liability exposures, within the Commonwealth is unknown.

1.30 Commonwealth organisations purchase workers' compensation insurance premiums from Comcare (refer to Table 1.3 for premium costs and relevant claims information). However, the maximum possible exposure is in excess of the dollar value of total salary and wages of Commonwealth employees, which is approximately $7.9 billion. At 30 June 2002, the estimated outstanding liability for the Commonwealth, excluding the Australian Defence Forces,[38] was in excess of $1.2 billion.[39] Notional assets cover this estimated liability.

Table 1.2

Commonwealth organisations' premium costs and claims information–general insurance

General Insurance	*2000–2001*	*2001–2002*	*% Movement*
Total Premium Collected	$43.2 million	$64.8 million	+ 50
Number of claims	1141	2160	+ 89
Estimated Dollar Value of Claims	$19.3 million	$30.8 million	+ 60

Source: 2001–2002 Annual Report for Department of Finance and Administration and based on Comcover advice to the ANAO.

Table 1.3

Commonwealth organisations' premium costs and claims information–workers' compensation insurance

Workers' Compensation Insurance	*2000–2001*	*2001–2002*	*% Movement*
Comcare Insured Employees	149 700	153 652	+ 2.6
Total Salary and Wages of Insured Employees	$7 604 million	$7 973 million	+ 4.9
Total Premium Collected	$74.3 million	$79.4 million	+ 6.9
Claim Frequency Rate Per 100 FTE	3.39 per cent	3.19 per cent	- 5.9
Average Claim Cost	$10 989	$12 746	+ 16

Source: The information presented in this Table is extracted from the 2001–2002 Comcare Annual Report, Appendix 2–Facts and Figures, Table 18: SRC Act Scheme Profile (excluding licencees), and relates to Commonwealth organisations.

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[38] At 30 June 2002, the Australian Defence Forces had an estimated outstanding liability in excess of $1.8 billion.

[39] This amount includes estimated liabilities associated with the Australian Capital Territory Public Service. Notwithstanding the significance of the liability, in an August 2002 comparative study of Australian and New Zealand Occupational Health and Safety and Workers' Compensation schemes, Comcare was considered to be performing well compared to most other jurisdictions. Refer to Workplace Relations Ministers' Council, *Comparative Performance Monitoring, Fourth Report*.

Australian public and private sector studies and requirements

1.31 Appendix 2 of this Report provides some background information on risk management and insurance activities in the Australian Public Sector (APS) and other jurisdictions including:

- risk management relevant to the APS context;
- the Standard on risk management;
- requirements of State Governments and findings of recent State Audit Office reviews;
- the CPA Australia study of risk management activities in public sector organisations;
- the Australian Stock Exchange Listing Requirements;
- Organisation for Economic Co-operation and Development principles of corporate governance; and
- previous related ANAO audit coverage.

Audit objectives, scope and structure of this report

1.32 The following section outlines the objectives, scope and methodology of the audit and the structure of the remainder of this report.

Audit objective

1.33 The objectives of the audit were to evaluate the administrative systems and frameworks in Commonwealth organisations used in the management of risk and insurance. Specifically the audit evaluated the adequacy and effectiveness of:

- the development and application of risk management and insurance frameworks and plans within organisations;
- organisations' records for the determination of risk treatments including insurance cover; and
- procedures, and their application, for actively managing risk exposures and insurance experience.

1.34 The audit also identified examples of better practice in risk management and insurance.

Audit scope

1.35 The audit focused on examining the establishment of risk management and insurance frameworks and plans (including their policies, procedures and steps) in five small to medium-sized Commonwealth organisations. The organisations selected were clients of Comcover, with:

- two organisations being governed by the CAC Act; and
- three organisations covered by the FMA Act.

1.36 In addition, a survey was undertaken of the risk management and insurance practices of 50 organisations to provide an overview of the systems and frameworks that Commonwealth organisations use.[40]

1.37 The audit and survey provided coverage of approximately 65 per cent of Comcover's client base from the perspective of the cost of insured risk (refer to Figure 3 following). Comcover has about 180 insurance clients that are Commonwealth organisations.

1.38 The organisations selected for the audit represented a cross section of activities and responsibilities, including, policy advice, international relations, regulatory, commercial, service delivery, cultural and tourism. Appendix 3 provides some background information on the survey.

1.39 As part of the detailed audit and survey, each organisation's risk management and insurance practices were assessed to determine whether they were consistent with the principles articulated in the Standard and, where appropriate, guidance provided by Comcover and Comcare. The audit also examined the extent to which risk management and insurance practices were consistent with the organisation's internally developed risk management and insurance policies and procedures.

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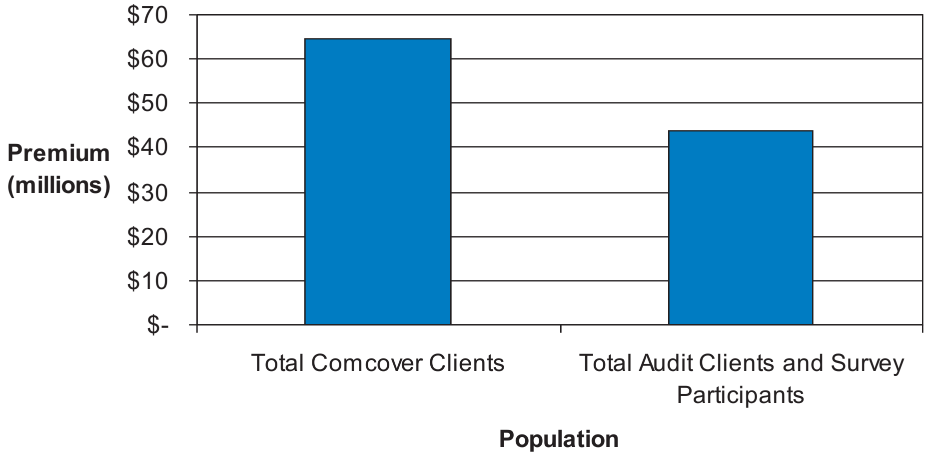
[40] The organisations were governed by the FMA Act or CAC Act.

Figure 3

Annual general insurance premiums for 2001–2002 (Comcover)



Source: Based on Comcover advice to ANAO, and information collected through the ANAO audit of five organisations and survey of 50 organisations.

1.40 The examination of risk management focussed on organisations as a whole, but included consideration of how division, business area, branch and project risk management activities were integrated with organisation-wide risk management. The audit did not make an assessment of the risks identified, the priorities assigned by the organisation, or the treatments selected. However, the audit considered the extent to which:

- risk management was linked to business planning and other strategic management activities; and
- insurance was recognised as a component of the organisation's risk management approach.

Audit methodology and structure of remainder of this report

1.41 The ANAO established five Key Areas of Examination (KAE) for this audit. These KAEs are mapped against the evaluation criteria in Appendix 1. The KAEs are presented in Table 1.4 below (which also identifies where issues related to these KAEs are discussed in the remainder of this report). The KAEs, evaluation criteria and survey were derived from:

- the Standard;
- relevant legislation;
- Comcare and Comcover guidance and benchmarking;
- CPA Australia research on Risk Management in the Public Sector; and
- previous ANAO, state and international audit activity.

Table 1.4

Report structure and key areas of examination (KAEs)

KAE	Major Issues Discussed
Chapter 2—Development and Maintenance of Robust Risk Management and Insurance Frameworks	
Risk Management and Insurance Framework	The major issues discussed in relation to this KAE include the existence of appropriate frameworks, the quality of general insurance frameworks, the integration of risk management and insurance frameworks, the integration of risk management frameworks and business planning processes, and the quality of reporting and review requirements.
Chapter 3—Enablers to the Effective Application of the Frameworks	
Senior Management Involvement	The major issues discussed in relation to this KAE include senior management sponsorship, endorsement and promotion of, and active involvement in applying the risk management and insurance frameworks.
Resources and Training	The major issues discussed in relation to this KAE include the resourcing of monitoring and reporting roles, the use of data bases and consultants, monitoring the cost of risk and insurance, and the provision of ongoing training and awareness that links risk management and insurance activities of the organisation.
Chapter 4—The Application of the Frameworks	
Development and Use of the Risk Management Plan & Management of Insurance	The major issues discussed in relation to these KAEs include the consistency and timeliness of application of the risk management and insurance frameworks, the level and quality of documentation supporting the application of the frameworks, the quality of risk management plans, and reporting, monitoring and review.

1.42 A more detailed outline of the audit methodology is provided at Appendix 4.

1.43 Throughout the course of the audit, the ANAO consulted Comcover, Marsh Pty Ltd (Comcover Insurance Services) and Comcare. These organisations have provided invaluable information, advice and assistance, including training; commenting on the design of the survey instrument; access to premium and claims information; benchmarking information; and ad hoc advice. The Australian Bureau of Statistics (ABS) also provided advice on survey design and analysis.

2. Development and Maintenance of Robust Frameworks for Risk Management and Insurance

This chapter outlines the key elements of sound risk management and insurance frameworks and the need to communicate the frameworks throughout the organisation. The chapter also considers the degree to which the frameworks for risk management and insurance are integrated with each other and with business planning. The chapter discusses the results of the audit and survey in regard to these issues, and makes recommendations for improvement based on audit findings.

Introduction

2.1 A Commonwealth organisation should develop and integrate the following three frameworks for efficient and effective risk management and insurance:

- risk management;
- general insurance (risk and insurance); and
- OHS and workers' compensation (risk and insurance).

2.2 The risk management framework should provide overarching guidance for the development, maintenance and application of the insurance frameworks, as the insurance frameworks represent subsidiary risk identification and/or treatment steps to organisation-wide risk management. The integration of these frameworks is observed both in good and better practice organisations.

2.3 The development and maintenance of robust risk management and insurance frameworks are essential prerequisites to the effective and appropriate management of risk and insurance. The frameworks provide the basis for the application of a common understanding, and consistent approach, to risk management and insurance across an organisation.

2.4 Better practice organisations also seek to integrate risk management and insurance, with other management frameworks, structures and controls to achieve more effective corporate governance, such as business planning. Effectively integrating these frameworks and their application should achieve the greatest benefit to the organisation.

2.5 The audit examined risk management and insurance frameworks[41] and their application across five organisations in detail and in a further 50

[41] Frameworks should include policies and procedures.

Commonwealth organisations at a high level. The remainder of this chapter discusses the following, as they relate to the three frameworks outlined in paragraph 2.1:

A. The status of risk management and insurance frameworks—policies, procedures and guidelines.

B. The integration of risk management and insurance frameworks.

C. The quality of risk management and insurance frameworks.

D. The integration of risk management and other strategic frameworks.

2.6 Where possible, generic findings are reported and analysed across the three frameworks, as well as examples of better practices identified by the audit and survey. However, where there was a lack of integration of these frameworks, it is necessary to present specific findings in relation to each framework. The relevant survey results for each section are briefly discussed in relation to the audit results.

A. The status of risk management and insurance frameworks—policies, procedures and guidelines

Introduction

2.7 In order to establish appropriate risk management, an organisation should first develop robust risk management and insurance frameworks. The frameworks should include statements of policy, as well as procedures, that:

- support the essential steps in managing risk and insurance; and
- can be used to guide practice towards achieving the objectives of the policy.

2.8 The Australian and New Zealand Standard 4360:1999 on Risk Management (the Standard) outlines seven essential steps, which include:

- establishing the context;
- identifying risks;
- analysing risks;
- evaluating risks;
- treating risks;
- monitoring and review; and
- communicating and consulting.

2.9 There is no Standard for the management of insurance. However, the essential steps should include:

- management awareness and endorsement of the insurance program (refer to Chapter 3);
- identifying and quantifying insurable risk (including appropriate procedures for notifying the insurance officer of new risks);
- identifying practical experience;
- obtaining and renewing insurance;
- reporting and managing incidents (including the investigation or collection of information to support the organisation's and insurer's position if there is a claim and to assist with risk management by providing information for the steps of risk identification through to risk treatment);
- reporting and management of claims; and
- reporting, monitoring and review.

2.10 The insurance coordinators need to be aware of the link between the risk and insurance frameworks. In particular, the frameworks should recognise that insurance activities complement preventive risk treatments, and are part of the overall risk treatment strategy. As part of the risk treatment strategy, the organisation needs to ensure that cost-benefit considerations are addressed in respect of proposed risk treatments.

Impetus for developing and reviewing frameworks

2.11 Of the five organisations audited:

- one organisation had been actively practising risk management since 1991 and had developed an organisation-wide risk management framework in 1998;
- three organisations developed a risk management framework in response to the Comcover request to develop a risk management plan by 31 March 2001; and
- one organisation was developing a risk management framework at the time of the audit, in response to the Comcover request and to the ANAO audit.

2.12 The audit found that, based on the organisations audited, the risk management framework documents had generally not been reviewed or revised. As a result, they reflected out-dated organisational structures, points of contact and environments.

2.13 The survey results suggested that the main driver for the development of risk management frameworks was the Comcover request. However, the survey indicates that only 63 per cent of organisations surveyed, that did not have risk management framework documents prior to the request, responded to the request.

2.14 The audit found that the majority of organisations audited were not, in a timely manner:

- implementing all recommendations of Comcare planned investigations and internal audits; or
- reviewing their frameworks, to ensure that they reflected current requirements, organisational structures and key officers nominated for contact purposes for the frameworks.

2.15 Of the five organisations audited:

- two organisations governed by the CAC Act entered into general insurance arrangements due to the nature of their business in 1985 and 1991, respectively. Only one of these organisations had developed a reasonably comprehensive general insurance framework; and
- three organisations governed by the FMA Act had developed limited general insurance framework documentation between 1999 and 2002, in response to the introduction of Comcover.

2.16 The audit found that the general insurance framework documents had generally not been reviewed or revised and, as a result, reflected out-dated external guidance.

2.17 Overall, the audit findings for the organisations audited and surveyed suggest that the majority of organisations developed risk management and insurance frameworks in response to external requirements, such as the enactment of legislation or government directives. The consequence of such a driver for the development of risk management and insurance frameworks is that they are less likely to be integrated with other management structures, in order to improve the efficiency and effectiveness of the organisation's business. It is considered that insurance and risk management requirements within organisations, which are driven by compliance, will seldom add value.

Status of frameworks

2.18 The audit found that all organisations audited had developed, or were developing, some policies and/or procedures that could form part of the frameworks for risk management and insurance. The survey indicated that organisations in the Commonwealth group were less advanced than the five audited organisations as:

- 12 per cent of the former organisations reported that they had not developed a risk management framework;
- 76 per cent reported that they had not developed a general insurance framework; and
- 18 per cent reported that they had not developed an OHS and workers' compensation framework.

2.19 In general, the audit found that organisations audited were likely to have developed both policies and procedures for a majority of steps in their risk management and OHS and workers' compensation frameworks. In comparison, organisations audited were unlikely to have developed a policy statement for general insurance and their procedures were only likely to have addressed incident reporting and/or claims management.

2.20 The survey indicated that the organisations in the Commonwealth group were more likely to have developed policies than procedures for risk management and insurance, and were more likely to have either a policy or a procedure, but not both.

2.21 The audit found, however, that guidance for the identification of insurable risk and obtaining and renewing insurance was least likely to be developed. It is noteworthy that these are the first points of integration between the risk management and insurance frameworks. Organisations audited that had not developed procedures to support all of the steps of general insurance or OHS and workers' compensation frameworks, tended to rely on the knowledge of key staff, who in turn relied on advice and guidance from Comcover and Comcare, respectively.

2.22 The audit also found that, without adequate frameworks, staff had no guidance on management or external expectations or requirements in relation to risk management and insurance. This resulted in risk management and insurance being undertaken without a clear objective. As a consequence, significantly different approaches were used across the organisation and, consequently, resources were not put to their best use. The responsible coordinator generally developed informal practices to compensate for a lack of documented procedures, particularly for general insurance.

2.23 Organisations audited that achieved greater commitment to, and were seeking to obtain greater benefits from, their frameworks, had also developed, documented and reviewed risk management and insurance policies and procedures to better meet their objectives.

External assistance when developing frameworks

2.24 All organisations audited received some external assistance when developing risk management and OHS and workers' compensation frameworks. Comcover and Comcare, respectively, were the sources of most of the assistance for these organisations audited (and surveyed) and the assistance generally took the form of guidance material and training. When developing risk management frameworks:

- three organisations audited sought the assistance of external consultants and other organisations; and
- all organisations audited referred to the Standard on risk management.

2.25 Only one organisation audited, governed by the CAC Act, sought external assistance when developing its general insurance framework. This organisation had the most comprehensive general insurance framework. It was likely that this organisation sought assistance and had a comprehensive framework because it had entered the general insurance market in response to the nature of its business. It was therefore seeking to improve the management of it business and address a business need through the introduction of insurance. The other four organisations audited sought the assistance and advice of Comcover when developing procedures or undertaking general insurance activities.

2.26 While Marsh Pty Ltd held eight general insurance courses that were attended by 129 representatives from 100 client organisations during 2002, the audit found that, unlike risk management, OHS and workers' compensation, organisations had not had access to the same level of guidance material and training for general insurance through Comcover for the same length of time. This may explain, at least in part, the relatively poor status of development of general insurance frameworks across the Commonwealth.

2.27 The survey suggests that a smaller proportion of organisations in the Commonwealth group used consultants to develop risk management and general insurance policies. However, a greater proportion of organisations from the Commonwealth group reported that they used consultants to assist with the development of OHS and workers' compensation policy.

2.28 The approach taken to managing the external assistance determined the level of internal ownership of the resulting framework. In particular, organisations audited that sought advice and then consulted staff, tended to achieve a greater level of ownership and commitment. The organisations audited that sought consultancy information, or copied other frameworks, achieved a lower level of ownership, as they sought to adopt a framework that could be inconsistent with their own needs and cultures.

2.29 None of the organisations audited considered the OHS and workers' compensation framework when developing the general insurance framework. This could have assisted the development of the general insurance framework by identifying insurance tasks that needed to be managed, better practices and minimum requirements. It may also have provided some insight into the links between insurance and risks, and the need to balance risk treatment strategies, by developing preventative treatment options and cost effective risk transfer arrangements. The ANAO considered that most organisations had the opportunity to leverage from OHS and workers' compensation principles to develop a stronger and more robust general insurance framework.

B. The integration of risk management and insurance frameworks

2.30 The audit considered several forms of potential integration for the risk management and insurance frameworks. The following sub-sections discuss actual and better practice forms of integration.

Potential forms of integration—integrating framework documents

2.31 The audit found that the risk and insurance frameworks of all organisations audited and surveyed were not sufficiently integrated. There was a lack of recognition of the risk management framework in the insurance frameworks. Similarly, insurance tended to only be discussed in the risk management framework as a form of risk treatment (risk transfer). No reference was made to the insurance framework documents or the areas responsible for managing these functions.

2.32 The OHS and workers' compensation frameworks generally included a procedure that outlined a risk management model for workplace or hazard assessments. However, organisations audited based this procedure on the risk management model guidance issued by the Safety, Rehabilitation and Compensation Commission rather than on their own internal risk management framework. The result was a lack of integration and consistency between this procedure and organisation-wide risk management, as well as confusion regarding the basic elements and terminology used when managing risk in these organisations.

Forms of integration used—combining responsibilities of central coordinators, training and managing information (data bases)

2.33 The audit found that, in the organisations audited, any integration of risk management and insurance was most likely to occur through assigning responsibility for central coordination of risk management and insurance activities to one officer of the organisation. This form of integration was generally limited to smaller organisations audited, as the person responsible for coordination of risk management was also tasked with coordination of general insurance. However, one of the audited organisations, that was medium sized, also combined these responsibilities. The survey results suggest that small-sized organisations were most likely to combine risk management and general insurance responsibilities, but only 50 per cent of these organisations combined the coordination responsibilities.

2.34 One of the five organisations audited, that was small-sized, also combined the responsibility for management of OHS with risk management and general insurance responsibilities, including investigating and reporting OHS incidents to Comcare. The audit did not find any instances where the central coordination of risk management and the management of general insurance, OHS and workers' compensation was the responsibility of the same person or section.

2.35 The central coordination responsibilities for risk management and insurance activities are most likely to rest with corporate areas, and will ultimately be the responsibility of the senior manager responsible for corporate activities. The ANAO found that, if this were the only source of relationship between the risk management and insurance frameworks, none of the benefits of integration would be achieved.

2.36 The advantages of linking the risk and insurance functions are through the risk management coordinator providing advice to other parts of the organisation on generic risk treatments that have already been developed or purchased (corporately or by other parts of the organisation), and identifying risk exposures that may require insurance. Linking these functions also assists the development of training for staff and should improve consistency of objectives developed for the management of risk and insurance.

2.37 The audit found that, in the organisations audited, when central coordination responsibilities for the risk management and insurance frameworks were not the responsibility of a single officer, the responsible officers had limited, ad hoc, contact with their risk management and/or insurance counterparts.

2.38 Other sources of integration observed in organisations audited were through training materials and data bases. However, this integration was limited and did not represent a comprehensive integration of risk management and insurance activities of the organisation as the insurance, rather than the risk management, coordinators developed the training and data bases. The survey results also suggested that some organisations were integrating the insurance and/or risk management frameworks through data bases.

Comcover Comment:

Comcover considers that one of the reasons why Commonwealth organisations do not sufficiently link insurance and risk management is that the requirement to purchase general insurance is mandatory, whereas there is at best only an expectation that organisations will develop frameworks for effective risk management, and there are no Comcover compliance monitoring mechanisms. The absence of explicit mandatory requirements for approaches to risk management within Commonwealth organisations means that organisations will invest resources in other areas.

Better practice forms of integration

2.39 Organisations audited have achieved some useful benefits through using their established form of integration. However, better practice suggests that integration is better achieved first through integration of framework documentation (refer to paragraphs 2.31 and 2.32) and, then, through the use of complementary techniques (refer to paragraphs 2.33 to 2.38), where practicable.

C. The quality of risk management and insurance frameworks

2.40 The development of risk management and insurance frameworks, including policies, procedures and/or guidelines, should be in accordance with guidance from the Standard on risk management, Comcover and Comcare. Appendix B to the Standard establishes some basic requirements for a risk management framework. These requirements were used in the audit to set some basic parameters for assessing the quality of policies and procedures.

2.41 The frameworks should provide guidance to staff on the objectives and general parameters of the risk and insurance functions, as well as minimum requirements in terms of tasks and actions (see Section A above), documentation, and reporting, monitoring and review, including providing the basis for establishing relevant performance indicators. The frameworks should reflect senior management's objectives and, therefore, requires their endorsement, support and participation. The frameworks should also provide information on:

- appropriate contact points, including people, positions and sections;
- the responsibility of individuals and groups in relation to the frameworks; and

- sources of support and expertise available to assist individuals and groups when applying the frameworks.

2.42 The frameworks should be reviewed regularly to ensure that they are current, easy to understand and use, and generally accepted by staff who are required to apply them.

2.43 The audit found that, in the organisations audited, there were differences in the quality of the frameworks developed for risk management, general insurance, and OHS and workers' compensation matters. Some differences were discussed in Sections A and B above, and relate to the existence and integration of the frameworks. However, additional generic and specific findings for the risk and insurance frameworks also contributed to the quality of the frameworks and are discussed in the following sub-sections.

Establishing the objectives of the framework

2.44 Most organisations audited developed a risk management framework that established an objective for risk management activities; the range of issues to which the framework applied; who was responsible for managing risks; what was an acceptable level of risk; and support and expertise available to assist those responsible for managing risks.

2.45 In comparison, most organisations audited did not establish an objective for the general insurance framework, beyond stating that Comcover was the insurer and that incidents and claims should be reported.

2.46 All organisations audited developed objectives for OHS through their OHS Agreements. The quality of these agreements varied. Two good practice organisations audited also established objectives for workers' compensation (primarily because of their higher level of exposure). As a minimum, better practice organisations audited adopted the guidance of Comcare and applied it to the management of OHS and workers' compensation. They then extended the guidance provided by Comcare to develop more comprehensive frameworks, which sought to achieve a:

- safer workplace;
- lower number of incidents;
- lower number of claims;
- reduction in the duration and cost of claims; and
- lower insurance premium.

Staff roles, responsibilities and key contacts

2.47 The audit found that most organisations audited needed to better articulate staff roles and responsibilities in relation to risk management and general insurance.

2.48 The application of the general insurance frameworks was treated as the responsibility of a single officer in all organisations audited. This officer sought some assistance from other parts of the organisation when renewing insurance and managing claims. However, the roles of other parts of the organisation in assisting the general insurance officer were not outlined in the general insurance framework.

2.49 The audit also found that the majority of organisations audited did not have duty statements or position descriptions that satisfactorily reflected the range of responsibilities of risk and insurance coordinators.

2.50 The audit found that most organisations audited did not identify a position, or a person, as a central point of contact, in framework documentation for risk management and general insurance matters. This contributed to staff not being able to identify a contact point. As a consequence, the staff from these organisations did not have a sufficient understanding of who to contact regarding:

- risk management activities, advice and support; and
- general insurance incidents, claims and related matters.

2.51 However, the audit found that staff from all organisations audited had a basic understanding of who, or what area, to contact if an OHS incident occurred or workers' compensation claim was made because of induction training and posters in the workplace that advertise contacts for OHS matters, regardless of whether this information was included in the framework documents. ANAO also notes that this could be a function of the requirements of the Commonwealth OHS (CE) Act to notify staff of relevant contacts in relation to OHS risks and notification of work related injury and illness.

Requirements for reviewing the framework documents

2.52 The audit found that organisations audited that had a risk management framework needed to better develop a plan for reviewing organisational performance in relation to the framework, including establishing a set of key performance indicators, developing reporting formats and timeframes for status reports and reviews of performance. There were no procedures for the regular reporting, monitoring and review of the general insurance framework or its application.

2.53 Some organisations audited had developed some KPIs for the OHS and workers' compensation framework. However, the set of KPIs did not consider compliance with the framework. One organisation audited developed different KPIs for the framework in its business plan. The other organisations audited did not sufficiently develop procedures for the regular reporting, monitoring and review of the OHS and workers' compensation framework or its application.

2.54 Section A above identifies that a common finding across all organisations audited and surveyed, and the three frameworks examined, was that organisations audited did not ensure that policies and procedures were updated in a timely manner to reflect changes in internal or external requirements or circumstances. At best, organisations audited reviewed individual procedures and templates to address a specific issue. This reflects that organisations audited did not undertake regular reviews of their frameworks (in their entirety) to ensure that they best meet the organisation's needs. This may have been a consequence of organisations not having sufficient triggers in the form of reporting and, particularly, performance indicators to suggest that a review was required.

Minimum documentation requirements

2.55 Overall, the audit found that all organisations audited could improve their minimum documentation requirements. This would assist these organisations to collect and maintain better records to support risk management and insurance decision-making.

2.56 Of the five organisations audited, one had not established some minimum documentation requirements for the risk management framework.

2.57 Besides developing incident report forms, most organisations did not develop minimum documentation requirements for the general insurance framework.

2.58 The documentation requirements for the majority of steps in the OHS and workers' compensation frameworks are established in legislation and supporting Comcare guidance. However, some organisations audited did not sufficiently document aspects of this framework and needed to revise existing documentation to improve the quality of information collected. Improving the quality of information collected would support better management of OHS issues and initiatives and workers' compensation claims.

Simplicity and consistency

2.59 The ANAO considered that the complexity and length of OHS and workers' compensation and risk management frameworks' documentation (including policies and procedures) of some organisations audited needed to be simplified to assist staff when applying the framework. The level of complexity of the frameworks prevented the organisations from achieving a better outcome and resulted in staff not applying the framework. Simplifying the procedures should address concerns with the useability, inconsistency and duplication of aspects of the procedures.

Specific improvements to individual frameworks

2.60 Specific improvements required to the individual risk management or insurance frameworks are discussed briefly below.

Risk management frameworks

2.61 Organisations audited had the opportunity to further improve their risk management frameworks by:

- further developing procedures for prioritisation and ranking of risks; and
- developing procedures to identify and report progress against opportunities.

OHS and workers' compensation

2.62 Overall, the quality of the OHS and workers' compensation frameworks were better than for the general insurance frameworks. This was a result of the OHS and workers' compensation requirements being:

- established in legislation;
- implemented a decade earlier than the current general insurance requirements;
- supported by extensive guidance material and assistance, which is available from Comcare, relative to the information available from Comcover; and
- supported by a regular program of planned investigations conducted by Comcare on all aspects of the management of OHS.

2.63 Most organisations audited needed to develop a rehabilitation policy. However, there was generally an understanding that Comcare guidance would be adopted if a situation arose. Organisations audited that had developed a rehabilitation policy, had a better understanding of the degree of integration of objectives for OHS, rehabilitation and return-to-work, and the cost of workers' compensation insurance. They also developed KPIs to assist them to monitor these objectives. Organisations audited, that had not developed a rehabilitation policy, were more likely to treat workers' compensation cases individually, rather than from the perspective of overarching objectives for the OHS and workers' compensation framework.

D. The integration of risk management and other strategic frameworks

2.64 The risk management frameworks, of most organisations audited, were not sufficiently integrated with other strategic documents and guidance to achieve required results.

Integration with strategic, business and project planning processes

2.65 There should be a mutually reinforcing top-down and bottom-up process applied to organisation-wide risk management. The audit observed that this process was put into practice to varying degrees in the organisations audited.

2.66 The audit found that better practice organisations had sufficiently linked risk management to business planning. For example, better practice organisations audited undertook risk identification, analysis, evaluation and treatment steps by conducting four to six monthly risk management workshops for divisions and work areas. By re-stating the objectives in the business plan for that division or work area, the workshop coordinator established the context for the risk management exercise and the division or work area. The workshop participants then identified the risks to achieving each objective by applying the risk management framework. These organisations then integrated the risk assessment into division and work area business plans and combined the assessments for an organisation-wide risk management plan.

2.67 Risk coordinators, who were also responsible for general insurance, were able to use risk management workshops and other informal processes to identify new business activities and tasks, and consider the need for general insurance in relation to these tasks.

2.68 Some other better practice examples from the organisations audited included:

- some business units in organisations conducted a risk assessment in accordance with the risk management framework on every activity proposed in their budgets;
- some organisations required all projects to undertake a risk assessment and develop a plan in accordance with the risk management framework

and these risk management plans were provided to the risk coordinator for comment. Through this approach, risk coordinators, who were also responsible for general insurance, were able to identify insurance issues and contact Comcover to establish what, if any, additional insurance was required for the project, activity or event; and

- one organisation determined its business priorities based on a risk management model and required a risk identification and treatment exercise to be completed for most projects. However, these risk management activities were not based on the organisation's risk management framework. As well, risk management was generally not applied to business unit and work area planning.

2.69 At the time of the audit, some organisations audited that were not better practice in this area were planning to integrate their risk assessments into the business and work area plans.

2.70 Other organisations audited, that were not considered to demonstrate elements of better practice, required business units and work areas to consider risk when developing business or project plans. However:

- the business planning guidance was limited and did not refer to the risk management framework. In some cases this was because a framework did not exist. As a result of the incomplete guidance, risk was not adequately considered or addressed by the business plans; and
- business units and work areas of these organisations also did not seek the assistance of the risk coordinator/manager of the organisation when undertaking the risk assessments.

2.71 Overall, the audit found that there was a general acceptance by organisations that risk management should be considered as part of business and project planning. However, in the majority of cases, this recognition was not reflected in the respective framework documents. In addition, only one organisation audited had developed a procedure to ensure that the general insurance coordinator was advised of new business activities, events and projects and was then required to identify insurance requirements with the assistance of Comcover.

Integration with other strategic and risk related frameworks

2.72 Similar to the results for the integration of risk management and insurance, the audit found that the maturity of links between the risk management and insurance frameworks, and other strategic and risk related frameworks (such as IT, fraud control, business continuity management and security), were not sufficiently developed to ensure that their development and application reflected an appropriate approach, or treatment, in an organisation-wide approach to the management of risks. In most cases, links between the frameworks were limited to the risk-related frameworks being based on, or referring to, the Standard on risk management.

2.73 Survey results suggested that the documents most likely to be integrated with the risk management plan were the fraud control, business, strategic, IT security and individual business unit plans. Furthermore, between 33 and 66 per cent of the organisations that maintained these documents did not integrate them with risk management or insurance activities.

Conclusion

2.74 Overall, the audit found that organisations audited, and most organisations surveyed, had achieved the development of a basic OHS framework. Organisations audited, and relatively few organisations surveyed, had developed some limited procedures for general insurance. The majority of organisations audited and surveyed had developed a risk management framework.

2.75 In most cases, organisations audited and surveyed had developed risk management and general insurance frameworks in response to the introduction of Comcover in 1999. This means that the majority of frameworks are relatively new and will require further refinement and maturity as organisations improve their approach to, and understanding of, the risk management and general insurance in relation to their business operations and objectives. This increase in maturity of understanding will also assist the organisation to develop a robust set of KPIs to use as a basis for assessing the effectiveness of the frameworks.

2.76 Most organisations audited and surveyed had not sufficiently integrated risk management, OHS and workers' compensation, and general insurance frameworks. They also had not sufficiently integrated risk management with the strategic and business planning processes and guidance material.

Recommendation No.1

2.77 The ANAO recommends that organisations which do not have a risk management, general insurance, and/or OHS and workers' compensation framework, develop the framework(s) in accordance with principles established in the guidance provided by the Australian and New Zealand Standard 4360:1999 on Risk Management, or by Comcover and/or Comcare.

Recommendation No.2

2.78 The ANAO recommends that organisations that have developed risk management and insurance frameworks improve their frameworks by:

- ensuring the frameworks address all critical activities that are performed in relation to the management of risk and insurance;
- articulating, and documenting, the links between the risk management and insurance frameworks, and their links with other strategic documents and processes;
- explicitly recording staff contact officers, roles and responsibilities;
- updating the frameworks in a timely manner to reflect restructures, changes of key personnel, or changes in the external requirements and guidance; and
- enhancing or developing reporting, monitoring and review requirements to assess both performance of, and compliance with, the frameworks. This should include the development of standard reporting templates and an adequate set of Key Performance Indicators (KPIs).

3. Enablers to the Application of the Frameworks

This chapter outlines the key enablers to the effective application of risk management and insurance frameworks. It discusses audit findings and observations in relation to four enablers: distribution and availability of the frameworks; senior management endorsement and support; resourcing; and training. The chapter includes recommendations for improvement based on audit findings.

Introduction

3.1 Organisations should ensure that, once risk management and insurance frameworks are developed, these frameworks should then be promoted, supported and communicated to all staff, thereby enabling appropriate application. This approach would assist with ensuring that an adequate level of resources and priority are assigned to risk management and insurance, as well as ensuring that there is an awareness and understanding of the organisation's objectives and requirements. Any changes to these frameworks should be communicated in a timely manner to the staff of the organisation.

3.2 The remainder of this chapter discusses audit findings and survey results for the following, as they relate to the risk management and insurance frameworks:

A. Distribution and availability of the frameworks.

B. Senior management endorsement and support.

C. Resourcing.

D. Awareness training.

3.3 Where possible, generic findings are reported across the three frameworks (identified in paragraph 2.1). However, where there was a lack of integration of these frameworks it is often necessary to present specific findings in relation to each framework. Relevant findings are noted and analysed, as well as examples of better practice identified by the audit and survey. The relevant survey results for each section are briefly discussed in relation to the audit findings.

A. Distribution and availability of the frameworks

3.4 Once established, the risk management and insurance frameworks should be communicated, and made readily available, to the staff to ensure that policies are well understood and that required procedures and steps are undertaken in an appropriate, timely and consistent manner.

3.5 All organisations in the audit made the majority of existing risk management and OHS documentation available on their intranets. In some cases the information was also distributed in hardcopy, by email, referred to in the organisation's newsletter, and supported by training programs for all work areas in the organisation. Most organisations communicated some, or all, of the general insurance framework on the intranet. Consistent with the audit findings, survey results indicated that the majority of organisations in the Commonwealth group disseminated risk management framework over the intranet. Some also used other forms of communication (particularly, through the distribution of the framework in hardcopy).

3.6 The audit found that organisations that relied primarily on the intranet to support the communication of the frameworks generally did not raise a sufficient understanding of the risk management, general insurance and OHS frameworks.

3.7 In organisations where a greater number of communication mechanisms were used, there was generally a better understanding and awareness of the frameworks, their steps and of individuals' roles. However, the audit found that it was critical for organisations to also:

- have senior managers support and promote the framework;
- offer periodic refresher training/awareness sessions for staff; and
- provide sufficient and appropriate resources to support the application of the framework.

B. Senior management endorsement and support

3.8 Achieving an integrated risk management and insurance approach requires strong direction, leadership and commitment from senior managers. In May 2002, Special Minister of State, Senator Eric Abetz indicated '…the requirement for Chief Executive Officers to ensure there is 'top down' support for risk management throughout their organisation has never been more evident'.[42] In Febraury 2002, the Secretary of the Department of Finance and Administration also emphasised the need for Chief Executive Officers[43] (CEOs) to monitor and manage risks to achieve: high levels of performance; increased customer focus; effective prioritisation of resources; and better outcomes. The Secretary indicated these benefits could not be achieved without the commitment, ownership and investment of the CEO.[44]

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[42] Federal Risk Manager, Winter 2002, *Minister backs RM cooperation between public & private sectors*, Issue No.10, p. 1.

[43] For the purposes of this Report CEO refers to the Head of the Organisation, that is, the Chief Executive of FMA Act organisations and the Director of CAC Act organisations.

[44] See the Federal Risk Manager, Summer 2002, *CEOs can learn from—"Hard teacher of experience"*, Issue No.8, p. 2.

3.9 The audit considered a number of factors that contributed to an organisation achieving an appropriate level of senior management involvement in the development and application of the frameworks. These factors are considered in the following sub-sections, and relate to senior managers:

- endorsing and promoting the frameworks;
- being assigned responsibility for promoting, monitoring and enforcing the frameworks; and
- frequently being involved in monitoring and participating in the application of the frameworks.

3.10 Training and awareness of senior managers, and active and ongoing reporting on, monitoring and review of the frameworks are discussed in Chapters 2 and 4 of this Report.

3.11 In general, the senior management of the five organisations audited had implicitly, or explicitly, become involved in risk and insurance activities. Organisations that achieved greater commitment to, and were seeking to obtain greater benefits from, these activities had a high level of active and explicit senior management involvement. Involvement of senior management in risk management activities should have resulted in a level of exposure to insurance activities, assuming that the frameworks and their application were adequately integrated. However, the audit found that organisations generally did not adequately integrate the frameworks and their application.

3.12 Overall, the audit found that some organisations had an appropriate level of senior management involvement in the risk management and OHS and workers' compensation activities. The ANAO observed that the staff of these organisations had a strong risk management culture, due to senior management highlighting that risk management was a priority. Organisations generally received a lower rating for senior management involvement in general insurance. In comparison, the survey indicated that only 28 to 32 per cent of organisations did not have a culture that supported the development or application of a risk management framework. These organisations also reported that they did not achieve sufficient ownership by staff of the risk management framework during its development and application.

Endorsement and promotion of the frameworks

3.13 The audit found that the risk management and insurance frameworks were generally endorsed and promoted separately, rather than as part of an overarching risk management or governance framework for the organisations audited.

3.14 The two organisations that demonstrated elements of better practice for senior management involvement had generally obtained explicit endorsement and active promotion of the risk management and OHS and workers' compensation frameworks by the CEO. These organisations also had responsible senior managers or Committees actively promoting risk management and OHS and workers' compensation insurance. One of these organisations also had its risk management framework endorsed by its governing board. The CEO and/ or senior management 'sponsor' promoted the frameworks by articulating its uses, links to business objectives and success stories.

3.15 Organisations that did not demonstrate elements of better practice for senior management involvement in risk management, general insurance and OHS and workers' compensation somewhat paradoxically tended to have CEOs and senior managers that supported or promoted the concept of risk management and/or insurance. However, when promoting the concept, the senior managers did not explicitly encourage the use of the organisation's framework. These organisations also did not obtain the CEO's endorsement of the risk management or general insurance frameworks. In some cases, this was because a framework did not exist, or the endorsement by the CEO was implicit, as the general insurance framework formed part of the Chief Executive Instructions and was considered to have limited relevance to the day-to-day activities of operational managers and staff.

3.16 The ANAO considered that this lower level of senior management endorsement of the frameworks contributed to insufficient promotion of the framework and resulted in staff not considering risk management and insurance activities to be a priority.

Assigning a senior manager responsibility for the frameworks

3.17 The two organisations that achieved a higher rating for senior management involvement generally had responsible senior managers, or Committees, actively promoting risk management and OHS and workers' compensation insurance. One of the two organisations that achieved a higher rating for senior management involvement in risk management appointed a 'sponsor' from the senior management team, who then actively promoted, enabled, monitored, reported on, reviewed and enforced risk management. The 'sponsor' reported on a periodic basis to the Senior Management Team that had been assigned responsibility for oversight of the risk management and insurance arrangements. In the other organisation, the entire management team was assigned responsibility for oversight of risk management and received periodic reports from the coordinator. In comparison, the survey results suggest that the Commonwealth group has adopted the concept of a 'sponsor' to a greater extent than the organisations that were audited, with 96 per cent of the organisations indicating they have appointed a 'sponsor'.

3.18 Most organisations audited did not identify a senior manager to fulfil the role of 'sponsor' for risk management activities. In some cases, the senior management group had identified a 'sponsor', but the 'sponsor's' role was not communicated to the organisation. In addition, the 'sponsor' was not active in promoting, monitoring, reporting and reviewing risk management activities, or compliance with the framework. The 'sponsor' was not successful in obtaining commitment to appropriately resource risk management activities of the organisation, or actively enforcing the timely application of the risk management framework.

3.19 Responsibility for general insurance was generally assigned to the Chief Finance Officer (CFO) or a manager from a corporate area.

3.20 The OHS Committee had responsibility for oversight of OHS activities in the organisation. The generic issues related to the management of compensation claims were also reported to this Committee.

Frequency of involvement in the frameworks

3.21 The audit found that reporting to senior management on the risk management and insurance frameworks were generally reported separately, if at all. The reporting was often not strategic enough to assist senior managers to:

- make resourcing decisions across the frameworks; or
- identify the need for more active enforcement of the frameworks.

3.22 The two organisations that achieved a higher rating for senior management involvement generally had responsible senior managers or Committees who were frequently involved in risk management and insurance activities either through applying the frameworks or receiving reports on the success or application of the frameworks.

3.23 The organisations that received a higher rating for risk management and OHS and workers' compensation activities provided regular or periodic reports to senior management, including the CEO of the organisation. In relation to risk management, organisations that achieved a higher rating also had senior managers participating in organisation-wide risk management on a periodic basis. This participation took the form of undertaking a periodic or regular risk identification and treatment exercise to review, identify and treat strategic risks, as well as, form an organisation-wide view of the objectives of risk management and the priority risks facing the organisation. These two organisations applied the risk management framework on a four monthly, bi-annual and/or annual basis.

3.24 Organisations that received a lower rating for senior management involvement generally did not adequately report to them. This was the case in relation to general insurance where involvement by senior management, especially at the level of CEO, was generally limited to signing the annual renewal questionnaire. In addition, the three organisations:

- did not provide the responsible senior manager, or group of senior managers, with reports on risk management activities of sufficient quality or frequency to appropriately support effective monitoring and timely review of these activities; and
- have its senior managers undertake periodic strategic risk identification or form an organisation-wide view of the objectives of risk management and the priority risks facing the organisation.

3.25 The survey findings indicate that senior management are not frequently involved in organisation-wide risk management. Less than half of the organisations in the Commonwealth group have established or applied their frameworks to ensure that senior management are involved in organisation-wide risk management on a periodic basis.

3.26 The survey findings also indicate that 23 (46 per cent) organisations[45] experienced difficulties managing risks between internal 'silos'.[46] Organisations reported that the source of difficulties included: different risk priorities and tolerance (34 per cent); communication problems (24 per cent); insufficient information (20 per cent); lack of coordination (16 per cent); and lack of cooperation (14 per cent). These difficulties can only be managed by a consistent and coherent approach to the management of risk across the organisation with a view to identifying common and underlying sources and treatments.

3.27 The critical element missing from most plans that sought to manage risk across 'silos' was the promotion and enforcement of the risk management framework by the senior managers.

3.28 Comcare provided the CEO with information on the cost of the annual workers' compensation insurance premium. The OHS Committee of most organisations provided some form of summary information or statistics on incidents and claims to the senior management team on a regular and/or periodic basis. None of the organisations incorporated OHS and return-to-work information in risk management reporting to senior management, as it is

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45 100 per cent of large and more than 50 per cent of medium-sized organisations reported this as a problem.

46 Nine (18 per cent) organisations experienced difficulty managing risk across organisations within their portfolio (that is, external 'silos'). These organisations reported similar sources of difficulties to the organisations that experienced difficulty managing risk across internal 'silos'.

generally treated as a separate reporting item. In three of the five organisations audited, senior management needed to more actively enforce compliance with the OHS policies, agreements and procedures.

Recommendation No.3

3.29 The ANAO recommends that organisations improve senior management involvement in, and promotion of, risk management and insurance frameworks by:

- the Chief Executive Officer or Senior Management Team formally endorsing, and more actively encouraging the use of, the key policies and procedures for risk management and insurance;
- appointing a member of the Senior Management Team as the risk management 'sponsor'. The 'sponsor' should be actively involved in promoting, monitoring, reporting, and reviewing the risk management and insurance framework; and
- improving the level of the Senior Management Team's participation in organisation-wide risk management through identification and review of strategic and key operational risks.

C. Resourcing

3.30 In general, a minimum level of resourcing had been applied to the risk and insurance activities of the five organisations audited. OHS and workers' compensation activities were generally better resourced than risk management and general insurance activities. However, the audit found that two organisations achieved a more consistent application of the risk management and general insurance frameworks and four organisations achieved a more consistent application of the OHS and workers' compensation frameworks. This was largely a result of the organisations applying a more appropriate level of resourcing to the coordination of risk management and insurance activities.

3.31 The ANAO observed strong risk and insurance cultures in organisations where senior management made the risk management and insurance frameworks a resourcing priority, centrally and within business units. In comparison, the survey indicated that 38 per cent and 30 per cent of organisations had insufficient resources to develop the risk management framework and to apply the framework, respectively.

3.32 The audit considered that a number of factors contributed to an organisation achieving an appropriate level of resourcing for the frameworks. These factors are considered in the following sub-sections.

Allocating a budget for risk management and insurance activities

3.33 Most organisations did not budget for, or monitor, the costs of risk management and insurance activities. The audit found that two organisations were able to provide an estimate of total direct costs of risk management and insurance activities. The other three organisations were able to provide some information on direct costs but could not provide an accurate estimate of the total direct costs of these activities.

3.34 Consistent with the audit results, the survey results were inconclusive regarding the cost of risk management, general insurance and OHS and workers' compensation activities. The Commonwealth group experienced difficulty providing information on staff numbers, effort and costs, and the cost of consultants, training and software.

Recommendation No.4

3.35 The ANAO recommends that organisations implement procedures to track the costs of risk management and insurance activities. This should assist organisations to develop future budgets for risk management and insurance activities.

Appointing coordinators for the frameworks

3.36 The audit found that all organisations considered responsibility for coordination of risk management was the functional responsibility of the corporate area of the organisation, and assigned risk coordination responsibilities to an officer in this area. Most organisations assigned responsibility for administration and coordination of risk management and general insurance activities to appropriately skilled and/or trained officers. Most organisations needed to improve access to specialised training for their general insurance coordinators.

3.37 In one organisation, the risk coordinator also had a role in other risk-related activities undertaken by the organisation including protective security and fraud control. In another organisation, the role of the risk coordinator was included in the responsibilities of the internal auditor. However, given the other responsibilities of an internal auditor, the role was not sufficiently or appropriately resourced as the internal audit function should audit the risk management function, not have prime responsibility for risk management and face a potential conflict of interest. The responsibilities of these officers in the two higher rated organisations extended to central coordination of organisation-wide plans, reporting and review.

3.38 Consistent with the audit findings, there was a risk management contact in all Commonwealth group organisations. However, only 28 per cent of the 50 organisations had a dedicated risk management section (or team) and 16 per cent had a dedicated risk manager.

3.39 Poor articulation of the responsibilities of the coordinator's role will also contribute to inadequate resourcing of this role. Articulation of responsibilities for central coordination of reporting, monitoring and review activities:

- against the risk management plan/framework and the general insurance framework needed to be improved by three organisations; and
- for the OHS and workers' compensation framework needed to be improved by one organisation.

3.40 Most organisations co-located responsibility for:

- risk management and general insurance; and
- OHS and workers' compensation in the Human Resources Area (although the roles were performed by two different officers or sections depending on the size of the organisation). One organisation did not combine these two responsibilities. Instead, it combined responsibility for OHS with the responsibilities of the general insurance and risk management coordinator.

3.41 The audit found that organisations with an active central coordination role that provided support and ensured consistency of documentation, were:

- positioned to take an organisation-wide view of risk;
- able to use the risk management activities to improve the management of business outcomes over time;
- able to improve their approach to the management of business activities based on cyclical revisions of their risk management approach and an increased understanding of their risks and appropriate treatments;
- proactive in their approach to the general insurance and OHS practices, and sought to address issues in a timely manner, either as they arose or before; and
- able to address any identified non-compliance with the framework in a timely manner, by ensuring management attention was focussed and resources were diverted to overcome the deficiency.

3.42 Central coordination was more of an issue for risk management than for the insurance frameworks, although the ANAO observed one organisation with more than one level of centralisation for OHS coordination, which caused considerable difficulty by blurring lines of responsibility, particularly responsibility for monitoring and review.

3.43 Organisations without a central coordination role for risk management tended to achieve, at best, ad hoc approaches to risk management with no view of risk across the organisation and less opportunity of improving the management of its business overtime. Furthermore, these organisations generally considered risk management to be an additional administrative burden with no business benefits. The general insurance and OHS practices of some of these organisations were focused on dealing with an individual incident and not on reducing or eliminating future incidents.

3.44 Organisations that achieved greater commitment to, and were seeking to obtain greater benefits from, these activities had developed and resourced their risk management and insurance frameworks. They also sought to coordinate the frameworks from a central point to ensure that compliance, consistency and outcomes were being achieved.

Managing turnover of coordinators

3.45 Some organisations audited experienced turnover of the risk management coordinator. The turnover:

- seriously affected the progress of the risk management program in one of these organisations, as the position was not filled for several months; and
- was managed as a staged handover of responsibilities, with no delays to the risk management program in the second organisation.

3.46 The introduction of new staff, turnover and delays in filling vacant positions were also observed as issues in relation to general insurance and OHS and workers' compensation in some of the organisations that were audited.

3.47 Consistent with the audit results, the survey results indicated that there was considerable turnover in risk management staff between successive risk identification activities and risk management plans. Survey results indicate that 44 per cent of the organisations in the Commonwealth group experienced turnover in their risk management staff, with 77 per cent of these organisations reporting that the staff had left the organisation.

Ensuring all staff understand their responsibilities

3.48 Two organisations audited ensured that all staff understood that they had responsibility:

- for managing risks;
- advising the risk and general insurance coordinator of new projects, events and activities; and

- to report incidents and claims to the general insurance coordinator and to collect relevant information.

3.49 In relation to OHS incidents and workers' compensation claims, the staff of the five organisations audited understood that they had responsibility to report incidents and make claims. However, supervisors' responsibilities, particularly in relation to return-to-work cases, were not as well understood.

Effectively using consultants

3.50 Two organisations audited employed consultants to assist with risk management activities during peak workload periods. The ANAO notes that it may not be practical for smaller organisations to retain risk management expertise in-house. The audit found that the use of consultants assisted these organisations to complete the risk management activities in a timely manner. The role of the consultants was limited to:

- providing independent review of, and expert advice on, the methodology;
- providing requisite facilitation and training in staff workshops; and
- documenting the risks and proposed treatments identified by organisation staff during risk management workshops.

3.51 Another organisation audited, did not ensure that it maintained ownership of the risk management activity when using consultants. This organisation employed consultants to assist during peak workload periods, achieved a more timely documentation of risk registers and some treatment plans for business units. However, this organisation did not ensure that staff maintained sufficient ownership of their business unit's risk management plan. As a result, when the business unit risk management plans were aggregated, staff viewed the organisation-wide risk management plan as the consultant's rather than the organisation's.

3.52 The remaining two organisations audited, did not use consultants to assist during peak workloads. In particular, consultants were not used to assist with facilitation and documentation of organisation-wide risk management, including the development of risk registers and treatment plans. As a result, the development of the organisation-wide risk management plan was under-resourced. The outcome was one of these organisations took more than 12 months to identify risks and document a risk register (without developing a risk treatment plan). The other organisation made limited progress on identification of organisation-wide risks with only some of the organisation's business units developing risk registers.

3.53 Consistent with the audit results, the survey results indicated that 70 per cent of the organisations in the Commonwealth group used consultants to assist with risk management activities. Consultants were most likely to be used to assist with briefing senior management, developing the risk management plan, developing risk management policy and providing training to staff. In comparison, less than 4 per cent and 20 per cent of organisations used consultants to assist with general insurance and OHS and workers' compensation, respectively.

Effectively using data bases

3.54 Some organisations audited used a risk management data base (generated using Access or Excel software) to record the results of the application of the organisation-wide risk management framework. The use of the data base ensured that mandatory information was recorded and that it was in a format consistent with the requirements of the framework. The data base assisted these organisations to prepare reports on the progress towards implementing treatments for unacceptable risks.

3.55 The other organisations did not use a risk management data base to record the results of the application of the organisation-wide risk management framework. Instead, the information was recorded in a word processing document, which limits the ability of organisations to manipulate information for reporting purposes in an efficient and effective manner. These organisations did not prepare reports on the progress towards implementing treatments for unacceptable risks. In addition, these organisations did not record all information required by the framework and the information recorded was not always in the format required by the framework.

3.56 Consistent with the audit results, the survey indicated that only 32 per cent of organisations in the Commonwealth group used a data base to support risk management. The survey also indicated that Comcover or Comcare provided the majority of externally developed data bases to support risk management and insurance activities. Access to these data bases was provided at no additional cost to organisations.

3.57 A general finding was that information technology was generally not used to support reporting, monitoring and review activities for organisations' general insurance frameworks, and, in a majority of cases, was not used to support record keeping. Four organisations maintained some information in a data base or spreadsheet. However, all organisations needed to improve the breadth of information collected and one organisation needed to maintain information for all classes of insurance incidents.

3.58 Some organisations used data bases to support OHS and workers' compensation reporting, monitoring and review activities of the organisation, and another organisation only used data bases to maintain incidents and claims information. Two of the organisations did not use a data base to record incidents and claims information.

3.59 In comparison, the survey results indicated more than half of the organisations in the Commonwealth group used a data base for OHS and general insurance incident recording and reporting. These organisations were more likely to develop internal data bases for recording and reporting insurance matters. The systems were generally Mircosoft Access or Excel based.

3.60 No organisations integrated or linked individual data bases for risk management and insurance. One organisation developed a spreadsheet that recorded some incidents and claims information for both workers' compensation and OHS. Consistent with the audit results, the survey indicated that while between 10 and 25 per cent of organisations in the Commonwealth group reported that they linked manual recording systems for risk management, general insurance and OHS, no organisations linked these activities using data bases.

Comcover Comment:

Comcover notes that there is currently a move away from the use of off-the-shelf enterprise-wide Risk Management Information Systems. There are a number of reasons for this, largely one of ownership and the other significant issue is the way in which risks are expressed in these systems which often discourage clear expression of risk, source and impact. This leads in turn to lack of true understanding of the nature and significance of the risks and does little to motivate an appropriate response.

Comcover certainly encourages the use of technology. Data bases created in Access and Excel allow for extensive manipulation of data and are simple to use. Comcover no longer supports Risk Assessor, the software tool it provided in the early days of operation.

Improving the information collected in risk and insurance data bases

3.61 Overall, the audit found that there were a number of key information fields that needed to be added to risk and insurance data bases to better capture information necessary for the purposes of reporting on, monitoring and reviewing these activities. These information fields for the insurance data bases should include:

- insurable risks, the level and value of exposure[47] (including current insurable value for asset replacement, liabilities and indemnities), and in the case of assets, the practical level of exposure;[48]

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[47] That is, the maximum possible loss.

[48] That is, the maximum probable loss.

- cost information related to incidents, claims, prevention and investigation;
- details of the date or need to report to the insurance provider;
- the insurance cover used; and
- details of investigations.

3.62 Table A in Appendix 5 outlines key information fields that could be included in risk and insurance data bases to better capture information necessary for the purposes of reporting on, monitoring and reviewing these activities.

Recommendation No.5

3.63 The ANAO recommends that organisations review the resourcing levels dedicated to risk management and insurance, including:

- the adequacy of administrative support for reporting and review of risk management and insurance;
- implementing or improving the existing data bases for risk management and insurance to improve centralised and summary record-keeping, as well as supporting performance and progress reporting; and
- the use of external consultants, where appropriate, to supplement internal resources to ensure that risk management activities are completed within a reasonable timeframe.

D. Awareness training

3.64 The audit found that organisations audited that provided refresher training achieved a more consistent approach to the application of risk management and OHS and workers' compensation activities. As a result these organisation were also able to achieve a better outcome.

3.65 In general, for the five organisations audited, a minimum level of:

- general insurance awareness training was not provided; and
- awareness training had been provided for risk management, and OHS and workers' compensation activities.

3.66 Sufficient refresher training was not provided by most organisations audited on a periodic basis across the organisation. Only two organisations audited provided adequate periodic training to senior managers on risk management as part of risk management workshops.

3.67 The survey indicated that in the last two years approximately 60 per cent of organisations in the Commonwealth group provided training on risk management to senior managers and 20 per cent provided risk management training to general staff. In comparison, only 20 per cent of organisations from the Commonwealth group provided training to senior and line managers of the organisation in the last two years. Organisations did not provide general insurance training to general staff. The survey also indicated that more than 40 per cent of organisations from the Commonwealth group reported that senior managers and general staff had not received training in OHS and workers' compensation matters within the last five years. In addition, organisations from the Commonwealth group indicated that the two primary sources of training offered for risk management and insurance was on-job-experience and the insurance provider (Comcover and/or Comcare).

3.68 The audit found that:

- one organisation audited presented awareness training for OHS that recognised the links to the risk management framework of the organisation. This training also indicated that better management of OHS risks could reduce the cost of workers' compensation premiums; and
- the remaining organisations audited tended to treat risk management, OHS and workers' compensation, and general insurance as separate training and awareness activities. In some of these organisations, insurance may have been provided as an example of a risk transfer when discussing types of treatment options. However, in most organisations it was considered unnecessary to provide links between risk management and insurance activities.

3.69 The ANAO considered that all organisations could improve risk management and OHS training by better articulating the links between these two activities and the relationship between risk management and insurance.

3.70 All organisations needed to improve risk management and insurance training. This training should be incorporated in an organisation's training strategy, to demonstrate that it is part of a structured program of training for staff. The training should emphasise the links between risk management, insurance and risk-related activities in the organisation, such as business continuity, fraud, security, project management, business planning and corporate governance. The awareness training could be offered as senior management and work area (staff) risk management workshops, which are aligned with the business planning process.

Recommendation No.6

3.71 The ANAO recommends that organisations consider providing appropriate risk management, insurance and risk-related awareness training to all staff, and ensure that staff receive periodic refresher courses after the initial training is held.

Conclusion

3.72 Overall, the audit found that organisations audited, and most organisations surveyed, had: distributed, or made available, risk management and insurance frameworks; achieved some level of involvement from their senior management; applied some resources to the management of risk and insurance; and provided some initial training for risk management and OHS. However, most organisations audited needed to make improvements in relation to these key enablers to achieve a better application of, and outcomes from, their risk and insurance frameworks.

3.73 Most organisations audited needed to increase the level of involvement of senior management, particularly in relation to:

- promotion, and participation in the application, of the risk management framework;
- awareness of general insurance activities; and
- enforcement and monitoring of risk management and insurance activities.

3.74 Most organisations audited and surveyed had committed resources to the risk management and insurance frameworks. However, organisations audited generally needed to improve:

- cost tracking and develop budgets for central risk management, general insurance and OHS and workers' compensation;
- articulation of coordinators' responsibilities in relation to central reporting, monitoring and review to ensure that these responsibilities are appropriately resourced;
- the use of consultants to assist during peak workload periods, without the consultants undertaking or excessively directing the application of the frameworks; and
- enforcement and monitoring of risk management and insurance activities.

3.75 Most organisations audited and surveyed had provided initial training for risk management, and OHS and workers' compensation, but not for general insurance. Organisations needed to develop and provide on-going refresher training that articulated the links between risk management and insurance.

4. Application of the Risk Management and Insurance Frameworks

This chapter outlines the extent to which organisations effectively applied their risk management and insurance frameworks. It discusses audit findings and observations in relation to each framework and the key factors that contribute to effective application of frameworks. The chapter also discusses the nature and adequacy of reporting to support monitoring and review of the frameworks. The chapter makes recommendations for improvement based on audit findings.

Introduction

4.1 To achieve the objectives of the risk management and insurance frameworks, organisations need to apply the frameworks; report on their progress and success; and review the framework or its application where it is not meeting organisations' objectives. To ensure consistency in application some form of central coordination, quality assurance, support, reporting and monitoring needs to be put in place.

4.2 The audit found that there were a number of factors that contributed to the successful application of the risk management and insurance frameworks. These factors and the status of application of frameworks are discussed in the remainder of the chapter, as follows:

A. Status of, and deficiencies with, the application of risk management frameworks.

B. Status of, and deficiencies with, the application of insurance frameworks.

C. Key factors that would contribute to successful application of frameworks.

D. Existence and quality of reporting and review.

A. Status of, and deficiencies with, the application of the risk management framework

4.3 The audit found that, of the five organisations audited:

- two organisations had developed organisation-wide risk management plans based on their risk management framework. These organisations had the opportunity to make minor improvements to their organisation-wide risk management plans;

- two organisations needed to improve their organisation-wide risk management plans across all criteria[49] for this key area of examination. These organisations had developed organisation-wide risk management plans that were largely incomplete. One of these organisations was continuing to develop its organisation-wide risk management plan during the audit; and
- one organisation had not developed an organisation-wide risk management plan.

4.4 Consistent with the audit results, 68 per cent of the organisations in the Commonwealth group had, and 23 per cent were developing, an organisation-wide risk management plan. However, only 56 per cent of organisations were able to provide a copy of the organisation-wide risk management plan with their survey response.

4.5 Most organisations audited had developed the risk management framework prior to developing an organisation-wide risk management plan. In comparison, the survey results indicated that only 18 per cent of the organisations in Commonwealth group that had developed, or were developing, an organisation-wide risk management plan had developed it without a risk management framework. The benefits of such an approach are numerous and result in a more directed and complete effort at documenting an organisation-wide identification, evaluation, analysis and treatment of risk.

4.6 One of the three organisations audited with a risk management framework did not complete its organisation-wide and divisional risk management plans. The source of problems encountered by this organisation included insufficient senior management promotion and enforcement, and a lack of staff acceptance of the risk management framework.

4.7 The specific audit findings are discussed in the following sub-sections.

Establishing the risk management context

4.8 The context[50] for risk management activities was not sufficiently established in four of the five organisations audited in relation to business plans (refer to Chapter 2) and/or stakeholder analysis.

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49 Criteria included: establishing the risk management context; identifying risks and developing risk registers at the strategic level and for individual business units and projects that prioritises risks on an organisation-wide basis; developing treatment plans for risks that were considered unacceptable in the risk register; aggregating risk registers and treatment plans to form an organisation-wide risk management plan; periodically reporting progress against, monitoring and reviewing the risk management plan using key performance indicators; promoting and developing a risk management culture; and consistently applying the risk management framework to all risk management exercises.

50 Establishing the risk management context includes establishing the goals, objectives, strategies, scope and parameters of the organisation/activity in which the risk management process is being applied. The risk management context is the strategic, organisational or operational environment in which a risk occurs.

Identifying risks and developing a risk register and profile

4.9 Comprehensive risk identification was not undertaken by most organisations audited. These organisations did not identify strategic risks and a significant proportion of all internal business units did not undertake any risk identification. Consistent with audit findings, 66 and 54 per cent of organisations in the Commonwealth group indicated that they had an organisation-wide risk management profile[51] and risk register,[52] respectively.

4.10 Of the five organisations audited, specific problems with risk identification and risk registers included:

- all organisations did not consider or document opportunities in their risk register;
- most organisations needed to improve the prioritisation of risks in their risk registers. A risk level rating[53] was usually assigned to risks. However, organisations may have had between three and 200 risks rated at a certain risk level (for example, high risks) with no further priority attached to the risks within this risk level rating. Resourcing constraints in organisations necessitates a clear prioritisation of risk to ensure that priority risks are resourced and realistic timeframes are attached to treatments; and
- most organisations did not adequately consider the existence and effectiveness of existing controls.

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[51] A risk profile is a prioritisation of key identified risks, which is generally represented as a matrix of likelihood and consequences.

[52] A risk register is a comprehensive record of insurable and uninsurable risks across an organisation, business unit or project depending on the purpose/context of the register. The register records the risk, how and why the risk can happen, the existing internal controls that may minimise the likelihood of the risk occurring, the likelihood and consequences of the risk to the organisation, business unit or project and a risk level rating based on pre-established criteria in the risk management framework, including an assessment of whether the risk is acceptable or it needs to be treated. The register should also include a clear prioritisation of risks.

[53] A risk level is a rating assigned to a risk based on the likelihood and consequences of a risk, which is compared against pre-established criteria for risk classification in the risk management framework. For example risk level ratings might include:

- extreme risks–the classification system might specify that immediate action is required;
- high risks–the classification system might specify that senior management attention is required;
- moderate risks–the classification system might specify that management responsibility must be established; and
- low risks–the classification system might specify that these risks can be managed by existing procedures.

Risk treatment plans

4.11 Of the five organisations audited:

- two organisations developed fairly comprehensive risk treatment plans;
- two organisations developed largely incomplete risk treatment plans; and
- one organisation did not develop risk treatment plans.

4.12 This meant that, for three of the five audited organisations, identified risks that were rated as unacceptable, often appeared to go untreated as organisations did not document a treatment strategy.

4.13 Of the five organisations audited, specific problems with risk treatment plans included:

- all organisations only documented chosen treatments, rather than all treatment options considered;
- all organisations indicated that they considered the cost-benefit of treatment options. However, these considerations were not documented by any organisation; and
- a majority of organisations needed to ensure that in their risk treatment plans:
  - ➢ individual officers and teams were assigned responsibility for applying risk treatments;
  - ➢ planned completion dates for each risk treatment were clearly documented;
  - ➢ relevant types of insurance were recognised as a part of the treatment strategy for identified risks, where appropriate. Consistent with audit findings, the survey results indicated that more than 75 per cent of organisations, in the Commonwealth group, did not recognise insurance in risk management plans; and/or
  - ➢ document anticipated residual risk levels after the treatments were applied. For example, for an extreme risk, the organisation may develop an initial treatment that can be applied immediately to reduce the risk level to high or moderate. Over the longer term, the organisation may develop treatments that reduce the risk level to low.

4.14 In comparison, the survey results indicated that 38 per cent of organisations in the Commonwealth group reported that they had an organisation-wide risk treatment plan. This means that 30 per cent of the organisations that indicated they had a risk register had not developed a risk treatment plan to manage the identified risks. In addition, half of the organisations that developed a risk treatment plan did not have a risk register.

Aggregating risk registers and treatment plans

4.15 One of the five organisations audited did not attempt to aggregate any business unit or project risk registers or treatment plans to develop an organisation-wide view of risk. In comparison, only 16 per cent of organisations that responded to the survey had a risk profile, register and treatment plan that could be drawn together to develop a risk management plan.

Incorporating emerging risks into the risk management plan

4.16 No organisation audited incorporated emerging risks in their risk management plans. Emerging risks arose from risk registers and treatment plans identified in project and business plans.

4.17 Of the five organisations audited:

- two organisations reviewed and updated the risk management plan on a periodic basis, although only one of these organisations reviewed the risk management plan bi-annually;
- two organisations did not periodically identify and review risks following the initial identification of risks and documentation of the risk management plan; and
- one organisation had not completed an initial identification of risks and documentation of the risk management plan, so subsequent identification or review of risks could not be undertaken.

4.18 In comparison, the survey results indicated that only 16 per cent of organisations in Commonwealth group did not identify emerging risks. However, 74 per cent of organisations that identified emerging risks did not support the identification with a formal procedure and, therefore, were unlikely to incorporate the risks in risk registers, profiles or management plans.

B. Status of, and deficiencies with, the application of the insurance frameworks

4.19 Organisations need to develop and apply appropriate procedures for:

- recognising insurable risks;
- maintaining records of assets, liabilities and indemnities to support procedures for assessing the risk exposure and obtaining appropriate insurance;

- obtaining or renewing appropriate insurance;
- recognising and recording incidents (including accidents, losses and other situations) that can result in potential insurance claims against an organisation; and
- managing claims when they arise.

4.20 This would help the organisations to ensure that:

- treatments are identified that can be applied to the management of insurable risks;
- essential information is collected and provided to Comcover or Comcare when a claim is made. It also assists organisations to determine whether an appropriate level and range of insurance has been obtained; and
- the best outcome for the organisation is achieved.

4.21 Four of the five organisations audited needed to improve their general insurance, OHS and workers' compensation activities across all criteria for this key area of examination. Organisations tended to have a better application of some aspects of the OHS and workers' compensation framework than the general insurance framework. This may be a result of the length of time organisations have been required to undertake the function and the legislative basis for the OHS and workers' compensation framework.

4.22 Deficiencies specific to the application of general insurance, OHS and workers' compensation related to aspects of: identifying insurable risk and obtaining insurance (including maintaining records of assets, liabilities and indemnities to support risk identification and insurance renewal); and reporting and managing incidents and claims.

4.23 The specific audit findings are discussed in the following sub-sections. The ANAO considers that further developing the insurance frameworks and addressing the generic application issues identified in Section C below would deal with the majority of these deficiencies.

Identifying insurable risk and obtaining insurance

4.24 The audit found that, of the five organisations audited:

- most organisations did not maintain records with current staff numbers, insurable values of assets, liabilities and indemnities for insurance purposes;
- the timing of the annual general insurance renewal for all organisations is not aligned with the financial reporting period. This means that current valuations are unlikely to be available to Comcover, when negotiating

re-insurance for the Commonwealth. In addition, different valuation methods may be required for financial reporting and general insurance purposes. The audit observed that most organisations had to provide revised information to Comcover and Comcare;

- a number of organisations experienced difficulty providing the required general insurance renewal information within the required timeframes;
- all organisations relied on the insurance provider to ask for information relevant to identifying insurable risk as part of the annual renewal exercise;
- the business areas responsible for general insurance and OHS and workers' compensation did not provide advice and assistance to the divisions and business areas during the business planning and organisation-wide risk identification activities to assist them to identify when insurance might be a treatment option in their risk management plans;
- no organisations used risk levels or incident and claims experience for general insurance to influence the level of cover sought and specifically the deductible and premium model. In mid 2002, the ANAO observed that the significant rise in the cost of insurance resulted in some organisations considering alternative deductible and premium models, but these considerations focused on a capacity to pay the deductible; and
- the general insurance coordinator in most organisations advised Comcover when a new activity or project was being initiated and sought advice about general insurance cover. However, this was undertaken on an ad hoc basis in some of these organisations.

Reporting and managing incidents and claims

4.25 The audit found that incident reporting, workplace/OHS assessments, 'investigation of' or collection of background information on incidents, and managing and monitoring the status of incidents and claims: was not timely; did not always occur; and documentation was often incomplete.

4.26 This included: organisations not reporting and investigating incidents, claims and OHS matters internally in accordance with policies and procedures; and not reporting to the insurance providers (Comcover and Comcare) in accordance with relevant legislation and requirements of the insurance cover.

4.27 In addition, this information was generally not used to inform the risk management activities of the organisation. However, in most cases, when an exposure was identified as a result of an incident, the organisation undertook corrective action. Some organisations consulted with Comcover on the timing of corrective action to address the risk exposure to ensure such corrective action did not compromise the organisation's or the insurer's position in relation to a potential claim.

4.28 It was often unclear whether an incident had been referred for investigation, whether the investigation had been completed, and whether corrective action had been undertaken. In addition, it was also unclear in a number of organisations audited whether a claim was active and whether further action was required on the part of the organisation or the insurer.

4.29 In summary, the audit found that three organisations audited did not sufficiently investigate and manage incidents and claims. They relied on Comcover to manage the risk despite the fact Comcover can only manage a specific incident or claim from an insurance perspective. However, any incident and claims management activities undertaken by an organisation must complement, not compromise, the activities of its insurer.

4.30 Comcover uses loss adjustors, solicitors, quantity surveyors and claims staff to estimate the liability in relation to a claim. The loss adjustor may in certain circumstances issue a report that requires/advises the organisation to take corrective action. The intention of this corrective action is to reduce future exposure to insurance claims. However, this may not sufficiently address the risk exposure from the organisation's perspective.

4.31 Comcare guidance supports the ANAO point of view that organisations have a responsibility to manage incidents and claims from the organisation's perspective. Comcare guidance also indicates that these activities should inform risk management activities in relation to OHS, such as the management of workplace hazards.

C. Key factors that would contribute to the successful application of frameworks

4.32 The audit found that there were several key factors that would contribute to the successful application of risk management and insurance frameworks. In particular, organisations needed to ensure the:

- existence and quality of key documentation;
- consistent and timely application of the frameworks across the organisation and at all levels of the organisation; and
- integration of insurance activities with the risk management framework.

4.33 Organisations that did not ensure these key factors were adequately addressed, did not achieve the objectives established for risk management and insurance. As well, their management of risk and insurance generally displayed the deficiencies reported in Sections A and B of this Chapter. Organisations that ensured these key factors were achieved were generally considered to demonstrate elements of better practice in relation risk management and insurance.

Documentation of risk and insurance activities

4.34 All organisations audited experienced some difficulty maintaining documentation of some or all of their risk management and/or insurance activities.

4.35 In relation to risk management, most organisations audited indicated that the management of risk was intuitive and was being managed accordingly. For example, these organisations did not document, or did not sufficiently document, initial risk assessments and treatment plans. The survey also indicated that organisations from the Commonwealth group may have had an intuitive approach to risk management as:

- 58 per cent of the latter organisations had not documented a risk management framework which included both policy and procedures;
- 46 per cent had not documented a risk management plan; and
- 78 per cent had not documented a risk register and treatment plan to support the development of a comprehensive risk management plan.

4.36 The absence of documentation did not mean these organisations were not managing their risks. However, it meant that there was no guarantee that a cost effective or agreed assessment and approach to the management of the risk was being undertaken. Such an approach contributes to problems with managing risks across 'silos', and the level of the risk exposure not being fully considered. It also results in ineffective or inefficient (and potential duplication of) treatment strategies.

4.37 The audit also found that most organisations audited did not:

- document, or adequately document, reviews of risk registers and treatment plans; and
- maintain records of the full direct cost of risk management and insurance activities, including the cost of treatments, incidents and claims (refer to Chapter 3).

4.38 In relation to insurance, some organisations audited experienced problems with maintaining documentation across all insurance activities including:

- the identification of insurable risks and the value of those risks, including current asset valuations, records of asset improvements, and changes in liabilities, including indemnities;

- records of current and past insurance cover;
- maintaining critical information for incidents and claims, including: complete record/history of incident report forms; completed incident report forms; advice to and from insurers; claims documentation and records; and status of incidents and claims. (Table A in Appendix 5, outlines some suggested fields for an insurance data base);
- investigations/documentation collection in response to an OHS or general insurance incident;
- maintaining official records and a single file for OHS or general insurance incidents and general insurance claims. In some cases these documents were kept as the working papers of the key officer and not as an official record of the organisation; and
- summary records of incidents and claims for reporting purposes, including classification and status of incidents and claims.

4.39 Most organisations audited, and a majority of the Commonwealth group also, did not maintain complete documentation of training, particularly attendance details and evaluation of training information (see Training in Chapter 3, and also D. Existence and quality of reporting and review, page 93).

Consistent and timely application of risk and insurance frameworks

4.40 The majority of organisations audited experienced difficulty applying the frameworks consistently across some, or all, of their risk management and insurance activities. The timeliness of activities, especially in accordance with requirements of any established framework or external party (insurance provider), was an issue at some level for all organisations audited.

4.41 Organisations audited and included in the survey undertook risk management at various levels across the organisation, including organisation-wide, strategic, division, business unit, work area and project. In all organisations audited, some form of risk management activity was undertaken, particularly at the organisation-wide and project levels of the organisations.

4.42 One organisation audited had not developed a framework. Consequently, its performance in applying the framework in a consistent and timely manner could not be assessed. However, the audit found that this organisation experienced problems developing a risk management plan within a reasonable timeframe, as risk identification took more than one year and treatments had not been considered. In addition, a variety of approaches to the management of risk and documentation of risk management plans was observed.

4.43 Only one organisation audited ensured that the framework incorporated templates for risk assessment, and treatment at various levels of the organisation, and enforced those templates. Risk management activities in two organisations audited generally did not conform with the requirements of the framework. The resulting risk assessments bore no resemblance, and applied different levels of rigour and assumptions, to the objectives of, and guidance in, the risk management framework.

4.44 These organisations experienced difficulty enforcing risk management templates at the organisation-wide level, and did not attempt to enforce them at other levels of the organisation. In addition, separate guidance, which was unrelated to the risk management framework, was provided to staff to assist them with identifying and managing risks when undertaking business and project planning activities (refer to Chapter 2).

4.45 The organisations audited, that had developed risk management frameworks, experienced delays in:

- undertaking planned quarterly, bi-annual or annual reviews of the risk management plan in accordance with requirements of their framework, which included the identification of emerging risks;
- reporting on risk management in accordance with planned quarterly, bi-annual or annual reporting periods; and
- developing and implementing treatments within timeframes established in risk management plans, and in accordance with timeframes relating to risk level ratings, established in the risk management frameworks.

4.46 Some organisations did not complete the development of the risk management plan in accordance with the requirements of the risk management framework, before they were scheduled to identify new risks and review risk management plans. In one organisation, it took more than a year to document the risks to the organisations, without consideration of treatments.

4.47 In relation to insurance frameworks, organisations audited did not undertake the following activities in accordance with insurance frameworks or within timeframes established in frameworks or by their insurers:

- OHS assessments;
- internally reporting incidents;
- reporting incidents to the relevant insurance provider;
- providing complete annual renewal information to the insurer;
- implementing agreed recommendations from reviews of insurance practices by internal audit or Comcare;

- providing training to managers and staff; and
- reporting, monitoring and review activities, including providing required information to relevant committees such as the OHS Committee.

4.48 The ANAO also found that different performance indicators were established for the same functions in:

- business and work area plans;
- committee terms of reference; and
- policy and procedure documents.

Recognition of insurance as a risk treatment strategy

4.49 A common finding across all organisations was that insurance that had been purchased was not recognised as part of the risk treatment strategy for the related risk in the risk management plan. In most organisations audited, insurance was not recognised at all.

4.50 Furthermore, only some organisations audited actively sought to reduce workers' compensation insurance by better managing workplace safety and claims (particularly, return-to-work cases). While, Comcover provides guidance to its client organisations regarding risk profile, level of insurance and deductible, the ANAO found that none of the organisations audited sought to manage the cost of general insurance by considering:

- risk levels, as well as the organisation's risk priority in relation to the relevant insurable risks. When considering the risk level the organisation should gain a full understanding of the current insurable value of assets, liabilities and indemnities to assist with determining the maximum possible loss, maximum probable loss (which would include consideration of incident and claims experience), existing controls and other treatment strategies in use that reduce the level of risk. In particular, the organisation needs to manage the risk in accordance with the organisation-wide risk management plan;
- incidents and claims experience, to provide information to support the determination of the likelihood and consequences of the risk occurring. The incidents and claims experience should also include consideration of the need to develop treatments that prevent the risks from occurring and, if such treatments have been developed, what the impact is on the likelihood and/or consequences of the risk occurring; and
- different deductible models (including period of cover, excess, maximum limits of cover). When choosing a deductible model, the organisation needs

to consider risk levels as well as capacity to pay. When considering risk levels, organisations need to consider the nature and patterns of behaviour of insurable risks occurring and, therefore, maintain sound incident and claims experience records.

4.51 This finding indicates that organisations generally treated insurance, particularly general insurance, as an administrative function rather than as part of a risk management approach.

Recommendation No.7

4.52 The ANAO recommends organisations improve the application of the risk management and insurance frameworks by:

- ensuring that the risk management and insurance frameworks, and any external requirements, are applied and undertaken in a consistent and timely manner;
- increasing the level and quality of documentation for risk management and insurance activities;
- recognising insurance, where appropriate, as a treatment in risk management plans;
- improving risk management plans; and
- implementing treatments within timeframes established in risk management plans.

D. Existence and quality of reporting and review

4.53 Reporting and review should:

- occur on a periodic basis to ensure progress is being made and objectives are being achieved;
- provide management with the opportunity to reconsider their objectives for, and approach to, the risk and insurance frameworks in the broader context of the organisation's objectives; and
- highlight when scarce resources are being used to address lower priority risks.

4.54 Overall, the audit found that all organisations audited reported at some level for OHS and workers' compensation; three organisations audited reported on risk management; and no organisations audited reported on general insurance. However, reporting was generally not timely or strategically focused.

In most cases, reporting did not provide senior management with performance or compliance information, and did not address the cost of applying the frameworks.

4.55 The lack of strategic reporting to senior management could best be addressed through the development of reporting requirements, including key performance indicators and standard reporting templates, in the framework documents. However, improvements are also needed in relation to record keeping and progress reporting.

4.56 The audit also found that a number of organisations did not address recommendations arising from external evaluations in a timely manner, if at all. Specific findings in relation to reporting and review are discussed below.

Reporting

4.57 The organisations audited, that had developed a risk management framework, did not undertake reporting activities in accordance with the framework. However, some organisations audited prepared status reports and updates on risk management. These reports were coordinated centrally and the responsible senior manager had to confirm the status reports for their area prior to the information being aggregated for a report to the CEO and other senior managers of the organisation. The status reports included disaggregated information on:

- whether risk treatments had been implemented, although the reports did not highlight whether treatments had been completed within required timeframes;
- the revised completion timeframes for treatments not completed within specified timeframes, as well as details of progress towards implementation; and/or
- whether the treatment had successfully reduced the risk exposure and achieved the anticipated residual risk level. One organisation highlighted in a report to senior management that the three highest priority risks had been treated and no risks at that level remained.

4.58 These organisations could improve status reporting by providing more aggregate information to senior managers to assist with the analysis of overall performance.

4.59 Other reporting to senior management included plans for:

- completion of risk registers and treatment plans and whether they had been 'completed';

- review activities of risk management plans and whether review activities had been undertaken; and
- training, and whether any training had been offered.

4.60 The majority of risk management reporting activities lacked aggregation and analysis of the implications of the information for the overall performance of organisation-wide risk management plan, the framework itself, training, resourcing and risk treatments. This was often a result of an absence of clear targets and objectives that were supported by measurable indicators of performance. A number of organisations relied on the Comcover benchmarking activity to identify problems. However, even when problems were highlighted by the benchmarking activity, or internal complaints several organisations did not respond to, or seek to address, the problem.

4.61 No organisations audited incorporated general insurance, OHS and workers' compensation information in risk management reporting to senior management.

4.62 In organisations audited, the frequency of information provided to senior managers about general insurance was limited to notification of the annual renewal. Some organisations began providing status and performance information for general insurance (to complement advice about the annual premium) when it was foreshadowed that the cost of annual premiums would significantly increase. These general insurance renewal briefings to senior management demonstrated an improvement in quality and maturity by outlining consideration of different premium and deductible models, and the organisation's ability to fund higher deductible levels. However, briefings did not consider incident or claims history, alternate risk treatment strategies, acceptable risk levels, or the link to the organisation's risk management plan.

4.63 The ANAO considered that all organisations needed to introduce periodic reporting on general insurance activities, which includes: summary information on incident and claims experience, as well as on assets, liabilities and indemnities; an overview of any corrective action taken to limit the risk; and the cost of incidents, claims, corrective action and their relationship to risk management plan, as well as the chosen general insurance premium and deductible models.

4.64 With the exception of one organisation, the audit found that organisations did not maintain sufficient information to report on, or analyse, incidents and claims experience, their compliance with the requirements of the insurer, or on the effectiveness of their general insurance practices. The majority of organisations had under-developed general insurance frameworks, without clear objectives. This further inhibited their ability to review general insurance activities.

4.65 In organisations audited, internal reporting and review of OHS and workers' compensation activities was supported by:

- reporting facilities provided by Comcare;
- performance indicators developed by Comcare; and
- a program of planned investigations conducted by Comcare.

4.66 Comcare's assistance and services focussed on ensuring each organisation achieved at least a minimum standard, and encouraging organisations to improve compliance and performance.

4.67 OHS reporting to a senior manager or the Senior Management Team tended to be more consistently and frequently undertaken than risk or general insurance reporting. In particular:

- OHS was a standing agenda item for Senior Management Team meetings in most organisations audited;
- some organisations provided strategic information on the performance of OHS and workers' compensation activities on a monthly basis to the Senior Management Team. In one of these organisations, the ANAO observed that the Senior Management Team was provided with sufficient information to enable it make a decision about whether the investment in preventative OHS activities could be reduced as the risk of a workers' compensation claim had been significantly reduced by the OHS system (that is, the cost of OHS preventative activities had begun to exceed the benefits); and
- most organisations provided less strategic information, limiting reports to the number and type of OHS incidents and in some cases to details of OHS corrective action.

4.68 The ANAO considered these organisations needed to improve the quality and frequency of information provided to senior management to provide an adequate basis for an assessment of the cost-benefit of the frameworks.

Review

4.69 Overall, the audit found that reviews of risk management and insurance activities were generally not structured or timely, if they were undertaken. This has led to:

- ongoing inconsistencies in application of the frameworks;
- an inability to address major problems with frameworks; and
- the existence of policies and procedures that were out of date and did not reflect current practices or insurers' requirements.

4.70 Reviews of risk management were generally limited to a review of the risks identified in the risk register and a report on the status of treatments. The audit did not observe any periodic reviews of the frameworks, training or application, with the exception of organisations' participation in the Comcover benchmarking.

4.71 Reviews of OHS and workers' compensation activities were better supported as a result of Comcare's planned investigation program. However, the ANAO observed that most organisations audited did not implement recommendations in a timely manner. For example, recommendations made in the 2001 Comcare planned investigation program had not been implemented in late 2002.

4.72 The audit found that, as a consequence of poor reporting by the five organisations audited, senior management was not able to review general insurance performance or compliance.

4.73 Most organisations audited have not made a cost-benefit assessment, or considered, whether their risk management and insurance activities are supporting them to achieve their organisational objectives in an appropriate and cost-efficient manner.

4.74 In comparison, the survey indicated that 26 per cent of organisations from the Commonwealth group conducted annual reviews of risk management frameworks. In addition, 72 per cent of organisations assessed the benefits achieved from applying risk management. These results are inconsistent with audit results, as organisations covered did not formally assess improvements achieved through risk management.

Recommendation No.8

4.75 The ANAO recommends that organisations improve monitoring and reporting, and review of risk and insurance activities by reporting to senior management:

- in accordance with timeframes established in the risk management policies, procedures and plans. Reporting on risk treatments should occur at least quarterly (for high risks) and bi-annually for other risks to assist management to monitor and make timely assessments of the appropriateness and effectiveness of risk treatment strategies;
- on general insurance matters (including summarised incidents and claims experience, and current insurable value of assets, liabilities and indemnities) on a periodic basis. This would assist on-going monitoring, as well as facilitating modelling the cost and benefits of existing general insurance arrangements against alternative insurance arrangements (such as levels of cover and deductibles); and
- more strategically on risk management and insurance matters.

Conclusion

4.76 Overall, the audit found that a majority of organisations audited, and of those in the Commonwealth group, had developed organisation-wide risk management plans. However, the majority of organisation-wide risk management plans were incomplete and were not consistent with the requirements of their risk management framework. All organisations audited had identified some risks and developed risk registers to document those risks.

4.77 All organisations audited, as well as the Commonwealth group, were undertaking some steps towards their requirement to obtain insurance, and report incidents and claims.

4.78 Most organisations audited needed to significantly improve the application of their risk management and insurance frameworks, including:

- maintaining critical documentation;
- applying frameworks in accordance with timeframes established in the frameworks;
- consistently applying the frameworks; and
- strategically reporting on, monitoring and reviewing the application and outcomes of the frameworks.

4.79 Organisations generally needed to improve their risk management plans by:

- better articulating the risk management context;
- identifying opportunities;
- identifying strategic and operational risks;
- better ranking and prioritisation of risks;
- developing and documenting risk treatments, including considering the cost-benefit of treatments, identifying insurance as a treatment, identifying responsibilities and planned completion dates for treatments, and anticipated residual risk levels;
- aggregating risk registers and treatment plans to develop an organisation-wide view; and
- recognising emerging risks.

4.80 Organisations generally needed to improve the reporting and management of OHS and general insurance incidents and claims, investigations of incidents, identification of insurable risk, and evaluation with Comcover of alternative insurance models relative to their organisation-wide risk priority (when obtaining insurance).

Canberra ACT	P.J. Barrett
27 August 2003	Auditor-General

Appendices

Appendix 1

Evaluation criteria and summary of ratings for five organisations audited

1. The ANAO established five key areas of examination (KAE) for this audit refer to Table 1.4 on page 47. These KAEs are mapped against the evaluation criteria in Table A below. The five organisations examined in the audit were reviewed against these evaluation criteria and received detailed reports on strengths, opportunities and observations against each of the evaluation criteria. Based on the strengths, opportunities and observations a rating was assigned to each organisation by KAE and evaluation criteria.

2. The ANAO's evaluation of the adequacy and effectiveness of risk management and insurance arrangements relating to each of the areas of examination was measured on a five point scale which rated each KAE against the established evaluation criteria. This scale, as described below, ranged from Not Developed, if no aspects of the evaluation criteria were met, through to Excellent, if all criteria were met:

- ***Not Developed***–none of the established evaluation criteria were satisfied.
- ***Developing***–some of the key evaluation criteria were satisfied.
- ***Maturing***–the evaluation criteria were mostly satisfied. However, some of the key criteria were not adequately addressed.
- ***Sound***–all key evaluation criteria were satisfied. However, some of the minor criteria were not adequately addressed.
- ***Excellent***–all evaluation criteria were fully satisfied.

3. The five point scale was expanded to recognise an organisation's performance within a scale. For example, an organisation that was rated as Maturing may have demonstrated some qualities that would move it towards achieving a higher rating. In such a situation, the organisation received a rating of Maturing to Sound.

4. Ratings for the five organisations audited are presented in Tables B and C below (on pages 108 and 109, respectively) by KAEs for Business Process and Evaluation Criteria, respectively.

Table A–Evaluation criteria for key areas of examination (KAEs)

Key Area of Examination	Evaluation Criteria
Senior Management Involvement Achieving an integrated risk management and insurance approach requires strong direction, leadership and commitment from senior managers.	1.1 Senior managers endorse the risk management and insurance framework. 1.2 Responsibility for risk management and insurance has been assigned to a senior management committee and individuals from the senior management group. 1.3 Introduction of a recognition and reward scheme to encourage the sound application of the risk management and insurance framework. 1.4 Senior managers identify and are responsible for managing some risks. 1.5 Senior managers receive regular reports on the implementation and results of the risk management and insurance frameworks. 1.6 Senior managers monitor and review the implementation of the risk management and insurance frameworks. 1.7 Senior managers receive appropriate training in risk management, insurance and related matters.
Resources and Training The organisation ensures that appropriate and adequate resources and trained personnel are assigned to the management and implementation of the risk management and insurance frameworks. To ensure that appropriate and adequate resources are dedicated to the risk management and insurance frameworks the organisation may need to access the assistance of external consultants and implement software or data bases to support internal processes.	2.1 Sufficient resources, including staff, are applied to the management of risk and insurance activities at the organisation. 2.2 The roles of staff involved in the risk and insurance management processes are clearly articulated. 2.3 Suitably trained and qualified officers are appointed to fill risk management and insurance roles in the organisation. Dedicated staff receive specialist training. 2.4 General staff are aware of the appropriate contact officers for risk and insurance activities in the organisation. 2.5 Officers are empowered to manage operational risks and/or there are clear lines of reporting to enable action when a significant operational or strategic risk arises. 2.6 Where appropriate the organisation has accessed consultants and experts to assist in the development of the risk and insurance frameworks or the application (and ongoing support) of those frameworks. 2.7 All staff receive appropriate training in risk management, insurance and related matters. 2.8 The organisation maintains a risk management, general insurance and workers' compensation insurance data base to support record keeping, monitoring and reporting.

Key Area of Examination	Evaluation Criteria
Risk Management and Insurance Framework The development of an appropriate risk management and insurance framework is an essential prerequisite to ensure that any subsequent commencement of a risk management or insurance process is effective and appropriate to the organisation's needs. It also provides the basis for the implementation of a common understanding and consistent approach to risk management and insurance matters.	3.1 The organisation has developed appropriate policies, procedures and practices to establish an appropriate risk management framework. The framework is consistent with the principles articulated in the Australian and New Zealand Standard 4360:1999. 3.2 The organisation has developed appropriate policies, procedures and practices to establish general insurance and workers' compensation insurance frameworks. The frameworks are consistent with Comcover and Comcare requirements. 3.3 The organisation has developed and implemented arrangements to communicate policies, procedures and practices for the risk management and insurance frameworks to encourage all officers to manage risk and insurance as an integral part of the their day-to-day functions and activities. 3.4 The organisation has developed an integrated approach to the management of risk and insurance. 3.5 The organisation has integrated the risk and insurance management frameworks with other strategic documents and processes. 3.6 The organisation has established whether risk management and insurance activities are to be managed through a bottom-up, top-down or a combination of both approaches.

Key Area of Examination	Evaluation Criteria
Development and Use of the Risk Management Plan The development of a risk management plan in accordance with the organisation's policies and procedures provides a mechanism for recording and monitoring the identification, analysis, evaluation and treatment of risks. At the organisation-wide level it should represent an aggregation of risks at the strategic and operational level and provide a framework for lower level risk management plans to link into organisation-wide management of risk.	4.1 The organisation has set the organisation and risk management context. 4.2 The organisation has developed a comprehensive risk profile that prioritises the organisation's risks. In developing the profile the organisation has: ☐ identified the organisation's risks (at the organisation-wide, program, work unit and project level); and ☐ analysed and evaluated risks (including the identification of compensating controls). 4.3 The organisation has developed a comprehensive risk treatment plan at the organisation-wide, program, work unit and project level. The treatment plan recognises insurance as a treatment. 4.4 The organisation has consolidated its risk profile and treatment plan in accordance with the Australian and New Zealand Standard 4360:1999 and Comcover's guidance on the development and contents of a risk management plan. 4.5 The organisation reports progress against, monitors and reviews the risk management plan. The organisation has established key performance indicators to assist in monitoring performance. 4.6 The organisation has promoted and developed a risk management culture. 4.7 The organisation's approach to the management of risk is consistent with its risk management framework. The organisation's risk managers conduct risk assessments where appropriate and manage risks as they arise in accordance with their responsibilities.

Key Area of Examination	Evaluation Criteria
Management of Insurance The implementation of appropriate processes for recognising insurable risks and obtaining or renewing appropriate insurance is an essential treatment that an organisation can apply to the management of insurable risks. Similarly, the implementation of appropriate processes for recognising and recording incidents, accidents, losses and other situations that can result in potential insurance claims against an organisation are fundamental to ensuring the organisation is able to collect and provide essential information to Comcover or Comcare when a claim is made. It also provides an organisation with essential information to be able to determine whether an appropriate level and range of insurance has been obtained. Finally, appropriate application of processes to manage claims when they arise need to be implemented to ensure the best outcome for the organisation.	5.1 The organisation has implemented processes to identify and quantify all organisation-wide insurable risks, including: ☐ review of the risk management plan and/or treatment plan; ☐ review of new project plans and other risk assessments; and ☐ review of incident and accident data. 5.2 The organisation has implemented processes to obtain an appropriate level of insurance from the Commonwealth's insurance providers,[52] including: ☐ accurate and timely provision of information to the provider; and ☐ where appropriate, analysis and evaluation of alternative premiums and excess models. 5.3 The organisation has implemented procedures to ensure all incidents, accidents, losses and other situations are recorded and reported to the insurance provider in a comprehensive and timely manner. 5.4 The organisation ensures that incidents and accidents are investigated, the results of the investigation are documented and required action is taken in a timely manner. 5.5 The organisation has implemented its procedures for the management of insurance claims to ensure the best outcome. 5.6 Recorded incident, accident and claim information is summarised and reported periodically to management. 5.7 Summarised incident, accident and claim information is used by management to monitor and review the organisation's insurance framework.

[54] For the purposes of this audit the primary insurance providers for the Commonwealth are Comcover (general insurance) and Comcare (workers' compensation).

Table B—Overall ratings of organisations audited against business process examined by KAEs

	Excellent	*Sound to Excellent*	*Sound*	*Maturing to Sound*	*Maturing*	*Developing to Maturing*	*Developing*	*Not Developed to Developing*	*Not Developed*
Overall Rating for KAE 1									
Risk Management			• •			• •	•		
General Insurance				•		•	•	• •	
OHS and Workers' Compensation			• •			• •	•		
Overall Rating for KAE 2									
Risk Management			• • •			•	•		
General Insurance			• •		•	•	•		
OHS and Workers' Compensation			• • •		•	•			
Overall Rating for KAE 3									
Risk Management			•		• •	•	•		
General Insurance				•	• •	•	•		
OHS and Workers' Compensation			•		• •	•	•		
Overall Rating for KAE 4									
Risk Management			•	•			• • •		
General Insurance									
OHS and Workers' Compensation									
Overall Rating for KAE 5									
Risk Management									
General Insurance				•		• • •	•		
OHS and Workers' Compensation				• •		• •	•		

• indicates that an organisation received this rating for the Key Area of Examination (KAE).

Table C—Overall ratings of organisations audited against evaluation criteria by KAEs

	Excellent	Sound to Excellent	Sound	Maturing to Sound	Maturing	Developing to Maturing	Developing	Not Developed to Developing	Not Developed
Overall Rating			•	•		•	• •		
1.1	•			•	•		• •		
1.2			•	• •	•	•			
1.3				•			• • •		•
1.4			• •		•		• •		
1.5			•			•	• • •		
1.6			•	•			• • •		
1.7				• •		•	•		•
Overall Rating			• •		•	• •			
2.1			•	•		• •	•		
2.2			• •		• •		•		
2.3			• • • •	•					
2.4			• • •	•			•		
2.5		• • •	•		•				
2.6		•	•	•	•	•			
2.7			•		• •	• •			
2.8					• •	• •			•
Overall Rating			•		• •	• •			
3.1			•	• •	•		•		
3.2			•	•		• •	•		
3.3		•	•	•		•	•		
3.4					• •	• •	•		
3.5			•		•	• • •			
3.6		•	•			•	• •		
Overall Rating			•	•			• • •		
4.1			•		• •	• •			
4.2		•		•			• • •		
4.3				• •			• •		•
4.4			•		•	•	• •		
4.5		•				•	• •		•
4.6		•		•		• •	•		
4.7			•		•		• •	•	

	Excellent	Sound to Excellent	Sound	Maturing to Sound	Maturing	Developing to Maturing	Developing	Not Developed to Developing	Not Developed
Overall Rating				•	•	• •	•		
5.1				•	•	• • •			
5.2			•		•	• • •			
5.3				•	•	• •	•		
5.4				• • •	•		•		
5.5			•		• •	•	•		
5.6				•	•	•	• •		
5.7				•		•	• •	•	

◦ • indicates that an organisation received this rating for the Key Area of Examination (KAE) or Evaluation Criterion.

5. Table D outlines the relationship between the KPIs developed for Comcover's Risk Management Benchmarking Program and the KAEs for this audit.

6. Comcover uses a three level scale to rate the organisation's performance as follows:

- Early (evolving a risk management culture);
- Intermediate (applying a risk management system); and
- Advanced (continuously improving risk management practices).

7. Clients were informed that they would receive a discount if they participated in two consecutive years of benchmarking and maintain or improved on their previous result, either within or between levels. Comcover undertook this initiative to encourage organisations to make improvements. Comcover also undertook an analysis of a sample of benchmarking responses and moderated results where statistical anomalies where identified. The ANAO examined results of the Comcover benchmarking study against the ANAO survey results and found that, of the 30 common participants, the benchmarking rating from their self-assessment responses was inconsistent with the ANAO's rating in 16 cases. Only two organisations assessed themselves as performing below the ANAO's rating. The ANAO's survey required organisations to provide supporting documentation to confirm their self-assessment of risk management and insurance activities.

Table D—The relationship between the KAE for the audit and Comcover's 10 risk management KPIs

Comcover Key Performance Indicators for Risk Management	*ANAO KAE*
1. Integrated risk management approach—integral to all business processes.	KAE 3
2. Commitment and Leadership—at the highest level in organisations—senior management champion.	KAE 1
3. Positive and proactive focus—proactive in identifying, analysing and treating potential risks—optimum protection at minimum cost.	KAE 4
4. Defined risk management process—seamlessly integrated with other business processes.	KAE 3 and 4
5. Planned for continuous improvement—continuous control, performance monitoring, review and improvement of planning and practices.	KAE 3 and 4
6. Auditing and documentation—developed and applied mechanisms to ensure ongoing review of risks.	KAE 3 and 4
7. Communication—active communication and consultation occurs between stakeholders—communication plan.	KAE 3 and 4
8. Resourcing—identified and committed adequate resources, adequately protected against the risk of loss (financially, operationally and contractually).	KAE 2
9. Training and education—committed to ongoing training and have funded program.	KAE 2
10. Make value-based decisions—bases business decisions on full risk assessment including cost benefit analysis of the risks and business value (not just cost alone).	KAE 4

Appendix 2

Australian public and private sector studies and requirements

8. This Appendix provides some background information on risk management and insurance activities in the Australian Public Sector (APS) and other jurisdictions including:

- risk management relevance to the APS context;
- the Risk Management Standard;
- requirements of State Governments and findings of recent State Audit Office reviews;
- the CPA Australia study of risk management activities in public sector organisations;
- the Australian Stock Exchange Listing Requirements;
- Organisation for Economic Co-operation and Development principles of corporate governance; and
- previous ANAO audit coverage.

Risk management relevance in the Australian Public Sector (APS) context

9. There is no mandatory requirement for Australian Public Sector (APS) organisations to manage risk. '…Managing risk is implicit under both Section 44 of the FMA Act and Reg 9 of the FMA Regulations.'[55] However, over the last decade or more, there are a number of government initiatives, parliamentary legislation and significant public sector guidance, which at least indicates that there is an expectation that APS organisations would have applied appropriate frameworks to manage risks. The initiatives, legislation and guidance are outlined in Table 1. Prior to these initiatives, risk management was a feature of project management in the APS and was also raised as part of the significant APS management reform program that commenced in the early 1980s. In particular, this program focussed on improving management systems by applying a risk management strategy and achieving value for money.[56]

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[55] Australian Government Solicitor, 2003, *Legal Briefing*, Number 66, 12 May, p. 1.

[56] MAB/MIAC, 1992. *The Australian Public Service Reformed. An Evaluation of a Decade of Management Reform*, Taskforce on Management Improvement, Australian Government Publishing Service, Canberra, December, pp. 53 and 287.

Table 1—Key APS risk management initiatives, legislation and guidance

Key Initiative, Legislation or Guidance	*Description*
1989 ***Finance Directions***	In 1989 Section 1 of the Finance Directions indicates that *risk management has become an up-market jargon term for good old-fashioned common sense.*[57]
December 1992 ***Taskforce on Management Improvement***	This Taskforce found that the 1980s *reforms had been well accepted and have had many positive effects, as well as some costs; and more needs to be done especially to extend them across the APS and to incorporate in the culture of the entire administration.*[58] Risk management was a strategy that needed further development.
October 1996 ***The launch of the MAB/MIAC Guidelines for Managing Risk in the Australian Public Service***	The Management Advisory Board/Management Improvement Advisory Committee (MAB/MIAC) was established to advise the Government on significant public management issues. MAB/MIAC *identified the need for greater recognition of the place of risk management in maximising programme effectiveness.*[59] In 1996 MAB/MIAC issued *Guidelines for Managing Risk in the Australian Public Service*. The Guidelines, which was based on the Australian and New Zealand Standard 4360:1995 on Risk Management, provided a: • *generic framework for managing risk in the Australian Public Service (APS); and* • *reference point for managers and staff when developing processes, systems and techniques for managing risk which are appropriate to the functional and organisational context of their agency.*[60]
June 1996 ***National Commission of Audit***	The Commission was established *…to examine aspects of what the Commonwealth Government does, how it does it, how its activities are recorded and the implication for its financial position*. In addition, the Commission was required to suggest improvements to the Government.[61] A recommendation by the Commission, which was aimed at achieving *a 'best practice' Commonwealth: outcome focussed, input efficient approach* was that *…a very substantial cultural and structural change, including more effective personnel management, more balanced management of risk, more contestability (competition) in the provision of services, and more focus on outcomes rather than inputs and processes*. In particular, the Commission recommended better use of risk management techniques.[62]

[57] McPhee, I 1995. *Risk Management—An ANAO Perspective,* Address to the MAB/MIAC Seminar: Managing Risk, Hyatt Hotel, Canberra, 11 October, p. 1.

[58] ibid.

[59] MAB/MIAC, 1996. *Guidelines for Managing Risk in the Australian Public Service*, Australian Government Publishing Service, Canberra, p. 2.

[60] ibid., p. 4.

[61] National Commission of Audit, 1996, *Report to the Commonwealth Government*, Australian Government Publishing Service Canberra, June, p. v.

[62] ibid., p. xiii & xiv.

Key Initiative, Legislation or Guidance	***Description***
1997 ***The enactment of the FMA Act, the CAC Act and the Auditor-General Act 1997***	In 1997 three pieces of legislation were enacted, which provided a renewed framework for public sector accountability. These were the FMA Act, the CAC Act and the *Auditor-General Act 1997*. The FMA Act sets out the broad accountability principles to promote the efficient, effective and ethical use of public money and property. The FMA Act gives an agency's Chief Executive responsibilities and powers to establish detailed accountability processes including through: • managing their organisation efficiently, effectively and ethically under section 44 of the FMA Act. Risk management and insurance management are tools that assist management in fulfilling these responsibilities; • developing a Fraud Control Plan under section 45 of the FMA Act; • establishing an Audit Committee under section 46 of the FMA Act which, under Part 2 of the Financial Management and Accountability Orders 1997, has a role in the approval of internal annual and strategic plans of the agency, and the dissemination of good practices; and • developing a set of 'Chief Executive's Instructions' under section 52 of the FMA Act. Risk management and insurance are processes that are generally included in 'Chief Executive's Instructions'. Similarly, the CAC Act provides for the reporting and accountability requirements for Commonwealth authorities and Commonwealth companies. Under the CAC Act directors of Commonwealth authorities and Commonwealth companies are subject to risk management disciplines through requirement to: • establish an Audit Committee under section 32 (authorities) and section 44 (companies) of the CAC Act; • prepare an Annual Report under section 9 (authorities) and section 34 (companies) of the CAC Act and a Corporate Plan for Government Business Enterprises under sections 17 and 42 of the CAC Act; and • act in accordance with the duty of care and diligence on officers of Commonwealth authorities under section 22 of the CAC Act. Commonwealth company directors have a similar obligation under section 180 of the *Corporations Act 2001.* Therefore, under the legislation the responsibility for ensuring the existence of frameworks for the management of risk and insurance rests with the Chief Executive in the case of FMA agencies and the Board of Directors and Chief Executive Officer in the case of Commonwealth companies. The responsibility for developing, applying and ensuring compliance with the organisation's policy and procedures is typically delegated to the appropriate officers within the organisation.

Key Initiative, Legislation or Guidance	***Description***
July 1998 Establishment of Comcover	Comcover requested Commonwealth organisations to: • develop a risk management framework, since the introduction of the fund;[63] • have a risk management plan in place by March 2001;[64] and • participate in the Comcover risk management benchmarking program since 2001.

The Risk Management Standard

10. In 1995, the Joint Standards Australia/Standards New Zealand Committee OB/7 prepared and issued the Australia and New Zealand Standard 4360:1995 on Risk Management. The objective of the Standard was to provide 'a generic framework for identification, assessment, treatment and monitoring of risk.'[65] The Standard was to be used in conjunction with other applicable or relevant standards. The Standard was revised and reissued in 1999 as the Australia and New Zealand Standard 4360:1999 on Risk Management (the Standard). The revised Standard rearticulated and expanded its original objective to provide 'a generic framework for establishing the context, identification, analysis, evaluation, treatment, monitoring and communication of risk.'[66] The Joint Standards Australia/Standards New Zealand Committee OB/7 is currently reviewing the Standard.

11. The Standard is not mandatory, but it is generally accepted that it provides a sound basis for applying a risk management framework. The Standard recognises that 'the design and implementation of the risk management system will be influenced by the varying needs of an organisation, its particular objectives, its products and services, and the processes and specific practices employed.'[67]

12. The United Kingdom, Canadian Public Sector, Korea, Japan and China have adopted the Standard. As well, Ireland and the European Union have expressed an interest in adopting the Standard.[68]

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63 Refer to the original Policy Manual issued by Comcover.

64 This means organisations would have had a plan in place for more than 12 months, based on the timing of audit fieldwork commencement, which was April 2002.

65 Joint Standards Australia/Standards New Zealand Committee OB/7, 1995. *Australia and New Zealand Standard 4360:1995. Risk Management*, p. 2.

66 ibid., p. iii.

67 ibid.

68 Federal Risk Manager, Winter 2002, *Sound RM required to meet global insurance challenge*, Issue No.10, p. 2.

State government requirements and Audit Office reviews

13. The majority of Australian State and Territory governments have legislation in place that requires risk management, general insurance and workers' compensation arrangements to be in place. The majority of States and Territories have established self-managed funds for general, and approximately half have self-managed funds for workers' compensation, insurance. The remaining States have self-insurance arrangements for workers' compensation that must satisfy relevant legislation. Most of the States have established a requirement to develop policies and procedures for general and workers' compensation insurance. However, more than half of the States recommend (but do not require) that State government organisations develop risk management policies and procedures. In addition, the majority of the States require State government organisations to undertake organisation-wide risk management. For specific details of State government requirements refer to Table 2 following. This suggests that the Commonwealth's requirements for risk management are less stringent than the States.

Table 2—Australian State and Territory risk management and insurance requirements

	Enabling Arrangements		***Requirements Under Enabling Arrangements***	
	Arrangements Enabled Under Legislation/Act	*Self Managed Insurance Fund*	*Requirement to Develop Organisational Policies and Procedures*	*Requirement to Undertake Risk Management at an Enterprise–wide level*
Commonwealth Government				
Risk Management	■		❍	❍
General Insurance	■	●	❍	
Workers' Compensation	●	●	●	
State Governments				
New South Wales				
Risk Management	●		❍	❍
General Insurance[69]	●	●		
Workers' Compensation	●	□	●	
Victoria				
Risk Management	●		❍	●
General Insurance	●	●		
Workers' Compensation	●	□	●	
Queensland				
Risk Management	●		❍	●
General Insurance	●	●		
Workers' Compensation		□	●	
Western Australian				
Risk Management			●	●
General Insurance		●	●	
Workers' Compensation		●	●	

69 Non Budget Sector Organisations are able, at their discretion, to participate in the managed fund or implement other arrangements that they judge to be appropriate. They are still required to comply with relevant legislation.

	Enabling Arrangements		***Requirements Under Enabling Arrangements***	
	Arrangements Enabled Under Legislation/Act	*Self Managed Insurance Fund*	*Requirement to Develop Organisational Policies and Procedures*	*Requirement to Undertake Risk Management at an Enterprise–wide level*
ACT				
Risk Management			❍	❍
General Insurance[70]	●	●	●	
Workers' Compensation[71]		⊙	●	
South Australia				
Risk Management	●		●	●
General Insurance	●	●	●	
Workers' Compensation	●	□	●	
Tasmania[72]				
Risk Management	●		●	●
General Insurance	●	●	●	
Workers' Compensation	●	●	●	

⊙ - Covered under the Commonwealth Arrangements.
● - Satisfies Criteria.
■ - Enabled through a Government Directive.
❍ - Recommended only. No mandatory requirement. It is considered Good Management Practice.
□ - Have Self Insurance arrangements, however must comply with relevant Government Legislation.

Source: Based on advice provided to the ANAO by State and Territory government organisations.

14. In June 2002, The New South Wales (NSW) Audit Office completed an audit of risk management activities in the General Government Sector (GGS) and Public Trading Enterprise Sector (PTES).[73] The audit involved a survey of 26 organisations and achieved a 92 per cent response rate. Overall, the audit found that:

- the PTESs were more advanced than the GGS in the management of risk;
- there is a need for greater consistency in the approach to and application of risk management;
- organisations need to consider more than insurable risk;

[70] Non-Budget Sector Agencies in this State are required to make their own insurance arrangements. They must comply with relevant legislation.

[71] The Chief Minister's Department drives OHS in agencies through a consultative committee process and premiums are based substantially on claims experience.

[72] Non-Budget Sector Agencies in this State are required to make their own insurance arrangements. They must comply with relevant legislation.

[73] NSW Audit Office, June 2002, Audit Report No.98, *Managing Risk in the NSW Public Sector.*

- organisations need to be aware of the consequences of risk aversion; and
- there is a role for a central organisation to oversight and encourage the adoption of better practice, where necessary.

15. The NSW Audit Office audit also found that:

- 77 per cent of GGS and 45 per cent of PTES did not have a risk management plan;
- 54 per cent of the GGS and 27 per cent of the PTESs did not have a risk management policy;
- 69 per cent of GGS and 36 per cent of PTES advised that the link between risk management and corporate objectives was not effective; and
- 77 per cent of GGS and 27 per cent of PTES considered key risk performance indicators were not developed or not effective.

16. In March 2003, the Victorian Audit Office completed an audit of *Managing Risk Across the Public Sector*.[74] The audit found that the majority of public sector organisations were managing risk in some way. However, risk management practices generally needed to mature. More than 33 per cent of organisations did not identify and assess key risks, or when risks are identified they may not be reported to key stakeholders. There was a lack of management of risk from a State-wide perspective, and the audit found that the management of risk across organisational 'silos' was a particular problem which needed more active involvement and guidance from a central agency. Overall the audit found that:

- 90 per cent of the Victorian public sector organisations examined had applied risk management to some part of their business;
- 39 per cent of the organisations had appropriate risk management strategies in place;
- 28 per cent were effectively implementing their risk management strategies and integrating these into their governance or management structures; and
- organisations with a formal approach to managing risk were doing so more effectively and recognised other organisation-wide benefits.

CPA Australia

17. CPA Australia commissioned PricewaterhouseCoopers to undertake a study that involved surveying 31 public sector organisations from across three tiers of government in Australia. Seven of the 31 organisations were from the

[74] No. 6–Session 2003.

Commonwealth government. The study covered a variety of issues and significant results included:

- effective risk management was considered to significantly contribute to the achievement of organisational objectives. However, relatively few central agencies (policy departments) considered this to be the case;
- risk management has helped to achieve outcomes of Commonwealth organisations by improving accountability, cost-effective service delivery, project management and reputation management;
- the majority of surveyed organisations had a documented risk management policy that was signed-off by the CEO or executive management;
- the Commonwealth organisations were considered to have a more mature approach to risk management, as they had established risk evaluation criteria, risk identification methodologies, risk recording requirements, risk prioritisation procedures and risk analysis methodologies. However, all organisations needed to improve performance benchmarking, monitoring and risk performance indicators;
- the main drivers for risk management in Commonwealth organisations were the Australian Standard on Risk Management, and internal and external audit reports. As a result, the Standard was also the primary basis for development of the organisation's risk management framework;
- the communication of the importance of risk management in Commonwealth organisations was driven by, in order of priority, the risk manager, internal and external audit, executive management and the CEO, and the audit committee. In comparison the CEO was rated as the second highest driver of risk management importance across all organisations surveyed;
- survey participants considered that the primary means of communicating risk management to external parties was through the annual report and to internal parties was via the organisation's policies and guidelines;
- audit reports were considered to be the most widely used mechanism to encourage good practice in risk management;
- the Commonwealth organisations had achieved risk management integration in relation to audit planning, project planning, annual planning, strategic planning, and project reporting;
- the majority (85 per cent) of Commonwealth organisations reported that they reviewed their risk profile on an annual basis and that they (90 per cent) recognise emerging risks in their risk profile;

- the primary benefits of risk management were considered to be the achievement of organisational objectives, a more robust corporate planning cycle, an increased uptake of opportunities, improved management reporting and improved stakeholder relationships; and
- the barriers to risk management in Commonwealth organisations were considered to be culture, skills set, organisation structure, government process and senior management receptiveness.

Australian Stock Exchange

18. The Australian Stock Exchange (ASX) Corporate Governance Council has developed a set of guidelines, *Principles of Good Corporate Governance and Best Practice Recommendations.* This document establishes 10 essential principles that the ASX believes underlie good corporate governance. Recognising and managing risk is the seventh of the 10 essential corporate governance principles. Specifically, the ASX considers companies should 'establish a sound system of risk oversight and management and corporate control.' The ASX requires companies to report on the extent to which they have followed best practice recommendations established by the ASX Corporate Governance Council in the company's annual report.[75]

Organisation for Economic Co-operation and Development

19. The Organisation for Economic Co-operation and Development (OECD) issued *OECD Principles of Corporate Governance* in April 1999.[76] This document recognises that risk management and the identification and management of risk is a consideration in regard to corporate governance activities such as *disclosure and transparency* and the *responsibilities of the board*. However, the document focuses more on financial risk.

Previous ANAO audits

20. There have been no recent reviews specifically looking at organisation-wide risk management and insurance activities across Commonwealth organisations. However, a key audit criterion in most Performance and Business Support Process (BPS) audits is the appropriateness of risk management practices in regard to the process, program or function that is being examined as part of the audit. In addition, as a part of the new audit methodology, all Financial Statement Audits conducted by the ANAO also review the status of organisation

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75 Refer to Chapter 4—Periodic Disclosure, paragraph 4.10.3, of the 1 January 2003 ASX Listing Rules at <http://www.asx.com.au/ListingRules/chapters/ch04.pdf>.

76 SG/CG (99)5.

risk management plans and activities, and comments on these results are reported in an end of financial year report entitled *Control Structures as part of the Audit of Financial Statements of Major Commonwealth Entities*.

21. The ANAO has undertaken several specific audits of risk management:

- at the Australian Customs Services (including Audit Report No.32 1997–98, *Management of Boat People,* Audit Report No.6 1997–98, *Risk Management in Commercial Compliance* and Audit Report No.1 1996–97, *Passenger Movement Charge*);
- employed in the management of the Commonwealth's Foreign Exchange Exposure (Audit Report No.45 of 1999–2000, *Commonwealth Foreign Exchange Risk Management Practices*); and
- of Consumer Product Safety Regulators (Audit Report No.12 1995–96 *Risk Management by Commonwealth Consumer Product Safety Regulators).*

22. The ANAO has examined matters relating to general insurance in:

- Audit Report No.6, 1996–97 *Commonwealth Guarantees, Indemnities and Letters of Comfort;*
- Audit Report No.47, 1997–98 *Management of Commonwealth Guarantees, Indemnities and Letters of Comfort;* and
- Audit Report No.27, 2002–03 *Follow-up Audit, Management of Commonwealth Guarantees, Warranties and Indemnities.*

23. In addition, the ANAO has issued guidance and examined matters related to workers' compensation and OHS in:

- Audit Report No.22, 1995–96, *Workers Compensation Case Management*;
- The Better Practice Guide, December 1996, *Return-to-Work: A guide to workers' compensation case management*;
- Audit Report No.8, 1997–98, *Management of Occupational Stress in Commonwealth Employment*;
- The Better Practice Guide, December 1997, *Management of Occupational Stress*; and
- The Better Practice Guide, June 2001, *Rehabilitation: Managing Return-to-Work*.

Appendix 3

Survey background

Introduction

1. The survey was undertaken in conjunction with the ANAO Management of Risk and Insurance audit, which examined risk and insurance management practices across five Commonwealth organisations. The survey instrument was designed to support the Key Areas of Examination developed for the detailed audit. Results of the survey were compared with relevant findings in the detailed audit.

Survey objectives

2. The ANAO undertook this survey to provide an overview of the systems and frameworks Commonwealth organisations use to manage risk and insurance. In particular, the survey sought to identify issues and support audit findings.

Structure of this survey

3. The survey had three sections and eight parts. An outline of the information captured by each section and part is provided below:

Section 1—Risk management

4. Part 1. Organisational and Risk Management Contact Details.

5. Part 2. Current Status of Your Risk Management Plan. This part sought information on organisation's:

- Risk management process;
- Risk management plan;
- Realised improvements; and
- Barriers experienced.

6. Part 3. Staffing and Resources of the Risk Management Process.

7. Part 4. Establishment of an Organisation-wide Risk Management Framework.

8. Part 5. Relationship between Risk Management and Other Planning Documents.

9. Part 6. Management of Emerging Risks and Changing Environments.

Section 2—General insurance

10. Part 7. General Insurance. This part requested information on the sourcing, cost and management of General Insurance and its relationship with risk management.

Section 3—Workers' compensation insurance

11. Part 8. Workers' Compensation. This part requested information on the cost and management of workers' compensation and its relationship with risk management.

Scope

12. The ANAO conducted a survey of 50 Commonwealth organisations governed by the FMA Act and CAC Act between 29 May and 12 August 2002. A pilot study of the survey was completed in April 2002. On 29 May 2002, survey forms were distributed to 50 organisations. In September 2002, 49 responses had been received. Quality assurance and analysis of survey results was completed in January 2003.

13. The ANAO classified the organisations as small[77], medium[78] or large[79] based on staff numbers (full-time equivalents [FTE]). Survey responses were analysed in order to determine the influence organisation size had on the risk management plans. There were 33 small-sized organisations (66 per cent), 14 medium-sized organisations (28 per cent) and three large-sized agencies (6 per cent) included in the survey.

14. In evaluating the status of risk management and insurance in Commonwealth organisations the study examined responses against a series of key performance measures. Table A outlines the key performance measures utilised in this study.

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77 Small organisations had between 1 and 999 staff.

78 Medium organisations had between 1 000 and 9 999 staff.

79 Large organisations had more than 10 000 staff.

Table A–Risk management key performance measures

Performance Measure Category	Performance Measure Indicator
Overview of current risk management plans	▪ Risk management process ▪ Risk management plan ▪ Realised improvements ▪ Experienced barriers ▪ Management of risk across 'silos'
Staff and resources of the risk management process	▪ Senior management and risk team ▪ Risk manager ▪ Communication with insurance frameworks ▪ Risk management training ▪ Software utilisation ▪ Consultant utilisation ▪ Time and cost information
Establishment of an organisation–wide risk management framework	▪ Risk management framework documentation ▪ Communication of the risk management framework ▪ Risk treatment ▪ Briefing and distribution ▪ Risk culture ▪ Importance rating of insurance ▪ Risk registers
Relationship between risk management and other planning documents	▪ Integration of risk management and planning documentation ▪ Integration of insurance in planning documentation
Management of emerging risks and changing environments	▪ 'Living' Risk Management Plans ▪ Processes to identify new and emerging risks ▪ Communication of new and emerging risks
Application of the insurance framework–General insurance	▪ Financial information ▪ Communication with insurance provider ▪ Insurance program ▪ Training ▪ Reporting systems ▪ Claims management ▪ Time and cost information
Application of the insurance framework–Workers' compensation insurance	▪ Financial information ▪ Communication with insurance provider ▪ Policies and procedures ▪ Training ▪ Reporting systems ▪ Time and cost information

Interpretation of results

15. While the emphasis of the ANAO survey studies is to make information available to public sector organisations for use as a management improvement tool, they also provide an opportunity for an across-the-board assessment of the Commonwealth management of risk and insurance activities. This assessment is based on a comparison of responses from participating Commonwealth organisations.

16. Commonwealth organisations can compare their own performance against the results of other organisations and use the information to diagnose areas of concern their own risk management and insurance activities, as well as highlight opportunities for business re-engineering and/or process improvement.

17. The results are limited to the extent that data in the study has been derived from self-assessments. The results do not account for, or distinguish between, the different environments in which the risk management and insurance were undertaken. Therefore the results of the study provide only a broad indication of differences in the risk management and insurance activities between Commonwealth organisations.

Survey results—Number and cost of claims

18. This section provides an overview of the claims history of the participating survey respondents for both general insurance and workers' compensation.

19. This section of the survey sought to obtain data on the number, dollar value (the amount paid plus an estimate of outstanding liability) and types of claims organisations made in relation to general and workers' compensation insurance. The results obtained from the survey show:

- the total number of insurance claims made (refer to the Figure, below);
- the most common type of general insurance claims made that were covered by insurance (refer to Table B);
- the number and dollar value of general insurance claims that fell below the relevant deductible level and resulted in organisations funding the cost of claims (refer to Table C);
- the number and dollar value of general insurance claims that did not fall below the relevant deductible level, but that organisations funded the cost of claims because their insurance management practices did not support the insurance arrangements with insurance providers (refer to Table D); and

- the type, number and cost of workers' compensation claims made that were covered by insurance (refer to Table E, on page 129).

Figure–Insurance claims made by Commonwealth organisations to insurance providers

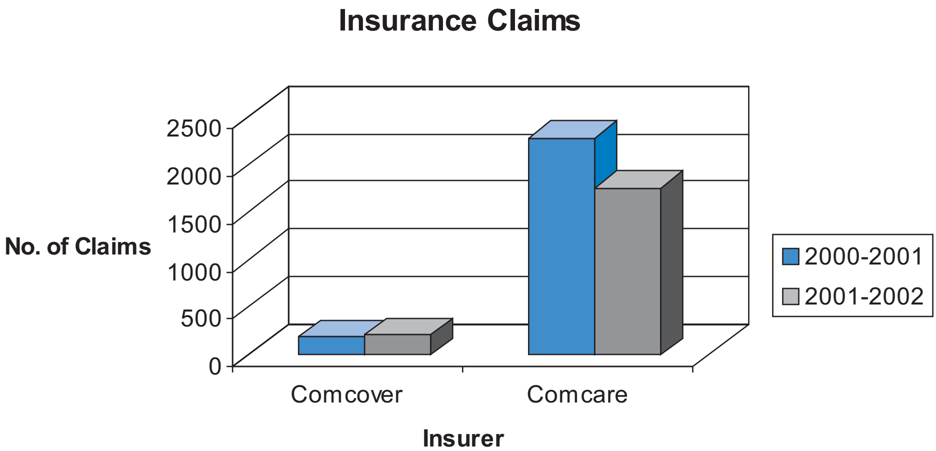

Table B–General insurance—Number of claims covered by Comcover

Claim Type	2001–2002	2000–2001
Property	60	39
Liability	97	105
Motor Vehicle	26	16
Miscellaneous	12	18
Other	10	10
Total	205	188

Table C–Claims that fell below the deductible limit

	2001–2002		2000–2001	
	Estimated Dollar Value of Claims $	Number of Claims	Estimated Dollar Value of Claims $	Number of Claims
General and Professional Indemnity	13 604	17	40 000	5
Director and Officer	0	0	0	0
Motor Vehicle	651	3	992	3
Personal Accident	17 000	6	8 136	5
Personal Effects	66 260	30	2 261	10
Property	187 072	69	100 449	67
Travel	500	2	750	3
Other	0	0	2 050 000	1
Total	285 088	127	2 202 588	94

Table D–Claims that were covered by organisation funds that did not fall below the deductible limit

	2001–2002		2000–2001	
	Estimated Dollar Value of Claims $	Number of Claims	Estimated Dollar Value of Claims $	Number of Claims
General and Professional Indemnity	587 248	13	222 009	10
Director and Officer	0	0	0	0
Motor Vehicle	8 635	5	12 661	3
Personal Effects	2 524	4	0	0
Property	1 278 203	27	69 874	15
Business Interruption	30 000	1	0	0
Travel	4 968	1	3 300	2
Other	0	0	56 677	1
Total	1 911 578	51	364 521	31

Table E–Workers' compensation claims covered by Comcare

Injury Type	2001–2002		2000–2001	
	Estimated Dollar Value of Claims ($)	Number of Claims	Estimated Dollar Value of Claims ($)	Number of Claims
Strains	10 402 540	660	10 195 556	873
OOS	12 242 147	265	10 761 390	328
Back	4 614 738	277	7 070 052	385
Stress	4 862 010	84	4 656 291	128
Fractures	2 602 981	104	2 072 569	121
Multiple injuries	632 959	14	70 525	12
Contusions/Crush	587 203	124	462 128	152
Open Wounds	167 378	68	96 281	100
External Effects	7 881	6	2 643	11
Other injuries	556 963	70	1 048 084	64
Other diseases	1 284 202	66	2 645 972	93
Total	37 961 001	1738	39 081 492	2267

Appendix 4

Audit methodology

1. The audit methodology, for the five organisations audited, involved:

- reviewing available corporate, division, business unit and project documentation of each organisation for information on risk management and insurance activities;
- interviews with senior, division, business unit and/or branch managers and key staff;
- reviews of risk management practices (including plans, policies and procedures/guidelines) at the organisation-wide, division, business unit and project levels. Depending on the size of the organisation, a different approach to the scope of the review was adopted, in particular in:
    - one organisation all risk management activities at the business unit level were examined and a sample of projects were reviewed;
    - one organisation key programs across all business units were examined and a sample of projects were reviewed;
    - one organisation key programs across all divisions were examined and a sample of projects were reviewed; and
    - in two organisations a sample of business units and/or key programs within those business units were examined and a sample of projects were reviewed;
- reviews of insurance management and OHS management practices in central and regional offices, including:
    - plans, policies and procedures/guidelines;
    - all reported general insurance incidents in two organisations and a sample of incidents in three organisations;
    - a sample of general insurance claims in each organisation;
    - a sample of reported workplace incidents in each organisation;
    - a sample of workers' compensation claims in each organisation; and
    - a sample of incident investigations;
- reviews of risk management and insurance data bases used for recording and reporting on the management of risk and insurance; and

- reviews of reports on the management of risk and insurance activities to:
    - Boards and Councils responsible for oversight of the organisation in accordance enabling legislation;
    - Senior Executive Management Committees, Groups and Teams;
    - Audit Committees, Risk Management Working Groups, OHS Committees and other special purpose committees or groups established in the organisation to oversight the management of risk and/or insurance; and
    - to divisional, branch and project groups.

2. The choice of divisions, business units and projects examined as part of the audit was agreed with the organisations.

Audit cost and timing

3. The audit was conducted in accordance with ANAO auditing standards at a cost of $615 000.

4. The ANAO conducted a pilot study of the survey in April 2002. In May 2002 surveys were distributed to 50 organisations. By September 2002, 49 responses had been received. For the purposes of the report, the results of the pilot organisation have been included in the reported survey results. A number of organisations experienced difficulty responding within the specified timeframe. Quality assurance and analysis of survey results was completed in January 2003. Survey results are reported throughout the report, where the results are relevant to the issue raised, and are also presented in relevant Appendices.

5. Audit fieldwork commenced in late April 2002 and was completed in December 2002. Detailed Findings Reports (Issues Papers) based on findings against the audit criteria were issued between August 2002 and February 2003.

6. Draft Management Letters were issued to the five organisations in February and March 2003. Final Management Letters were issued to organisations in March and May 2003. Organisations have *agreed*, or *agreed in principle,* with the recommendations.

Appendix 5

Suggested data base fields

1. Refer to Chapter 3, Section C for audit findings relating to the use of data bases. Table A below outlines key information fields that could be included in risk and insurance data bases to better capture information necessary for the purposes of reporting on, monitoring and reviewing these activities.

Table A—Suggested key information fields to be included in risk and insurance data bases

<table>
<tr><th>Risk Management Data Base</th><th>General Insurance Data Base</th><th>OHS and Workers' Compensation Data Base</th></tr>
<tr><th>Risk and opportunities:</th><th>Incident:</th><th>Incident:</th></tr>
<tr>
<td>Description
Source
Existing controls—that reduce the level of risk exposure
Likelihood
Consequence
Risk level—acceptable/unacceptable
Risk priority
Background information to be captured for potential insurable risks:
• values of assets, liabilities and indemnities;
• aggregate exposures;
• maximum possible loss; and
• maximum probable loss.</td>
<td>Date occurred
Type of incident and details
Relevant insurance
Responsible officer and cost area
Reported to Comcover (Officer and Date)
Referred for investigation (Officer and Date)
Costs associated with incident
Incident status
Reported to Risk Coordinator (Officer and Date)
Referred to Legal Area (Officer and Date)
Included in summary report to a Senior Management Committee</td>
<td>Date occurred
Type/nature of incident
Incident location
Incident details and description of how incident occurred
Responsible officer and cost area
Reported to Comcare (Officer and Date)
Referred for investigation (Officer and Date)
Referred to Health and Safety Representative (Officer and Date)
Costs associated with incident
Incident status
Reported to OHS Committee</td>
</tr>
</table>

Risk Management Data Base	General Insurance Data Base	OHS and Workers' Compensation Data Base
Unacceptable Risks:	***Investigation:***	***Investigation:***
Treatment options–that can be used to reduce the level of risk exposure Cost-benefit of treatment options Selected treatment strategies Responsible officer Target milestones/timeframe Status of treatment Success of treatment in reducing residual risk level Residual risk level Monitoring of risk and treatment Reporting to Senior Management Team	Date commenced Planned completion date Date completed Status of investigation Action proposed or taken to prevent recurrence Cost of corrective action Officer/Area responsible for corrective action Change to work procedure/ policy Reported to Risk Coordinator (Officer and Date) Referred to Legal Area (Officer and Date) Corrective action included in summary report to a Senior Management Committee	Date commenced Planned completion date Date completed Status of investigation Action proposed or taken to prevent recurrence Cost of corrective action Officer/Area responsible for corrective action Change to work procedure/policy Outcome reported to affected Officer/Area (Officer and Date) Referred to Health and Safety Representative (Officer and Date) Reported to OHS Committee
Realised Risks and Opportunities:	***Claims:***	***Claims:***
Date risk and opportunity realised Reporting to Senior Management Team Cost of realised risk/opportunity	Date received advice that claim would be made Date incident reported as a claim to insurance provider (i.e. no incident previously reported prior to claim sent) Date claim sent to insurance provider Date accepted/rejected Date claim finalised Claim status Claim cost Claim included in summary report to a Senior Management Committee	Date received advice that claim would be made Date incident reported as a claim to insurance provider (i.e. no incident previously reported prior to claim sent) Date claim sent to insurance provider Date accepted/rejected Date claim finalised Claim status Claim cost Return-to-work program Number of days off work Reported to OHS Committee

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