AUSTRALIAN AUDIT

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13 February 2024

Kenneth Parker
Manager Governance and Strategy
Shire of Serpentine Jarrahdale
6 Patterson Street
Mundijong WA 6123

Asset Management – Road Infrastructure – Internal Audit Follow Up Report

Dear Kenneth

Please find attached our final internal audit report which is a follow up audit on the progress of recommendations outlined in an Internal Audit Report dated 11 May 2020 relating to Asset Management – Road Infrastructure.   The 11 May 2020 internal audit report was conducted by the Shire of Serpentine Jarrahdale's in house Internal Auditor.

This final internal audit report provides management comments as to action to be taken to address recommendations made in this report.

We would like to thank you and all relevant Shire staff that provided information to us during the conduct of this follow up audit.

Yours sincerely

Santo Casilli FCPA PFIIA
Associate Director, Internal Audit, Probity and Risk

Australian Audit

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Shire of Serpentine Jarrahdale

Follow up of Asset Management – Road Infrastructure Internal Audit

| 22 November 2023 | Draft |
| 13 February 2024 | Final |

Final Internal Audit Report

(Audit in Confidence)

Australian Audit

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Follow Up Asset Management – Road Infrastructure Review Summary and Conclusion

INTRODUCTION

The Shire of Serpentine Jarrahdale Internal Audit function undertook an internal audit of the Shire's Asset Management – Road Infrastructure in May 2020 focusing on policy, procedures and processes over the Shires management of its road infrastructure assets.

The 11 May 2020 Internal Audit report made 3 key recommendations as follows:

- **Asset Management Strategy and Road Asset Management Plan** – For the Shire to proceed and finalise the Shire's Asset Management Strategy and review its Asset Management Plan.

- **Maturing the Road Asset Management Processes** – For the Shire to migrate its physical assets to a centralised asset management system in OneComm using the following suggested roadmap:

Target from 2020 audit	Roadmap
Within first year (by May 2021)	- Migration to centralised asset management system in OneComm - Consolidate asset register data (3 sources to one) - Update register with data - Enable clear asset management roles / responsibilities - Finalise asset management strategy - Interim processes on renewal / maintenance and inspections
Within second year (by May 2022)	- Identify critical assets - Identify service levels (including community, forecasting/utilization and risk data) - Review/adjust resourcing (i.e. model of in house or reliance on service providers for asset management) - Develop management monitoring and reporting for OneComm - Progress with development of documented processes - Processes adding new asset data
Within third year (by May 2023)	- Review inspection condition audit regime - Review maintenance regimes - Renewal process - Valuation approach - Review financial asset management plans in line with revised positions

- **Asset Systems, Data and Registers** – For the Shire to progress with reviewing accuracy and currency of asset data as part of the OneComm Asset Management module.

The "OneComm" is a Technology One software.

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OUR FOLLOW UP AUDIT SCOPE AND OBJECTIVES

Australian Audit was engaged to undertake a follow up audit on the maturity of the work undertaken by the Shire of Serpentine Jarrahdale, to date, in progressing the recommendations included in the 11 May 2020 Internal Audit Report relating to Asset Management – Road Infrastructure.

Our objective was to:

- Measure progress of the three recommendations as identified in the 2020 Internal Audit report being:

  - Finalisation of the Asset Management Plans;
  - Implementing the maturity roadmap; and
  - Progress towards reviewing the accuracy and currency of asset data as part of the OneComm asset management module.

- To make recommendations regarding roles and responsibilities for Asset Management within the Shire's organisational structure consistent with the current and future desired maturity level.

As part of this follow up review, we undertook the following process:

- Initial discussion meeting was held with Shire representative(s) prior to commencement to clarify scope of works for this assignment and for providing contact details of Shire staff involved in Asset Management of Roads and Infrastructure processes.

- Met with relevant Shire Officers who provided an overview of the assets that have been migrated in OneComm to date, provided information regarding asset identification, verification and recording process and also information updates on the Shire's Asset Management Strategy, Asset Management Policy and Asset Management Plans.

- Assessed what has been achieved to date against the 11 May 2020 Asset Management – Road Infrastructure internal audit report suggested roadmap to determine the Shire's progress to date.

- Reviewed the adequacy of the Shire's current Asset Management Strategy, Asset Management Policy and Asset Management Plans in line with recommendations embodied in the 11 May 2020 Asset Management – Road Infrastructure internal audit report.

- Held discussions with the Shire Officers across the relevant Business Units regarding progress to date in maturing asset information into a centralised asset management system and whether the Road Infrastructure information that currently is included in OneComm is appropriate to meeting their operational responsibilities and the Shire's future needs.

OUR AUDIT CONCLUSION

Based on our audit, we can conclude that the 5 core components making up the Shire's infrastructure assets being:

- Parks
- Buildings
- Paths
- Roads
- Drainage

have now been satisfactorily migrated into one consolidated asset register within the "OneComm" asset management system and processes are currently in place to ensure new infrastructure assets are being identified and included in the "OneComm" asset management system.

Also included in the consolidated asset register in "OneComm" are Plant and Fleet and Bridge asset data.

The Shire's Operations Business Unit is currently in the process of developing work schedules to undertake ongoing maintenance work based on the information that now exists within the "OneComm" asset register and the Shire's Engineering Representative confirmed that all infrastructure assets resulting from new developments have now been identified and included in the "OneComm" system and processes are in place to ensure all new infrastructure assets from new developments are able to be identified and then verified by relevant Shire Officers prior to being migrated into the "OneComm" system.

The relevant Shire Officers further confirmed that although current Asset Management Plans are now well out of date (last developed in 2019) new Asset Management Plans for each core infrastructure asset are being planned to be developed in early 2024.

Although we can confirm that the Shire has made positive progress in line with the 11 May 2020 Asset Management – Road Infrastructure internal audit asset management maturity recommendations, several matters still need to be addressed to ensure that the maturity process continues to progress in an effective manner.

Firstly, the Shire's current Asset Management Strategy which was last developed in 2019 as part of the 2020-2024 strategy document is now out of date and as such should be updated as a matter of priority.

Secondly the Shire's current Asset Management Policy is also out of date and was last reviewed and updated in November 2017 and as such should also be updated as a matter of priority.

Thirdly, the 2020-2024 Asset Management Strategy recommended implementation of clear roles and responsibilities for ensuring that, once all Shire assets were consolidated into one asset register, all new physical assets, asset renewals, new developments and disposals are identified and captured in the "OneComm" asset system.

Fourthly, the Asset Management Strategy suggested that the Shire create process maps and also embedding asset management responsibilities within respective staff position descriptions. Although we understand that processes are in place to ensure new assets and disposed assets can be continually identified, we don't consider that formal written procedures, process mapping and roles and responsibilities have yet been formalised. As such in the absence of formal clear roles and responsibilities, written procedures and/or process mapping of procedures there is no guarantee that the assets recorded in "OneComm" are able to be continually maintained as accurate and complete.

Finally, the 2020-2024 Asset Management Strategy stated that an Asset Management Technical Advisory Group (AM-TAG) would be developed to oversee the asset management maturity process. However, the last meeting held by the AM-TAG was in August 2019.

Although a new Asset Management Working Group (AMWG) has recently been developed (late 2023) the AMWG does not have any clear terms of reference as yet nor has the AMWG established the roles and responsibilities of each member to ensuring that the Shire's physical assets in "OneComm" asset system are able to be captured and updated on a continuing basis. We understand that a draft term of reference has been developed for discussion and endorsement by the AMWG members.

Executive Management Detailed Observations

Moderate Risk Rated Issues

Asset Management Policy, Strategy and Plans

Asset management strategy and planning is an essential part of good asset management and provides the Shire with clear direction and purpose.

The Shire's current Asset Management Policy (Council Policy 2.0.1) appears to have been last reviewed in November 2017 and due to the development of a consolidated asset register within "OneComm" system, it is now appropriate to revisit this policy and ensure that the policy reflects and supports more accurately the Shire's Asset Management Strategy going forward.

The Shire's current Asset Management Strategy which was last developed in 2019 as part of the 2020-2024 strategy document is also considered to be out of date and as such should also be updated as a matter of priority.

The Shire currently has Asset Management Plans for Buildings, Parks & Reserves, Paths, Roads and Stormwater Drainage. However, these Plans are also out of date last developed in January 2019. We understand that new Asset Management Plans are scheduled to be developed in early 2024.

We recommend that the Asset Management Policy and the Asset Management Strategy should now be updated to clearly incorporate how the Shire plans to ensure the consolidated asset register data within "OneComm" is effectively used by all areas of the Shire in asset management, how the Shire plans will ensure the data in "OneComm" is kept accurate and complete and also should outline the Shire's plan in ensuring that clear roles and responsibilities are developed for the continuing updating of the consolidated asset register data within "OneComm".

Management Comments

Officers agree with the recommendations.

Officers acknowledge that the Shire's Asset Management Policy, Asset Management Strategy and Asset Management Plans are out of date and require revision.

This will require a structured process as the Policy informs the Strategy, and the Strategy informs the Plans.

Furthermore, an education and training program will be required to enable data to be used efficiently by all areas within the Shire.

Resources will be required to achieve the above, which will be challenging for the current resource of 1.0 FTE. A recommendation for an additional FTE to undertake this work will be required.

Officers are intending to commence this review process in early 2024 with an aim for the following timeframes (dependant on resourcing):

- Asset Management Policy -6 months
- Asset Management Strategy – 6 months
- Asset Management Plans –
    - *Bridges - 6 months*
    - *Footpaths – End of 2024*

- *Roads – End of 2024*
- *Drainage – End of 2025*
- *Open Space – End of 2025*
- *Building – End of 2025*

This will be assisted by the proposed Infrastructure Directorate Review under consideration by Council.

Roles and Responsibilities

The 2020-2024 Asset Management Strategy recommended implementation of clear roles and responsibilities for ensuring that, once all Shire assets were consolidated into one asset register, all new physical assets are captured and that any asset renewals and disposals are identified.   In our opinion the establishment of clear roles and responsibilities has not yet occurred.

Further, the 2020-2024 Asset Management Strategy also stated that an Asset Management Technical Advisory Group (AM-TAG) would be developed to oversee the asset management maturity process. However, the last meeting of the AM-TAG was held in August 2019 and our understanding is that the AM-TAG has not been active since 2019.

A new Asset Management Working Group (AMWG) was recently formed (late 2023) but the AMWG does not have any terms of reference to ensuring that all Shire physical assets are able to be captured and updated on a continuing basis and for determining clear roles and responsibilities within the Shire for managing its physical assets. A draft term of reference has recently been developed by the relevant Shire Officers and we understand that this will be discussed for endorsement by the AMWG members at its next working group meeting.

We recommend that the Shire through the AMWG establish as a matter of priority formal terms of reference for the working group and for the working group to also determine clear roles and responsibilities within the Shire over the asset management process.   The AMWG should establish the following:

- **The role and responsibility of the AMWG including its monthly reporting responsibility in relation to the status of any WIP relating to the consolidated asset register data within the "OneComm" system.**
- **The role and responsibility of individual key AMWG members in ensuring that proper asset management processes will be established and complied with within their area of operational responsibility.**
- **Identify any other Shire positions which have asset management responsibilities and ensure the positions role and responsibility for asset management is documented and clearly understood.**

Management Comments

Officers agree with the recommendations.

The Terms of Reference for the AMWG has been established and adopted by the group at the November 2023 meeting.

Furthermore, the AMWG is working on generating a RACI for the overall roles and responsibilities for individual AMWG members and the organisation as a whole. This will be endorsed in early 2024.

Written Procedures and Process Maps

We understand that processes are currently in place to ensure new assets, asset upgrades and disposed assets can be identified via new asset developments, asset purchases, routine asset maintenance and asset disposals. However, these processes have not been formalised in the form of written procedures and/or process mapping and as such in the absence of formal and clear written procedures there is no guarantee that the assets recorded in "OneComm" are able to be continually maintained as accurate and complete.

The 2020-2024 Asset Management Strategy recommended implementation of process mapping which have not yet been done.

For example, the relevant Shire Officers responsible for overseeing the "OneComm" asset management system play an important role in maintaining the "OneComm" asset data and also in verifying the accuracy of the information prior to being loaded into "OneComm". However, no formal written procedures currently exist for this role and also regarding how data is to be input, processed, amended and controlled in "OneComm".

We recommend that the Shire establish clear written procedures and/or clear process mapping in relation to all asset management processing functions and provide where necessary staff training to ensure physical asset data in "OneComm" continues to remain accurate and complete.

Management Comments

Officers agree with the recommendations.

Current procedures to validate and enter data into the ERP will be identified which will continue to ensure data is accurate and complete.

Again, this is a significant piece of work which will require additional resources.

Completion of this recommendation, depending on sufficient resourcing, should take approximately 18 months.

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Appendix A – Risk Criteria

The following risk criteria was used to assess level of risk on audit findings included in this Report.

Risk Assessment Matrix

Likelihood of Risk:

Rating	Description	Frequency
1	**Rare** – May occur, only in exceptional circumstances	< once in 15 years
2	**Unlikely** – Could occur at some time	At least once in 10 years
3	**Possible** – Should occur at some time	At least once in 3 years
4	**Likely** – Will probably occur in most circumstances	At least once per year
5	**Almost Certain** – Expected to occur in most circumstances	> once per year

Consequence of Risk:

Description	Health	Financial Loss	Operation	Compliance	Reputation	Project
1.Insignificant	No injuries or illness	<$50,000	Little Impact	Minor breach of policy, or process requiring approval or variance	Unsubstantiated, low impact, low profile or no news item.	Small variation to cost, timeliness, scope or quality of objectives and required outcomes.
2. Minor	First Aid treatment	$50,000 to $250,000	Inconvenient Delays	Breach of policy, process or legislation requiring attention of minimal damage control	Substantiated, low impact, low news profile.	5-10% increase in time or cost or variation to scope objective requiring approval
3. Moderate	Medical treatment required	$250,000 to $1 million	Significant delays to major deliverables	Breach requiring internal investigation, treatment or moderate damage control	Substantiated, public embarrassment, moderate impact, moderate news profile.	10-20% increase in time or cost or variation to scope objective requiring Senior Management approval
4. Significant	Death or extensive injuries	$1 million to $3 million	Non achievement of major deliverables	Breach resulting in external investigation or third party actions resulting in tangible loss and damage to reputation	Substantiated, public embarrassment, moderate impact, high news profile and 3rd party actions.	20-50% increase in time or cost or significant variation to scope objective requiring restructure of project and Senior Management or Council approval
5. Severe	Multiple deaths or sever permanent disabilities	>$3 million	Non achievement of major deliverables	Breach resulting in external investigation or third party actions resulting in significant tangible loss and damage to reputation	Substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile, 3rd party	>50% increase in time or cost or inability to meet project objectives requiring the project to be abandoned or redeveloped

Risk Exposure:

Risk = Likelihood x Consequence

Score	Level of Risk	Score	Level of Risk	Score	Level of Risk
1 - 8	**Low**	9 - 19	**Medium**	20 - 25	**High**

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