



Shire of  
Serpentine  
Jarrahdale

# Audit, Risk and Governance Committee

## Confirmed Minutes

Monday 4 November 2019

5.30pm

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Shire of Serpentine Jarrahdale

6 Paterson Street, Mundijong WA 6123

Open Monday to Friday 8.30am-5pm (closed public holidays)



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Minutes of the Audit, Risk and Governance Committee Meeting held in the Council Chambers, Civic Centre, 6 Paterson Street, Mundijong on Monday, 4 November 2019.

The Chief Executive Officer, Mr Paul Martin declared the meeting open at 5.30pm and welcomed Councillors, Committee Members and Staff, and acknowledged that the meeting was being held on the traditional land of the Noongar People and paid his respects to their Elders past and present.

The Chief Executive Officer, Mr Martin advised he would be presiding over the meeting until the appointment of the Presiding Member. An outline of the election process to fill the Presiding Member and Deputy Presiding Member positions was provided.

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## Minutes

### 1. Attendances and apologies (including leave of absence):

**Councillors:** Cr M Byas ..... Presiding Member (from 5.48pm)  
Cr R Coales  
Cr K McConkey  
Cr M Rich  
Cr L Strange

**Independent Members:** Ms E Newby  
Mr S Casilli

**Officers:** Mr P Martin ..... Chief Executive Officer  
Mr F Sullivan ..... Director Corporate Services  
Mr A Trosic ..... Director Development Services  
Mr S Harding ..... Director Infrastructure Services  
Dr K Parker ..... Manager Governance  
Mr R Gallagher ..... Internal Auditor  
Ms A Liersch ..... Agendas and Minutes Officer (Minute Taker)

**Observers:** Cr D Strautins

#### 1.1 Election of Presiding Member

The Chief Executive Officer called for nominations for the position of Presiding Member for the period ending on 31 March 2020.

One nomination was received in writing prior to the meeting from Councillor Morgan Byas.

The Chief Executive Officer, Mr Martin asked if there were any further nominations. Councillor Rob Coales submitted a nomination from the floor.



The Chief Executive Officer advised a ballot would be held for the position.

A draw was conducted for the order of names on the ballot paper.

Position No. 1 on the ballot paper was **Councillor Rob Coales**

Position No. 2 on the ballot paper was **Councillor Morgan Byas**

A ballot paper was prepared listing the nominees in the order as above.

Following agreement from the nominees, the Chief Executive Officer invited the nominees to provide a short statement in favour of their candidature.

Councillor Coales and Councillor Byas each made a statement in support of their respective nominations.

A ballot paper was issued to each Committee Member with the back of the ballot paper initialed by the Chief Executive Officer.

Committee Members completed their ballot paper in a secluded booth and lodged their ballot paper in a sealed ballot box.

Once all Committee Members had voted, the Chief Executive Officer counted the votes, overseen by Dr Kenneth Parker, Manager Governance.

The Chief Executive Officer declared Councillor Byas as Presiding Member for the period ending on 31 March 2020.

Councillor Byas assumed the Chair as Presiding Member of the Audit, Risk and Governance Committee at 5.48pm.

## **1.2 Election of Deputy Presiding Member**

The Presiding Member, Councillor Byas asked the Chief Executive Officer to conduct the election of the Deputy Presiding Member.

The Chief Executive Officer called for nominations for the position of Deputy Presiding Member for the period ending on 31 March 2020.

Councillor Byas nominated Councillor Coales.

Councillor Coales accepted the nomination.

The Chief Executive Officer called for any further nominations.

No further nominations were received, therefore the Chief Executive Officer declared Councillor Coales as Deputy Presiding Member of the Audit, Risk and Governance Committee for the period ending on 31 March 2020.



## **2. Public question time:**

### **2.1 Response to previous public questions taken on notice**

Nil.

### **2.2 Public questions**

No public questions were submitted prior to the meeting.

The Presiding Member, Councillor Byas asked if there were any questions from the floor. No questions were asked.

## **3. Public statement time:**

No public statements were submitted prior to the meeting.

The Presiding Member, Councillor Byas asked if there were any statements from the floor. No statements were presented.

## **4. Petitions and deputations:**

Nil.

## **5. Declaration of Councillors and Officers interest:**

Nil.

## **6. Receipt of minutes or reports and consideration of adoption of recommendations from Committee meetings held since the previous Council meetings:**

### **6.1 Minutes of previous Audit, Risk and Governance Committee Meeting:**

#### **6.1.1 Audit, Risk and Governance Committee Meeting – 5 August 2019**

**ARG011/11/19**

**AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION**

**Moved Ms Newby, seconded Cr Rich**

**That the minutes of the Audit, Risk and Governance Committee Meeting held on 5 August 2019 be confirmed (E19/9537).**

**CARRIED UNANIMOUSLY 7/0**



## 6.2 Reports for consideration:

<b>6.2.1 – Maturing the Risk Frameworks at the Shire of Serpentine Jarrahdale – Project Update (SJ2881)</b>	
<b>Responsible Officer:</b>	Manager Governance
<b>Senior Officer:</b>	Director Corporate Services
<b>Disclosure of Officers Interest:</b>	No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .

### Authority / Discretion

Information	For the Committee / Council to note.
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### Report Purpose

The purpose of this report is to update the Audit, Risk and Governance Committee ('the Committee') on the progress of the Shire of Serpentine Jarrahdale's ('the Shire') "Risk Maturity Journey", which was recommended for Council endorsement by the Committee on 6 May 2019 and subsequently endorsed by Council on 20 May 2019.

### Relevant Previous Decisions of Council

<p><i>ARG005/05/19      Audit, Risk and Governance Committee – 6 May 2019</i></p> <p><i>AUDIT, RISK &amp; GOVERNANCE COMMITTEE RESOLUTION / Officer Recommendation</i></p> <p><i>Moved Mr Casilli, seconded Cr Rich</i></p> <p><i>That the Audit, Risk and Governance Committee recommends that Council:</i></p> <p><i>ENDORSES the "Risk Maturity Journey" as detailed in attachment 1.</i></p> <p style="text-align: right;"><i>CARRIED UNANIMOUSLY 6/0</i></p>
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*OCM074/05/19 COUNCIL RESOLUTION*

*Moved Cr McConkey, seconded Cr Atwell*

*That the minutes and resolutions contained therein of the Audit, Risk and Governance Committee held on 6 May 2019 be endorsed. (E19/5477).*

*CARRIED UNANIMOUSLY 8/0*

## **Background**

Risk Management is a framework of culture, processes and structures directed towards the effective management of risk. This includes consideration of both potential opportunities and adverse effects on existing operations. As all actions and transactions involve risk, effective Risk Management involves the anticipating, understanding and monitoring of risk. It contributes to good corporate governance by providing reasonable assurance to Council, Executive Management and the community that the organisational objectives will be achieved within a tolerable degree of residual risk.

The Shire has two main documents in place designed to assist the organisation to identify, manage and mitigate risks. These are:

- Council Policy 1.4.2 Risk Management – adopted by Council 18 December 2017(OCM179/12/17)
- Risk Management Framework (E19/1310) – adopted by Council 21 August 2018 (OCM8.1/09/18)

The Risk Management Framework was developed to address various Regulation 17 Audit Recommendations aimed at improving the Risk Management Framework at the Shire and whilst the development and subsequent adoption of the Risk Management Framework is an important step forward to improve the risk management processes, additional work is required to truly realise enterprise-wide risk management.

Most importantly, a top down approach through the development of a Strategic Risk Management Register (linked to the Shire's strategic objectives) will ensure relevance and the ability to cascade risk throughout the organisation. It will also inform the development of a three-year risk based Strategic Internal Audit Plan for the delivery of internal audits over key risk areas including the controls in place to manage these risks.

At the 20 May 2019 Ordinary Council Meeting, Council, on recommendation from the Audit, Risk and Governance Committee, endorsed the Shire's "Risk Maturity Journey", including the Risk Maturity Road Map, to improve the Risk Management Framework and realise enterprise-wide risk management (OCM074/05/19).

The Risk Maturity Road Map (refer **attachment 1**) outlines the planned stages of the Shire's Risk Maturity Journey to realise enterprise-wide risk management. The map details three stages:

1. Development of a Strategic Risk Register, including the development of Risk Appetite parameters and standard quarterly reporting to the Committee and Council.
2. Implementation and Education – embedding processes from stage one such as regular updating of the register, reporting to the Committee and Council and training for management (Executive and Business Unit levels).



### 3. Cultural Change and Further Maturity – development and implementation of operational risk.

Following endorsement by Council in May 2019, the Shire has commenced stage 1 of the Risk Maturity Journey and as such, it is timely to provide a progress update to the Committee.

#### **Community / Stakeholder Consultation**

Not Applicable.

#### **Statutory Environment**

Regulation 17 of the *Local Government (Audit) Regulations 1996 (WA)* ('the Regulations') require the CEO to review the appropriateness and effectiveness of the Shire of Serpentine Jarrahdale's ('the Shire') systems and processes in relation risk management, internal control and legislative compliance (r. 17(1)). The review may include any or all of the abovementioned matters (r. 17(2)) and the results of any review must be reported to the Shire's Audit, Risk and Governance Committee (r. 17(3)).

#### **Comment**

Since Council endorsement in May 2019, the Shire has undertaken the following activities towards stage 1 of the Risk Maturity Journey:

- Developed a scope of works for the provision of strategic risk management services and sought three quotes in accordance with *Council Policy – Purchasing – Procurement of Goods or Service up to \$150,000*.
- Assessed the quotes and selected Riskwest Management Consultants (Riskwest) as the successful provider in accordance with *Council Policy – Purchasing – Procurement of Goods or Service up to \$150,000*.
- Held a project kick off meeting with Riskwest, negotiated an agreed program of work and scheduled the following activities in order to achieve stage 1 of the Risk Maturity Journey:
  - Joint workshop with Managers to establish initial risk contexts (15 November)
  - Joint workshop with Directors and CEO to establish initial risk contexts (19 November)
  - Individual workshops with Directors and CEO to finalise risk contexts (26/27 November)
  - Preparation of the Strategic Risk Register and Risk Appetite Parameters (End November – Mid December 2019)

As such, it is envisaged that a Strategic Risk Register and Risk Appetite Parameters will be available for the Committee's consideration and subsequent Council endorsement in early 2020. Following this, the remaining tasks of stage 1 will be undertaken by Officers, namely:

- The review of the risk policy and framework; and
- The development of a three-year risk based Strategic Internal Audit Plan.

The review of the risk framework and the development of the Strategic Internal Audit Plan can only occur once the Strategic Risk Register and Risk Appetite Parameters are in place. Therefore, these tasks will now occur concurrently with stage 2 of the Risk Maturity Road





Map (Jan-Mar 2020) with no affect to the overall timeline of the project at this stage. The Committee will continue to receive progress updates towards the Risk Maturity Road Map at each quarterly meeting.

### Options and Implications

#### Option 1

The Committee recommend Council NOTES progress towards stage 1 of the Shire's "Risk Maturity Journey". There are no implications associated with this option.

#### Option 2

The Committee DOES NOT recommend Council NOTE progress towards the Shire's "Risk Maturity Journey". There are no implications associated with this option.

Option 1 is recommended.

### Conclusion

The key milestones of Stage 1 of the Risk Maturity Journey (namely the Strategic Risk Register and Risk Appetite Parameters) are on track to be available for the Committee's consideration and subsequent Council endorsement in early 2020. The remaining tasks of Stage 1 (namely the review of the risk framework and the development of a risk based audit plan) will occur concurrently with stage 2 but will not affect the overall timeline of the project at this stage.

### Attachments

- [Attachment 1](#) – Risk Maturity Road Map (E19/3283)

### Alignment with our Strategic Community Plan

<b>Outcome 4.1</b>	A resilient, efficient and effective organisation
<b>Strategy 4.1.1</b>	Provide efficient, effective, innovative, professional management of Shire operations to deliver the best outcome for the community within allocated resources
<b>Outcome 4.2</b>	A strategically focused Council
<b>Strategy 4.2.3</b>	Provide clear strategic direction to the administration

### Financial Implications

There are no financial implications associated with this recommendation.

### Risk Implications

There are no risk implications associated with this recommendation.



**Voting Requirements:** Simple Majority

**ARG012/11/19**

**AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION / Officer  
Recommendation**

**Moved Cr Rich, seconded Cr Strange**

**That the Audit, Risk and Governance Committee recommends that Council:**

**NOTES the progress towards stage 1 of the “Risk Maturity Journey” as detailed in attachment 1.**

**CARRIED UNANIMOUSLY 7/0**

*Please note that the Audit, Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit, Risk and Governance Committee are presented to Council for ratification.*



<b>6.2.2 – Internal Audit Status Update (SJ2895)</b>	
<b>Responsible Officer:</b>	Internal Auditor
<b>Senior Officer:</b>	Chief Executive Officer
<b>Disclosure of Officers Interest:</b>	No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .

### **Authority / Discretion**

Legislative	Includes adopting local laws, local planning schemes and policies.
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### **Report Purpose**

To note the Internal Audit Status Update and associated confidential attachment and endorse internal whistle-blower processes.

### **Relevant Previous Decisions of Council**

<p><i>Audit, Risk and Governance Committee – 6 May 2019 - ARG006/05/19</i></p> <p><i>AUDIT, RISK &amp; GOVERNANCE COMMITTEE RESOLUTION / Officer Recommendation</i></p> <p><i>Moved Ms Newby, seconded Cr Rich</i></p> <p><i>That the Audit, Risk and Governance Committee recommends that Council:</i></p> <p><i>ADOPTS the 2019 Interim Internal Audit Plan to guide Internal Audit activities to December 2019.</i></p> <p style="text-align: right;"><i>CARRIED UNANIMOUSLY 6/0</i></p>
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<p><i>Ordinary Council Meeting – 20 May 2019 - OCM074/05/19</i></p> <p><i>COUNCIL RESOLUTION</i></p> <p><i>Moved Cr McConkey, seconded Cr Atwell</i></p> <p><i>That the minutes and resolutions contained therein of the Audit, Risk and Governance Committee held on 6 May 2019 be endorsed. (E19/5477).</i></p> <p style="text-align: right;"><i>CARRIED UNANIMOUSLY 8/0</i></p>
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### **Background**

This update supports a periodic process for the Chief Executive Officer to review the appropriateness and effectiveness of internal controls within the Shire, through presenting results of internal audit activities in accordance with the 2019 Interim Internal Audit Plan.



## Community / Stakeholder Consultation

The following stakeholder consultation was undertaken:

1. Chief Executive Officer
2. Directors
3. Managers and supporting staff

## Statutory Environment

Pursuant to Regulations 16 and 17 of the *Local Government (Audit) Regulations 1996*:

### 16. **Functions of audit committee**

*An audit committee has the following functions —*

- (a) *to guide and assist the local government in carrying out —*
  - (i) *its functions under Part 6 of the Act; and*
  - (ii) *its functions relating to other audits and other matters related to financial management;*
- (b) *to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;*
- (c) *to review a report given to it by the CEO under regulation 17(3) (the **CEO's report**) and is to —*
  - (i) *report to the council the results of that review; and*
  - (ii) *give a copy of the CEO's report to the council;*
- (d) *to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —*
  - (i) *regulation 17(1); and*
  - (ii) *the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);*
- (e) *to support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;*

### 17. **CEO to review certain systems and procedures**

- (1) *The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —*
  - (a) *risk management; and*
  - (b) *internal control; and*
  - (c) *legislative compliance.*
- (2) *The review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.*



(3) *The CEO is to report to the audit committee the results of that review.*

**Additionally, Local Government (Financial Management) Regulations 5.2(c):**

(2) *The CEO is to —*

- (a) *ensure that the resources of the local government are effectively and efficiently managed; and*
- (b) *assist the council to undertake reviews of fees and charges regularly (and not less than once in every financial year); and*
- (c) *undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 3 financial years) and report to the local government the results of those reviews.*

**Comment**

Internal Audit continues to work towards the Interim Internal Audit Plan 2019. Directorates within the Shire have been proactively engaging with Internal Audit for advisory services in addition to activities planned in the Interim Internal Audit Plan 2019.

Report Section	Internal Audit Activity	Area	Status	2019				2020
			<div style="display: flex; flex-direction: column; gap: 2px;"> <div style="background-color: #ADD8E6; width: 15px; height: 10px; display: inline-block;"></div> Scheduled</div> <div style="background-color: #FFDAB9; width: 15px; height: 10px; display: inline-block;"></div> Ongoing					

One Audit was delayed due to resignation and subsequent recruitment of key staff and ongoing development of a strategy which covers the area to be audited. Additional Internal Audit activity identified between the Acting Chief Executive Officer and Internal Auditor has



commenced in relation to complaints management, reporting will be presented at the next Audit, Risk and Governance Committee meeting.

The following is a summary of completed Internal Audit activity in accordance with the Interim Internal Audit Plan 2019:

Internal Audit Activity	Area	Status	2019			
		Jan/ Mar	Apr/ Jun	Jul/ Sep	Oct/ Dec	
<b>Compliance Audit Return 2017/2018</b> Annual Compliance Audit	Internal Audit	Complete				
<b>Consolidate and track previous Internal Audits – June 2019</b> Establish Audit Register	Internal Audit	Complete				
<b>Workforce Management – Report 2019</b> Performance Audit	Internal Audit	Complete				
<b>Regulation 17 / Financial Management Review – Report June 2019</b> Joint engagement with Governance – Outsourced	Internal Audit <i>brought forward</i>	Complete				
<b>Fraud Management – June 2019</b> Preliminary Controls Assessment	Advisory	Complete				
<b>Fraud Management – Draft June 2019 / final August 2019</b> Officer of the Auditor General	External Audit	Complete				

Development and implementation of internal whistle-blower processes has been brought forward from December 2019 to October 2019. Internal Audit in conjunction with other areas of the Shire has been extensively involved in progressing the internal whistle-blower processes in accordance with revised timeframes requested by Council. Processes have now been endorsed through the Executive Management Group and are being actively rolled out. Documentation is included within the suite of attachments presented to Council in **confidential attachment 2**.

Further details in relation to activities are provided in **confidential attachment 1**.



## Options and Implications

### Option1

That Council:

1. NOTES the Internal Audit Status Update including confidential attachment 1
2. ENDORSES the Whistle-blower Process and Register outlined in confidential attachment 2

Option 1 is recommended.

## Conclusion

Internal Audit will continue to report activities quarterly in the format presented in accordance with the 2019 Interim Internal Audit Plan and informed from information requirements of the Committee.

## Attachments

- **Confidential Attachment 1** - Internal Audit Status Report (E19/12981)
- **Confidential Attachment 2** – Whistle-blower Process and Register (E19/12985).

*Internal audit status reporting and internal audit reporting is provided as confidential attachments per Section 5.23(2)(a) of the Local Governance Act 'matter affecting an employee or employees'. Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the operations of the Shire. In providing assurance to the ARG and subsequently Council, detailed operational information relating to recommendations, responsible officers, agreed management actions and status updates is presented. Whilst not the intention, this information could be considered to be or attributed to performance of staff within the Shire. On this basis, it is considered to relate to Section 5.23(2)(a) of the Local Governance Act.*

## Alignment with our Strategic Community Plan

<b>Outcome 4.2</b>	A strategically focused Council
<b>Strategy 4.2.2</b>	Ensure appropriate long term strategic and operational planning is undertaken and considered when making decisions
<b>Strategy 4.2.3</b>	Provide clear strategic direction to the administration

## Financial Implications

Nil.



### Risk Implications

Option	Risk Description	Risk Assessment (with existing controls considered)			Risk Action Plan (Controls or Treatment proposed)
		Likelihood	Consequence	Rating	
All	That Council does not support management actions and recommendations from Internal Audits resulting in reduced accountability to progress audit observations	Unlikely (2)  <i>The event could occur at some time.</i>	Major (4)  Substantiated, public embarrassment, high impact, high news profile, third party actions	Medium (8)	<ul style="list-style-type: none"> <li>• Adoption of Internal Audit Status reporting</li> <li>• ARG feedback processes</li> </ul>
All	Inadequate Audit Planning resulting in Internal Audit not supporting Council oversight responsibilities	Unlikely (2)  <i>The event could occur at some time.</i>	Moderate (3)  <i>Substantiated, public embarrassment, moderate impact</i>	Medium (6)	<ul style="list-style-type: none"> <li>• Internal Audit Status reporting</li> <li>• 2019 Interim Internal Audit Plan</li> </ul>
All	Internal Audit reporting does not adequate assurance to ARG / Council leading to less robust decision making	Unlikely (2)  <i>The event could occur at some time.</i>	Moderate (3)  <i>Substantiated, public embarrassment, moderate impact</i>	Medium (6)	<ul style="list-style-type: none"> <li>• Endorsed Interim Audit Plan</li> <li>• Feedback and guidance through ARG</li> <li>• Transparency of audit activities through Audit Status Reporting</li> </ul>
All	Unclear purpose and intention of Internal Audit resulting in ARG	Unlikely (2)	Moderate (3)	Medium (6)	<ul style="list-style-type: none"> <li>• Revised Internal Audit Charter</li> <li>• 2019 Interim</li> </ul>





Option	Risk Description	Risk Assessment (with existing controls considered)			Risk Action Plan (Controls or Treatment proposed)
		Likelihood	Consequence	Rating	
	/ Council not understanding of Internal Audit activities	<i>The event could occur at some time.</i>	<i>Substantiated, public embarrassment, moderate impact</i>		Internal Audit Plan • 1:1 Audit Committee Chair.

Consequence Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
<b>Almost Certain</b>	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
<b>Likely</b>	4	Low (4)	Medium (8)	High (12)	High (16)	Extreme (20)
<b>Possible</b>	3	Low (3)	Medium (6)	Medium (9)	High (12)	High (15)
<b>Unlikely</b>	2	Low (2)	Low (4)	Medium (6)	Medium (8)	High (10)
<b>Rare</b>	1	Low (1)	Low (2)	Low (3)	Low (4)	Medium (5)

A risk rating of **6** has been determined for this item.

#### ARG013/11/19

##### AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION

Moved Cr Rich, seconded Cr Strange

That the meeting be closed to members of the public whilst item 6.2.2 is discussed pursuant to section 5.23(2)(a) of the *Local Government Act 1995*

**CARRIED UNANIMOUSLY 7/0**

At 6.12pm, the meeting went behind closed doors. Councillor Strautins remained in the Chambers.

#### ARG014/11/19

##### AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION

Moved Cr Rich, seconded Cr McConkey

That part 10 of the Standing Orders be suspended at 6.19pm in order to further discuss item 6.2.2.

**CARRIED UNANIMOUSLY 7/0**



**ARG015/11/19**

**AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION**

**Councillor Rich, seconded Cr Coales,**

**That Standing Orders be reinstated at 6.34pm and that the meeting be reopened to member of the public.**

**CARRIED UNANIMOUSLY 7/0**

**At 6.34pm, the doors were reopened to Members of the Public.**

**Voting Requirements:** Simple Majority

Officer Recommendation

That the Audit, Risk and Governance Committee recommends that Council:

1. NOTES the Internal Audit Status Update as contained in confidential attachment 1.
2. ENDORSES the Whistle-blower Process and Register as contained in confidential attachment 2.

**ARG016/11/19**

**AUDIT, RISK AND GOVERNANCE RESOLUTION**

**Moved Cr Rich, seconded Ms Newby**

**That the Audit, Risk and Governance Committee recommends that Council:**

1. NOTES the Internal Audit Status Update as contained in confidential attachment 1.
2. ENDORSES the Whistle-blower Process and Register as contained in confidential attachment 2.
3. REQUESTS that the Chief Executive Officer and Internal Auditor review reporting frameworks for consideration at the next Audit, Risk and Governance Committee Meeting.

**CARRIED UNANIMOUSLY 7/0**

*Reason for difference to Officers Recommendation*

*Resolution 3. was added to improve the readability and clarity of internal audit information presented to the Audit, Risk and Governance Committee.*

*Please note that the Audit, Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit, Risk and Governance Committee are presented to Council for ratification.*



<b>6.2.3 – Fraud Prevention in Local Government – Performance Audit - Office of the Auditor General (SJ2895)</b>	
<b>Responsible Officer:</b>	Internal Auditor
<b>Senior Officer:</b>	Chief Executive Officer
<b>Disclosure of Officers Interest:</b>	No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .

### Authority / Discretion

Legislative	Includes adopting local laws, local planning schemes and policies.
Information	For the Council / Committee to note.

### Report Purpose

The purpose of this report is for Council to note the public report published by the Office of the Auditor General on 15 August 2019 in relation to Fraud Prevention in Local Government (the OAG Report) which the Shire participated in and endorse actions of the Shire.

For each of the findings and recommendations, the Shire has either implemented, is progressing or identified bodies of work to address areas of risk.

Endorsing this report allows the CEO to satisfy duties under *Local Government Act 1995 – Part 7 Audit - Division 4 – General - 7.12A. Duties of local government with respect to audits* including; reporting to the Minister and publishing the report on the Shire's website.

### Relevant Previous Decisions of Council

<i>OCM169/08/19</i>	<b>COUNCIL RESOLUTION</b>
<i>Moved Cr Coales, seconded Cr See</i>	
<i>That the minutes and resolutions contained therein of the Audit, Risk and Governance Committee held on 5 August 2019 be endorsed (E19/9537).</i>	
<b>CARRIED UNANIMOUSLY 7/0</b>	

<i>ARG009/08/19</i>	<b>AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION / Officer Recommendation</b>
<i>Moved Ms Newby, seconded Cr Coales</i>	
<i>That the Audit, Risk and Governance Committee recommends that Council:</i>	
<i>NOTES the Office of the Auditor General (OAG) – Fraud Management – Performance Audit and management actions contained in confidential attachments 1 and 2.</i>	
<b>CARRIED UNANIMOUSLY 6/0</b>	



## Background

The Shire is committed to preventing corrupt or other improper conduct, including mismanagement of public resources in the exercise of the public functions of the Shire and its Employees and contractors.

On 28 October 2017, the *Local Government Amendment (Auditing) Act 2017* was proclaimed, giving the Auditor General the mandate to audit Western Australia's 139 local governments and 9 regional councils. The Act allowed the Auditor General to conduct performance audits of local government entities from 28 October 2017.

The Auditor General to date has completed eight performance audits of local government. This is the first performance audit where the Shire has been selected to participate. The Auditor General advises that the selection process for topic and location of performance audit is based on context, impact, materiality, coverage, risk and auditability. The Auditor General has also publically stated that they wish for all local governments to be involved in a performance audit.

Performance audits undertaken by the Office of the Auditor General primarily focus on the effective and efficient management and operation of public sector programs and activities. The following extracts from the OAG Report outlined purposing and selection of the audit activities:

*“The purpose of this audit was to review the systems that entities had in place. We did not seek to identify any specific instances of fraud”.*

*“selection focused on entities which had not been part of recent audits, and included local governments of varying size, from both metropolitan and regional areas”.*

The following are the local governments were sampled and subsequently reflected in the OAG Report:

- Shire of East Pilbara
- Shire of Katanning
- City of Nedlands
- Shire of Serpentine Jarrahdale
- City of Vincent

## Community / Stakeholder Consultation

Not applicable.

## Statutory Environment

The following are extracts from the *Local Government Act 1995* relevant to this Council report. The Shire considers that the section includes the requirement for Council to formally note the OAG Report with actions detailed within to satisfy 7.12A(4)(a).



*Local Government Act 1995 – Part 7 Audit - Division 4 — General*

**7.12A. Duties of local government with respect to audits**

- (4) A local government must —
- (a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and
  - (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.
- (5) Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.

**Comment**

The Shire takes fraud very seriously and considers the recommendations detailed within the OAG Report a good platform to build upon existing fraud management activities.

Key fraud management activities within the Shire

The following key fraud management activities are in place:

- Recently established Internal Audit function;
- Centralised procurement;
- Internal Whistleblower process recently endorsed;
- Public Interest Disclosure (PID) processes;
- Progression towards a new Enterprise Resource Planning (ERP) system;
- Enhanced resourcing of the Governance area in relation to risk management ;
- Controls and subsequent education activities through the Governance Team of the Shire (i.e. conflict of interest, code of conduct etc);
- A suite of finance policies and processes which include controls around prevention, detection and monitoring; and
- The Audit, Risk and Governance Committee.

Information received by Council to date and current status

Draft reporting from the Office of the Auditor General was provided to the Shire and Council through the Audit, Risk and Governance Committee. The Shire treated these documents in accordance with guidance from the Office of the Auditor General's website under frequently asked questions in relation to draft reporting:

*Can we make (draft) management letters public?*

*Sometimes during our planning or interim audit visit, we issue interim management letters to the CEO and mayor/president/chairperson, to provide them early advice of our audit findings, to enable them to take timely remedial action.*



*We regard these as working documents until we issue them formally to the mayor, president or chairperson, the CEO and the Minister for Local Government as part of our final report. They are not suitable for other purposes.*

Since the previous information received by Council, the OAG Report has been finalised and published by the Office of the Auditor General.

For complete transparency and accountability, Officers of the Shire have presented back to ARG and subsequently Council to seek formal commitment to the recommendation and timeframes detailed within the OAG report. These are the same recommendations and timeframes previously noted by ARG and subsequently Council in August 2019.

Additionally, the Shire received correspondence by the Office of the Auditor General detailing that all recommendations raised in their reports are classified as 'significant'. This report also seeks authorisation for the CEO to write to the minister for Local Government detailing actions in accordance with the *Local Government Act 1995 – Section 7.12A(4)(b)*, note; extract detailed in the statutory environment section of this report. This will include the same recommendations and timeframes previously noted.

#### Monitoring the implementation of findings and recommendations

The Shire focuses on transparency of action, as such the response provided by the Shire in the OAG report reflects current actions being progressed. Operational oversight of progress for the findings is through the Shire's Internal Auditor and Chief Executive Officer.

From a monitoring and tracking perspective, Council will monitor the progress of findings from the OAG Report through the Audit Findings Register which is reported quarterly to Council through the Audit, Risk and Governance Committee.

### **Options and Implications**

#### Option 1

1. That Council NOTES the report published by the Office of the Auditor General on 15 August 2019 in relation to Fraud Prevention in Local Government detailed in **attachment 1**.
2. That Council ENDORSES the responses to recommendations detailed in the report published by the Office of the Auditor General on 15 August 2019 in relation to Fraud Prevention in Local Government detailed in **attachment 1**.
3. AUTHORISES the CEO to write to the minister for Local Government detailing actions and timeframes committed in the Fraud Prevention in Local Government report by the Office of the Auditor General published on 15 August 2019 in accordance with *the Local Government Act 1995 – Section 7.12A(4)(b)*.
4. AUTHORISES future draft management letters published by the Officer of the Auditor General which relate to the Shire will be circulated to members of the Audit, Risk and Governance Committee and the final report formally presented through Audit, Risk and Governance Committee and subsequently Council.

Option 1 is recommended.



## Conclusion

The Shire of Serpentine Jarrahdale welcomed the findings and subsequent recommendations of the OAG Report. It considers that the report is a balanced representation of areas and a good platform to work towards enhanced fraud management activities.

Overall, the performance audit highlighted that local government entities can implement further processes to prevent fraud. The Office of the Auditor General found that entities do have some controls in place, but would benefit from better understanding their specific fraud risks and taking a coordinated approach to managing them.

Internal Audit with oversight from the CEO will monitor progress and report on findings and management actions as part of quarterly reporting to the Audit, Risk and Governance Committee and subsequently Council.

## Attachments

- [Attachment 1](#) - Fraud Prevention in Local Government – Office of the Auditor General – 15 August 2019 (E19/12984)

## Alignment with our Strategic Community Plan

<b>Outcome 4.2</b>	A strategically focused Council
<b>Strategy 4.2.2</b>	Ensure appropriate long term strategic and operational planning is undertaken and considered when making decisions
<b>Strategy 4.2.3</b>	Provide clear strategic direction to the administration

## Financial Implications

Nil.





## Risk Implications

Risk has been assessed on the basis of the Officer's Recommendation.

<b>Risk</b>	<b>Risk Likelihood (based on history and with existing controls)</b>	<b>Risk Impact / Consequence</b>	<b>Risk Rating (Prior to Treatment or Control)</b>	<b>Principal Risk Theme</b>	<b>Risk Action Plan (Controls or Treatment proposed)</b>
The Council does not formally note the Office of the Auditor General Report which includes current actions to address findings, resulting in the inability to report to the Minister for Local Government in accordance with the Local Government Act	Unlikely (2)	Major (4)	Moderate (5-9)	Compliance - 3 Moderate - Non-compliance with significant regulatory requirements imposed	Risk Management Plan
The Shire does not progress with management activities to address findings resulting in increased opportunity for fraud to occur	Unlikely (2)	Major (4)	Moderate (5-9)	Compliance - 3 Moderate - Non-compliance with significant regulatory requirements imposed	Risk Management Plan





**Risk Matrix**

Consequence		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Likelihood	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
	4	Low (4)	Medium (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Medium (6)	Medium (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Medium (6)	Medium (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Medium (5)

A risk rating of **8** has been determined for this item.

**Voting Requirements:** Simple Majority

**ARG017/11/19**

**AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION / Officer Recommendation**

**Moved Cr Coales, seconded Mr Casilli**

**That the Audit, Risk and Governance Committee recommends that Council:**

- 1. NOTES** the report published by the Office of the Auditor General on 15 August 2019 in relation to Fraud Prevention in Local Government detailed in attachment 1.
- 2. ENDORSES** the responses to recommendations detailed in the report published by the Office of the Auditor General on 15 August 2019 in relation to Fraud Prevention in Local Government detailed in attachment 1 (Page 21).
- 3. AUTHORISES** the Chief Executive Officer to write to the Minister for Local Government detailing actions and timeframes committed in the Fraud Prevention in Local Government report by the Office of the Auditor General published on 15 August 2019 in accordance with the Local Government Act 1995 – 7.12A(4)(b).
- 4. AUTHORISES** draft management letters published by the Officer of the Auditor General which relate to the Shire will be circulated to members of the Audit, Risk and Governance Committee and the final report formally presented through Audit, Risk and Governance Committee and subsequently Council.

**CARRIED UNANIMOUSLY 7/0**

*Please note that the Audit, Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit, Risk and Governance Committee are presented to Council for ratification.*



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**7. Motions of which notice has been given:**

Nil.

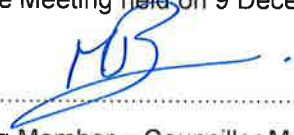
**8. Urgent business:**

Nil.

**9. Closure:**

There being no further business, the Presiding Member declared the meeting closed at 6.49pm, and thanked all Committee Members for their attendance.

I certify that these minutes were confirmed at the  
Audit, Risk and Governance Committee Meeting held on 9 December 2019

  
.....  
Presiding Member – Councillor Morgan Byas

.....  
09/12/19 ..... Date