Council Policy 3.3.3 – Risk Management

Responsible Directorate	Corporate Services
Responsible Business Unit/s	Governance
Responsible Officer	Manager Governance
Affected Business Units	All

Objective

The objective of this policy is to outline the strategies and processes applied in implementing an effective risk management system for the Shire of Serpentine Jarrahdale ('the Shire').

Scope

This Policy applies to all risk processes within the Shire and is subject to regular monitoring through the Audit, Risk and Governance ('ARG') Committee and Council.

Policy

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 exposure to risks that if unmanaged, may have an adverse impact on the achievement of organisational objectives. The Policy of Risk Management at the Shire is to ensure an enterprise-wide risk management framework is implemented that:

- identifies, manages and monitors key strategic and operational risk;

- documents, monitors and reviews risk appetite;

- fosters a risk mature environment where Council and Officers take responsibility for risk management through integrated practices;

- safeguards the Shire's people, assets, property, reputation and information;

- promotes an environment where risk management principles and practices are the tools to the achievement of organisational goals;

- provides the resources required to execute controls and minimise adverse reaction to risks;

- guides decision making and manages potential opportunities;

- outlines roles and responsibilities.

Enterprise Risk Management at the Shire
The Shire adopts a framework for risk management that is based on the principles of the current Australian and International Standards on Risk Management (AS/NZ ISO 31000) and is committed to

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managing risk in accordance with the principles, framework and process contained within the standard. The Shire's application to these areas of the standard is outlined below.

Principles

The Shire adopts the following risk management principles when managing risk:

- Integration – risk management systems and processes will be aligned with current strategic and operational planning processes and risk assessments will be conducted on all strategic projects and major initiatives with consideration of their impact on the Shire's strategic risks;

- Consistency – the risk framework will be applied consistently to strategic, operational and project risks using systematic tools that ensure a structured approach and comparable results;

- Relevance – the risk framework will be customised to meet the Shire's unique environment and the achievement of its strategic objectives informed by community consultation;

- Inclusiveness – risk management will take a collaborative approach where differing perceptions, skills and knowledge are leveraged to improve the decision making process;

- Dynamic – the risk framework enables ongoing monitoring of the Shire's environment to ensure any new and emerging risks and/or changes to current risks are identified and managed;

- Best available information – decisions to manage risk will be made based on the best available information taking into account any limitations and uncertainties associated with the information;

- Culture – risk management will form part of the Shire's culture to ensure the aspects of risk management are considered at all levels within the organisation;

- Continuous Improvement – the Shire strives to continuously improve its approach to its enterprise risk management.

Framework

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

- Council Policy 3.3.3 Risk Management (E17/11041)

- Risk Management Framework (E19/1310)

Process

The risk management process involves four components: (1) establishing the context, (2) risk assessment and treatment, (3) monitor, review and report, and (5) communication and consultation.

(1) Establishing the Context

This phase establishes the basic parameters within which risk must be managed and sets the scope for the rest of the risk management process. The Shire's Strategic Community Plan is key to the context of risk, as this sets out the Shire's strategic objectives. Regard is also given to the Shire's vision, strengths, weaknesses, opportunities and threats (SWOT).

(2) Risk Assessment and Treatment

Risk assessment involves the identification, analysis and evaluation of risk. Risk Treatment involves the identification of options for treating risks including consideration of whether to tolerate the risk without further action. The Shire uses the Risk Management Tools at **Appendix 1** and the Risk Appetite Statements at **Appendix 2** to guide this phase of the risk management process.

(4) Monitor, Review and Report

To ensure agreed treatment plans are being implemented, risk registers are kept up to date, policies and procedures remain relevant and an appropriate culture is continually developing and improving, the Shire has in place the following monitoring, reviewing and reporting processes:

- A review of the appropriateness and effectiveness of the Shire's systems and processes in relation risk management, internal control and legislative compliance is undertaken in accordance with regulation 17 of the *Local Government (Audit) Regulations 1996* and the results of the review are reported to the ARG Committee;

- The Strategic Risk Register is reviewed on a quarterly basis and is subject to regular monitoring through the ARG Committee;

- Documentation and improvement plans in relation to the Shire's risk management framework are overseen by the ARG Committee;

- Operational risk is continuously monitored and overseen by the Executive Management Group.

(5) Communication and Consultation

This component involves establishing a culture that is committed to openness and transparency on risk management and consulting within and external to the Shire as required. A quarterly report on risk management activities is prepared by Officers and reported to the ARG Committee for oversight.

Roles and Responsibilities

Chief Executive Officer

The Chief Executive Officer responsible for ensuring that a risk management system is established, implemented and maintained in accordance with this policy.

Executive Management Group (EMG)

EMG is responsible for instilling a strong risk culture throughout the organisation that aligns with the risk appetite, and for ensuring that an effective process of risk management, internal compliance and control is in place.

Audit, Risk and Governance Committee

In accordance with the ARG Committee Terms of Reference, the ARG Committee is responsible for providing advice regarding risk management, including assessing whether the enterprise risk framework is effective, monitoring the Strategic Risks and supporting Council to fulfil its responsibilities in relation to risk management systems.

Council

Council are responsible for determining the risk appetite appropriate to achieve the Shire's Strategic Objectives, approving the Shire's Risk Management Tools and monitoring the Shire's Strategic Risk Management Register through recommendations from the ARG Committee.

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<u>Internal Audit</u>

The Shire's internal audit function plays a key role in providing assurance to EMG, the ARG Committee and Council on the Shire's management of risk by:

- Providing recommendations to enhance the Shire's internal control environment;

- Establishing an internal audit plan that integrates with the Shire's Strategic Risk Register.

<u>All Employees</u>

Every employee within the Shire is recognised as having a role in risk management; this involves vigilance in the identification and ongoing management of risks and participating in the risk management process.

Definitions

risk is the chance of something happening that will have an impact upon objectives. Risk is measured in terms of consequence and likelihood.

risk management is the culture, processes and structures that are directed towards the effective management of risk. This includes 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.

Relevant Policies/Council Documents

Audit, Risk and Governance Committee Terms of Reference (E17/1739)
Risk Management Framework (E19/1310)
Internal Audit Charter (E19/5497)
AS/NZS ISO 31000 Risk Management
Strategic Risk Register (E20/8711)

Legislation/Local Law Requirements

Local Government Act 1995 s2.7 - Role of Council
Local Government Act 1995 Part 7 – Audit
Local Government (Audit) Regulations 1996 Regulation 17 - CEO to review certain systems and procedures

Office Use Only				
Relevant Delegations	Nil			
Council Adoption	**Date**	18 December 2017	**Resolution #**	OCM179/12/17
Reviewed/Modified	**Date**	21 September 2020	**Resolution #**	OCM
Reviewed/Modified	**Date**		**Resolution #**	

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Appendix 1: Risk Management Tools

Risk Matrix

Consequence Likelihood	Insignificant	Minor	Moderate	Major	Catastrophic
Rare	LOW	LOW	LOW	LOW	MODERATE
Unlikely	LOW	LOW	MODERATE	MODERATE	MODERATE
Possible	LOW	MODERATE	MODERATE	SIGNIFICANT	SIGNIFICANT
Likely	MODERATE	MODERATE	SIGNIFICANT	HIGH	HIGH
Almost Certain	MODERATE	SIGNIFICANT	HIGH	HIGH	HIGH

Consequence Table

DESCRIPTOR	PHYSICAL OR PSYCHOLOGICAL IMPACT	FINANCIAL (OPERATIONAL)	REPUTATION	ORGANISATIONAL PERFORMANCE	ENVIRONMENT /HERITAGE	SOCIAL/ COMMUNITY OUTCOMES	STRATEGIC STAKEHOLDER RELATIONSHIPS
Insignificant	Minor physical injuries requiring no treatment. No expected psychological impact.	< $25,000	Isolated individual's issue-based complaint. No media coverage.	Impact managed through normal business practices.	Low level environmental impact OR negligible impact on heritage place. Immediately rectifiable.	Low localised event with no broader social/community health and wellbeing, economic or financial impacts.	Insignificant weakening of a single strategic stakeholder relationship and little impact to staff morale
Minor	First aid injury treated on site. Minor psychological Impact treated on site.	$25,000 - $150,000	Local community impacts or issue based concerns.	Impact requires additional local management effort or response or redirection of resources to respond.	Minor environmental impact (< 3 months to remediate / recover) OR heritage place damage fully rectifiable within reasonable period.	Possible social/community health and wellbeing, economic or financial impacts to singular cohort of the shire	Damage to a strategic stakeholder relationship, able to be rectified in the short term
Moderate	Physical injury requiring professional treatment and/or short-term hospitalisation. Psychological impact requiring professional treatment.	>$150,000 - $1m	Community impacts and concerns publicly expressed. Some reduced confidence by community and stakeholders.	Delays in critical services or programs. Administration of project or activity subject to significant review or change. One or more critical outcomes only partially achieved. Impact requires short term significant management and organisational	Moderate environmental impact (< 1 year to remediate / recover) OR heritage place damage fully rectifiable in a prolonged period.	Possible social/community health and wellbeing, economic or financial impacts across multiple shire cohorts	Weakened relationship with a significant number of strategic stakeholders or a key strategic stakeholder, requiring specific measures to rectify

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DESCRIPTOR	PHYSICAL OR PSYCHOLOGICAL IMPACT	FINANCIAL (OPERATIONAL)	REPUTATION	ORGANISATIONAL PERFORMANCE	ENVIRONMENT /HERITAGE	SOCIAL/ COMMUNITY OUTCOMES	STRATEGIC STAKEHOLDER RELATIONSHIPS
				resources to respond.			
Major	Serious injury/illness requiring immediate emergency response or prolonged hospitalisation. Serious psychological injury requiring medium/long term professional medical treatment, counselling or intervention.	>$1m - $3.5m	Considerable and prolonged community impact and dissatisfaction publicly expressed. Criticism and loss of confidence and trust by community and stakeholders in Shire's processes and capabilities. Shire's integrity in question. Significant media attention. Council/Shire President intervention.	Long term viability of organisation is threatened. One or more critical services or programs cannot be delivered. Majority of critical outcomes only partially achieved, or a single critical outcome not achieved. Impact requires long term significant management and organisational resources to respond.	Major impact (> 1 year to remediate or recover) on ecosystem or threatened species OR severe or large-scale damage to heritage place partially rectifiable.	Possible state-wide social/community health and wellbeing, economic or financial impacts.	Damage done to the majority of existing strategic stakeholder relationships or a key strategic stakeholder relationship
Catastrophic	Death or severe permanent disablements. Permanent/long term psychological damage requiring extensive remedial intervention.	> $3.5m	Significant adverse community impact and condemnation. Consistent ongoing community loss of confidence and trust in Shire's capabilities and intentions. High widespread media.	Majority of critical services or programs cannot be delivered. Majority of critical outcomes not achieved. Impact cannot be managed within the organisation's existing resources and threatens survival of the organisation.	Permanent loss of ecosystem or threatened species OR severe or large-scale damage to highly valued heritage place beyond recovery.	Widespread social/community health and wellbeing, economic and financial impacts.	Total loss of credibility with all strategic stakeholders, catastrophic breakdown of the relationship with a key strategic stakeholder

Likelihood Table

DESCRIPTOR	DESCRIPTION	FREQUENCY	PROBABILITY
Rare	The event may occur only in exceptional circumstances.	Less than once in 10 years	<5%
Unlikely	The event could occur at some time.	At least once in 10 years	5-25%
Possible	The event should occur at some time.	At least once in 4 years	25-75%
Likely	The event will probably occur in most circumstances.	Once per 1 year	75-95%
Almost certain	The event is expected to occur in most	More than once per	>95%

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	circumstances.	year	

Control Rating Table

LEVEL	DESCRIPTOR	DESCRIPTION
FE	Fully Effective	Controls are adequate, appropriate and fully effective. Overall control environment provides reasonable assurance that the risk is being managed. Control objectives are being met and no improvements to controls have been identified.
A	Adequate	A few specific control weaknesses noted however the overall control environment is adequate, appropriate and effective. Certain controls may require improvement to ensure that the overall environment will continue to operate effectively.
I	Inadequate	Numerous specific controls weaknesses or gaps were noted. Overall control environment is not adequate or effective and fails to provide reasonable assurance that risks are being managed and control objectives are being met. The control environment needs improvement.

Criteria for Managing Risk

LEVEL OF RISK	CRITERIA FOR MANAGEMENT OF RISK	REPORTING TO	RESPONSIBILITY
Low	Acceptable with adequate controls (subject to alignment with risk appetite)	Annual reporting to EMG	Risk Owner
Moderate	Acceptable with adequate controls (subject to alignment with risk tolerance and appetite)	Annual reporting to EMG	Risk Owner
Significant	Refer to CEO/Director for acceptance decision	Monthly reporting to CEO. Quarterly reporting to ARG Committee and Council.	CEO/Director
High	Refer to CEO/Council for acceptance decision	Immediate and ongoing reporting to CEO, ARG Committee and Council	CEO/Council

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Appendix 2: Risk Appetite Statements

These risk appetite statements define the nature and extent of the risk that the Shire is willing to *accept* or *tolerate* in the pursuit of its strategic objectives and the delivery of its core services. This guidance outlines the principles upon which these risks are accepted or tolerated in such a way as to achieve the optimum balance between taking and avoiding risks, and are categorised in terms of:

- *PHYSICAL OR PSYCHOLOGICAL IMPACT*
- *FINANCIAL (OPERATIONAL)*
- *REPUTATION*
- *ORGANISATIONAL PERFORMANCE*
- *ENVIRONMENT/HERITAGE*
- *SOCIAL/COMMUNITY OUTCOMES*
- *STRATEGIC STAKEHOLDER RELATIONSHIPS*

It is acknowledged that it is neither feasible nor desirable to eliminate all risk and that certain activities carry residual risk, in order to realise reward, which must be tolerated in order to function. The table below provides an outline of the Shire's risk appetite with respect to core impact areas:

Risk Appetite Statements
Physical or Psychological Impact
Risk Appetite: **ALARP**
The Shire is committed to providing a safe and secure workplace in an increasingly complex safety environment. This requires a range of mitigation controls to reduce the risk of harm to our staff, volunteers, visitors and contractors. These controls must be fully effective and maintained. Residual risk is tolerated providing the risks are reduced to "As Low As Reasonably Practicable" (**ALARP**) in accordance with our statutory obligations. There is a very low tolerance for breaches of controls, or any practices or behaviours which lead to people being harmed, whether physically or mentally. Incidents and trends are analysed in the context of the environment in which we operate, and strategies are put in place to continuously improve our safety culture to strive for zero lost time injuries.
Financial Impact
Risk Appetite: **MODERATE** subject to Maximum Impact: **Moderate (<$1M)**
In the context of external factors which affect our revenue, and therefore our ability to mitigate financial uncertainty and risk, we have a MODERATE risk appetite for financial risks associated with operational decisions and activities. However, we have zero tolerance for fraud or deliberate misuse of funds or assets for personal gain, and we expect all officers, staff and volunteers and contractors to conduct themselves with the highest degree of integrity and honesty.
Reputation
Risk Appetite: **MODERATE** subject to a Maximum Impact: **Minor**

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Given the nature of the work done by the council, some damage to REPUTATION associated with issues-based concerns raised at a local community level mean there is a MODERATE appetite for risks associated with activities, services or major projects under these circumstances. However, there is no appetite for REPUTATION impacts above LEVEL 2 Minor.

We have zero tolerance for REPUTATION risks arising from the actions of our staff or volunteers, which may include;

- damage arising from inappropriate behaviour of our staff and volunteers, lack of integrity or customer focus. This includes direct interaction with our clients and also via social media;
- errors, inaccuracies or lack of transparency in our reports to funders and stakeholders;
- reputation damage associated with misuse or mismanagement of information.

Organisational Performance

Risk Appetite: **LOW** subject to Maximum Impact**: Minor**

The Shire recognises the significance of external threats and their potential to disrupt operations. Whilst we may not be able to control the source of these risks, we strive to minimise the impact that these disruptions may have on the continuity of our services. As such, we have a LOW appetite for any risk associated with disruption to critical operations, regardless of the circumstances.

We have a LOW appetite for risks associated with inefficiencies and/or failures of business/management processes and systems, as these are largely under our control.

We have a LOW appetite for any risk which may put us in breach of any legislative compliance.

Environment/Heritage

Risk Appetite: **LOW** subject to Maximum Impact: **Minor**

There is a LOW appetite for any risks associated with potential damage to environmental or heritage assets, including any breaches of compliance requirements.

Social / Community Outcomes

Risk Appetite: **LOW** subject to a Maximum Impact: **Minor**

The delivery of social and community outcomes is core to the function of the Council, and as such there is a LOW appetite for any risks which may impact in this area.

Strategic / Stakeholder Relationships

Risk Appetite: **LOW** subject to a Maximum Impact: **Minor**

The future growth, success and sustainability of the Shire is dependent upon the development and maintenance of strong strategic stakeholder relationships and as such, there is a LOW appetite for any risks which could impact these relationships.

Note:

1. The terms for Risk Appetite i.e. LOW, MODERATE, SIGNIFICANT and HIGH relate to the assessed **LEVEL OF RISK** as defined in the Risk Matrix (Appendix 1).
2. The terms for Maximum Impact i.e. Insignificant, Minor, Moderate, Major and Catastrophic relate to the **CONSEQUENCE RATING** as defined in the Consequence Table (Appendix 1).

Where the desired risk appetite cannot be achieved due to uncertainties associated with external factors, higher levels of risks may be tolerated providing the control environment is fully effective and the required approval (refer Criteria for Managing Risk in Appendix 1) is obtained.