Shire of Serpentine Jarrahdale

Audit, Risk and Governance Committee

Agenda

Monday, 24 August 2020

5.30pm

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Dear Committee Member

An Audit, Risk and Governance Committee Meeting of the Shire of Serpentine Jarrahdale will be held on Monday, 24 August 2020 in the Council Chambers, Civic Centre, 6 Paterson Street, Mundijong – commencing at 5.30pm.

Paul Martin
Chief Executive Officer

14 August 2020

Agenda

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

2. **Public question time:**
   2.1 Response to previous public questions taken on notice
   2.2 Public questions

3. **Public statement time:**

4. **Deputations:**

5. **Declaration of Councillors and Officer's interest:**

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 – 25 May 2020
   That the minutes of the Audit, Risk and Governance Committee Meeting held on 25 May 2020 be CONFIRMED (E20/6256).

6.2 Reports for consideration:

6.2.1 – Maturing the Risk Frameworks at the Shire of Serpentine Jarrahdale – August 2020 Project Update - Consideration of Strategic Risk Register and Council Policy Risk Management (SJ2881)	
Responsible Officer:	Manager Governance
Senior Officer:	Director Corporate Services
Disclosure of Officers Interest:	No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the *Local Government Act 1995*.

Authority / Discretion

Executive	The substantial direction setting and oversight role of the Council such as adopting plans and reports, accepting tenders, directing operations and setting and amending budgets.

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", and provide the Committee with the Shire's Strategic Risk Register and revised Council Policy Risk Management for the Committee's consideration.

Relevant Previous Decisions of Council

*Ordinary Council Meeting – 15 June 2020 – OCM137/06/20 – Council Resolution - **extract***

2. *That Council ADOPTS Audit, Risk and Governance Committee Resolution ARG012/05/20 and NOTES progress towards the Shire's "Risk Maturity Journey"; NOTES the Strategic Risk Workshop originally scheduled for 7 April was postponed due to the response to the COVID19 pandemic; REQUESTS the Chief Executive Officer to reschedule the Strategic Risk Workshop to a practicable date, in consultation with the Audit, Risk and Governance Committee and subject to COVID-19 restrictions; ENDORSES the updated "Risk Maturity Road Map" timeline as detailed in attachment 1.*

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. 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.

May 2019

At the 20 May 2019 Ordinary Council Meeting, Council, on recommendation from the 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 outlines the following 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.

November 2019

At the November 2019 Committee meeting, the Committee received the following progress update towards the Risk Maturity Journey:

- A scope of works for the provision of strategic risk management services is developed and Riskwest Management Consultants (Riskwest) are engaged to provide these services.
- A project kick off meeting with Riskwest was held and a program of risk workshops with the Management and Executive Team is established.
- The Strategic Risk Register and Risk Appetite Parameters will be available for the Committee's consideration and subsequent Council endorsement in early 2020.

February 2020

At the February 2020 Committee meeting, the Committee received the following progress update towards Stage 1 of the Risk Maturity Journey (Strategic Risk):

- Workshops with Managers, Directors and the CEO were held in November 2019 and January 2020 resulting in the following draft key strategic risk areas:

  - Culture
  - Strategic Direction
  - Bush Fire Management
  - Organisation Capacity to deal with the Shire's Growth
  - Organisational Efficiency
  - Asset Management

  - Financial Sustainability
  - Partnerships & Alliances
  - Economic Growth
  - Workforce and Leadership
  - Stakeholder Expectations
  - Community Relationships and Community Engagement

  - A draft register has been developed that identifies each strategic risks owner, ratings and controls.

In addition, the Committee recommended to Council that a Strategic Risk Workshop with the Committee and Councillors be held in April 2020 to provide the Committee and Councillors with an opportunity to have input into the Strategic Risk Register and Risk Appetite Parameters.

The Committee also received the following progress update towards Stage 2 and 3 of the Risk Maturity Journey (Implementation & Operational Risk):

- Establishment of Risk Registers at the Directorate level within Service Plans is underway as part of the Corporate Business Plan Project.
- Risks in relation to Asset Management to support the Asset Management Strategy is complete.

May 2020

At the May 2020 Committee meeting, the Committee received the following progress update towards stage 1 of the Risk Maturity Journey (Strategic Risk):

- Workshops with Directors and the CEO occurred to finalise the draft risk register and establish draft risk appetite statements. The register is now in final draft form with risk ratings, controls and mitigation actions determined and draft risk appetite parameters have also been developed.

- Based on the draft information, the internal auditor has developed a draft Strategic Internal Audit Plan.

- The Strategic Risk Workshop with the Committee and Council scheduled for 7 April was postponed due to the COVID-19 pandemic and would be rescheduled as soon as practicable.

In relation to stages 2 and 3 of the Risk Maturity Journey (Implementation & Operational Risk), the Committee were advised that risk registers at the Directorate level within Service

Plans is underway as part of the Corporate Business Plan Project and the remaining tasks will commence on adoption of Stage 1.

Community / Stakeholder Consultation

Strategic Risk Workshop

Workshop Date	9 July 2020
Committee Members and Councillors in Attendance	Ms Newby, Mr Casilli, Cr Atwell, Cr Byas, Cr Coales, Cr Strange, Cr Strautins

Statutory Environment

Regulation 17 of the *Local Government (Audit) Regulations 1996* (WA) ('the Regulations') require the Chief Executive Officer to review the appropriateness and effectiveness of the Shire's 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)). Each matter must be the subject of a review not less than once in every 3 financial years (r. 17(2)).

The most recent review of risk management was completed by the Shire in the 2018-19 financial year and led to Council's adoption of the Risk Maturity Journey in May 2019. The next review is due no later than the 2021-22 financial year.

Comment

Update towards stage 1 of the Risk Maturity Journey (Strategic Risk)

On 9 July 2020, the Strategic Risk Workshop with the Committee and Councillors was held to provide the Committee and Councillors with an opportunity to provide feedback into the Shire's draft Strategic Risk Register and Risk Appetite Parameters. Following the workshop, Officers incorporated the feedback received into the draft strategic risk register as described in **attachment 1**. Pleasingly, several of the critical risk areas identified by those in attendance were already defined within the register. Ensuring the Shire is a desirable destination to live, work and visit was the key piece of feedback received from attendees that officers worked to incorporate into the register. Other feedback such as ensuring good stakeholder relationships, efficient planning systems, a range of services to address need, well-maintained infrastructure and assets, managing bush fires and protecting the sense of community and family were all adequately covered with minor adjustments as **attachment 1** describes.

Completion of the workshop and incorporation of attendee feedback now enables Officers to provide the final Strategic Risk Register to the Committee for their consideration. It is recommended the Committee recommend to Council that the Strategic Risk Register as contained within **attachment 2** is endorsed. This top down strategic approach to risk management will ensure relevance and the ability to cascade risk throughout the organisation. It will also provide a platform for regular monitoring and reporting of risk through to the Committee. As the register has been reviewed and updated in preparation for its endorsement, the presentation of the register at this meeting is considered the first of

these reports. If Council adopts the register, the Committee can expect to receive ongoing reports from November 2020.

In addition to endorsing the Strategic Risk Register, Officers are also recommending the Committee recommend to Council that the revised Council Policy Risk Management as contained within **attachment 3** is adopted. The policy has been updated to include the work undertaken as part of developing the new strategic risk register, which includes:

- Insertion of the revised risk matrix tables, which are updated to be more contemporary, and user friendly, whilst maintaining the necessary risk management guidance (see Appendix 1 of attachment 3, pages 5-7).

- Inclusion of the Shire's Risk Appetite Statements which were developed alongside the Strategic Risk Register. The 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. Importantly, they provide clear guidance for when additional action is required in order to manage a risk (see appendix 2 of attachment 3, pages 8-10).

Other notable updates to the Policy include:

- Enhanced descriptions of the Shire's application to enterprise risk, based on the principles of the current Australian and International Standards on Risk Management (see pages 2-3 of attachment 3)

- Defined roles and responsibilities in relation to risk management (see page 3-4 of attachment 3)

- Various updates to definitions and processes to reflect current practice.

A copy of the current policy is contained within **attachment 4** and a tracked changes copy of the proposed new policy is contained with **attachment 5**.

Update towards stage 2 and 3 of the Risk Maturity Journey (Implementation & Operational Risk)

Since the update provided to the Committee in February 2020, the Shire has undertaken the following activities towards stage 2 and 3 of the Risk Maturity Journey:

- With completion of the Strategic Risk Register, the Internal Auditor's Interim Audit Plan has been updated to draw links to the primary strategic risk areas the audits address. It is estimated that by December 2020, the Committee will receive a three-year risk based Strategic Internal Audit Plan for their consideration.

- With Council adoption of the Corporate Business Plan 2020-24 in July, several of the mitigation strategies on the Strategic Register can begin and Service Team Plan developments can be finalised. It should also be noted that the risks contained within the Corporate Business Plan 2020-24 integrates with the Strategic Register.

The Risk Maturity Road Map is provided at **attachment 6**.

Next Steps

The Shire's Risk Maturity Journey inherently involves continuous improvement and does not have a specific end date. Notwithstanding, the Shire has progressed considerably in the journey to date. Pending Council's adoption of the Strategic Risk Register and Council Policy Risk Management, the major milestones of the Risk Maturity Roadmap will be complete and Officers can begin further imbedding and strengthening risk management at the Shire through activities such as updating organisational templates, training staff and ongoing monitoring and reporting of risk. It is therefore recommended that the Committee recommend to Council that the CEO prepare a continuous improvement plan that outlines the activities planned to be undertaken to further mature risk management at the Shire. If recommended, Officers will provide this plan to the Committee for their consideration and ongoing monitoring from the November 2020 meeting. The continuous improvement plan would replace the regular project updates against the Risk Maturity Roadmap.

Options and Implications

Option 1

The Committee recommend Council

- NOTES progress towards the Shire's "Risk Maturity Journey" and NOTES this is the completion of reporting against the Risk Maturity Roadmap;

- ENDORSES the Shire's Strategic Risk Register;

- ADOPTS the revised Council Policy Risk Management;

- REQUESTS the Chief Executive Officer develop a continuous improvement plan for the Committees consideration in November 2020 that outlines the steps to be undertaken under stage 3 of the Risk Maturity Journey, and NOTES that the continuous improvement plan and monitoring thereof will replace regular project updates against the Risk Maturity Roadmap.

The implications associated with this option is the enhancement of enterprise risk management at the Shire.

Option 2

The Committee recommend Council

- NOTES progress towards the Shire's "Risk Maturity Journey".

- DO NOT ENDORSE the Shire's Strategic Risk Register;

- DO NOT ADOPT the revised Council Policy Risk Management;

- DO NOT REQUEST the Chief Executive Officer develop a continuous improvement plan.

The implication of this option is maintaining status quo of the Shire's current risk processes. The potential risk implications of maintaining status quo are detailed at the Risk Implications section of this report.

Option 1 is recommended.

Conclusion

As outlined in this paper, key milestones under stages 1 and 2 of the Risk Maturity Journey are complete. The development of the Strategic Risk Register and revision of the Council Policy Risk Management enables the Shire to further progress stage 3 of the Risk Maturity Journey by further imbedding and strengthening risk management at the Shire.

Attachments (available under separate cover)

6.2.1 - attachment 1 – Strategic Risk Register (E20/8711)

6.2.1 - attachment 2 – Strategic Risk Workshop Mapping (E20/8674)

6.2.1 - attachment 3 – Proposed New Council Policy Risk Management (E20/8721)

6.2.1 - attachment 4 – Current Council Policy Risk Management (E17/11041)

6.2.1 - attachment 5 - Council Policy Risk Management Tracked Changes (E20/8715)

6.2.1 - attachment 6 – Risk Maturity Road Map (E19/3283)

Alignment with our Strategic Community Plan

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

Financial Implications

There are no financial implications associated with the Officer's Recommendation.

Risk Implications

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

Risk	Risk Likelihood (based on history and with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
If Council do not adopt the Strategic Risk Register and revised Risk Management Policy, the Shire will continue to maintain status quo of their risk management processes (i.e. not informed by Strategic Objectives) which may lead to inadequate risk identification and control (e.g. by missing or underrepresenting areas) resulting in poor decision making that may jeopardise the organisation achieving its objectives.	Unlikely (2)	Minor (2)	Low (1-4)	Reputation - 2 Minor - Substantiated, localised impact on key stakeholder trust or low media item	Accept Officer Recommendation

Risk Matrix

Consequence / Likelihood		Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Almost Certain	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	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 **4** has been determined for this item.

Voting Requirements: Simple Majority

Officer Recommendation

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

1. **NOTES progress towards the Shire's "Risk Maturity Journey" and NOTES this is the completion of reporting against the Risk Maturity Roadmap;**

2. **ENDORSES the Strategic Risk Register as contained within attachment 1;**

3. **APPROVES the revised Council Policy Risk Management as contained within attachment 3;**

4. **REQUESTS the Chief Executive Officer develop a continuous improvement plan for the Committees consideration in November 2020 that outlines the steps to be undertaken under stage 3 of the Risk Maturity Journey, and NOTES that the continuous improvement plan and monitoring thereof will replace regular project updates against the Risk Maturity Roadmap.**

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.

6.2.2 – Internal Audit Plan Update (SJ2895)	
Responsible Officer:	Internal Auditor
Senior Officer:	Deputy CEO / Director Community and Organisational Development
Disclosure of Officers Interest:	No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the *Local Government Act 1995*.

Authority / Discretion

Legislative	Includes adopting local laws, local planning schemes and policies.

Report Purpose

That the Audit, Risk and Governance Committee recommends that Council receives the Internal Audit Plan Update; and endorses that the work associated with Firebreak Inspections / Management be moved into the later stages of January – March 2021 to avoid peak operational period for the Business Unit.

Relevant Previous Decisions of Council

Ordinary Council Meeting – 15 June 2020 - OCM137/06/20 - extract

1. *That Council RECEIVES the Unconfirmed Minutes of the Audit, Risk and Governance Committee Meeting held on 25 May 2020 (E20/6256).*

3. *That Council ADOPTS Audit, Risk and Governance Committee Resolution ARG014/05/20 and RECEIVES the Internal Audit Plan Update and Confidential Attachments 1-3; ADOPTS the 2019 Interim Internal Audit Plan to guide Internal Audit activities to December 2020 as contained within attachment 4, to include a review of the YMCA Management of the Serpentine Jarrahdale Community Recreation Centre as part of the scope of No. 3 – Lease and Licence Management.*

Background

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the operations of the Shire. The function supports legislative requirements of the Chief Executive Officer (CEO) to review the appropriateness and effectiveness of internal controls within the Shire. Internal Audit supports these requirements through undertaking activity in accordance with Council approved planning or requests and reporting internal audit output to Council.

Community / Stakeholder Consultation

Stakeholder consultation was undertaken between Chief Executive Officer, Deputy CEO / Director Community and Organisational Development, Directors, and Officers.

Statutory Environment

Local Government (Audit) Regulations 1996:

16. **Audit committee, functions of an audit committee —**

(a)   is to provide guidance and assistance to the local government —

(i)   as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act; and

(ii)   as to the development of a process to be used to select and appoint a person to be an auditor; and

(b)   may provide guidance and assistance to the local government as to —

(i)   matters to be audited; and

(ii)   the scope of audits; and

(iii)   its functions under Part 6 of the Act; and

(iv)   the carrying out of its functions relating to other audits and other matters related to financial management;

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 subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.

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

Local Government (Financial Management) Regulations:

5. **CEO's duties as to financial management**

(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

The following is a snapshot of Internal Audit activities for the period April to August 2020:

Area / Reporting Period	Apr-Jun 2020	Jan-Mar 2020	Oct-Dec 2019	Jul-Aug 2019
Planned Audits IN-PROGRESS	2	-	3	3
Planned Audits COMPLETED	-	3	2	-
Planned Audits DELAYED / CANCELLED	-	-	-	1
Planned Audits Re-scheduled	1	-	-	-
Additional Internal Audits / Reports	-	-	2	1

Table 1: Internal Audit Summary Statistics

The following is the current Schedule of Internal Audit Activities for the period January 2020 to March 2021:

Internal Audit Activity	Type	Frequency	2020				2021
			Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan–Mar
Activities in accordance with the Interim Internal Audit Plan 2020							
Contract / Supplier Management	Internal Audit	Fieldwork		🔵	🔵		
Grants Management	Internal Audit	Fieldwork		🔵	🔵		
Lease and License Management	Internal Audit	Scheduled			⚪	⚪	
Swimming Pool Inspections	Internal Audit	Scheduled				⚪	
Payroll and Leave Management	Internal Audit	Scheduled				⚪	⚪
Customer Service	Internal Audit	Scheduled					⚪
Firebreak Inspections / Management	Internal Audit	Scheduled				➡	⚪
Compliance Audit Return	Internal Audit	Annually	🟢				⚪
Additional Activities - *See additional reporting in Summary section below*							
Delegation Management	Follow-up	Scheduled			⚪	⚪	
IT General Computer Controls – Controls Workshopping	Controls Workshop	Scheduled				⚪	
Working with Children Checks	Follow-up	Scheduled					⚪
Quarterly Reporting (Council / Audit, Risk and Governance Committee)							

Internal Audit Activity	Type	Frequency	2020				2021
			Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan–Mar
Audit Plan Status Report	**Reporting**	**Quarterly**	🟢	🟢	⚪	⚪	⚪
Audit Recommendation Report	**Reporting**	**Quarterly**	🟢	🟢	⚪	⚪	⚪

Table 2: Internal Audit Activities for the period January 2020 to March 2021

KEY			
🔵 Ongoing audit activity		🟢 Completed Audit activity	
⚪ Scheduled audit activity		🟡 Delayed / cancelled audit activity	
🟠 Audit activity unable to be achieved	⮌	Rescheduled activity	

Summary

This is the first status update report in relation to the 2020 Interim Internal Audit Plan. The 2020 Interim Internal Audit Plan is considered to be progressing in accordance with agreed timeframes. Directorate management tone and response to reported weaknesses, recommendations and Internal Audit more generally remains positive.

The following audits were ongoing at the time of writing this report:

- Contract / Supplier Management – fieldwork stage.
- Grants Management – planning stage.

Feedback was received by the Director Development Services in relation to timing of the Firebreak / Inspections Management Internal Audit Activity which was scheduled to commence during peak period of the business area. The activity is proposed to be rescheduled into the Jan-Mar 2021 period from Oct – Dec 2020 period to accommodate this.

Revised scope for the Contract / Supplier management Internal Audit:

Revision to the scope of the Contract / Supplier Management Internal Audit was undertaken in accordance with the following Council resolution:

OCM137/06/20 - COUNCIL RESOLUTION

include a review of the YMCA Management of the Serpentine Jarrahdale Community Recreation Centre as part of the scope of No. 3 – Lease and Licence Management.

The Internal Auditor and Deputy CEO / Director Community and Organisational Development held a meeting with Cr Strautins on 7 July 2020. From discussions, the following areas are being added to the ongoing Contract Management Internal Audit:

- The Contract with the YMCA for the management of the Serpentine Jarrahdale Community Recreation Centre will be included within the sample of contracts for testing within the audit.
- The scope will include focus processes around contract risk assessment and business case / modelling, performance monitoring and reporting to provide targeted assurance to Council.

It was considered that due to the primary relationship that the Shire has with the YMCA being contractual, the activity best fell into the ongoing Contract and Supplier Management Internal Audit activity.

More generally, the Deputy CEO / Director Community and Organisational Development has committed to providing further information regarding the operational management of the Serpentine Jarrahdale Recreation Centre to Council in late 2020 as part of the review prior to the contract for management of the Centre expiring in 2021.

Additional Reporting:

The following additional reporting has been added, with narrative detailed below:

- Follow-up Review – CEO to Employee Delegation Management.
- IT General Computer Controls – Controls Workshopping.
- Follow-up Review - Working with Children Checks.

In accordance with management comments by the CEO in the recently completed Internal Audit – CEO to Employee Delegations, the CEO committed 'A follow-up review will be undertaken and paper presented to the November 2020 ARG', this has been included in the schedule of Internal Audit activities.

To provide sufficient timeframes to demonstrate longer term progress and comparisons, the follow-up of the IT General Computer Controls – Controls Workshopping has been added as a controls workshopping activity in the October – December 2020 period.

Friday Facts:

Internal Audit is now reporting weekly on activities in Friday Facts through to Council, this also includes notification when an Office of the Auditor General (OAG) report is released relevant to the Shire.

Office of the Auditor General (OAG) Reports:

The following audit reports have recently been released by the OAG which are considered relevant to the Shire:

Working with Children Checks – Performance Audit

> **https://audit.wa.gov.au/wp-content/uploads/2020/07/Report1_Working-with-Children-Checks-%E2%80%93-Managing-Compliance.pdf**

Note: the Shire was not audited as part of is process / report.

The Office of the Auditor General (OAG) recently released a performance audit report in relation to Working with Children Checks, this report included public sector wide recommendations and also specific timeframes. This report was communicated in Friday Facts to Council:

The Shire has a number of areas which actively coordinate Working with Children Checks. Internal Audit is currently in the process of scheduling an internal workshop with relevant business areas with a view to identify applicable recommendations and improvement to

processes. A formal review has been scheduled for December 2020 to follow-up implementation.

Food Safety by Local Government Entities – Performance Audit

> **https://audit.wa.gov.au/wp-content/uploads/2020/06/Report_28_Regulation-of-Consumer-Food-Safety-by-Local-Government-Entities.pdf**

> Note: the Shire was not audited as part of is process / report.

At the time of writing this report, the Director Development Services and the Health and Building Services area were currently reviewing the report with a view of identifying opportunities for improvement to processes, management or internal controls.

Information Systems Audit Report for Local Government Entities

> **https://audit.wa.gov.au/reports-and-publications/reports/information-systems-audit-report-2020-lg/**

> Note: the Shire was not audited as part of is process / report.

The report was workshopped with the Information Communication Technology (ICT) area. It was considered that the recent IT General Computer Controls – Controls Workshopping activity performed between Internal Audit and the relevant area had adequate coverage and is tracking risk themes of the report.

Options and Implications

Option 1

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

1.   RECEIVES the Internal Audit Plan Update; and

2.   ENDORSES Firebreak Inspections / Management to be moved into the later stages of January – March 2021 to avoid peak operational period for the Business Unit.

Option 2

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

1.   DOES NOT RECEIVE the Internal Audit Plan Update; and

2.   DOES NOT ENDORSE the Firebreak Inspections / Management to be moved into the later stages of January – March 2021 to avoid peak operational period for the Business Unit.

Option 1 is recommended.

Conclusion

Internal Audit will continue to report audit activities quarterly in the formats presented and further refine through feedback of Council and the Committee.

Attachments

Nil.

Alignment with our Strategic Community Plan

Outcome 4.2	A strategically focused Council
Strategy 4.2.2	Ensure appropriate long term strategic and operational planning is undertaken and considered when making decisions
Strategy 4.2.3	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	Inadequate Audit Planning resulting in Internal Audit not supporting Council oversight responsibilities	Unlikely (2) *The event could occur at some time.*	Moderate (3) *Substantiated, public embarrassment, moderate impact*	Medium (6)	• Internal Audit Status reporting • 2019 Interim Internal Audit Plan • Development of a risk based Strategic Internal Audit Plan
All	Internal Audit reporting does not provide adequate assurance to ARG / Council leading to less robust decision making	Unlikely (2) *The event could occur at some time.*	Moderate (3) *Substantiated, public embarrassment, moderate impact*	Medium (6)	• Endorsed Interim Audit Plan • Feedback and guidance through ARG • Transparency of audit activities through Audit Status Reporting • Increased information and updates to Council.

Option	Risk Description	Risk Assessment (with existing controls considered)			Risk Action Plan (Controls or Treatment proposed)
		Likelihood	Consequence	Rating	
All	Unclear purpose and intention of Internal Audit resulting in reduced ARG / Council understanding of Internal Audit activities	Unlikely (2) *The event could occur at some time.*	Moderate (3) *Substantiated, public embarrassment, moderate impact*	Medium (6)	• Revised Internal Audit Charter • 2019 Interim Internal Audit Plan • 1:1 Audit Committee Chair • Increased information and updates to Council.

Risk Matrix

Consequence / Likelihood		Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Almost Certain	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	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 **6** has been determined for this item.

Voting Requirements: Simple Majority

Officer Recommendation

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

1. **RECEIVES the Internal Audit Plan Update; and**

2. **ENDORSES Firebreak Inspections / Management to be moved into the later stages of January – March 2021 to avoid peak operational period for the Business Unit.**

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.

6.2.3 – Audit Recommendations Update (SJ2895)	
Responsible Officer:	Internal Auditor
Senior Officer:	Deputy CEO / Director Community and Organisational Development
Disclosure of Officers Interest:	No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the *Local Government Act 1995*.

Authority / Discretion

Legislative	Includes adopting local laws, local planning schemes and policies.

Report Purpose

That the Audit, Risk and Governance Committee recommends that Council receives the Internal Recommendations Update and Detailed Audit Recommendation Status as contained in confidential attachment 1.

Relevant Previous Decisions of Council

Ordinary Council Meeting – 15 June 2020 - OCM137/06/20 - COUNCIL RESOLUTION - extract

1. *That Council RECEIVES the Unconfirmed Minutes of the Audit, Risk and Governance Committee Meeting held on 25 May 2020 (E20/6256).*

3. *That Council ADOPTS Audit, Risk and Governance Committee Resolution ARG014/05/20 and RECEIVES the Internal Audit Plan Update and Confidential Attachments 1-3; ADOPTS the 2019 Interim Internal Audit Plan to guide Internal Audit activities to December 2020 as contained within attachment 4, to include a review of the YMCA Management of the Serpentine Jarrahdale Community Recreation Centre as part of the scope of No. 3 – Lease and Licence Management.*

Background

This update supports a periodic process for the Chief executive Officer (CEO) to review the appropriateness and effectiveness of the Shire's systems and procedures in relation to internal control. This is achieved through providing assurance to Council that recommendations are reviewed between relevant business unit management and Internal Audit management, evidenced where available, with appropriate narrative around reduced risk or revised timeframes.

Community / Stakeholder Consultation

Stakeholder consultation was undertaken between CEO, Deputy CEO / Director Community and Organisational Development, Directors, and Officers.

Statutory Environment

Local Government (Audit) Regulations 1996:

16. **Audit committee, functions of an audit committee —**

    (a) *is to provide guidance and assistance to the local government —*

        (i) *as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act; and*

        (ii) *as to the development of a process to be used to select and appoint a person to be an auditor; and*

    (b) *may provide guidance and assistance to the local government as to —*

        (i) *matters to be audited; and*

        (ii) *the scope of audits; and*

        (iii) *its functions under Part 6 of the Act; and*

        (iv) *the carrying out of its functions relating to other audits and other matters related to financial management;*

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 subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.*

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

Local Government (Financial Management) Regulations:

5. **CEO's duties as to financial management**

    (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

All audit recommendations have been reviewed with relevant business areas and are
considered to be adequately progressing or completed. Where progress against a
recommendation and risk was considered to be reduced or timeframes agreed to be
extended, this is included within the narrative in the supporting confidential attachment.
A number of recommendation timeframes were impacted by the COVID-19 pandemic, in
most instances this was due to the business areas being required to provide direct
responses around external and internal services.

Additionally, following an organisational restructure resulting in revised reporting lines
and responsibilities, the Deputy Chief Executive Officer / Director Community and
Organisational Development will be more active in considering 'organisation wide' audit
recommendations, trends and themes within the Shire.

The following is an overview of the status of Internal Audit and external review
recommendations within the Shire at June 2020:

Reporting Period		RISK RATING:				TOTAL
		EXTREME	HIGH	MODERATE	LOW	
JUNE 2020	Recommendations PROGRESSING	-	5	15	1	21
	Recommendations NOT ACHIEVED	-	-	-	-	-
	Recommendations COMPLETE	-	1	3	2	6
MARCH 2020	Recommendations COMPLETE	-	1	1	5	7
DECEMBER 2019	Recommendations COMPLETE	-	3	-	2	5
AUGUST 2019	Recommendations COMPLETE	-	2	6	3	11
JUNE 2019	Recommendations COMPLETE	-	2	18	3	23

Table 1: Recommendation Summary Statistics

Note: Risk Ratings are based off a residual rating (i.e. these consider risk to the Shire based
on what is being undertaken or completed. Where a rating may have originally been based
on 'High' a progress or completion of an action may reduce this to 'Moderate').

The following is further breakdown of ongoing recommendations within the Shire based on report type and risk:
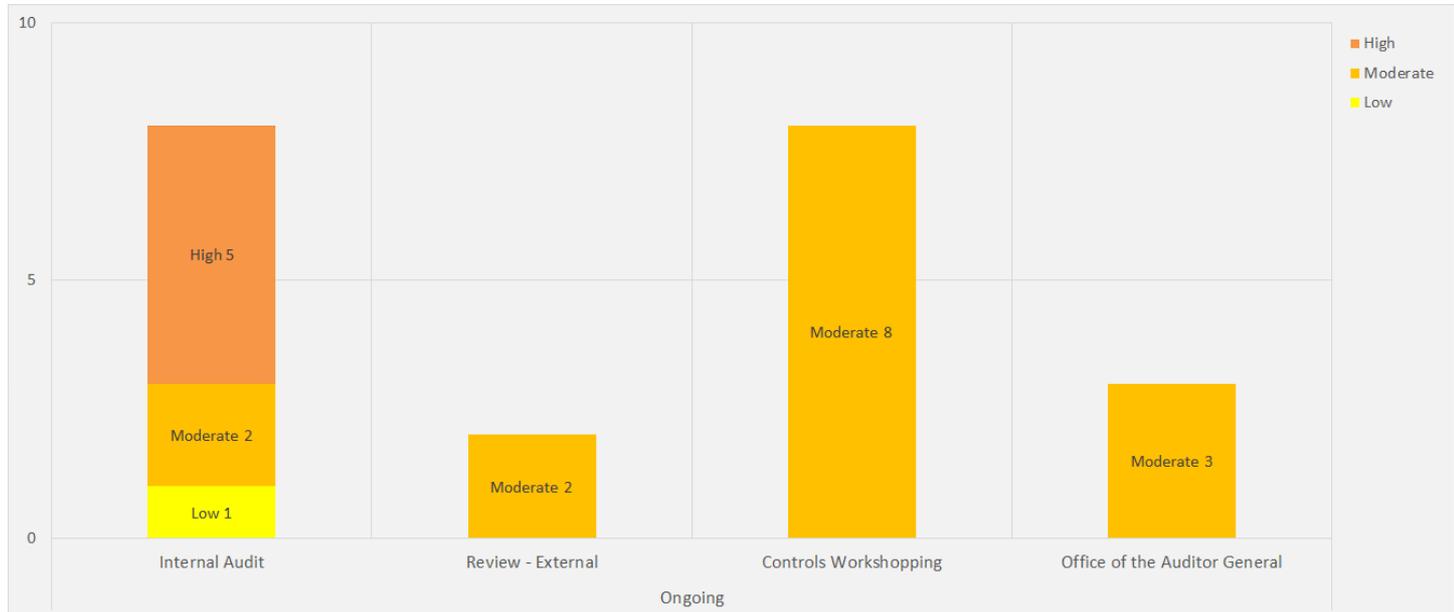

Diagram 1: Ongoing Recommendations based on report type and risk.

Please note the following when reading Diagram 1:

- Internal Audit: Recommendations raised through Internal Audit

- Office of the Auditor General: Recommendations raised by the Office of the Auditor General

- External Review: Recommendations raised through external review / assurance activities

- Controls Workshopping: recommendations raised through controls workshopping activities i.e. the recent IT General Computer Controls – Controls Workshopping which will be subject to an annual review processes to provide sufficient timeframes to progress.

This now contrasts the Shire's historic position of items completed in 2019 which focused on review of externally provided audit and review activities:
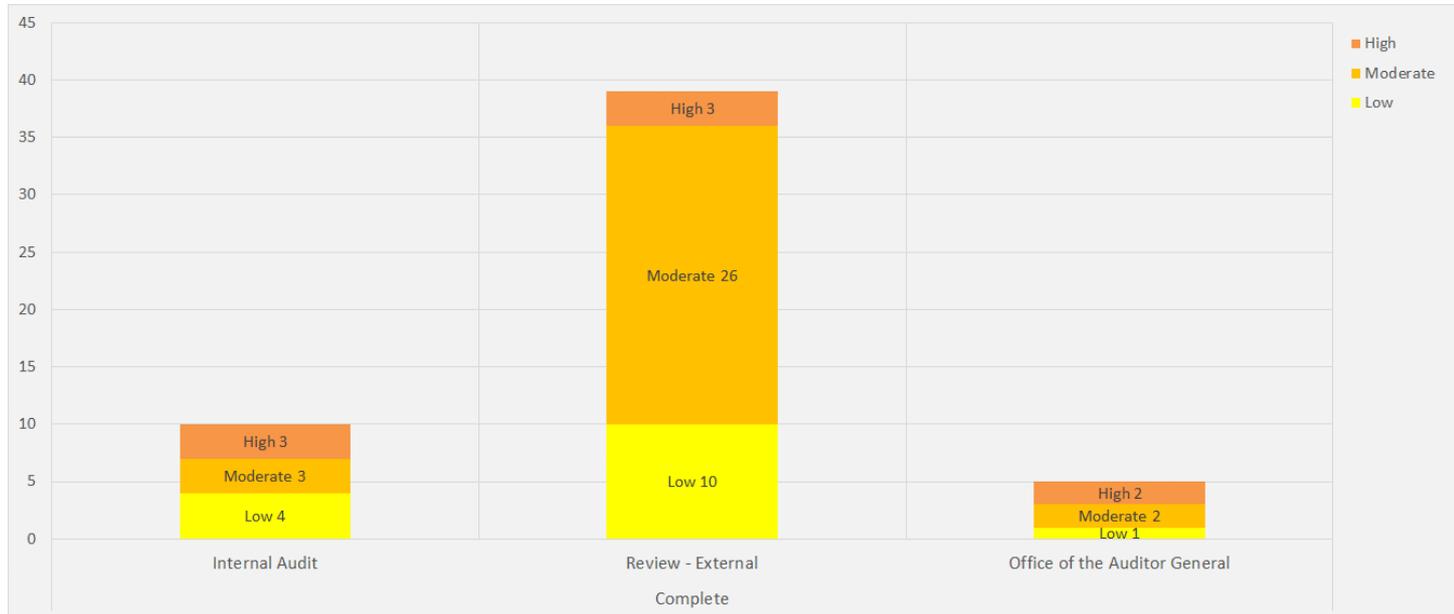

Diagram 2: *Complete Recommendations based on report type and risk.*

This can be considered indicative to management within the Shire engaging with the Internal Audit function and services being provided in-house.

A detailed schedule of the status of the audit recommendations, including recommendation, management comments and status update on action is contained in confidential attachment 1 (E20/7875).

Options and Implications

Option 1

That the Audit, Risk and Governance Committee recommends that Council receives the Internal Recommendations Update and Detailed Audit Recommendation Status as contained in confidential attachment 1.

Option 2

That the Audit, Risk and Governance Committee does not recommend that Council receives the Internal Recommendations Update and Detailed Audit Recommendation Status as contained in confidential attachment 1.

Option 1 is recommended.

Conclusion

Internal Audit will continue to provide the status of audit recommendations quarterly in the format presented. This will continue to be refined based on information requirements of the Committee.

Attachments (available under separate cover)

- **6.2.3 - CONFIDENTIAL attachment 1 –** Detailed Audit Recommendation Status (E20/7875).

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. As such, internal audit reports are provided as confidential attachments per Section 5.23(2)(a) of the Local Governance Act 'matter affecting an employee or employees'.

Alignment with our Strategic Community Plan

Outcome 4.2	A strategically focused Council
Strategy 4.2.2	Ensure appropriate long term strategic and operational planning is undertaken and considered when making decisions
Strategy 4.2.3	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) *The event could occur at some time.*	Major (4) Substantiated, public embarrassment, high impact, high news profile, third party actions	Medium (8)	• Adoption of Internal Audit Status reporting • ARG feedback processes
All	Internal Audit reporting does not provide adequate assurance to ARG / Council leading to less robust decision making	Unlikely (2) *The event could occur at some time.*	Moderate (3) *Substantiated, public embarrassment, moderate impact*	Medium (6)	• Endorsed Interim Audit Plan • Feedback and guidance through ARG • Transparency of audit activities through Audit Status Reporting
All	Unclear purpose and intention of Internal Audit resulting in ARG / Council not understanding of Internal Audit activities	Unlikely (2) *The event could occur at some time.*	Moderate (3) *Substantiated, public embarrassment, moderate impact*	Medium (6)	• Revised Internal Audit Charter • 2019 Interim Internal Audit Plan • 1:1 Audit Committee Chair.

Risk Matrix

Consequence / Likelihood		Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Almost Certain	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	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 **6** has been determined for this item.

Voting Requirements: Simple Majority

Officer Recommendation

That the Audit, Risk and Governance Committee recommends that Council RECEIVES the Internal Recommendations Update and Detailed Audit Recommendation Status as contained in confidential attachment 1.

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.

6.2.4 – Revised Internal Audit Charter (SJ2985)	
Responsible Officer:	Internal Auditor
Senior Officer/s:	Chief Executive Officer Deputy CEO / Director Community and Organisational Development
Disclosure of Officers Interest:	No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the *Local Government Act 1995*.

Authority / Discretion

Legislative	Includes adopting local laws, local planning schemes and policies.

Report Purpose

That the Audit, Risk and Governance Committee recommends that Council adopts the revised Internal Audit Charter and Responsibility Matrix as contained in **attachments 1 and 2** to clarify purpose, authority, responsibility and revised positioning of Internal Audit within the Shire, due to a recent organisational restructure.

Relevant Previous Decisions of Council

Ordinary Council Meeting – 15 June 2020 - OCM174/06/20 - COUNCIL RESOLUTION / Officer Recommendation

That Council:

1. *NOTES the significant savings which have been achieved across the organisation which are reflected in the draft operating budget for the 2020/2021 Financial Year; and*

2. *ENDORSES the proposed changes the Chief Executive Officer is making to the organisational structure as outlined in the report and REQUESTS these changes be reflected in the Draft 2020/21 Financial Year budget for Council consideration.*

Background

An Internal Audit Charter is a key document in an Internal Audit Framework clearly communicating the Internal Audit purpose, authority, responsibility and position within the Shire.

To ensure that the framework is reflective of current reporting lines, this report seeks to present amendments to the Internal Audit Charter based on recent organisational changes which shifted direct reporting of Internal Audit from the Chief Executive Officer (CEO) to the Deputy Chief Executive Officer (DCEO) / Director Community and Organisational Development.

Community / Stakeholder Consultation

The following stakeholder consultation was undertaken:

- Chief Executive Officer (CEO); and

- Deputy CEO / Director Community and Organisational Development (DCEO/DCOD).

Statutory Environment

Local Government (Audit) Regulations 1996:

16.   Audit committee, functions of an audit committee —

   (a)   is to provide guidance and assistance to the local government —

      (i)   as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act; and

      (ii)   as to the development of a process to be used to select and appoint a person to be an auditor; and

   (b)   may provide guidance and assistance to the local government as to —

      (i)   matters to be audited; and

      (ii)   the scope of audits; and

      (iii)   its functions under Part 6 of the Act; and

      (iv)   the carrying out of its functions relating to other audits and other matters related to financial management;

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 subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.

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

Local Government (Financial Management) Regulations:

5.   *CEO's duties as to financial management*

> (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

At the Ordinary Council Meeting held 11 June 2020, Council resolved to support changes to the organisational structure as presented by the Chief Executive Officer. The changes to the organisational structure included transition of the Human Resources and Internal Audit teams from Executive Services Directorate overseen by the Chief Executive Officer to the Community and Organisational Development Directorate, overseen by the Deputy CEO / Director Community and Organisational Development.

The main driver noted was increased workload in the Executive Services Directorate and extension of the Community Services Directorate to include Community and Organisational Development, which was considered to have an opportunity for strong synergy with Internal Audit.

The effective relationship of Internal Audit within an organisation is often described through a model known as the 'lines of defence' model, which is a visual representation of the different mechanisms (defences) which all work together to manage risks and ensure that controls are implemented and effective. The following is the 'lines of defence' model as shown in image 1 below:
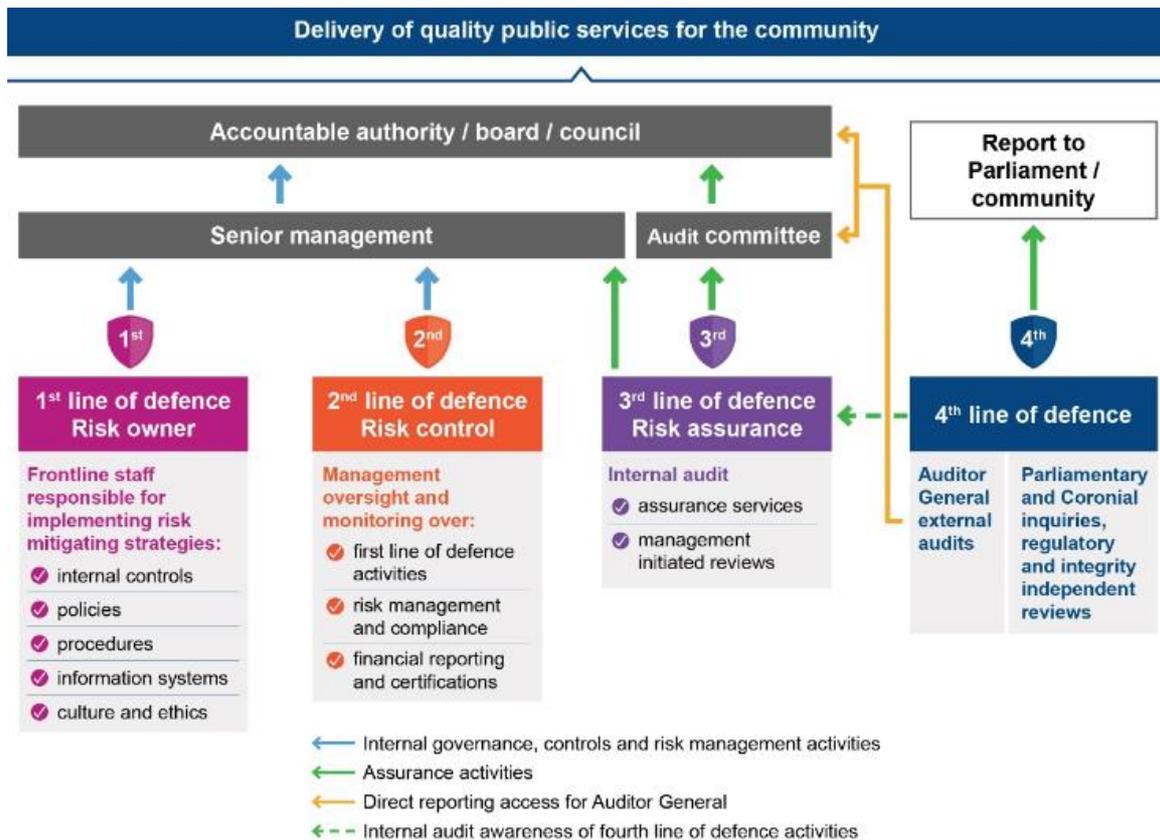

Image 1 - Office of the Auditor General - Western Australian Public Sector Audit Committees – Better Practice Guide

In terms of positioning within an organisation, internal audit functions typically operate at what is referred to as the '3rd line of defence – Risk Assurance'. This references an internal audit function being positioned to ensure independence of operational decisions (line 1), roles with operational oversight (line 2) and ensuring activity provides assurance and comfort to Senior Management, Council and ARG (note vertical green arrows to denote).

To ensure the revised reporting relationships operate as effectively as possible, the revised Internal Audit Charter as contained in attachment 1 and an Internal Audit – Responsibility Matrix as contained in attachment 2, were developed to clarify the three key reporting lines for Internal Audit being:

1.   Council / Audit, Risk and Governance Committee.

2.   Chief Executive Officer.

3.   Deputy CEO / Director Community and Organisational Development.

Attachments 3 and 4 have been provide to detail changes between the previous adopted Internal Audit Charter and detail proposed changes.

In particular, proposed controls seek to maintain effectiveness, independence and integrity of the Internal Audit function.

Options and Implications

Option 1

That the Audit, Risk and Governance Committee recommends that Council adopts the revised Internal Audit Charter and Responsibility Matrix as contained in attachments 1 and 2 to clarify purpose, authority, responsibility and revised positioning of Internal Audit within the Shire, due to a recent organisational restructure.

Option 2

That the Audit, Risk and Governance Committee recommends that Council does not adopt the revised Internal Audit Charter and Responsibility Matrix as contained in attachments 1 and 2 to clarify purpose, authority, responsibility and revised positioning of Internal Audit within the Shire, due to a recent organisational restructure.

Recommendation: Option 1 is recommended.

Conclusion

If the revised Internal Audit Charter is adopted, the re-positioning of Internal Audit function will reference and operate in accordance with the revised Internal Audit Charter and responsibility matrix.

Attachments (available under separate cover)

6.2.4 - attachment 1 - Revised Internal Audit Charter(E20/7876)

6.2.4 - attachment 2 - Internal Audit – Responsibility Matrix (E20/7878)

6.2.4 - attachment 3 - Revised Internal Audit Charter – Track Changes (E20/8589)

6.2.4 - attachment 4 - Previous Internal Audit Charter (E20/8588)

Alignment with our Strategic Community Plan

Outcome 4.2	A strategically focused Council
Strategy 4.2.2	Ensure appropriate long term strategic and operational planning is undertaken and considered when making decisions
Strategy 4.2.3	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	
3	That Council does not adopt an Internal Audit Charter resulting in Internal Audit activities not being sufficiently empowered to operate within the Shire	Unlikely (2) *The event could occur at some time.*	Moderate (3) *Medium term temporary interruption*	Medium (6)	• Internal Audit Charter tabled, read and adopted • Interim Audit Plan 2019.
All	Inadequate Internal Audit Charter resulting in ineffective empowerment of the function	Unlikely (2) *The event could occur at some time.*	Moderate (3) *Medium term temporary interruption*	Medium (6)	• Internal Audit Charter referenced to IIA Standards and other local governments • Interim Audit Plan 2019.
All	Lack of support from Executive Management to support Internal Audit resulting in ineffective function	Rare (1) *The event may only occur in exceptional circumstances*	Moderate (3) *Medium term temporary interruption*	Low (3)	• Engaged Executive in place • Positive working environment for Internal Audit • Interim Audit Plan 2019
All	The Deputy CEO and Internal Auditor are not sufficiently empowered to effectively enable the Internal Audit function	Unlikely (2) *The event could occur at some time.*	Moderate (3) *Medium term temporary interruption*	Medium (6)	• Internal Audit Charter tabled, read and adopted • Revised responsibilities matrix in place • Internal Audit a direct report to the Deputy CEO • CEO retention of strategic Internal Audit direction

Risk Matrix

Consequence / Likelihood		Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Almost Certain	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	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 **6** has been determined for this item.

Voting Requirements: Simple Majority

Officer Recommendation

That the Audit, Risk and Governance Committee recommends Council:

ADOPTS the revised Internal Audit Charter and Responsibility Matrix as contained in attachments 1 and 2 to clarify purpose, authority, responsibility and revised positioning of Internal Audit within the Shire, due to a recent organisational restructure.

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.

7. Motions of which notice has been given:

8. Urgent business:

9. Closure: