

PAXON

SHIRE OF SERPENTINE JARRAHDAL

Regulation 17 Internal Audit Review

Final | 1 April 2025

paxongroup.com.au

TABLE OF CONTENTS

1. INTRODUCTION.....	3
1.1 BACKGROUND & OBJECTIVE	3
1.2 RISKS & SCOPE	3
2. EXECUTIVE SUMMARY	5
3. METHODOLOGY.....	7
4. INHERENT LIMITATIONS.....	8
5. RISK MANAGEMENT	9
5.1 AUDIT FINDING – RISK MANAGEMENT PROCESSES.....	9
6. INTERNAL CONTROL	11
6.1 AUDIT FINDING – FRAUD/INTEGRITY FRAMEWORK	11
6.2 AUDIT FINDING – CODES OF CONDUCT	12
7. LEGISLATIVE COMPLIANCE	13
7.1 AUDIT FINDING – PUBLIC INTEREST DISCLOSURE (PID) INFORMATION.....	13
7.2 AUDIT FINDING – UPDATE OF DOCUMENTS.....	14

1. INTRODUCTION

1.1 Background & Objective

The objective of our Regulation 17 Review was to provide a report, based on our understanding of the Shire of Serpentine Jarrahdale, to assist the CEO in reporting to the Audit and Risk Committee on the appropriateness and effectiveness of the Shire's systems and procedures in relation to risk management, internal control and legislative compliance.

Regulation 17 of the Local Government (Audit) Regulations 1996 states:

(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.

1.2 Risks & Scope

The Regulation 17 Review focussed on the risk that the Shire's systems and procedures relating to risk management, internal control and legislative compliance are not appropriate and effective. The following specific areas were reviewed:

Risk Management

- Reviewing the effectiveness of the Shire's risk management system, including alignment with ISO 2018
- Assessment of internal processes for managing operating risk in comparison to tolerance
- Review of risk registers
- Insurance coverage
- Business continuity Planning and Disaster Recover
- Development of risk reports and reporting processes, including Committee
- Assessment of controls that are in place for unusual transactions

Internal Control

- Integrity and ethics
- Levels of responsibilities and delegated authority
- Information system access and security
- Policy and management practice
- Procurement policies and monitoring practices
- Audit practices, including follow-up of the findings raised in previous reviews, the compliance audit return and annual audit reports
- Fraud and misconduct framework

Legislative Compliance

- Assessment of the Shire's legislative compliance framework or individual measures in place, including reporting to Committee
- Complaints, whistleblowing and PID processes
- Conflicts of interest and Code of Conduct
- Compliance Audit Return process
- Freedom of Information
- Integrated Planning and Reported Framework

The fieldwork was performed in December 2024 and January 2025 and focussed on the processes and controls in place at that time, or their last point of operation.

Paxon has also delivered the Regulation 5 Financial Management Review on behalf of the Shire and to avoid duplication all finance related findings are raised within that report.

2. EXECUTIVE SUMMARY

Paxon reviewed the appropriateness of design and operational effectiveness of the Shire's systems and procedures in relation to risk management, internal controls and legislative compliance.

Overall, our review identified that appropriate processes are generally in place and operational. Our work has highlighted several areas for improvement within the Shire's processes and controls frameworks. The Shire has commenced work on some of these requirements. Good practice was noted within some of the processes reviewed which is outlined below within each of the three areas reviewed.

Risk Area	Finding	Paxon Risk Rating
Risk Management	5.1 Risk Management Processes	Low Risk
Internal Control	6.1 Fraud / Integrity Framework	Medium Risk
	6.2 Codes of Conduct	Low Risk
Legislative Compliance	7.1 Public interest disclosure (PID) information	Low Risk
	7.2 Update of Documents	Low Risk

Risk Management

The Shire is working through the actions within its Continuous Improvement Plan, but it was noted that some of them do not have clear timeframes for completion. The Shire should also review the content of its risk management framework and risk management policy which have not been reviewed since 2020. These findings have been detailed in section 5 of this report.

Good Practice

The Shire's Business Continuity Plan is current, and insurance certificates are maintained and supported by internal registers which have been reviewed and updated in a timely manner. The Shire has made progress since the last Regulation 17 review performed in 2021 on completing a number of actions from its Enterprise Risk Management – Continuous Improvement Plan which provides a clear roadmap for the Shire to further embed and strengthen risk management processes. These improvements include incorporating community feedback into risk management, organising staff wide risk training and reviewing monitoring and reporting processes.

Internal Control

Our review identified that the Shire's Integrity Framework has not been finalised. This matter was also raised in our previous Regulation 17 review in 2021. It was also noted that both the Shire's employee and elected member Codes of Conduct documents have not been reviewed since 2021 to ensure details reflected are up to date. These findings have been detailed in section 6 of this report.

Good Practice

The Shire has good processes in place to ensure appropriate access given to employees for financial system. The Delegations Register are up to date and specific training and notification is provided to officers with delegations to ensure guidance is provided. The Shire's Governance team has recently completed a comprehensive review of all policies in 2024, and a risk rating was applied to prioritise the review and update of key documents. Procurement processes are in place which includes monitoring and reporting of procurement activities against internal and legislative requirements.

Our report on the Regulation 5 Financial Management Review provides further details on the Shire's financial processes and internal controls.

Legislative Compliance

The Shire has good processes to ensure that legislative compliance requirements related to maintaining an approved recordkeeping plan, freedom of information requirements and various governance registers on the Shire's website have been met.

The Shire has processes in place to address Public Interest Disclosure (PID) requirements. However, there are differences in the details of its current PID officers identified within the Shire's Delegations Register, its internal SharePoint site and the Public Sector Commission's contact directory. A number of policy documents including two related to complaints management processes have not been reviewed in at least three years. However we note that these have been internally progressed for review. These findings have been detailed in section 7 of this report.

All Paxon's findings are summarised on the following page and documented in detail within sections 5-7 of this report.

Some recommendations have been indicated as completed by Management, but these have not been reviewed by Paxon.

3. METHODOLOGY

Our methodology for this review comprised of the following steps:

- Conducted an initial meeting with management to obtain an understanding of processes and potential issues;
- Developed overview documentation of the processes including key controls by discussion with staff and review of the processes;
- Evaluated the effectiveness of the design of controls to cover the identified risk and tested the operation of the key controls;
- Followed up and confirmed action taken on any previous business issues identified and recommendations made;
- Researched the issues, weaknesses and potential improvements noted from our discussions and review of the existing processes and identified key controls;
- Developed appropriate recommendations for improvement for discussion with management;
- Drafted a report of findings and recommendations and obtained formal responses from management; and
- Finalised the report and issued it to Management for distribution to the Audit and Risk Committee.

Each finding detailed in section 5-7 is rated based on the following scale:

Rating	Definition
High	Major contravention of policies, procedures or laws, unacceptable internal controls, high risk for fraud, waste or abuse, major opportunity to improve effectiveness and efficiency, major risk identified. Immediate corrective action is required. A short-term fix may be needed prior to it being resolved properly.
Medium	Moderate contravention of policies, procedures or laws, poor internal controls, significant opportunity to improve effectiveness and efficiency, significant risk identified. Corrective action is required. Need to be resolved as soon as resources can be made available, but within six months.
Low	Minor contravention of policies and procedures, weak internal controls, opportunity to improve effectiveness and efficiency, moderate risk identified. Corrective action is required. Need to be resolved within twelve months.

4. INHERENT LIMITATIONS

Due to the inherent limitations in any internal control structure, it is possible errors or irregularities may occur and not be detected. Further, the internal control structure, within which the control procedures that have been reviewed operate, has not been reviewed in its entirety and therefore no opinion is expressed as to the effectiveness of the greater internal control structure.

It should also be noted our review was not designed to detect all weaknesses in control procedures as it was not performed continuously throughout the period subject to review.

The review conclusion and any opinion expressed in this report have been formed on the above basis.

5. RISK MANAGEMENT

5.1 Audit Finding – Risk Management processes

The Shire has a Risk Management Policy in place. This document is detailed and provides a good description of the Shire's approach to risk management including a breakdown of roles and responsibilities, including processes to update and review the strategic risk register. However we noted the following:

- The Policy has not been formally reviewed since September 2020.
- There is reference to a Risk Management Framework (E19/1310) referenced within the Policy which the Shire indicated is no longer in use. However it is unclear if this framework is going to be reviewed or has been superseded.

A full review of the strategic risk register is currently underway and is expected to be completed by June 2025. The current version was last updated in November 2024. Strategic risks are reported through to the Audit and Risk Committee. The review of the Shire's Risk Management Policy is planned to be finalised at the same time as the strategic risk register review.

Since the last Regulation 17 review performed, the Shire has incorporated community feedback into risk management, organised staff wide risk training including incorporating risk elements into new staff induction, updated various risk management templates and tools and investigated systems to identify improvement to risk reporting and monitoring. However some of the actions previously identified in the Regulation 17 review from 2021 relating to operational risk management and staff training have not yet been completed.

The Shire has a detailed Enterprise Risk Management Continuous Improvement Plan in place. This Plan is regularly reviewed and tracked to action improvements to the Shire's risk management processes arising from audits completed as well as best practice and improvement opportunities identified. Clear timelines and responsible owners have been identified on the Plan. A summary of the key actions still in progress are as follows:

- Review the Strategic Risk Register (due June 2025)
- Enhancement risk appetite (original due date June 2023 and revised to June 2025)
- Enhancement of major projects risk management (not commenced)
- Strategic risk training (not commenced)
- Update the operational risk management framework (not commenced)
- Develop the Shire's operational risk register (not commenced)

It was noted that timeframes for remaining actions on the improvement plan have not been updated.

Risk Rating

Paxon has determined this finding to be of **Low Risk**.

Possible Implications

- Failure to identify and manage risks resulting in strategic or operational impacts or failure to achieve desired objectives and outcomes
- Documents may become outdated and lose relevance if not regularly reviewed.

Recommendation

- 5.1.1 Review and update the Risk Management Framework and Risk Management Policy to reflect the Shire's current processes for risk management. Requirements for subsequent periodic reviews should also be defined
- 5.1.2 Review and update the timeframes for completing the remaining actions on the Enterprise Risk Management Continuous Improvement Plan. Changes made should be endorsed by the Executive.

Management Comment:

The Shire agrees with the findings and recommendations raised and provide the following commentary and agreed actions.

Recommendation 5.1.1 - The Risk Management Policy has been reviewed as part of the Council Policy Review currently underway (scheduled for completion in March 2025) with further amendments (if required) to be made alongside the Strategic Risk Register Review (scheduled for completion by June 2025). Subsequent reviews will occur on a biennial basis in accordance with the newly established Council Policy Review process.

Recommendation 5.1.2 - The Shire has an estimated 0.2 FTE dedicated to Corporate Risk Management, for the following tasks:

- Strategic risk register monitoring and reporting
- Operational risk register development (project management, service team plans and ad hoc matters as required)
- Business Continuity Planning
- Staff Training
- Improvements and enhancements to the framework

Therefore, whilst every effort is made where time and resources allow, the actions under the Enterprise Risk Management Continuous Improvement Plan take time to implement. Should the committee wish to expediate any of the actions within the plan, Officers would require additional corporate resourcing. Officers do not recommend this, as despite the low FTE, progress is being made, and additional resources would not be proportionate to the low risk identified in this report.

The Enterprise Risk Management Continuous Improvement Plan was reviewed and endorsed by the Executive Management Group in November 2024. On receipt of this report and subsequent review, there is one date that has not been adjusted to align with the progress commentary, and this has been actioned as follows:

- Enhancement of Risk Appetite – due 30 June 2025.

Action Owner:

5.1.1 Manager Corporate Performance

5.1.2 Manager Corporate Performance

Target Completion Date:

5.1.1 30 March 2025

5.1.2 Completed

6. INTERNAL CONTROL

6.1 Audit Finding – Fraud/Integrity Framework

The Public Sector Management Act requires a formal integrity framework to be in place. The Shire is in the process of developing an Integrity Framework to consolidate its approach to fraud and misconduct prevention, however this is still in draft and we were not provided with a timeline for completion. We noted that this finding was also raised within our previous Regulation 17 report in 2021.

Based on our preliminary review of the draft Integrity Framework, some aspects of fraud management have been included but these do not adequately address the guidance and better practice identified by OAG and the Public Sector Commission.

Risk Rating

Paxon has determined this finding to be of **Medium Risk**.

Possible Implications

- Non-compliance with Public Sector Management Act.
- Failure to identify and manage risks (including fraud) resulting in strategic or operational impacts or failure to achieve desired objectives and outcomes.

Recommendation

Update and finalise the Shire's Integrity Framework leveraging guidance from the OAG and Public Sector Commission.

Management Comment:

The Shire agrees with the findings and the recommendation raised.

Action Owner:

Manager Corporate Performance

Target Completion Date:

31 December 2025

6.2 Audit Finding – Codes of Conduct

The Shire has an Employee Code of Conduct that was last reviewed and updated in May 2021. The Shire also has a Code of Conduct for Councillors, Committee Members and Candidates also implemented in 2021.

Both Codes of Conduct reflect the requirements of the Local Government (Model Code of conduct) Regulations 2021, however have not been reviewed since 2021 to determine if any updates are required to reflect the Shire's organisational changes or changes to internal processes and requirements since then.

Risk Rating

Paxon has determined this finding to be of **Low Risk**.

Possible Implication

- Employees and/ or elected members may be unaware of their legislative and other obligations and not formally informed by the Shire of these, resulting in potential breaches.
- Documents may become outdated and lose relevance if not regularly reviewed.

Recommendation

Review and update the Shire's Codes of Conduct for employees and elected members. Requirements for subsequent periodic reviews should also be defined.

Management Comment:

The Shire agrees with the findings and recommendations raised and provide the following commentary and agreed actions.

- The review of the Shire's Employee Code of Conduct was approved in March 2025. Subsequent reviews will occur biennially.
- The review of the Elected Member Code of Conduct will occur post the Local Government Election in October 2025 and legislative amendments taking affect. Subsequent reviews will occur following each Local Government Election.

Action Owner:

Manager Corporate Performance

Target Completion Date:

31 December 2025

7. LEGISLATIVE COMPLIANCE

7.1 Audit Finding – Public Interest Disclosure (PID) information

The Shire's PID officers per its Register of Delegations (section 2.12) published on its website is as follows and are up to date:

- Director Corporate Services - Frazer Sullivan
- People, Development and Wellbeing Manager - Terrie Cole
- Manager Corporate Performance - Claire Mortimer
- Coordinator Governance - Darrelle Merritt

However, there are discrepancies between the above information and the Shire's internal SharePoint page. The SharePoint information page that was provided as part of our review indicated only the Director of Corporate Services and Manager Human Resources as the Shire's PID officers.

There are also discrepancies of the details identified within the PID officer directory available on the Public Sector Commission website (as of January 2025). The PID officer directory includes details of the Manager Human Resources for the Shire who left in 2021.

Risk Rating

Paxon has determined this finding to be of **Low Risk**.

Possible Implication

Lack of information and reporting processes resulting in non-reporting of fraud or a failure to adequately address reports of fraud or misconduct.

Recommendation

Review and update the Shire's PID officer details on SharePoint as well as the PSC PID officer directory.

Management Comment:

The Shire agrees with the findings and has undertaken the recommendation. It is also noted that training for the PID officers is scheduled for 28 February 2025.

Action Owner:

Manager Corporate Performance

Target Completion Date:

Completed

7.2 Audit Finding – Update of Documents

Our review identified that the Shire maintains the following key documents which provide relevant information on processes to manage its legislative obligations to meet compliance requirements. However these documents have not been reviewed and updated recently:

- Council Policy 3.3.5 – Councillor and CEO Attendance at Events Policy (September 2020)
- Council Policy 5.3.5 – Complaints Resolution (September 2021)

The Shire performed an internal review of all Council policies in November 2024. The above two policies were captured as part of that process. Both policies were deemed as moderate risk. Clear actions and timelines have been identified for updating the policies identified for review and these are prioritised based on the risk rating assigned.

In addition to the above, our review also identified that the Shire's Complaints Management Procedure was last updated in February 2018.

Risk Rating

Paxon has determined this finding to be of **Low Risk**.

Possible Implication

Policies and procedures guiding internal requirements do not have continued relevant and applicability or are not up to date.

Recommendation

Review and update the two documents identified. Requirements for subsequent periodic reviews should also be defined.

Management Comment:

The Shire agrees with the findings and recommendation raised. The review of these 2 policies is complete, on track for Council adoption in March 2025 as part of the Council Policy Review underway.

Action Owner:

Manager Corporate Performance

Target Completion Date:

30 March 2025

PAXON

SYDNEY

Level 15, 56 Pitt Street, Sydney NSW 2000
T: +61 2 8379 6144

PERTH

Level 5, 160 St Georges Terrace, Perth WA 6000
Telephone: +61 8 9476 3144

MELBOURNE

Level 27, 101 Collins Street, Melbourne VIC 3000
Telephone: +61 3 9111 0046

ADELAIDE

Level 30, 91 King William Street, Adelaide SA 5000
Telephone: +61 8 8113 5739

BRISBANE

Level 19, 10 Eagle Street, Brisbane QLD 4000
Telephone: +61 7

paxongroup.com.au | mail@paxongroup.com.au