

PAXON

SHIRE OF SERPENTINE JARRAHDAL

Regulation 17 Review

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Audit, Risk and Governance Committee Meeting - 28 February 2022

TABLE OF CONTENTS

1. INTRODUCTION AND SCOPE	3
1.1 BACKGROUND	3
1.2 INTERNAL AUDIT OBJECTIVE	3
2. EXECUTIVE SUMMARY	4
3. METHODOLOGY	5
4. INHERENT LIMITATIONS	6
5. RISK MANAGEMENT	7
5.1 AREAS OF STRENGTH.....	7
5.2 AUDIT FINDING – OPERATIONAL RISKS	7
6. INTERNAL CONTROL	9
6.1 AREAS OF STRENGTH.....	9
6.2 AUDIT FINDING - PROCESSES FOR PERIODIC POLICY REVIEW	9
7. LEGISLATIVE COMPLIANCE	11
7.1 AREAS OF STRENGTH.....	11
7.2 AUDIT FINDING - LEGISLATIVE REFERENCES TO SERVICES	11

1. INTRODUCTION AND SCOPE

1.1 Background

The requirement for this internal audit review is set out within regulation 17 of the *Local Government (Audit) Regulations 1996*, stating:

- “(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 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 Internal Audit Objective

The objective of our review was to provide a report, based on our understanding of the Shire of Serpentine Jarrahdale’s (‘Shire’) processes and associated risks, to assist the CEO to report to the Audit & Risk Committee on the appropriateness and effectiveness of the Shire’s systems and procedures in relation to:

- Risk management;
- Internal control; and
- Legislative compliance

as required by the *Local Government (Audit) Regulations 1996* (Regulation 17 Review).

2. EXECUTIVE SUMMARY

Paxon reviewed the appropriateness of design and the operational effectiveness of the Shire's systems and procedures in relation to:

- Risk management;
- Internal control; and
- Legislative compliance.

Overall, our review has identified that appropriate processes are in place and operational.

Good practice was noted within many of the processes reviewed and is documented within the 'Areas of Strength' sections at the beginning of each of the three areas of this report.

We also noted three areas that management had already identified for improvement prior to our review:

- The Shire has an enterprise risk management improvement plan, which notably includes introducing risk into agenda reports and budget processes, improving documentation of the operational risk requirements and the training of staff;
- An integrity framework document is being developed which will consolidate the Shire's approach to fraud and misconduct prevention; and
- A framework document is also being developed to provide an overview of legislative compliance.

These areas have not been raised as issues within our report, as they had already been identified by management and we endorse their implementation.

Paxon has also identified some opportunities for improvement to existing processes related to:

- Updating and finalising Team Plans to include comprehensive risk management documentation and remediation at an operational risk level;
- Updating Team Plans to include legislative requirements; and
- Developing and implementing a process to review all Council policies on a defined and regular basis.

It should be noted that Paxon is also performing an internal audit review of Financial Management in accordance with Regulation 5 of the Local Government (Financial Management) Regulations 1996. This review will include a more detailed assessment of internal control processes for financial management.

We would like to thank all officers that have facilitated the performance of this review.

3. METHODOLOGY

Paxon's methodology for the Regulation 17 Review comprised:

- Conducting an initial meeting with management to obtain an understanding of processes and potential issues;
- Developing overview documentation of the processes including key controls by discussion with staff and review of the processes;
- Evaluating the adequacy of the controls to cover the identified risks and testing the compliance with the key controls;
- Researching the issues, weaknesses and potential improvements noted from our discussions and review of the existing processes including compliance with key controls;
- Developing appropriate recommendations for improvement for discussion with management;
- Drafting a report of findings and recommendations and obtaining formal responses from management; and
- Finalising the report and issuing it to the CEO for distribution to the Audit, Risk and Governance Committee (ARG Committee).

Each finding detailed in sections 5 to 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, moderate 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, low 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 Areas of Strength

Paxon have identified the following areas of strength during the review of this area:

- An effective risk management framework which includes service plan risks, a risk policy and strategic risk register in place.
- The risk management framework is based on the principles of the current Australian and International Standards on Risk Management (AS/NZ ISO 31000), second edition (02/2018);
- A quarterly review report of the Shire's "*Strategic Risk Register*" is considered by the ARG Committee;
- Service Team Plans were introduced in 2020/21 and the content continues to be improved;
- An "Enterprise Risk Management – Continuous Improvement Plan" which provides a roadmap to "*further embed and strengthen risk management at the Shire of Serpentine Jarrahdale.*"
- A Business Continuity Plan exists which applies practical experience gained during Covid-19 lockdowns; and
- The Shire has obtained comprehensive insurance cover for 2021-2022.

5.2 Audit Finding – Operational Risks

As noted above Service Team Plans were first introduced in 2020/21.

Team plans for 2021-2022 were examined as at November 2021. These plans contain an overview of the service, vision, objectives, projects and operational risks. The risk includes the expected documented areas:

- Identified risks;
- Controls (to address the risk);
- Risk assessment (including a risk rating);
- Controls rating (for example: inadequate);
- Acceptability (for example: further action is required due to the Shire's risk appetite); and
- Risk mitigation strategies.

All but two of the fourteen team plans were noted as being in draft format as at November 2021. We note that by the end of December 2021 four of the fourteen plans were in draft format.

The Shire's "Enterprise Risk Management – Continuous Improvement Plan" (Plan) includes the review of operational risk with a due date of November 2021 but stated that plans are complete, which does not appear to be correct. Paxon also noted that risk mitigation strategies are documented inconsistently and were recorded irrespective of the acceptability of an identified risk. In some instances they record expired target dates and in one instance assessed some risks as being unacceptable but did not record any strategies to manage the risk. As previously noted the Shire continues to improve its documentation of guidance around operational risk which will support greater consistency in this area. Again, improvement was noted between November and December 2021, but the above finding had not been fully addressed.

Paxon also noted that the Shire does not assess inherent risk as part of its risk management framework. Inclusion could help to highlight areas of high controls reliance in managing risk, thus providing a clear focus for assurance and also help in assessing risk appetite.

Risk Rating

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

Implication

- Identified service plan risks are not managed appropriately in line with risk appetite and mitigation strategies may not be in place.

- Resource to manage risks may not be allocated appropriately in relation to risk appetite.

Recommendation

- 5.2.1 Team plans for the financial year should be fully documented at the earliest opportunity after budget finalisation and then updated on an on-going basis through the remainder of the period.
- 5.2.2 Team Plans should be reviewed centrally to ensure consistency, completeness and that risk assessments and mitigation strategies, include consideration of the risk appetite; and
- 5.2.3 The status of the risk improvement plan should be reviewed, and inclusion of inherent risk should be considered.

Management Comment:

The Shire agrees with Paxon recommendations 5.2.1, 5.2.2 and partially 5.2.3. As such, the following management actions have been developed in response:

1. Ensure Service Team Plans are documented and in place for each business unit of the Shire no later than 30 September each year.
2. Review Council Policy Risk Management in relation to Risk Appetite to determine whether the current acceptance levels are appropriate and ensure Risk Registers within Service Team Plans for 2022-23 comply with these levels.
3. Review the Enterprise Risk Management – Continuous Improvement Plan to ensure action due dates and commentary are correct.
4. Investigate the expansion of PPLGS (PPLGS is the Corporate Business Plan Reporting Module in OneComm) to facilitate reporting against Service Team Plans.

Inherent risk was previously considered by the Shire whilst undertaking the Risk Maturity Journey in 2019-20. In consultation with an external risk specialist, the inclusion of inherent risk was excluded from the framework as it was not considered to provide value given the Shire's level of risk maturity. This remains the Shire's position in relation to Inherent Risk.

Action Owner: Manager Governance and Strategy

Target Completion Date: 30 September 2022.

6. INTERNAL CONTROL

6.1 Areas of Strength

Paxon have identified the following areas of strength during the performance of this review:

- Access to the Shire's financial system and payroll system is limited to appropriate employees;
- Comparison and analysis of financial results against budgeted amounts take place on a regular basis;
- The Shire has created a framework to help ensure compliance with the Local Government Act 1995 stipulations regarding delegations and authorisations;
- The Shire's "*Employee Code of Conduct*" provides a comprehensive standard for employee conduct;
- A comprehensive procurement framework which focuses on integrity and includes transparent policies and procedures;
- Council and Business Operating Policy are in place and appropriately structured; and
- The Shire keeps a comprehensive list of procedures for procurement transactions.

6.2 Audit Finding - Processes for Periodic Policy Review

Paxon noted that the Shire has a comprehensive set of policies in place and that "Business Operating Policy 3.3.2 – Process for Review of Policies" sets the requirement to review and update policies on a regular basis. This document states:

"The Chief Executive Officer is to implement a review process which ensures Councillors are involved in the review of all policies on a regular basis through an Ordinary Council Meeting."

However, we could not identify a detailed documented process to enact this objective and it was noted that the majority of Shire policies were reviewed more than 2 years ago, with the majority last reviewed in 2017.

It was also noted that although the policy documents include a next review date field, they are not all populated.

Business operating process documents were generally noted as being more current than policies.

Risk Rating

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

Implication

Policy documents may be outdated and are at risk of providing obsolete guidance to both employees and the wider community.

Recommendation

A process should be documented that sets out the requirements and mechanisms for reviewing and updating policy on a regular, but practical basis.

Consideration should be given to having different frequency of policy review based upon the risk or level of change for each policy.

This documented process could also be extended to include procedural documents to assist in maintaining their currency.

Management Comment:

The Shire is aware of the above-mentioned matters raised by Paxon. It is intended that the following project, listed as a risk mitigation strategy on the Shire's Strategic Risk register, will incorporate Paxon's recommendations.

"4. Policy/procedure review schedule and process across the Shire including consideration of a document control system"

In addition, the Shire will consider establishing a policy review group/committee for the review of Council policies.

A register of Policies and Business Operating Processes has been created as a first step toward the project.

Action Owner: Manager Governance and Strategy

Target Completion Date: 30 June 2022

7. LEGISLATIVE COMPLIANCE

7.1 Areas of Strength

Paxon have identified the following areas of strength during the performance of this review:

- The Shire has implemented an effective legislative compliance framework which includes plans, policies, codes of conduct, registers and a compliance calendar;
- A sample of the Shire activities examined found the Shire complied with local government legislation and regulations;
- Plans are put in place to accommodate changes to compliance requirements e.g. changes to the OSH Act in 2022; and
- The Shire guides the behaviour of Councillors, committee members, candidates and its employees by means of codes of conduct.

7.2 Audit Finding - Legislative References to Services

As noted within section 5.3 of this report, the team plans for 2021-2022 were examined.

These team plans include a "Service Team Plan – Services and Service Levels" section which records specific service provision. A "Compliance Link" field is provided for each identified area. This lists relevant legislation, regulations, internal process documents (policies and procedures), and others such as Australian Accounting Standards.

However, it was noted that two team plans do not record compliance links.

Risk Rating

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

Implication

Legislative requirements may not be complied with due to a lack of awareness.

Recommendation

The listed team plans should record compliance instruments for each identified task or document that there is no requirement.

Management Comment:

The Shire agrees with Paxon's recommendation and the following management action has been developed in response:

1. Ensure Service Team Plans record compliance instruments for each identified task or, where this is not applicable, document that there is no requirement.

Action Owner: Manager Governance and Strategy

Target Completion Date: 30 September 2022

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 3121 3240

DARWIN

Level 16, 19 Smith Street The Mall, Darwin City NT 0800

Telephone: +61 8 6314 3066

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