



AUDIT AND RISK MANAGEMENT COMMITTEE MEETING

MINUTES

SECTION 5.9(2)(a) LGA 1995

Committee Brief

1. *Provide guidance and assistance to the local government -*
 - a) *as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act; and*
 - b) *as to the development of a process to be used to select and appoint a person to be an auditor; and*
2. *May provide guidance and assistance to the local government as to -*
 - a) *matters to be audited; and*
 - b) *the scope of audits; and*
 - c) *its functions under Part 6 of the Act; and*
 - d) *the carrying out of its functions relating to other audits and other matters related to financial management; and*
3. *Is to review a report given to it by the CEO under Regulation 17(3) (the CEO's report) and is to -*
 - a) *report to the Council the results of that review; and*
 - b) *give a copy of the CEO's report to the Council.*

A meeting of the Audit and Risk Management Committee
was held in the Committee Room,
Lowood Road, Mount Barker WA 6324,
at 12.30pm Tuesday 24 May 2022.


Cameron Woods
CHIEF EXECUTIVE OFFICER

Committee Members

C Pavlovich, Cr A Fraser, Cr M O'Dea and Cr K Woltering (Council 171/21)

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Membership

C Pavlovich (Presiding Member)

Cr A Fraser

Cr M O'Dea

Cr K Woltering

Cr J Oldfield (Deputy for any member)

1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

12.40 pm The Presiding Member declared the meeting open.

2 RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCEMembers Present

Cr C Pavlovich – Presiding Member
Cr A Fraser
Cr M O'Dea
Cr K Woltering

Visitors

Cr L Handasyde (from 12.40pm until 12.50pm)
Cr J Oldfield (departed 1.09pm and returned 1.13pm)

Staff

Mr C Woods – Chief Executive Officer
Mr J Fathers – Deputy Chief Executive Officer

3 CONFIRMATION OF MINUTES

Moved Cr K Woltering, seconded Cr M O'Dea:

That the Minutes of the Ordinary meeting of the Audit and Risk Management Committee, held on 22 March 2022 as circulated, be taken as read and adopted as a correct record.

CARRIED

4 DISCLOSURE OF INTEREST

Part 5 Division 6 Local Government Act 1995

Nil

5 REPORTS OF COMMITTEE MEMBERS AND OFFICERS

5.1 RISK MANAGEMENT, INTERNAL CONTROL AND LEGISLATIVE COMPLIANCE – ORGANISATIONAL REVIEW

File Ref:	N57657
Attachment	<u>Assessment Report</u>
Responsible Officer:	Cameron Woods Chief Executive Officer
Author:	John Fathers Deputy Chief Executive Officer
Proposed Meeting Date:	26 May 2022

PURPOSE

The purpose of this report is to note the results of a review of the appropriateness and effectiveness of organisational systems and procedures in relation to risk management, internal control and legislative compliance.

BACKGROUND

Regulation (Section 17) of the Local Government (Audit) Regulations requires a review of the appropriateness and effectiveness of systems and procedures in relation to risk management, internal control and legislative compliance at least once every three financial years and to report to the Audit Committee the results of that review. The last such review was carried out in November 2018.

STATUTORY ENVIRONMENT

Local Government (Audit) Regulations 1996. Regulation 17 states as follows:

- (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.'*

FINANCIAL IMPLICATIONS

There are no financial implications for this report.

BUDGET IMPLICATIONS

There are no budget implications for this report.

POLICY IMPLICATIONS

The Council has the following policies in place:

- C/RM/1 Risk Management.
- C/IC/1 Internal Control.
- A/L/1 Legislative Compliance.

LEGAL IMPLICATIONS

There are no legal implications for this report.

ASSET MANAGEMENT IMPLICATIONS

There are no asset management implications as no assets are being created or acquired.

STRATEGIC IMPLICATIONS

The Shire of Plantagenet Strategic Community Plan 2017-2026 provides at Outcome 4.6 (Effective and efficient corporate and administrative services) the following Strategy:

Strategy 4.6.1:

'Provide a full range of financial services to support Shire's operations and to meet planning, reporting and accountability requirements'

Accordingly, the recommended outcome for this report aligns with the Strategic Community Plan.

STRATEGIC RISK IMPLICATIONS

The Shire's Strategic Risk Register forms part of the assessment.

REGIONAL IMPLICATIONS

There are no regional implications for this report.

OFFICER COMMENT

It is important to note that legislative compliance relates to all legislation, not just the Local Government Act 1995. It is also important to note the following words in the new regulation: *'The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures.'*

In terms of appropriateness, the Chief Executive Officer is to decide what processes, systems and controls are appropriate in the context of risk appetite, the internal / external environment and what is suitable for the Shire's size and operations.

Effectiveness is assessed through monitoring events and testing controls. For systems and procedures to be effective, they must exist. In order to formally create these systems, policies and procedures have been established under each of the three categories.

A detailed review of each of these matters is in the attached Assessment Report. A summary of the results is as follows:

Risk Management

The Council has adopted a Risk Management Policy, the objectives being to:

-
- Adopt and implement a risk management framework that integrates risk management into the organisation and provides the mandate, resources and management systems.
 - Foster and develop a risk management culture that influences all activities and decision making.
 - Improve the way assets, functions and services are managed and delivered to achieve objectives and reduce potential harm to the Shire.

The policy notes that the Shire will manage risks continuously using a process involving the identification, analysis, evaluation, treatment, monitoring and review of risks. It will be applied to decision making through all levels of the organisation in relation to planning or executing any function, service or activity. In particular, it will be applied to:

- Strategic planning;
- Expenditure of large amounts of money;
- New strategies and procedures;
- Management of projects, tenders and proposals;
- Introducing significant change; and
- Management of sensitive issues.

The policy aims for risk management to become part of the Shire's culture, integrated into the Shire's corporate and business plans and everyday activities. Further, risk management must be the responsibility of every employee, contractor, volunteer and elected member of the Council.

The policy requires that the Shire will implement a robust reporting and recording system that will be regularly monitored to ensure closeout of risks and identification of ongoing issues and trends.

In this regard, a risk register is being maintained for strategic risks. The register is permanently listed for meetings of the Audit and Risk Management Committee and that committee has conducted a detailed review of the register.

Some project and operational risks will also be considered and evaluated, however the Shire will adopt a relatively simple approach and only do a formal assessment of new projects and operational risks where deemed appropriate by the Chief Executive Officer or an Executive Manager.

It is the opinion of the Chief Executive Officer that the policy and procedures in place for risk management are generally appropriate for an organisation of the size of the Shire of Plantagenet.

Effectiveness is assessed through monitoring events and testing controls and the following indicators are a guide:

- The Shire has developed a Strategic Community Plan and the Council regularly reviews its progress against strategic objectives.
- An analysis of events by risk category for the last two years has been carried out. The list of events is considered to represent a relatively small number of incidents. In dollar terms, the overall cost is considered to represent a minor impact on the Shire's resources.

The effectiveness of the current measures, which have recently been formalised by way of policy and procedures is considered to be quite robust.

Nevertheless, the Committee will note the recent resignation of the Communications / Administration Officer, part of who's role was the co-ordination of Occupational Health and Safety administration within the Shire. With the new Work Health and Safety Act 2020 coming into effect on 31 March 2022, this is an area that the CEO considers needs urgent attention in order to assess the Shire's obligations and effectiveness of control measures.

The LGIS regional risk co-ordinator has recently also had a changeover in personnel and we have agreed to permit the new person to have some office space within the administration building. It is hoped that this will add to the support in this area.

Internal Control

The Shire's Internal Control Policy indicates that the following are considered to be fundamental characteristics of a good internal control system:

Staffing and segregation of duties

Ideally, the following three basic functions should be undertaken by different individuals:

- authorisation of transactions;
- recording of transactions; and
- custody of assets (money and other property).

If these duties are not separated then errors are more likely to go undiscovered, fraud is also much easier to conceal and mistakes are more likely to occur. In small local governments it is not always practical to maintain a strict separation of duties due to resource constraints. These circumstances require a greater degree of compensatory controls to be put in place. At the Shire of Plantagenet, some segregation of duties has been achieved, although not to the degree available in an ideal world due to the size of the organisation. Other controls have been put in place to mitigate relevant risks as a result.

The smaller the organisation, the more difficult it is for adequate controls to be implemented. This emphasises the need for not only controls to be in place, but also for elected members to be vigilant and aware of what the controls should be.

While our systems are robust, from time to time mistakes and anomalies will occur. In these instances, our systems aim to highlight the inaccuracies, actions and rectification are undertaken. Some financial and project risks exist and this is largely dependent on the trust and professionalism of staff members.

The level of experience and qualification held by staff has a substantial impact on the effectiveness of internal controls. Experienced staff who know the processes and systems are more likely to identify errors and mistakes before they have a detrimental impact. Generally, at the Shire of Plantagenet, staff in key positions are well qualified and / or highly experienced.

High levels of staff turnover leading to inexperienced staff will place additional pressure on internal controls and reduce their reliability. At these times increased staff training is vital to reduce the risk of failure in documented internal controls. High staff turnover can also lead to a fall in staff recruitment standards resulting in false qualifications and experience levels going undetected. At the Shire of Plantagenet, staff turnover has been low for a number of years, particularly in key positions.

(Recent total FTE turnover figures are: 2017 – 8.9%, 2018 – 10.9%, 2019 – 12.9%, 2020 – 13.9%, 2021 – 23.7%)

Information Technology (IT) Controls

As with other controls there are two types of controls which exist within the IT environment:

- General IT Controls - These are controls over the wider IT environment of the local government. They include such items as virus protection, backups, system password and access controls.
- Application IT Controls - These are controls within the specific IT applications and include such items as application password and access controls, data field validations, processing restrictions and reporting restrictions.

The extensive use of IT to record, validate, collate and report financial transactions makes it important to implement a number of financial process or application controls. However application controls may be significantly undermined by a lack of appropriate general controls.

Granting IT administrators administration rights to all applications, a lack of appropriate backups or the ability of someone to 'hack' into the IT system are all examples of general IT control risks which will undermine the effectiveness of the best application controls.

At the Shire of Plantagenet, IT controls within the new Synergysoft system are robust and administrator roles are very limited.

However, it is important that the Shire protect its IT Infrastructure from computer viruses and theft, vandalism, or breach of confidentiality by computer hackers. In addition, to ensure that corporate electronic records are adequately backed up and protected and able to be restored and re-deployed if required.

Since his appointment, the ICT Officer has made the following improvements to protect the Shire's IT systems.

- Watchguard firewall security appliances have been installed on all sites. These protect from incoming incursion attempts and also facilitate encrypted site to site links.
- Bitdefender Gravity Zone Ultra end point protection provides anti virus and incursion prevention at the workstation level.
- Increased frequency of backups.
- Site 24/7 server monitoring is in place to detect unusual server performance, drive space and backup errors, including remote sites.
- We are investigating use of storage cloud backup for our three core servers, to allow for virtual machine boot in the cloud for purposes of business continuity and disaster recovery.
- Office 365 platform is providing cloud hosted email platform, MS Teams for business continuity and remote meetings with optional cloud based access to corporate documents.
- Desktop Central is undertaking daily patch management of both Microsoft and third party applications. This also identifies potential workstation security risks.
- We are in process of Implementing Australian Cyber Security Centre's 'Essential 8' recommended strategies to mitigate cyber security incidents.

- Quest Archive Manager has been implemented which captures all emails as permanent records.

Documented procedures and processes covering the recording, reporting and authorisation of transactions

Documented procedures also support the rotation of duties which in turn reduces the potential for fraud. It is important the judgments made about appropriate internal controls are documented and evidenced in procedures. For example, if circumstances prevent the full segregation of duties then the alternate actions taken to lessen risk should be evidenced. If staff clearly understand what is expected of them and what they are required to do to maintain control, less errors are likely to occur.

At the Shire of Plantagenet, a culture of formal documentation exists and procedures are in place for a significant number of processes. In addition, a number of control activities should be undertaken in addition to the key monitoring activities. Out of the 82 controls ideally in place, 75 are being carried out (91%), as detailed in the assessment report. It is the opinion of the Chief Executive Officer that the policy and procedures in place for internal control are largely appropriate for an organisation of this size of the Shire of Plantagenet.

Effectiveness is assessed through monitoring events and testing controls. In recent times, the report of the auditor in respect to annual financial statements and interim audit results have been very good. A financial management review was undertaken by the external auditor in June 2018. Overall, the results of that review were also very good. An updated FMR is due to be carried out shortly.

The effectiveness of the current measures, which have recently been formalised by way of policy and procedures are considered to be very robust.

Legislative Compliance

The Shire's Legislative Compliance Policy indicates that the following are important elements of an appropriate legislative compliance framework:

- A legislative compliance risk register with a risk rating.
- A formal process to implement new legislation.
- Formal responsibility for monitoring legislative compliance.
- Communication and training of elected members, staff, contractors and volunteers in terms of their responsibility to comply with legislation in the workplace and report breaches.
- A formal process for reporting and recording breaches of legislation.
- Legislative compliance demonstrably supported by senior management.

All of these measures have been adopted. It is the opinion of the Chief Executive Officer that the policy and procedures in place for legislative compliance are entirely appropriate for an organisation of this size of the Shire of Plantagenet.

Effectiveness is assessed through monitoring events and testing controls. At this stage there have only been five incidents of non-compliance recorded in the register set up in 2015.

The Compliance Audit required pursuant to Section 7.13 of the Local Government Act 1995 has only recorded three areas of non-compliance in the last two years (none for several years before then). The effectiveness of the current measures, which has

recently been formalised by way of policy and procedures can therefore be assumed to be robust.

VOTING REQUIREMENTS

Simple Majority

During discussion, the Committee endorsed a proposal by the CEO to engage a professional external resource to assist in meeting occupational health and safety obligations.

OFFICER RECOMMENDATION / COMMITTEE DECISION

Moved Cr M O'Dea, seconded Cr A Fraser:

That the results of a review of the appropriateness and effectiveness of organisational systems and procedures in relation to risk management, internal control and legislative compliance be noted.

CARRIED

5.2 RISK REGISTER REVIEW

File Ref:	N58046
Attachment	Strategic Risk Register
Responsible Officer:	Cameron Woods Chief Executive Officer
Author:	John Fathers Deputy Chief Executive Officer
Proposed Meeting Date:	26 May 2022

PURPOSE

The purpose of this report is to review the updated Strategic Risk Register.

BACKGROUND

The Audit and Risk Management Committee has the Strategic Risk Register listed as a permanent fixture on its agenda.

STATUTORY ENVIRONMENT

Regulation 17 of the Local Government (Audit) Regulations 1996 requires the CEO to review risk management controls every three years and report to the Audit Committee the results of that review.

FINANCIAL IMPLICATIONS

There are no financial implications for this report.

BUDGET IMPLICATIONS

There are no budget implications for this report.

POLICY IMPLICATIONS

The Council has the following policy in place:

- C/RM/1 Risk Management.

LEGAL IMPLICATIONS

There are no legal implications for this report.

ASSET MANAGEMENT IMPLICATIONS

There are no asset management implications as no assets are being created or acquired.

STRATEGIC IMPLICATIONS

The Shire of Plantagenet Strategic Community Plan 2017-2026 provides at Outcome 4.6 (Effective and efficient corporate and administrative services) the following Strategy:

Strategy 4.6.1:

'Provide a full range of financial services to support Shire's operations and to meet planning, reporting and accountability requirements'

Accordingly, the recommended outcome for this report aligns with the Strategic Community Plan.

STRATEGIC RISK IMPLICATIONS

The Shire's Strategic Risk Register is the subject of this report.

REGIONAL IMPLICATIONS

There are no regional implications for this report.

OFFICER COMMENT

The Strategic Risk Register has been reviewed by the management team and is submitted for review.

VOTING REQUIREMENTS

Simple Majority

During discussion, the following was requested:

- *Incorporate a Risk Rating heading on Council reports.*
- *Provide the Risk Register summary dashboard to all councillors once per year.*
- *Project / Change Management (page 13) of Risk Register should be have a higher residual risk rating due to the potential major financial consequences of bad project management. The impact of the major external pricing fluctuations which have recently been experienced should also be captured there.*

OFFICER RECOMMENDATION / COMMITTEE DECISION

Moved Cr K Woltering, seconded Cr M O'Dea:

That the Strategic Risk Register as at April 2022 be noted.

CARRIED

6 GENERAL BUSINESS**7 NEXT MEETING**

Probably mid year, to receive the Financial Management Review.

8 CLOSURE OF MEETING

1.45 pm The Presiding Member declared the meeting closed.

CONFIRMED: PRESIDING MEMBER _____ DATE: ____/____/____