



## 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 11.30am Tuesday 11 November 2014.

**Rob Stewart**  
**CHIEF EXECUTIVE OFFICER**

### Committee Members

*Cr K Clements, Cr L Handasyde, Cr J Moir and Cr C Pavlovich (Council 244/13)*

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## **1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS**

11.32am The Presiding Member declared the meeting open.

## **2 RECORD OF ATTENDANCE / APOLOGIES**

### Members Present

Cr K Clements (Presiding Member)  
Cr J Moir  
Cr J Oldfield (Deputy for Cr L Handasyde)  
Cr C Pavlovich

### Apologies

Cr L Handasyde

### Staff

Rob Stewart - Chief Executive Officer  
John Fathers - Deputy Chief Executive Officer

## **3 CONFIRMATION OF MINUTES**

Minutes, as circulated, of the meeting of the Audit Committee held on 19 August 2014.

**Moved Cr J Moir, seconded Cr C Pavlovich:**

**That the Minutes of the Meeting of the Audit and Risk Management Committee, held on 19 August 2014 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 No:** N32150  
**Attachment:** Assessment Report  
Draft Strategic Risk Register  
**Responsible Officer:** Rob Stewart  
Chief Executive Officer  
**Author:** John Fathers  
Deputy Chief Executive Officer  
**Proposed Meeting Date:** 11 November 2014

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#### 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

In February 2013, a new regulation (Section 17) of the Local Government (Audit) Regulations was promulgated. This regulation 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 two calendar years and to report to the Audit and Risk Management Committee the results of that review.

#### 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 at least once every 2 calendar 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.

#### 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.

## STRATEGIC IMPLICATIONS

The Shire of Plantagenet Strategic Community Plan 2013 – 2023 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.'*

## 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 underlined 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

When the new Risk Management Policy was adopted, it was noted that a number of systems and processes need to be developed in order to be able to review and assess risk management. The first step is to create a policy, from which other elements will flow.

The objectives of the policy were 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
-

- The management of sensitive issues.

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

Prior to the adoption of the policy, this framework has, to some extent, been implemented at the Shire of Plantagenet in an informal manner. The Shire has developed significant processes and procedures in regard to occupational health and safety, including an active OSH Committee over the last 10 or so years.

Guidelines and procedures have also been developed in regard to Internal Controls and Legislative Compliance. Those existing systems can be considered to form part of the overall risk management framework. However, the implementation of a formal and documented framework for other risk areas will take some time to embed within the organisation.

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 has now been developed and will be maintained for strategic risks. 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 appropriate by the Chief Executive Officer or a Manager.

Ideally, all capital works projects greater than say \$500,000 in value will, on assessment, have a specific risk assessment undertaken. However, at this stage, the Shire will not act to this extent, particularly due to resource constraints and in addition, Shire staff are not qualified to properly assess the full gambit of risks that might potentially impact.

It is the opinion of the CEO that the policy and procedures in place for risk management are generally appropriate for an organisation of this size of the Shire of Plantagenet. However, as indicated above, the implementation of a formal and documented framework will take some time to embed within the organisation.

Effectiveness is assessed through monitoring events and testing controls. As the risk management framework has only recently been adopted and still being developed, it is too early to make any firm conclusions about its effectiveness. Nevertheless, at this stage, the following indicators can be a guide:

The Shire has developed a Strategic Community Plan and uses associated software which is assisting the Council to progress its strategic objectives. The first report coming out of the software will form part of the 2013/2014 annual report. It shows that the Shire is making good progress towards meeting strategic objectives.

An analysis of events by risk category for the last three 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 are considered to be quite robust.

## **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 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 very low for a number of years, particularly in key positions.

*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 Civica Authority system are robust and administrator roles are very limited.

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*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.

Out of the 81 controls listed above, 76 are being carried out (94%). It is the opinion of the CEO 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 May 2014. Overall, the result of that review were also very good. There were five minor adverse findings made within the report, three of which related to the need for policy development, which has been carried out.

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 a 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 CEO 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, no incidents of non-compliance have been recorded in the register (which has only recently been established). However, the Compliance Audit required pursuant to Section 7.13 of the Local Government Act 1995 has not recorded any areas of non-compliance since the 2008 return. The effectiveness of the current measures, which have recently been formalised by way of policy and procedures can therefore be assumed to be robust.

### **VOTING REQUIREMENTS**

Simple Majority

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**OFFICER RECOMMENDATION / COMMITTEE DECISION**

**Moved Cr J Moir, seconded Cr C Pavlovich:**

**That it be a recommendation to the Council:**

**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**

## **6 GENERAL BUSINESS**

### **6.1 CARBON AUDIT REPORT**

*A query was raised in regard to the progress of the matter raised at previous meetings in regard to the report from Carbon IQ. The Chief Executive Officer advised that a report has been received, which will be forwarded to councillors. It is not proposed to take the matter any further.*

## **7 NEXT MEETING**

9 December 2014

## **8 CLOSURE OF MEETING**

11.55am      The Presiding Member declared the meeting closed.

**CONFIRMED: PRESIDING MEMBER** \_\_\_\_\_ **DATE:** \_\_\_\_/\_\_\_\_/\_\_\_\_