

Council

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

Assessment Report

Meeting Date: 04 December 2018

Number of Pages : 32

## ASSESSMENT REPORT - ORGANISATIONAL REVIEW OF RISK MANAGEMENT, INTERNAL CONTROL AND LEGISLATIVE COMPLIANCE

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**Date:** 4 December 2018

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

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 Committee the results of that review.

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

- '(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.'

## RISK MANAGEMENT – ASSESSMENT

### Background

Australian Standard AS/NZS ISO 31000:2009 defines risk as *'the effect of uncertainty on objectives.'* A primary objective of risk management is to identify and to manage (take preventive steps) to handle these uncertainties and thereby reduce potential harm to the Shire.

Local governments are being required to formalise their risk management processes, including the identification and treatment of risks and the establishment of a risk register. The recently adopted policy is part of a framework which will enable more effective management of risks. A risk tolerance table has also been developed which will reflect the Shire's tolerance for various risks.

Managing risk is not the responsibility of just one person within the organisation. Managers responsible for particular areas have the most influence over implementing controls to manage risk, but responsibility also lies with employees who operate within the area.

### Policy Statement

#### OBJECTIVE

*To commit to organisation-wide risk management principles, systems and processes that ensure consistent, efficient and effective assessment of risk in all planning, decision making and operational processes.*

#### POLICY:

1. *Definition of Risk:*
  - 1.1 *AS/NZS ISO 31000:2009 defines risk as 'the effect of uncertainty on objectives.'*
  - 1.2 *A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative, or a deviation from the expected. An objective may be financial, related to health and safety, or defined in other terms.*
2. *Definition of Risk Management:*
  - 2.1 *The application of coordinated activities to direct and control an organisation with regard to risk.*
3. *Principles – Framework - Process*
  - 3.1 *The Shire considers risk management to be an essential management function in its operations. The responsibility for managing specific risks lies with the person who has the responsibility for the function, service or activity that gives rise to that risk.*

- 3.2 *The Council is committed to the principles, framework and process of managing risk as outlined in AS/NZS ISO 31000:2009.*
- 3.3 *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.*
- 3.4 *In particular it will be applied to:*
- a) Strategic planning;*
  - b) Expenditure of large amounts of money;*
  - c) New strategies and procedures;*
  - d) Management of projects, tenders and proposals;*
  - e) Introducing significant change; and*
  - f) The management of sensitive issues.*
- 3.5 *The objectives of risk management are:*
- a) The achievement of organisational goals and objectives;*
  - b) The ongoing health and safety of all employees at the workplace;*
  - c) Ensuring public safety within the Council's jurisdiction is not compromised;*
  - d) Limited loss or damage to property and other assets;*
  - e) Limited interruption to business continuity;*
  - f) Positive public perception of Council and the Shire; and*
  - g) Application of equal opportunity principles in the workforce and the community.*
4. *Responsibilities*
- 4.1 *The CEO, managers and supervisors have the responsibility and accountability for ensuring that all staff manage the risks within their own work areas. Risks should be anticipated and reasonable protective measures taken.*
- 4.2 *All managers will encourage openness and honesty in the reporting and escalation of risks;*
- 4.3 *All staff will be encouraged to alert management to the risks that exist within their area, without fear of recrimination.*
- 4.4 *All staff will, after appropriate training, adopt the principles of risk management and comply with all policies, procedures and practices relating to risk management.*
- 4.5 *All staff and employees will, as required, conduct risk assessments during the performance of their daily duties.*



- 4.6 *The level of sophistication of the risk assessment will be commensurate with the scope of the task and the associated level of risk identified.*
- 4.7 *Failure by staff to observe reasonable directions from supervisors regarding the management of risks and/or failure of staff to take reasonable care in identifying and treating risks in the workplace may result in disciplinary action.*
- 4.8 *The Council is committed to the concept and resourcing of risk management.*
5. *Monitor and Review*
- 5.1 *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.*
- 5.2 *Significant or extreme risks will be reported to the Audit and Risk Management Committee and reviewed to determine appropriate treatments or whether to continue with the activity or service from which the risk arises.*

## **Summary of Procedures**

### **Scope**

The Risk Management Guidelines cover, but not be limited to, the following areas of Council activity:

#### **Asset Risks**

- Theft, vandalism, fire, water or vehicle damage.
- Water or vehicle damage.
- Computer virus, power or water outage.
- Footpath and road hazards.
- Failure to adequately insure buildings, property and contents.
- Failure to plan and manage the financial lifecycle of the asset.

#### **Community Health, Safety and Wellbeing Risks**

- Natural disaster or terrorist attack
- Fire, criminal activity, civil unrest
- Fuel crisis
- Injuries to public on / in public buildings / equipment
- Transmission of airborne contaminants hazardous to health

#### **Financial Management Risks**

- Inappropriate use of resources
- Budget blow-out or overpayments
- Fraud or theft
- Loss of funds from virus, hacking or other means.

#### Corporate Governance Risks

- Not providing lawful services or functions
- Not fulfilling strategic/ operational goals
- Electoral campaign breaches
- Failure to uphold local laws
- Corruption and bribery
- Misuse of confidential information
- Non-compliance with lawful orders
- Failure to declare interests
- Effective project planning and management
- Failure to be informed of relevant changes to legislation
- Appointment / retention of key Staff
- Conduct of Members and key staff

#### Human Resources Risks

- Inappropriate / difficult human behaviour
- Inadequate staffing levels/retention of staff
- Alcohol, drug, tobacco use
- Skills and knowledge management
- Industrial Action
- Poor performance or productivity
- OSH act breaches / Worker injury
- Sexual harassment / discrimination/ bullying
- Professional indemnity

#### Knowledge Management Risks

- Misuse of public data / privacy issues
- Internet / e-mail / social media misuse
- Loss of corporate knowledge ie staff turnover
- Misuse of council information
- Poor archiving practices
- Non-compliance with record act

#### Legal Compliance Risks

- Statutory law breaches
- Copyright or trade practice breaches
- Trade practice breaches
- Wages, benefits, working hours not regulated
- Potential public liability claims eg. Public access, egress and safety.
- General litigation

#### Business Continuity Risks

- Disruption to operations
- Inability to conduct 'business as normal'
- Staff absenteeism
- Changes to staff roles and responsibilities
- Continuity of essential operations, functions, internal support services or vital community services
- Failure of information systems
- Failure of communication systems
- Failure to successfully deliver major projects

#### Damage to Reputation Risks

- Adverse publicity or Shire media attention
- Loss of community support
- Managing public complaints
- Very high level of public embarrassment
- Breakdown in communication/ consultation with community.

#### ***Shire Approach to Risk Management***

The Council and Management Team will apply the risk management principles to the Governance of the Shire and ensure the relevant information is available to minimise risks in all decision making and planning.

Effective risk management is based on a structured approach to the management of risk that emphasises a proactive rather than a reactive response. Operational risks must be managed during day to day operations to ensure objectives are achieved and unnecessary exposure to risk is minimised.

Management of risk will be addressed in the following order:

- Eliminate the risk wherever possible. For example, avoiding the risk by deciding not to start or continue with the activity that gives rise to the risk or removing the source of the risk;
- Transfer the risk, in full or in part, by changing the nature and magnitude of likelihood or the consequences. For example, ensuring that contractors carrying out work for the Shire carry the appropriate public liability insurance;
- Reduce the risk by undertaking hazard analysis, process improvement and risk audits, and developing procedures relating to all the Shire's activities;
- Ensure the Shire carries adequate insurance for the risks remaining; and If significant risk cannot be reduced or eliminated, consider avoiding the activity.
- Guided by the Council's Risk Appetite, the Council may choose to accept the risk.

A risk register has 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 simplistic 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.



### *Strategic Risks*

A Risk Register has been developed and is being maintained for strategic risks. Some project and operational risks are also considered and evaluated, however the Shire has adopted a relatively simplistic 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.

### *Operational Risks*

A Risk Assessment form will be completed for any risk where a risk assessment is deemed appropriate by the Chief Executive Officer or a Manager.

### *Major Projects*

A Risk Assessment form will be completed for any risk where a risk assessment is deemed appropriate by the Chief Executive Officer or a Manager.

### *New Services and Community Events*

All proposals for new services or major community events will have a specific risk assessment undertaken.

### *Council Reports*

There is no requirement for risk assessment details to be reported to the Council for operational matters. A separate 'Risk Assessment' heading will be used where it is deemed appropriate to include in relevant reports to the Council for major projects or events, in particular where an issue has been noted in the Strategic Risk Register.

### *Roles and Responsibilities*

Managing risk is not the responsibility of just one person within the organisation. Managers responsible for areas have the most influence over implementing controls to manage risk, but responsibility also lies with employees who operate within the area.

Risk assessment is a core element of strategic and business planning, and a precursor to specific outcomes such as major procurement, major projects and change programs.

Operational risks will be identified, analysed and managed by the responsible managers in each of the operational areas of Council, however some major projects or activities may require the allocation of specific resources to the risk management process. Budget considerations will necessitate the allocation of funds in order of risk priority.

Key responsibilities have been detailed within the guidelines.



### ***Risk Tolerance Table***

This table is to be used when assessing the potential impact of an activity, issue or strategy. A further risk assessment that may include specialist consultation or research should be conducted in a more formal manner for any element of the above that is perceived to be Major – Extreme.

DESCRIPTION	FINANCIAL	HEALTH	REPUTATION	OPERATION	ENVIRONMENT	COMPLIANCE	PROJECT
<b>Insignificant</b>	<Less than \$20,000	No injuries or illness	Unsubstantiated, low impact, low profile or "no news" item	Little impact	Little impact	Minor breach of policy, or process requiring approval or variance	Small variation to cost , timelines, scope or quality of objectives and required outcomes
<b>Minor</b>	\$20,000 – 100,000	First Aid treatment	Substantiated, low impact, low news item	Inconvenient delays	Minor damage or contamination	Breach of policy, process or legislative requirement requiring attention of minimal damage control	5-10% increase in time or cost or variation to scope or objective requiring managers approval
<b>Major</b>	\$100,000- \$500,000	Medical treatment	Substantiated, public embarrassment, moderate impact, moderate news profile	Significant delays to major deliverables	Environmental damage requiring restitution or internal cleanup	Breach requiring internal investigation, treatment or moderate damage control	10 -20 % increase in time or cost or variation to scope or objective requiring Senior Management approval
<b>Critical</b>	\$500,000 - \$1,000,000	Extensive injuries or disabilities	Substantiated, organisational embarrassment, high impact news profile, third party actions	Non- achievement of major deliverables	Minor Breach of legislation / significant contamination or damage requiring third party assistance	Breach resulting in external investigation or third party actions resulting in tangible loss and some damage to reputation	20 — 50 % increase in time or cost or significant variation to scope or objective requiring restructure of project and Senior Management or Council approval
<b>Extreme</b>	More than \$1,000,000	Death or permanent disabilities	Substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile, third party actions	Non- achievement of major deliverables	Major breach of legislation or extensive contamination and environmental damage requiring third party intervention	Breach resulting in external investigation or third party actions resulting in significant tangible loss and damage to reputation	>50% increase in cost or timeline, or inability to meet project objectives requiring the project to be abandoned or redeveloped.

### Likelihood

The following likelihood table assists you to prioritise risk management activities and should be used in conjunction with this risk tolerance table.

RISK LEVEL	DESCRIPTION	PRESUMPTIONS	FREQUENCY
A	Almost Certain	Expected to occur in most circumstances	More than once per year
B	Likely	Will probably occur in most circumstances	At least once per year
C	Possible	Should occur at some time	At least once in three years.
D	Unlikely	Could occur at some time	At least once in ten years
E	Rare	May occur, only in exceptional circumstances	Less than once in fifteen years.

### Analysis Matrix

This table takes the findings from the Likelihood and Consequences tables and allows you to calculate a potential risk rating. Once treatments are in place, the same process takes place taking into account those treatments being in place. This gives you the residual risk that goes into a risk register, and assists in determining priorities and informs decision making.

Consequence		Insignificant 1	Minor 2	Major 3	Critical 4	Extreme 5
Likelihood						
Almost Certain	A	H	H	E	E	E
Likely	B	M	H	H	E	E
Possible	C	L	M	H	E	E
Unlikely	D	L	L	M	H	E
Rare	E	L	L	M	H	H

#### Responsibility Legend

<b>E</b>	<b>Extreme Risk –</b>	<b>Audit and Risk Committee (ARC) Attention</b>
<b>H</b>	<b>High risk –</b>	<b>Senior management attention ARC awareness</b>
<b>M</b>	<b>Moderate Risk –</b>	<b>Management responsibility must be specified</b>
<b>L</b>	<b>Low Risk –</b>	<b>Manage by routine procedures at operational level</b>



### **Assessment of the appropriateness and effectiveness of risk management measures**

For systems and procedures to be effective, they must exist. A Risk Management Policy exists from which other elements 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 is 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.

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 is being 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 \$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.

Effectiveness is assessed through monitoring events and testing controls. The Shire has developed a Strategic Community Plan and reports to the Council on progress its strategic objectives. The Shire is making good progress towards meeting strategic objectives.

An analysis of events by risk category for the last two years is as follows:

Risk Types	Events in the last two years
<b>Asset Risks</b>	
Theft, vandalism, fire, water or vehicle damage.	Several break-ins at refuse sites each year. A mobile phone was stolen from the Kamballup refuse disposal site in mid 2018. The phone was used to gain access to the internet, resulting in excessive bills, which were reduced by Telstra to \$7,700.00. Additional security measures have been implemented for mobile devices to limit such activity in the event of theft.
Computer virus, power or water outage.	No significant events
Footpath and road hazards.	There have been four incidents in the past year on footpaths. Two of which resulted in broken bones (wrist) to members of the public but neither were formally reported or involved any claims. The other two were 1st aid injuries only.
Failure to adequately insure buildings, property and contents.	No significant events or claims. (In 2016/2017 there were 3 property claims and 2 motor vehicle claims. In 2017/2018 there were 2 property claims and 4 motor vehicle claims.
Failure to plan and manage the financial lifecycle of the asset.	Some Shire buildings, such as Mitchell House, Frost Park sheep pavilion and the old recreation centre part of the CRC building have had some issues, which ideally should have had earlier intervention. A recent condition assessment report into the Mount Barker Memorial Swimming Pool also indicated that the associated buildings were showing signs of structural damage and ablution facilities were inadequate for current building requirements. The plant room equipment was assessed as aged with mostly limited life expectancy.  Better asset management planning will help alleviate this in future. The Council is in the process of investigating an upgrade to the swimming pool buildings.
<b>Community Health, Safety and Wellbeing Risks</b>	
Natural disaster or terrorist attack	No events
Fire, criminal activity, civil unrest	There were 43 fires in the 2016/2017 season and 39 in the 2017/2018 fire season, with a mix of ignition causes including lightning strikes, escaped private burns, agricultural machinery, farming activities. These numbers do not contain the three (it is thought) escaped private burns that occurred in late May in the extraordinary weather event. Brigades also assisted the City of Albany with that major event. With this event the restricted burning time was extended twice until early June. Annual maintenance of strategic firebreaks around town sites and major reserves continue to be a key focus point for the Shire. Hazard reduction work on unallocated crown land within town sites also attended to in co-operation with the Department of Fire and Emergency Services. A hazard reduction program weather permitting is also implemented on an annual basis.
Fuel crisis	No events

Injuries to public on / in public buildings / equipment	No significant events or claims. In 2016/2017 there was 1 public liability claim. In 2017/2018 there were 4 public liability claims.
Transmission of airborne contaminants hazardous to health	Two asbestos dumping issues in 2016/17 and one issue in 2017/18. Further, a number of people suffer from allergies from pollen.
<b>Financial Management Risks</b>	
Inappropriate use of resources	No events
Budget blow-out or overpayments	There was an issue associated with the inadequate funds budgeted for the O'Neill Road (Albany Hwy - Slip Lane) and Langton Road (Lowood Road to Marmion Street) projects. Purchasing practices have been tightened, particularly relating to use of panel tenders. While our systems are robust, from time to time mistakes and anomalies will occur. In these instances, our systems highlighted the inaccuracies, actions were taken and rectification undertaken.
Fraud or theft	No events
<b>Corporate Governance Risks</b>	
Not providing lawful services or functions	No events
Not fulfilling strategic / operational goals	No significant events
Electoral campaign breaches	No events
Failure to uphold local laws	No events
Corruption and bribery	No events
Misuse of confidential information	No known events
Non-compliance with lawful orders	No known events
Failure to declare interests	No known events
<b>Human Resources Risks</b>	
Inappropriate / difficult human behaviour	No significant events
Inadequate staffing levels/retention of staff	Some 'pinch points' have been identified, particularly in the areas of strategic planning and asset management.  Recent decisions by the Fair Work Commission in relation to casual employees have necessitated a review of casual staff employed by the Shire. Three positions have been transitioned to permanent part time.
Alcohol, drug, tobacco use	No significant events
Skills and knowledge management	No significant events
Industrial Action	No events
Poor performance or productivity	No significant events
OSH act breaches / Worker injury	2016/17 - 12 accidents, 7 incidents, 3 hazards, 166 LTI days. 2017/18 - 17 accidents, 23 incidents, 8 hazards, 21.5 LTI days.
Sexual harassment / discrimination / bullying	An issue of bullying has been raised within the Works and Services Department. This matter was dealt with.
Professional indemnity	No events
<b>Knowledge Management Risks</b>	
Misuse of public data / privacy issues	No significant events
Internet / e-mail / social media misuse	No known events



Loss of corporate knowledge ie staff turnover	No significant events
Misuse of council information	No known events
Poor archiving practices	Improvements to archiving situation with transfer of archives to a dedicated (VROC) repository.
Non-compliance with State Records Act	No known events
<b>Legal Compliance Risks</b>	
Statutory law breaches	No known events
Copyright or trade practice breaches	No known events
Trade practice breaches	No known events
Wages, benefits, working hours not regulated	No events
Potential public liability claims eg. Public access, egress and safety.	No significant events
General litigation	No events.
<b>Business Continuity Risks</b>	
Disruption to operations	No events
Inability to conduct 'business as normal'	No events
Staff absenteeism	No significant events
Changes to staff roles and responsibilities	No significant events
Continuity of essential operations, functions, internal support services or vital community services	No significant events
Failure of information systems	No significant events
Failure of communication systems	No significant events
Failure to successfully deliver major projects	We continue to struggle with a resolution to the Lake Matilda / Red Gum Pass roads intersection project. The delay is not of our doing directly because we are beholden to the PTA to give permission for the subdivision to proceed before we can start works. No financial impact of note but there is some ongoing embarrassment because the funding was supplied by the Blackspot program.
<b>Damage to Reputation Risks</b>	
Adverse publicity or Shire media attention	No significant events
Loss of community support	No known events
Managing public complaints	No significant events
Very high level of public embarrassment	No significant events
Breakdown in communication/ consultation with community.	No significant events



This 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.