



# Audit and Risk Committee Minutes - 27 March 2024

GORDON MACMILE  
CHIEF EXECUTIVE OFFICER

## Acknowledgement of Country

We wish to acknowledge the traditional custodians of the land we are meeting on, the Wadandi people. We wish to acknowledge and respect their continuing connection to the land, waters and community.

We pay our respects to all members of the Aboriginal communities and their culture; and to Elders past and present, their descendants who are with us today, and those who will follow in their footsteps.

## Our Vision

*A lifestyle of choice; connecting community, culture and country.*

## Our Values



### H Honesty

We are respectful in all that we do, and all interactions we have, whilst being inclusive and mindful of differences.



### E Empathy

We are kind and show understanding of peoples circumstances, perspectives and differences.



### A Accountability

We are transparent in all that we do, and stay true to our word by taking responsibility for our actions.



### R Respect

We are respectful in all that we do, and all interactions we have, whilst being inclusive and mindful of differences.



### T Teamwork

We are cooperative, collaborative and united while working towards common goals of our Shire.



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## 1. Declaration of Opening/Announcement of Visitors

The Presiding Member (Deputy Chair) opened the meeting at 3.00pm and made the following Acknowledgement of Country and statement:

*'We wish to acknowledge the traditional custodians of the land we are meeting on, the Wadandi people. We wish to acknowledge and respect their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their culture; and to Elders past and present, their descendants who are with us today, and those who will follow in their footsteps.'*

## 2. Record of Attendance/Apologies/Leave of Absence (Previously Approved)

### PRESENT:

Councillor - Deputy Chair	R Mogg
Councillor	D Kitchen
Councillor	A Dillon
Councillor	C Terrantroy
Doctor	K Parker
Chief Executive Officer	G MacMile
A/Director Infrastructure and Development	S Price
Director Community and Corporate Strategic Governance and Risk Coordinator	S Chamberlain
Manager Finance	T Shipley
Accountant	A Mattaboni
Governance Officer	J Kosareff
Governance Support Officer	A Lorrimar
	B Facey

### GUEST

Councillor	T Sharp
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### LEAVE OF ABSENCE:

Councillor (Chair)	P McCleery
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### APOLOGIES:

Director Infrastructure and Development	T Gillett
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### MEMBERS OF PUBLIC - Gallery:

0



### 3. Public Question Time

Nil

### 4. Confirmation of Minutes

#### 4.1. Audit and Risk Committee Minutes - 13 December 2023

#### Voting Requirements

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Simple Majority

**AC/2024/1 - Officer's Recommendation / Committee Decision - 4.1**

*Moved Cr Terrantroy, Seconded Cr Dillon.*

**That the Minutes of the Audit and Risk Committee Minutes - 13 December 2023 be confirmed as a true and correct record.**

**Carried 5 / 0**

*For - Cr Dillon, Cr Kitchen, Cr Mogg and Cr Terrantroy, Dr Parker*

*Against - Nil*



## 5. Reports

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### 5.1. Compliance Audit Return 2023

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<b>Author</b>	Governance Officer, Amanda Lorrimar
<b>Authorising Officer</b>	Director Community and Corporate Services, Samantha Chamberlain
<b>Nature of the Decision</b>	Legislative Review
<b>Attachments</b>	1. CAR 2023 [5.1.1 - 10 pages]
<b>Confidential Status</b>	<i>This item is not a confidential matter.</i>

#### Proposal

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Review and accept the 2023 Compliance Audit Return (CAR), and recommend to Council.

#### Officer's Recommendation

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That the Audit and Risk Committee:

1. Receives the completed 2023 Compliance Audit Return.
2. Recommends the 2023 Compliance Audit Return to Council for adoption as the official Shire of Capel return at the Ordinary Council Meeting 27 March 2024.

#### Background

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Local governments throughout Western Australia are required to complete and submit an annual CAR to the Department of Local Government Sport & Cultural Industries (DLGSC).

The CAR is a self-assessment questionnaire designed to test the level of statutory compliance within each local government.

The key areas of focus for the 2023 CAR are:

- Commercial enterprises by local governments.
- Delegation of power/duty.
- Disclosure of interest.
- Disposal of property.
- Elections.
- Finance.
- Integrated planning & reporting.
- Local Government Employees.
- Official conduct.
- Optional questions (9).
- Tenders for providing goods and services.

Upon receipt of the 2023 CAR, the questionnaire was distributed to those Officers with direct relevance to the targeted areas. Officer responses were then placed into a draft format and presented for preliminary review by the Council and Audit Committee members in late February.



This extra step in the process this year, was necessary to allow adequate time for consideration, and any queries, or potential amendments to occur, prior to the 27 March 2024 meetings of both Audit and Risk Committee and Council.

With both meetings held in succession so close the deadline for submission of the official response 31 March 2024, it was important that the content of the 2023 CAR presented to the Audit and Risk Committee and Council for endorsement, was settled.

Following Council endorsement and execution by the Shire President and Chief Executive Officer, the certified Shire of Capel 2023 CAR, and an extract of the Council meeting minute at which it was endorsed, will be submitted to the DLGSC portal by 31 March 2024.

#### Previous Audit and Risk Committee Decisions

Special Audit and Risk Committee Meeting 15 March 2023.  
Committee decision – 6.1 AC007/2023.

### **Decision Framework**

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#### **Shire of Capel Strategic Community Plan 2023-2033**

Direction 4 - Deliver good leadership, governance and decision-making:  
4.1 Effective and compliant governance.

#### **Corporate Business Plan 2023-2027**

GOV 11 - **Legislative Compliance Management** - Oversee the achievement of compliance audit return.

### **Statutory Framework**

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#### **State Framework**

*Local Government Act 1995*

#### **Regulations as to audits**

- (1) *Regulations may make provision –
  - (i) Requiring local governments to carry out, in the prescribed manner and in a form approved by the Minister, an audit of compliance with such statutory requirements as are prescribed whether those requirements are
    - (i) of a financial nature or not: or
    - (ii) under this act or another written law*

*Local Government (Audit) Regulations 1996*

#### **14 Compliance Audits by Local Governments**

- (1) *A local government is to carry out a compliance audit for the period 1 January to 31 December in each year.*
- (2) *After carrying out a compliance audit, the local government is to prepare a compliance audit return in a form approved by the minister.*
- (3A) *The local government's audit committee is to review the compliance audit return and is to report to the council the results of that review.*



- (3) After the audit committee has reported to the council under sub-regulation (3A), the compliance audit return is to be:
  - (a) presented to the council at a meeting of the council, and
  - (b) adopted by the council, and
  - (c) recorded in the minutes of the meeting at which it is adopted

**15 Certified copy of compliance audit return and other documents to be given to Departmental CEO**

- (1) After the compliance audit return has been presented to the council in accordance with regulation 14(3), a certified copy of the return together with -
  - (a) A copy of the relevant section of the minutes referred to in 14(3)(c), and
  - (b) any additional information explaining or qualifying the compliance audit, (3A) The local government’s audit committee is to review the compliance audit return and is to report to the council the results of that review, is to be submitted to the Department CEO by 31 March next following the period to which the term relates.
- (2) In this regulation – certified in relation to a compliance audit return means signed by –
  - (a) the mayor or president; and
  - (b) the CEO.

*Local Government Act 1995, (Act s. 7.13(1)(i)) Local Government (Audit) Regulations 1996 13*

**Federal Framework**

There are no federal frameworks relevant to this item.

**Policy Framework**

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The following Shire Policies apply:

- Compliance.
- Purchasing.

**Implications**

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**Risk Implications**

Risk	Likelihood	Consequence	Mitigation
<b>Risk 1</b> Legislative Compliance  <b>Rating: Medium</b>	Rare	Moderate	Apply compliance practices as legislated.
<b>Risk Description:</b> Serious breach of legislated compliance			





Risk	Likelihood	Consequence	Mitigation
<b>Risk 2</b> Reputation Rating: <b>Medium</b>	Possible	Moderate	Alignment and commitment to meeting compliance through clear processes and procedures.
<b>Risk Description:</b> Loss of community trust			
<b>Risk 3</b> Financial Rating: <b>Low</b>	Possible	Moderate	Increased focus on training and awareness for staff.
<b>Risk Description:</b> Budget impact through compliance failure			
<b>Opportunity:</b> Audits help to mitigate risk by identifying areas of improvement in the compliance processes and procedures.			

### Financial Implications

#### Budget

There are no financial implications relevant to this proposal.

#### Long Term

As no assets/infrastructure are being created, there are no long-term financial implications relevant to this proposal.

### Sustainability Implications

#### Climate Change and Environmental

There are no relevant climate change and environmental implications relevant to this item.

#### Social

Continued legislative compliance meets the community's expectation of effective governance and contributes to the social and economic sustainability of the Shire.

#### Economic

The assessments and reviews undertaken through the completion of the annual CAR test and strengthen the internal processes that deliver sound economic governance.

#### Asset

There are no relevant asset implications relevant to this item.



## Consultation/Engagement

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### External Consultation

There was no external consultation undertaken.

### Internal Consultation

Contribution to the process of consultation, review, and response to the 2023 CAR, was undertaken by the: Chief Executive Officer, Director of Community and Corporate, Manager of Finance, Strategic Governance and Risk Coordinator, Procurement Officer, and Governance Officer.

### Officer's Comment

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The 2023 CAR contains two areas of non-compliance.

The first area of non-compliance falls under the disclosure of interest section, Question 5, s5.76 Admin reg 23, form 3 asks; "Was an annual return in the prescribed form lodged by all relevant persons by 31 August 2023." The answer is no, two returns were not received by the due date. The late returns were eventually received on 09/09/23 and 16/09/23 constituting a serious breach that was reported to the DLGSC as required under legislation. While the Attain system has simplified the process for the completion of Annual Returns, an increased focus on training in this area will improve future compliance.

The second instance of non-compliance is noted under the Tenders for Providing Goods and Services section, Question 1 F&G Reg 11A (1) & (3) asks; "Did the local government comply with its current purchasing policy, adopted under the Local Government (Functions and General) Regulations 1996, Regulations 11A(1) and (3) in relation to the supply of goods or services where the consideration under the contract was, or was expected to be, \$250,000 or less or worth \$250,00 or less." The answer to this question is also negative due to an instance where a staff member failed to obtain the required number of quotations applicable for the \$5,001 - \$20,000 threshold.

The breach was discovered through scrutiny of the invoices assigned to the relevant task.

Improvements to the purchasing and compliance training of staff has been implemented and any repetitive occurrence will be subject to an investigative process.

Through the review and consultation process, all remaining auditable processes and functions as detailed in the CAR were correctly performed and executed.

### Summary

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The internal audit process undertaken to complete the annual CAR, tests the procedural processes and application of the statutory compliance systems within the organisation and provides opportunities for improvement where necessary.

The two areas of non-compliance, as detailed above, do indicate where additional training is required to mitigate future acts of misconduct in these areas.



## Voting Requirements

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Simple Majority.

### Officer's Recommendation – 5.1.

#### **AC/2024/2 - Officer's Recommendation / Committee Decision – 5.1**

*Moved Cr Terrantroy, Seconded Cr Kitchen.*

**That the Audit and Risk Committee:**

- 1. Receive the completed 2023 Compliance Audit Return.**
- 2. Recommend the 2023 Compliance Audit Return to Council for adoption as the official Shire of Capel return at the Ordinary Council Meeting 27 March 2024.**

**Carried 5/0**

*For - Cr Dillon, Cr Kitchen, Cr Mogg and Cr Terrantroy, Dr Parker*

*Against - Nil*



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## 5.2. Corporate Risk Register Quarterly Report

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<b>Author</b>	Strategic Governance and Risk Coordinator, Tahlia Shipley
<b>Authorising Officer</b>	Director Community and Corporate Services, Samantha Chamberlain
<b>Nature of the Decision</b>	Legislative Review
<b>Attachments</b>	1. Corporate Risk Register [5.2.1 - 2 pages]
<b>Confidential Status</b>	<i>This item is not a confidential matter.</i>

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### Proposal

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Note and endorses the Shire's Corporate Risk Register and consider risk mitigation treatments.

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### Officer's Recommendation

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That the Audit and Risk Committee:

1. Endorses the Corporate Risk Register Actions; and
2. Supports the Administration in reformatting the Accounts Paid report in the Ordinary Council Meeting Agendas to lower the risk of a cyber fraud situation occurring.

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### Background

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The Council adopted the Risk Management Framework at the Ordinary Meeting of the Council on 30 March 2022.

The Regulation 17 review identified the need to report the Shire's Corporate Risk Register to the Audit and Risk Committee, seeing reports presented on a quarterly basis.

#### Previous Council Decision:

Audit and Risk Committee Meeting – 20 December 2023 - The Audit Committee noted and endorsed the Shire's Corporate Risk Register and mitigation treatment for an additional FTE to be considered within the Workforce Plan, following a workshop with Council.

Ordinary Council Meeting 31 January 2024 (OC/2024/22) - Council endorsed the register and subject to more information and briefings, consider the inclusion in the Shire's 2024-2028 Workforce Plan.



## Decision Framework

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### Shire of Capel Strategic Community Plan 2023-2033

Direction 4 - Deliver good leadership, governance, and decision-making:

4.1 Effective and compliant governance.

4.2 Informed and transparent decision making.

### Corporate Business Plan 2023-2027

GOV 8 - **Risk Management Plan** - Review effectiveness of Risk Management Framework and provide continuous training to the Council and employees.

## Statutory Framework

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### Local Framework

The Shire of Capel Risk Management Framework.

### State Framework

*Local Government (Audit) Regulations 1996*

### 17. CEO to review certain systems and procedures

- (1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to –
  - (1) risk management; and
  - (2) internal control; and
  - (3) legislative compliance.
- (4) 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.

The CEO is to report to the audit committee the results of that review.

### Federal Framework

There are no federal frameworks relevant to this item.

## Policy Framework

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The following Shire Policies apply:

- Risk Management Framework.



**Implications**

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**Risk Implications**

Risk	Likelihood	Consequence	Mitigation
<b>Risk 1</b> Reputation  <b>Rating: High</b>	Possible	Major	The CEO is required to review the Local Government’s systems and procedures in relation to risk management under the <i>Local Government (Audit) Regulations 1996</i> . Quarterly risk reporting will be brought to the Audit and Risk Committee.
<b>Risk Description:</b> Failure to identify the Shire’s risks in an open and accountable way.			
<b>Risk 2</b> Legislative Compliance  <b>Rating: Medium</b>	Possible	Major	The CEO is required to review the Local Government’s systems and procedures in relation to risk management under the <i>Local Government (Audit) Regulations 1996</i> . Quarterly risk reporting will be brought to the Audit and Risk Committee.
<b>Risk Description:</b> Failure to understand and meet legislative requirements.			
<b>Opportunity:</b> To meet requirements of risk reporting and provide the Audit and Risk Committee an opportunity to provide input and identify solutions to mitigate Shire risks.			

**Financial Implications**

Budget

Budgetary impacts related to the resourcing of risk mitigation requirements are considered within the 2023-27 Corporate Business Plan (year 3 build) and included in the 2023-24 Annual Budget preparation. The attached Risk Register also identifies the required mitigation strategies.

For this quarterly report, no further financial considerations are required to support the Officer’s Recommendation relating to the reformatting of the Accounts Paid report to Council.

Long Term

As no assets/infrastructure are being created, there are no long term financial implications relevant to this proposal.

**Sustainability Implications**

Effective identification, assessment, management, and mitigation of risks are essential for all aspects of strategic and operational sustainability of the Shire of Capel.

**Consultation/Engagement**

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**External Consultation**

No external consultation is required.



## Internal Consultation

Consultation has been undertaken with some members of Shire's Management Team and Executive Management Team.

## Officer Comment

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A Risk Register is a tool used in risk management to identify, assess, and track potential risks that may affect a project or organisation.

This report and the attached Corporate Risk Register is the third iteration of the quarterly Corporate Risk Register reports to the Audit and Risk Committee. The register will be provided to Council with any recommendations that may need to be considered by the Council.

The Corporate Risk Register is a live and evolving tool, so the quarterly reporting will provide Officers an opportunity to report to the Audit and Risk Committee, and the Council, on the progress of risk mitigation and identified risk related resource requirements. A change has been made to show that the items being removed have been highlighted in red and the new additions / amendments are made in bold format for clarity to the Committee.

The mitigations that are current or anticipated are sourced from the Shire's Corporate Business Plan (CBP) and business as usual actions. The risk reporting will help identify elements that may be missing or are not as effective as initially anticipated.

The current Officer's Recommendation includes the necessity to embed a higher level of confidentiality for our Accounts Paid report to Council. This has previously been raised with the Council due to potential risks of cyber fraud with the content of Creditor details and financial information being shared externally. However, following a discussion with Council, this was not supported as concerns was raised around ensuring there was transparency of financial transaction reporting to the community.

Following a recent discussion with the Shire's insurance provider (Local Government Insurance Services – LGIS), they have advised that the current coverage for social engineering fraud definition is as follows:

*"i) an act or acts by a fake person, acting alone or in collusion with others, of taking your property, money, or securities with the intention of permanently depriving you of its uses, which is committed by means of that fake person deceiving an employee into transferring, paying, or delivering that property, money, or securities; or*

*ii) a computer crime which involves a person other than an employee deceiving an employee into providing a security detail for operating or having access to an account held by you with a bank or any other financial institution."*

The result of the above being the Shire only has a \$75,000 financial fraud cover, minus the member retained risk payment of \$15,000 that the Shire would need to pay. Therefore, in the case of a cyber security risk with an account paid, the Shire can only retrieve (from LGIS) a total payment of \$60,000 irrespective of the amount paid to the fraudulent offender.

The Shire's Accounts Paid report includes major payments that are at risk of cyber security due to the nature of information being publicly available. If an event were to occur where the Shire experiences a cyber breach, then the Shire could be at a major financial loss.



A recent review of the number payments exceeding the \$60,000 in the Accounts Paid report totalled 9, with some payment values exceeding \$250,000.

For this reason, the Officer's Recommendation includes the support from the Audit and Risk Committee to lower this financial risk by attaching the Account Paid transactions as a confidential attachment rather than being shared in the main body of the Accounts Paid report.

It is acknowledged that this would lower the transparency of the payments made, however, there could be an option of making the accounts paid available on a viewing capacity to the public on request.

For the remainder of the Risk Register, it is important to note there are several 'high' and 'extreme' residual risk ratings identified. The following commentary has been provided on these:

**Risk 2: Failure to recruit and retain the organisational workforce.**

**Change: No change to rating**

Reason: Local Government industry is unable to provide a competitive market based on the Local Government Award and Salary restrictions. The Shire of Capel being a band 3 Local Government, inhibits the Shire's opportunity to compete with larger surrounding LGs in relation remuneration and attraction packages.

Staff recruitment and retention remains an issue for the organisation, seeing staff attraction and retention not stabilise for some time. Some factors driving this instability remains out of the Shire's control but does put an increased and continual pressure on the Organisational Development Team to provide ongoing recruitment and retention support across the organisation, in a bid to develop new strategies to attract new talent to the organisation.

The turnover is due to industry challenges and external employee markets within recruitment (specifically technical based positions). Failure to recruit these roles has increased pressure on existing staff, partially resulting in a higher turnover rate.

The Executive Management Team have commenced a business performance and service level review to identify the Shire's key resourcing and performance gaps / challenges across the organisation. The outcomes from this review will inform key strategic documents such as the Workforce Plan, allowing Officers and Councillors to reach a conjoined opinion on the future resourcing requirements of the organisation.

The Workforce Plan is due to come to Council in April, which will include recruitment and retention strategies that Organisational Development is undertaking or intending to achieve. It will also include future and recently actioned proactive approaches on how the organisation is approaching recruitment.





**Risk 5: Failure to comply with new Statutory & Regulatory Requirements and provide good governance.**

**Change: Change from High to Medium.**

Reason: The current changes in legislation require education to the community and organisation. All staff are required to comply with good governance. However, due to changes in legislation, with the current resourcing challenges, the ability to ensure the whole workforce is well trained in all aspects of good governance, continues to pose a challenge, especially if the workforce is transient.

There has been additional resourcing provided to the finance team which has assisted in the workload across the team. The Governance team still have not received their additional support due to resourcing challenges, however, hope to recruit by the end of financial year.

Both teams provide high priority to keeping up to date with changes that occur in the sector with briefings and updates from external agencies.

**Risk 7: Inadequate management of work, health, and safety (WHS) requirements.**

**Change: No change to rating.**

Reason: Changes in legislation in the current requirements for robust work, health and safety practices has increased the opportunity for areas of non-compliance.

There are still some challenges with WHS in the Shire, most recently due to the recent resignation of the Work Health and Safety Advisor.

However, there is still improvements that have been made in revised inductions for volunteers and contractors have provided the Shire with more confidence in the knowledge and abilities of those undertaking roles for the Shire.

Significant work with the staff has been undertaken to ensure understanding and compliance with the legislation.

There is still further work to commence relating to procedures and training. However, there has been substantial improvement.

**Risk 10: Failure to provide long term waste management services.**

**Change: No change to rating.**

Reason: Waste management is a sector wide issue; current Southwest Waste facilities are reaching their capacity, and a long-term solution has not been identified. Additionally, current costs of waste services are increasing.

There are initiatives for Southwest Councils to work together to find solutions, such as the recent joint tendering process the Shire has been engaged in. However, there is yet to be a long-term solution to waste disposal and management.



Following the budget adoption for 2023-24, the requirement from Council to develop a Waste Strategy has been included within the CEO's Key Performance Indicators. This is proposed to be completed for April 2024, following the understanding and endorsement of the Strategy there should be more indication of future risk identification.

**Risk 11: Failure to provide sufficient Information Communication Technology (ICT) & Enterprise Resourcing Program (ERP) support.**

**Change: No change to rating.**

Reason: There are substantial costs associated with a new ERP system. Staff have been working on an extensive process to understand the Shire's technological requirements in a new ERP system. However, there are significant challenges to ensure a cost-effective and service-oriented final product that meets the needs of the community and the organisation now and into the future.

**Risk 12: Failure to provide emergency management and business continuity in a disaster.**

**Change: No change to rating**

Reason: The risk is identified as high due to unpredictability of disasters and emergencies. The amendment of likelihood from possible to unlikely speaks to the Shire's risk of not mitigating and acting within a disaster. The lower likelihood was given as the Shire undertakes work through communication and the development of strategies and procedures.

Meetings between the Bush Fire Advisory Committee, Local Emergency Management Committee, Bush Fire Captains, Executive Management Team, and the Management Team provide an opportunity and forum to raise awareness for potential risks within this area.

The recent Local Emergency Management Committee Meeting discussed some future opportunities for training and planning for potential emergency scenarios that may occur.

There is still further work to be done in business continuity and community support to mitigate associated risks.

The attached Corporate Risk Register is a live document, and Officers welcome the Committee and Council's feedback.

Future updates to the Corporate Risk Register will be presented to the Audit and Risk Committee meetings, then presented at the following Ordinary Meeting of Council.

## **Summary**

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The Council can consider the current identified risks on the Corporate Risk Register for consideration of future risk mitigation opportunities.

## **Voting Requirements**

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Simple Majority.



**Officer's Recommendation – 5.2.**

*Moved Cr Dillon, Seconded Cr Terrantry.*

**That the Audit and Risk Committee:**

- 1. Endorse the Corporate Risk Register Actions; and**
- 2. Support the Administration in reformatting the Accounts Paid report in the Ordinary Council Meeting Agendas to lower the risk of a cyber fraud situation occurring.**

**AC/2024/3 - Amendment / Committee Decision – 5.2**

*Moved Dr Parker, Seconded Cr Terrantry.*

**To remove point 2 of the substantive recommendation and replace with the following:**

**“Request the CEO investigate options to protect the Shire from fraud in respect to the publication of accounts payable and present options for Councils consideration.”**

**Carried 5 / 0**

*For - Cr Dillon, Cr Kitchen, Cr Mogg and Cr Terrantry, Dr Parker*

*Against - Nil*

*The amendment became the substantive motion.*

**AC/2024/4 – Amended Recommendation / Committee Decision – 5.2**

*Moved Dr Parker, Seconded Cr Terrantry.*

**That the Audit and Risk Committee:**

- 1. Endorse the Corporate Risk Register Actions; and**
- 2. Request the CEO investigate options to protect the Shire from fraud in respect to the publication of accounts payable and present options for Councils consideration.**

**Carried 5 / 0**

*For - Cr Dillon, Cr Kitchen, Cr Mogg and Cr Terrantry, Dr Parker*

*Against - Nil*



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### 5.3. Quarterly Summary - Regulation 17 Internal Audit Progress Report

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<b>Author</b>	Director Community and Corporate Services, Samantha Chamberlain
<b>Authorising Officer</b>	Chief Executive Officer, Gordon MacMile
<b>Nature of the Decision</b>	Review
<b>Attachments</b>	Nil
<b>Confidential Status</b>	<i>This item is not a confidential matter.</i>

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#### Proposal

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Receive the quarterly Regulation 17 Progress Report, noting the stated observations / recommendations under risk management, internal controls and legislative compliance are being implemented appropriately and in a timely manner.

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#### Officer's Recommendation

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That the Audit and Risk Committee perform its role set out in Regulation 16 of the *Local Government (Audit) Regulations 1996* to receive and review the quarterly Regulation 17 Progress Report.

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#### Background

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Regulation 17 of the *Local Government (Audit) Regulations 1996* (Reg 17) requires the Chief Executive Officer to review the appropriateness and effectiveness of the local government's systems and procedures in relation to risk management, internal controls, and legislative compliance.

A legislative amendment in 2018 changed the requirement for these reviews to be completed no less than once every three financial years.

Since this time, the Shire has conducted Reg 17 reviews in November 2014, April 2016, September 2018, and May 2022. Following each audit, Officers review the findings and prioritise observations and recommendations based on risk and allowable resources.

Auditors Assurance Advisory Group (AAG) were appointed on 11 April 2022 to conduct an independent and comprehensive audit of the Shire's risk management, internal control and legislative compliance with a draft report presented to Officers for consideration.

The draft report was reviewed, and management comments were provided by the Director Community and Corporate, Manager Finance and Strategic Governance and Risk Coordinator. The report was finalised by AAG on 2 June 2022 and presented to the Audit and Risk Committee on 29 June 2022.

The report highlighted the strong progress made by the Shire since the 2018 Reg 17 Audit and provided further recommendations for the Shire to improve systems and processes.



This is summarised in the following executive summary:

“In Summary, the audit identified that significant progress has been made by the Shire of Capel since the previous Regulation 17 Audit conducted in 2018. While there are findings in this report, they are predominantly of an improvement nature rather than indicators of breakdowns of controls or material non-compliance.”

Following the auditor’s report being endorsed at the June 2022 Audit and Risk Committee, Officers are actioning works for each observation and the progress is reported through the quarterly progress reports to the Audit and Risk Committee.

An Alternative Motion adopted at the Audit and Risk Committee on 21 December 2022 directed Officers to include resourcing requirements for each observation and this detail has been included in the quarterly reporting format.

The review of resourcing requirements has identified 6 observations that require resourcing during 2023-24 and beyond and these observations will be included in the Shire’s 2024-2028 Corporate Business Plan and subsequent funding allocations linked to the Shire’s future budgets.

Officers will provide progress reports at each Audit and Risk Committee meeting with the reporting format remaining the same for tracking purposes.

#### Previous Council Decisions

Audit and Risk Committee Meeting 13 December 2023 - AC017/2023 – Officer’s Recommendation / Committee Decision 7.5 the Committee carried the following:

‘That the Audit and Risk Committee performs its role set out in Regulation 16 of the Local Government (Audit) Regulations 1996 to receive and review the quarterly Regulation 17 Progress Report.’

#### **Decision Framework**

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##### **Shire of Capel Strategic Community Plan 2023-2033**

Direction 4 - Deliver good leadership, governance, and decision-making.

- 4.1 Effective and compliant governance.
- 4.2 Informed and transparent decision making.

##### **Corporate Business Plan 2023-2027**

FIN 32 - Biannual review of all internal systems and processes for compliance, efficiency, and effectiveness.



## Statutory Framework

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### State Framework

#### Local Government (Audit) Regulations 1996

16. An audit committee has the following functions –

(c) To review a report given to it by the CEO under regulations 17(3) (the CEO’s report) and is to –

(i) report to the council the results of that review; and

(ii) give a copy of the CEO’s report to the Council;

(d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under –

(i) regulation 17(1);

(f) to oversee the implementation of any action that the local government –

(iii) has accepted should be taken following receipt of a review conducted under regulations (17).

17. CEO to review certain systems and procedures

(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 related 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.

## Policy Framework

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- Risk Management Framework.
- Internal Controls.
- Legislative Compliance.
- Fraud and Misconduct.

## Implications

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### Risk Implications

Risk	Likelihood	Consequence	Mitigation
<b>Risk 1</b> Legislative Compliance  <b>Rating: Medium</b>	Unlikely	Moderate	<ul style="list-style-type: none"> <li>• Progress reporting to the Audit Committee.</li> <li>• Corporate Business Plan Action.</li> <li>• External Audit recommendations.</li> </ul>
<b>Risk Description:</b> Failure to complete the audit process required under the Local Government Act Regulations.			



Risk	Likelihood	Consequence	Mitigation
<b>Risk 2</b> Reputation  Rating: <b>Medium</b>	Unlikely	Major	<ul style="list-style-type: none"> <li>• Appointment of suitably qualified. professionals to conduct reviews.</li> <li>• Actioning recommendations.</li> <li>• Progress report to the Audit Committee.</li> </ul>
<b>Risk Description:</b> Failure to assess the appropriateness and effectiveness of internal systems and procedures increases risks associated with fraud, misconduct, and reputation.			
<b>Risk 3</b> Financial  Rating: <b>Medium</b>	Unlikely	Major	<ul style="list-style-type: none"> <li>• Appointment of suitably qualified. professionals to conduct reviews.</li> <li>• Actioning recommendations.</li> <li>• Progress report to the Audit Committee.</li> </ul>
<b>Risk Description:</b> Failure to assess the appropriateness and effectiveness of internal systems and procedures increase risks associated with fraud, misconduct, and financial loss.			
<b>Opportunity:</b> The Regulation 17 review provides a great opportunity to evaluate the robustness of the Shire’s internal process and procedures and develop a plan to support constant improvement. This provides organisation wide resilience and efficiencies.			

**Financial Implications**

Budget (Financial Year 2023-24)

Through the review of the observations and recommendations identified during the May / June 2022 Regulation 17 Audit process, costs which require inclusion in the 2023-24 Annual Budget are mapped against observation 5.1.5 – Insurance, noting the cost of revaluing the Shire’s Land and Building Asset base and observation 5.3.2 – Procurement of Asset Management Software.

Since presenting the December 2023 Reg 17 Update to the committee, the above projects are now finalised and noted in the main progress report below.

Long Term Financial Implications

Future budget considerations are detailed against each observation and will be incorporated into budget and long term financial planning documents. Particularly, where tasks are linked to the integration of a new Enterprise Resourcing Platform (ERP) or where physical resourcing requirements are identified through the Shire’s Workforce Planning document.

**Sustainability Implications**

Constant improvement to the Shire’s internal systems and procedures is essential to the sound management of the Shire’s governance framework. This facilitates consistent and equitable decision making, which is essential to create positive social, economic, and environmental impacts in the community.



## Consultation/Engagement

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### External Consultation

Some observations require Officers to undertake consultative processes with other LGs ensuring best practice methodology is included in the actionable requirements.

### Internal Consultation

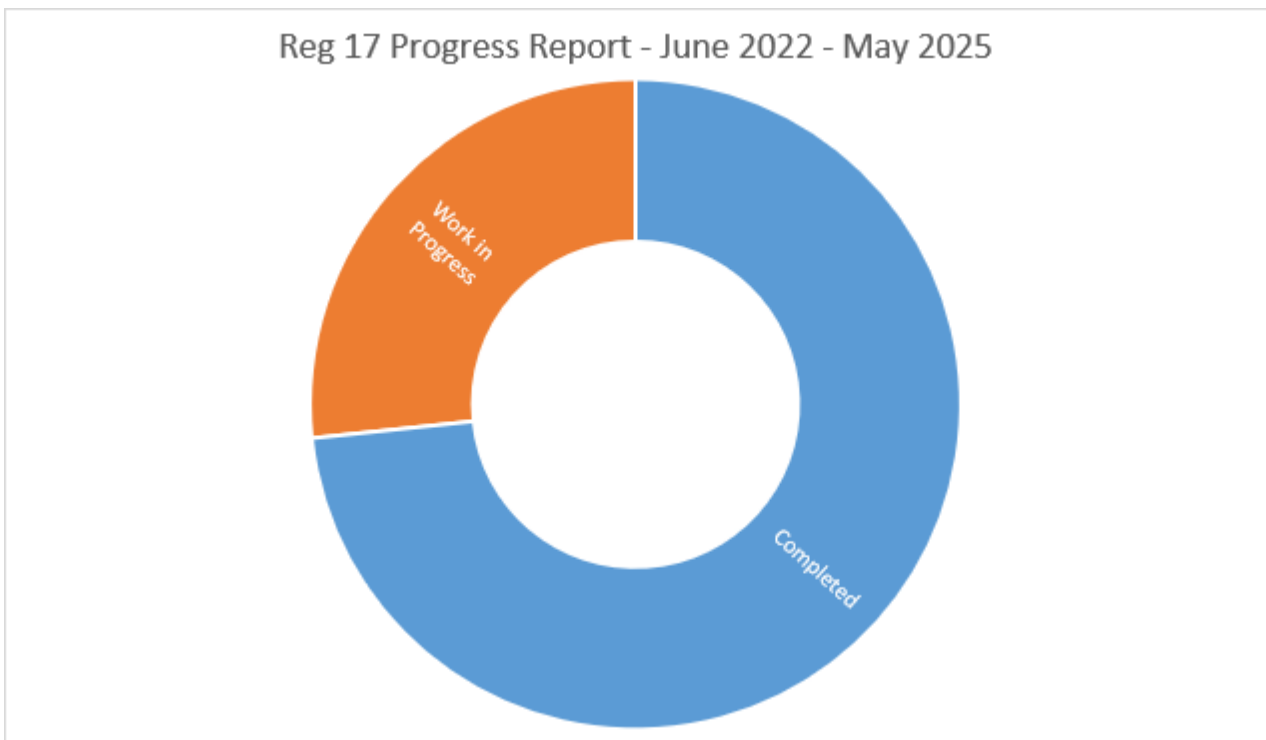
The Executive Leadership Team and Management Team are responsible for attributable observations identified through this review process. The report template identifies the 'Devolved Responsible Officer(s)' tasked with ensuring each action is completed both appropriately and in a timely manner.

### Officer's Comment

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For March 2024 reporting, the Regulation 17 audit progress of actions marked 'Completed' and a 'Work in Progress' is summarised in the below graph:

#### Graph 1.



Since reporting the quarterly progress update in December 2023, Officers have now actioned 11 of the 15 observations and recommendations presented in the final audit report.

The March 2024 Quarterly Progress Report is presented in more detail in the following pages.

Findings / Observations marked '**COMPLETED**' in the progress column are finalised where no further actions are required unless directed otherwise.





**Quarterly Progress Report**

The following table summarises the progress made to date against each of the Regulation 17 Observations:

**5.1 Risk Management**

Observation(s) and Ratings	Recommendations	Management Responses	Progress Report March 2024	Resourcing
<p><b>5.1.1 Risk Management Framework</b></p> <p><b>Observations/Findings</b></p> <p>The Shire has developed and adopted a new suite of Risk Management documents and a Risk Register. These were informed by ISO 31000:2018 and are a significant improvement over the previous regime, which had not been operating effectively in place since late 2018. The following observations were made:</p> <ul style="list-style-type: none"> <li>The new Risk Framework categorises risks but does not separate out “Fraud and Misconduct.” As Fraud and Misconduct is an area of focus at all levels of Government, there would be value in identifying risks and mitigating controls for Fraud and Misconduct.</li> </ul>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>The Shire considers revising the new Risk Management Framework and associated documents to:               <ol style="list-style-type: none"> <li>Incorporate a Fraud and Misconduct category.</li> <li>Specify ownership of the various levels of risk, with ‘Extreme’ risks assigned to either the Council or Audit Committee.</li> </ol> </li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>The Shire agrees and will consider incorporating a Fraud and Misconduct category when the Risk Management Framework is reviewed in 2023-24.</p> <p>The current role of the Council and Audit Committee is oversight and review. The Council or Audit Committee may become involved in the management of extreme risks, where certain action is required to mitigate the risk e.g., Beyond the delegated authority of the CEO to act.</p> <p>The Shire will consider specific ownership of extreme risks when the Risk Framework is reviewed.</p> <p><b>Responsibility:</b> Director Community and Corporate</p> <p><b>Implementation Date:</b> 2023-24.</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> – The Shire’s Corporate Risk Register was initially presented to the Audit and Risk Committee on 28 June 2023.</p> <p>The Risk Register will continue to evolve to reflect and update identified risks across the organisation, with updates presented at future Audit and Risk Committee meetings.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Strategic Governance and Risk Coordinator.</p>	<p>To date, no additional resourcing requirements have been identified.</p>



<ul style="list-style-type: none"><li>Ownership of individual risks is assigned to Shire staff depending on the severity of the risk, ranging from operational managers to the CEO. Given the consequences of 'Extreme' risks, there would be value in ownership of these risks and their mitigation actions resting with either Council or the Audit Committee.</li></ul> <p><b>Causes</b></p> <ul style="list-style-type: none"><li>This is an opportunity for improvement, as such, there was no direct cause for this omission other than strict adherence to the ISO.</li><li>Practice of assigning risk ownership to operational/ executive management</li></ul> <p><b>Potential Impact:</b></p> <ul style="list-style-type: none"><li>Possibility of not adequately identifying and mitigating fraud and misconduct risks.</li><li>The council is not adequately aware of 'Extreme' risks, making resourcing of mitigation strategies more problematic.</li></ul> <p><b>Inherent Risk Rating: Low</b></p>				
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<p style="text-align: center;"><b>Observation(s) and Ratings</b></p>	<p style="text-align: center;"><b>Recommendations</b></p>	<p style="text-align: center;"><b>Management Responses</b></p>	<p style="text-align: center;"><b>Progress Report March 2024</b></p>	<p style="text-align: center;"><b>Resourcing</b></p>
<p><b>5.1.2 Business Continuity</b></p> <p><b>Observations/Findings</b></p> <p>The Shire has developed and implemented a Business Continuity Plan and a Business Systems Disaster Plan. Both are comprehensive documents, and there is evidence that both have been reviewed at least annually.</p> <p>Good practice with Business Continuity Plans is to undertake an annual test of the Plan. There does not appear to be a process to evaluate the Business Continuity Plans or evidence of any testing.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>Both Plans are relatively new (June 21 and September 20 respectively), and testing has not been identified as a necessity.</li> </ul> <p><b>Potential Impact:</b></p> <ul style="list-style-type: none"> <li>Missing information/ steps within the Plans may not be identified or changed circumstances considered. This could result in the Plans being ineffective during an event.</li> <li>The benefits of familiarisation/ training of staff afforded by the testing process are not realised.</li> </ul> <p><b>Inherent Risk Rating: Medium</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>The Shire implements an annual testing regime for both the Business Continuity Plan and the Business Systems Disaster Plan. Testing should be documented, and any lessons learned incorporated into the next iteration.</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>The Shire Executive Management Team will allocate a project lead and schedule an appropriate day in the Corporate Calendar to evaluate each plan.</p> <p><b>Responsibility:</b> Director Community and Corporate</p> <p><b>Implementation Date:</b> 2022-23.</p>	<p><b>Management Update:</b></p> <p>Testing of the Business Continuity Plan is now scheduled for the second quarter of 2024 (April to June).</p> <p><b>Completion:</b></p> <p>Second quarter of 2024.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Strategic Governance and Risk Coordinator, WHS Advisor (currently recruiting for this position, hence delay of this activity), Manager Organisational Development &amp; Manager Business Systems.</p>	<p>To date, no additional resourcing requirements have been identified.</p> <p>However, resourcing linked to additional staff hours is a possibility and will be costed through the planning for the exercise.</p> <p>Any associated costs will be reported in the next quarterly progress report to the committee.</p>



<p style="text-align: center;"><b>Observation(s) and Ratings</b></p>	<p style="text-align: center;"><b>Recommendations</b></p>	<p style="text-align: center;"><b>Management Responses</b></p>	<p style="text-align: center;"><b>Progress Report March 2024</b></p>	<p style="text-align: center;"><b>Resourcing</b></p>
<p><b>5.1.3 Managing Operating Risks</b></p> <p><b>Observations/Findings</b></p> <p>There is not a <b>formal</b> process in place guiding operational managers on the identification, mitigation, and reporting of operating risks. It is understood that this occurs informally as managers go about their day-to-day duties. It is noted that there are policies providing guidance for 'Legislative Compliance' and 'Fraud and Corruption,' and processes in some work areas e.g., project management methodology. However, these do not currently align with the Risk Management Framework.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>The Risk Management Framework has been newly introduced and has yet to incorporate processes for managing operating risks.</li> </ul> <p><b>Potential Impact:</b></p> <ul style="list-style-type: none"> <li>Not all risks are appropriately documented, assessed, and mitigated.</li> <li>Insufficient visibility of operating risks across the organisation, so unable to identify multiple instances of the same risk.</li> </ul> <p><b>Inherent Risk Rating: Medium</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>Once Risk Management Framework has been fully implemented and embedded, the Shire develops and implements a procedure to guide operational managers in determining, documenting, and managing material operating risks.</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>The Executive Management Team has endorsed a Risk Management Procedure that identifies the roles and responsibilities for determining, documenting, and managing risks. Training is scheduled with relevant Shire officers on 13 and 15 June 2022. Compliance with the Risk Management Procedure will be expected from this time. An ongoing review of Risk Management policies and procedures is planned.</p> <p><b>Responsibility:</b> Director Community and Corporate</p> <p><b>Implementation Date:</b> 2022-23</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> - with a continual staff training review process for good practice purposes.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Strategic Governance and Risk Coordinator &amp; WHS Advisor.</p>	<p>To date, no additional resourcing requirements have been identified.</p>



Observation(s) and Ratings	Recommendations	Management Responses	Progress Report March 2024	Resourcing
<p><b>5.1.4 Risk Reporting</b></p> <p><b>Observations/Findings</b></p> <p>There has been no formal Risk reporting within the Shire since 2018.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>The previous Risk Register was last updated in late 2018 and was not operational since then. There had been no risk management process in place between then and the development of the new Risk Management Framework in late 2021/early 2022, so no associated reporting regime in place</li> </ul> <p><b>Potential Impact:</b></p> <ul style="list-style-type: none"> <li>Senior Management and Council not aware of material risks, or mitigating actions, faced by the Shire.</li> </ul> <p><b>Inherent Risk Rating: High</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>The Shire establishes a new risk reporting regime which includes:             <ol style="list-style-type: none"> <li>Quarterly reporting of risks through to EMT and the Audit Committee and/or Council.</li> <li>Incorporates tables summarizing numbers of risk per category and risk rating.</li> <li>A summary of all 'Extreme' and 'High' rated risks.</li> <li>A link to the full Risk Register should readers wish to review in detail.</li> </ol> </li> </ol> <p>A mock-up of a possible report format is available at Appendix 3</p> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>The newly developed Risk Register will be embedded in the agenda for the monthly joint meeting of Executive Management Team and Managers and the three Audit Committees per year.</p> <p>The Shire will implement the use of written risk reports as recommended.</p> <p><b>Responsibility:</b> Strategic Governance and Risk Coordinator</p> <p><b>Implementation Date:</b> July 2022.</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> - As per the Officer's commentary for Observation 5.1.1.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Strategic Governance and Risk Coordinator &amp; WHS Advisor.</p>	<p>To date, no additional resourcing requirements have been identified.</p>



Observation(s) and Ratings	Recommendations	Management Responses	Progress Report March 2024	Resourcing
<p><b>5.1.5 Insurance</b></p> <p><b>Observations/Findings</b></p> <p>The audit concluded that there is a robust process in place for reviewing the Shire’s insurable risks on an annual basis with the Insurer, LGIS. This includes communication about any major changes in the Shire’s operations and assets and plant holdings.</p> <p>Notwithstanding this, the current economic conditions within Western Australia have resulted in changes which may impact the adequacy of the Shire’s insurance coverage, these include:</p> <ul style="list-style-type: none"> <li>• Significant increases in the costs of building materials, plant and equipment.</li> <li>• Delays in delivery of materials and plant.</li> <li>• Shortage of skilled labour to undertake repair and/ or construction works.</li> <li>• Availability of construction contractors.</li> </ul> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>• Change in revaluation cycle from three to five years.</li> <li>• External factors include rising costs, labour shortages and delivery delays.</li> </ul> <p><b>Potential Impact:</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>1. The Shire urgently commission:           <ol style="list-style-type: none"> <li>a. An insurance revaluation of all buildings and plant to assure there will be adequate coverage in the event of loss or destruction.</li> <li>b. An assessment of the Shire’s Business Interruption Insurance to accommodate for likely delays in replacing or rebuilding critical buildings and/ or infrastructure.</li> </ol> </li> </ol> <p><b>Residual Risk Rating:</b> <b>Low</b></p>	<p><b>Management Response:</b></p> <p>Asset revaluation for financial reporting is addressed in the Local Government (Financial Management) Regulations 1996. Further direction is given by the Office of the Auditor General Western Australian local government position paper 2. There is a requirement for assets to be revalued within a period of no more than five years. This applies to land, buildings, infrastructure, and investment property. Plant and equipment are now carried at depreciated cost.</p> <p>An insurance valuation is completed when a financial valuation is completed. An annual internal assessment is made of the insurance value for each asset on</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED –</b> Revaluations were completed across the Shire’s entire asset base excluding Land and Buildings which are scheduled to be revalued during 2023-24.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Manager Finance and Director Community &amp; Corporate.</p>	<p>Land and Buildings Revaluation project cost included in the 2023-24 Annual Budget.</p> <p>The revaluation of all Shire Land and Buildings is now finalised.</p> <p>Revised revaluation calculations will be presented in the 2023-24 Annual Financial Statements.</p>



<ul style="list-style-type: none"> <li>• Insufficient insurance coverage to replace or repair critical buildings and/or infrastructure.</li> <li>• Increased business interruption if the Shire’s administration building or depot were to be destroyed or damaged.</li> </ul> <p><b>Inherent Risk Rating: High</b></p>		<p>the insurance schedules, as part of the review of the Shire’s insurable risks. The local government sector acknowledges the volatility in the cost and availability of resources and materials for asset replacement.</p> <p>An assessment of major assets should be completed to identify critical assets that, if lost, would cause major business interruption. It should then be decided if an external insurance valuation of these assets should be completed to ensure a process of adequate coverage. These valuations would occur outside the years when a financial valuation takes place for an asset class. It would also apply to assets that are not required to be valued for financial reporting such as heavy plant.</p> <p>Agree that an assessment of the</p>		
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		<p>Shire's business interruption insurance be completed to report on the level and scope of coverage.</p> <p><b>Responsibility:</b> Director Community and Corporate.</p> <p><b>Implementation Date:</b> 2022-23.</p>		
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5.2 Internal Controls

Observation(s) and Ratings	Recommendations	Management Response	Progress Report March 2024	Resourcing
<p><b>5.2.1 Purchasing Policy v2</b></p> <p><b>Observations/Findings</b></p> <p>This updated policy has become inaccurate in relation to Section 11f which refers to Purchase Orders and Requisitions, however, we understand the Shire does not use requisitions currently.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>There are no current procedures for the raising or authorising of Purchase Orders to show clarity in the process.</li> </ul> <p><b>Potential Impact:</b></p> <ul style="list-style-type: none"> <li>Confusion leads to inefficiency.</li> </ul> <p><b>Inherent Risk Rating:</b> <b>Medium</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>Procedures are adopted for the whole Procurement Process including the raising, approving, and issuing of Purchase Orders.</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>Agree to review and update the purchasing policy to remove any inaccuracies and reflect changes since the last review. Review and update management procedures on raising, approving, and issuing of purchase orders.</p> <p>The Shire is currently using manual patching to rectify deficient system capabilities with the ERP, and this creates workflow inefficiencies. The Shire will review the ERP in 2022/23 and a resolution to recommendations 5.2.1, 5.2.2, 5.2.3, 5.2.4, will be investigated.</p> <p><b>Responsibility:</b> Director Community and Corporate.</p> <p><b>Implementation Date:</b> 2022-23.</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> – The Shire’s Purchasing Policy and Management Procedure was adopted by the Council during the March 2023 OCM.</p> <p>Since this time, Procurement training sessions for all staff have been conducted across the organisation to ensure the new policy/framework is adhered to when Officers procure goods and services for the Shire.</p> <p>The staff are preparing to commence the next review of the Shire’s purchasing policy which is due to come to Council June 2024.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Manager Finance &amp; Strategic Governance and Risk Coordinator.</p>	<p>To date, no additional resourcing requirements have been identified.</p>



Observation(s) and Ratings	Recommendations	Management Response	Progress Report March 2024	Resourcing
<p><b>5.2.2 Purchasing Policy v2</b></p> <p><b>Observations/Findings</b></p> <p>There is no segregation of duties between order raising and order approval, with one officer required to undertake both tasks.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>Lack of focus on segregation of duties, possibly due to lack of clarity with no procedures as in the above cause.</li> </ul> <p><b>Potential Impact:</b></p> <ul style="list-style-type: none"> <li>Lack of segregation of duties, as well as possible inefficiency with Senior Officers' time, spent raising documents.</li> <li>The possibility for fraud and misconduct to occur.</li> </ul> <p><b>Inherent Risk Rating: Medium</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>A different officer raises the order from the officer whom it is directed to for approval. Note if this recommendation is actioned the officer raising the order could also receive the order if recommendation 8 below leads to 3-way matching.</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>Agree to review and update the purchasing policy and management procedures to address the issue of segregation of duties.</p> <p><b>Responsibility:</b> Director Community and Corporate</p> <p><b>Implementation Date:</b> 2022-23</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> – Through the review of the Shire's Purchasing Policy, a requisition system has been introduced to allow for the segregation of duties between the Officer raising and approving the requisition. The new requisition system is due to 'go live' on Monday 3 July 2023.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Manager Finance &amp; Strategic Governance and Risk Coordinator.</p>	<p>As per above.</p>



Observation(s) and Ratings	Recommendations	Management Response	Progress Report March 2024	Resourcing
<p><b>5.2.3 Accounts Payable</b></p> <p><b>Observations/Findings</b></p> <p>The accounts payable function operates a 2-way match process for all non-manually processed invoices.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>The Shire does not receive goods or services on the accounting system. Instead, the AP officer sends out all invoices for manual signoff.</li> </ul> <p><b>Potential Impact:</b></p> <ul style="list-style-type: none"> <li>Inefficiency and possible increased risk of inaccuracy in the accounts payable process.</li> </ul> <p><b>Inherent Risk Rating:</b> <b>Medium</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>The Shire investigates whether the current Synergy software for 3-way matching offers a suitable solution prior to any alternative module implementation being considered. If acceptable, then 3-way matching should commence with the receiving functionality being introduced.</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>Agree to conduct an investigation of current software to improve the efficiency and accuracy of the matching process.</p> <p><b>Responsibility:</b> Director Community and Corporate</p> <p><b>Implementation Date:</b> 2022-23.</p>	<p><b>Management Update:</b></p> <p>Work in progress – processing mapping exercise currently in progress.</p> <p>Considering this functionality through the onboarding of a new finance system during the Enterprising Resourcing Product (ERP) investigations.</p> <p><b>Completion:</b> Ongoing - consideration through investigation of new ERP.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Manager Finance &amp; Finance Officer.</p>	<p>To date, no additional resourcing requirements have been identified.</p> <p>Projected resourcing requirements related to the new ERP integration will be presented to the Council in April.</p>



Observation(s) and Ratings	Recommendations	Management Response	Progress Report March 2024	Resourcing
<p><b>5.2.4 Accounts Payable</b></p> <p><b>Observations/Findings</b></p> <p>We understand the matching process of invoice to purchase order on Synergy allows a 10% overspend before a warning is given on the system, but that does not prevent the matching from taking place.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>Parameters in the system have been set at this level we understand due to typical GST errors.</li> </ul> <p><b>Potential Impact:</b> Overpayments.</p> <p><b>Inherent Risk Rating:</b> <b>Medium</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>The Shire undertakes an assessment of whether this level of flexibility is necessary as 10% appears a high level of tolerance.</li> </ol> <p>It is commonplace that a warning occurs at 90% and that any invoices over 100% of the order value require either a new order or an amendment to be raised for matching to succeed.</p> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>Agree with undertaking an assessment on the levels of tolerance and the management procedures. Additional controls will be considered during this assessment.</p> <p><b>Responsibility:</b> Director Community and Corporate.</p> <p><b>Implementation Date:</b> 2022-23</p>	<p><b>Management Update:</b></p> <p>Work in progress continuing. System controls will be assessed for the feasibility of adjusting the % tolerances. During this time, a review will be completed on the number of occurrences which exceed 100% of the payable amount and assess the level of financial risk this poses on the Shire's cash flow position.</p> <p><b>Completion:</b></p> <p>Extended review, with completion due June 2024.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Manager Finance &amp; Finance Officer.</p>	<p>To date, no additional resourcing requirements have been identified.</p>



Observation(s) and Ratings	Recommendations	Management Response	Progress Report March 2024	Resourcing
<p><b>5.2.5 General Ledger Reconciliations</b></p> <p><b>Observations/Findings</b></p> <p>The following month-end reconciliations for March 2022 had the following issues.</p> <ul style="list-style-type: none"> <li>• Rates: no evidence of independent review.</li> <li>• Creditors: at the time of the audit had an unreconciled difference of \$100.</li> <li>• Payroll: not performed due to software problems with the new definitive module. The provider is working on a solution.</li> <li>• Fixed Assets: no full reconciliation was performed for March; a monthly YTD report was, however, prepared.</li> </ul> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>• Absence of timeliness and full testing prior to software purchase.</li> </ul> <p><b>Potential Impact:</b> Build-up of inaccurate transactions leading to inaccurate balance sheet and potential for fraud.</p> <p><b>Inherent Risk Rating: High</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>1. When all software issues have been resolved the Shire should reconcile all balance sheet accounts monthly leaving an audit trail, and also demonstrate evidence with independent reviews over differences actioned by the following month.</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>All balance sheet reconciliations to be reviewed with evidence of that review. Any variances to be noted at the time of reviewing the reconciliations and the process being followed to resolve the difference be noted. Monthly evidence of review to be completed.</p> <p><b>Responsibility:</b> Director Community and Corporate.</p> <p><b>Implementation Date:</b> 2022-23.</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> - As per the 2022-23 Interim Audit Recommendation, payroll reconciliations are now completed fortnightly, aligning with the fortnightly pay runs.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Manager Finance &amp; Payroll Officer.</p>	<p>To date, no additional resourcing requirements have been identified.</p>



Observation(s) and Ratings	Recommendations	Management Response	Progress Report March 2024	Resourcing
<p><b>5.2.6 Access to Synergy Finance Modules</b></p> <p><b>Observations/Findings</b></p> <p>On review of the access to Synergy Finance modules, it was noted that there are multiple users, named and unnamed who have access to all modules allowing transactions to be raised (for example in Accounts Payable) and then reported on through the general ledger, with the potential for prior manipulation.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>• Absence of automated systems controls.</li> <li>• Allowance in the system for employees to cover or rotate in other peoples' roles without having their access halted or removed from their previous or substantive roles.</li> </ul> <p><b>Potential Impact:</b> Potential for fraud and theft.</p> <p><b>Inherent Risk Rating: Medium</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>1. The Shire needs to perform a review of all access to Finance modules with a view to restricting all individuals' access such that no one officer can enter or change transaction data whilst also having access to change the reporting of such changes.</li> </ol> <p><b>Residual Risk Rating:</b> <b>Low</b></p>	<p><b>Management Response:</b></p> <p>A review of access to finance modules is in progress. Changes have been made to access levels with this work continuing.</p> <p><b>Responsibility:</b> Director Community and Corporate.</p> <p><b>Implementation Date:</b> 2022-23.</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> - with ongoing monitoring necessary.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Manager Business Systems.</p>	<p>To date, no additional resourcing requirements have been identified.</p>



Observation(s) and Ratings	Recommendations	Management Response	Progress Report March 2024	Resourcing
<p><b>5.2.7 Definitive Payroll – Higher Duties</b></p> <p><b>Observations/Findings</b></p> <p>The payroll does not have a separate classification for higher duties. When these higher duties occur, the rates are manually changed but do not appear on the face of the payroll report as a changed status.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>Absence of appropriate controls and new payroll software.</li> </ul> <p><b>Potential Impact:</b></p> <p>Inability to substantiate accuracy and compliance to third parties, and potential overpayments.</p> <p><b>Inherent Risk Rating: Low</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>The software supplier should be requested to add this classification</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>The Shire has a process for approval of higher duties, including written confirmation of the agreement and rate. These changes are approved in fortnightly variance reports with supporting commentary.</p> <p>Manual processes to show higher duty approval have been assessed within the current software. They have proven unsuccessful, and the Shire will continue to work with the software provider to find a way to improve the identification of higher duties.</p> <p><b>Responsibility:</b></p> <p>Director Community and Corporate</p> <p><b>Implementation Date:</b></p> <p>2023-24</p>	<p><b>Management Update:</b></p> <p>Work in progress.</p> <p>Working with IT Vision to provide a software solution to recognise this classification in the payroll system.</p> <p><b>Completion:</b></p> <p>June 2024.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Manager Organisational Development &amp; Payroll Officer.</p>	<p>To date, no additional resourcing requirements have been identified.</p> <p>If required, software solution costs will be identified through future budget planning.</p>



### 5.3 Legislative Compliance

Observation(s) and Ratings	Recommendations	Management Response	Progress Report March 2024	Resourcing
<p><b>5.3.1 Compliance Register</b></p> <p><b>Observations/Findings</b></p> <p>Although we have not found any evidence that changes to Regulations are not being tracked and actioned, there is no current compliance register being used to record that process.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>Absence in personnel business continuity.</li> </ul> <p><b>Potential Impact:</b></p> <p>Non-compliance with Regulations, including the potential for the absence of appropriate delegated authorities.</p> <p><b>Inherent Risk Rating:</b> <b>Medium</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>The Shire: <ul style="list-style-type: none"> <li>Expedites the purchase of the ATTAIN software package which we have been advised is currently being considered.</li> </ul> <p>And/or</p> <ul style="list-style-type: none"> <li>Refreshes the previous register used for this purpose but refreshes it with all relevant legislation and other regulations rather than just the LGA 1995 material.</li> </ul> </li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>The Shire is currently procuring the Attain by Integrity software package.</p> <p><b>Responsibility:</b> Strategic Governance and Risk Coordinator</p> <p><b>Implementation Date:</b> 2022.</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> – Attain Software has been integrated and is now in use to track compliance actions against legislative requirements and broadening its use to include a compliance calendar function.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Strategic Governance and Risk Coordinator.</p>	<p>To date, no additional resourcing requirements have been identified.</p>





Observation(s) and Ratings	Recommendations	Management Response	Progress Report March 2024	Resourcing
<p><b>5.3.2 Capital Expenditure Requirements for Long Term Financial Plan and Asset Management Plan</b></p> <p><b>Observations/Findings</b></p> <p>As per The OAG Audit Report 20/21, Section 50(1)(c) of the Local Government (Financial Management) Regulations 1996 requires the Shire to report the Asset Renewal Funding Ratio in its annual report. This has not been done for 2019, 2020, and 2021. To do this the Capital Expenditure for the Long-Term Financial Plan and the Asset Management Plan needs to be estimated. This estimation process was not evidenced.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>Asset Management Plan data not ready to be presented.</li> </ul> <p><b>Potential Impact:</b></p> <p>Lack of funding provision for asset maintenance and assets fall into a state of disrepair.</p> <p>Regulatory non-compliance.</p> <p>Poor accounting of/for capital assets.</p> <p><b>Inherent Risk Rating: High</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>The capital expenditure be estimated for both reports mentioned, and the reports completed to the satisfaction of the OAG.</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>Agree with the recommendation. The Shire is investigating the onboarding of a new Asset Management Plan and supporting the asset management system.</p> <p>This issue is being considered by DLGSC as part of the Local Government Act reform program.</p> <p><b>Responsibility:</b> Director Community and Corporate.</p> <p><b>Implementation Date:</b> 2023-24.</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> – Software integration and training has commenced. Software providers – APV Valuers and Asset Management.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Director Community &amp; Corporate, Director Infrastructure &amp; Development &amp; Manager Projects, Engineering and Assets.</p>	<p>The 2023-24 Annual Budget allocated \$20,000 to procure and onboard an Asset Management software solution to support the monitoring and maintenance of the Shire’s Asset Management Strategy.</p>



Observation(s) and Ratings	Recommendations	Management Response	Progress Report March 2024	Resourcing
<p><b>5.3.3 Internal Audit</b></p> <p><b>Observations/Findings</b></p> <p>The Shire does not have a regular Internal Audit function, rather they go to market as and when required, usually to conduct the regulated audits (Reg 5 and Reg 17).</p> <p>In the absence of an Internal Audit function, the Shire does not have a Strategic Internal Audit Plan to identify and document areas of audit risk and audit focus.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>• Business maturity with respect to Internal Audit.</li> <li>• Limited resources to dedicate to an internal audit function.</li> </ul> <p><b>Potential Impact:</b></p> <p>Missed opportunity for early identification/prevention of control and governance breakdowns, and limited improvement prospects for strengthening of operations.</p> <p><b>Inherent Risk Rating: Medium</b></p>	<p><b>It is recommended that the Shire consider:</b></p> <ol style="list-style-type: none"> <li>1. Commissioning the production of a Strategic Internal Audit Plan (1-, 2- or 3-year horizon) to identify areas of risk (strategic through to operational). This would be considered and prioritised by the Audit Committee to guide future internal audit and review activities.</li> <li>2. Establish a part-time IA function. While it is understood an in-house function is not economically viable, it may be possible to call for quotes to provide a fixed number of hours per year from firms on the CUA or WALGA panel to deliver against an approved Strategic Internal Audit Plan (as per recommendation 15)</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>Agree with investigating the feasibility and viability of establishing an internal audit function. Consider implementing this function through options including:</p> <ol style="list-style-type: none"> <li>1. 0.50 FTE appointment of an Internal Audit Officer to perform duties.</li> <li>2. External quote process with suitable organisations to perform internal audit functions on an agreed fixed hour contract basis.</li> <li>3. Partner with a larger LG that can outsource their Internal Audit Staff to perform Internal Audit functions for the Shire.</li> </ol> <p><b>Responsibility:</b></p> <p>Director Community &amp; Corporate</p> <p><b>Implementation Date:</b></p> <p>Feasibility study to be completed during 2022-23 and 2023-24 financial years with a recommendation report to Audit and Risk Committee.</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> – The position of Internal Audit Officer has been included in the Shire’s 2024-2028 Work Force Planning (WFP) document and scheduled for recruitment FY2025/26 pending endorsement of Council in April 2024 OCM.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Director Community &amp; Corporate &amp; Manager Finance.</p>	<p>Projected salary for this position is \$80,000 and if approved via the WFP, this cost will be included in the LTFP and respective draft annual budget program.</p>



## Summary

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Shire Officers have provided a quarterly progress report for each observation/ recommendation, including proposed actions, a timeline for implementation and projected resourcing requirements.

Future progress reports will be provided to the Audit & Risk Committees with the intent that all recommendations will be finalised by 30 June 2024, except for recommendations linked to the onboarding of a new ERP system or where physical resourcing requirements are linked to the Shire's Workforce Plan, which may exceed the preferred completion timeframe.

## Voting Requirements

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Simple majority.

<b>Officer's Recommendation – 5.3.</b>
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<b>AC/2024/5 - Officer's Recommendation / Committee Decision - 5.3</b>
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*Moved Cr Dillon, Seconded Cr Terrantroy.*

**That the Audit and Risk Committee performs its role set out in Regulation 16 of the Local Government (Audit) Regulations 1996 to receive and review the quarterly Regulation 17 Progress Report.**

**Carried 5 / 0**

*For - Cr Dillon, Cr Kitchen, Cr Mogg and Cr Terrantroy, Dr Parker*

*Against - Nil*



## 6. Meeting Closure

*There being no further business, the Presiding Member declared the meeting closed at 3.47pm.*