



## Notice of Audit & Risk Management Committee Meeting

To be held on 13 November 2024 and commence at 3:00pm  
To be held at the Council Chambers in Donnybrook  
*(1 Bentley Street, Donnybrook)*

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**Authorised:**

Mr Nick O'Connor, Chief Executive Officer

**Prepared:**

7 November 2024

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**Disclaimer:**

Please note the items and recommendations in this document are not final and are subject to change or withdrawal.

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## 1. Declaration of Opening / Announcement of Visitors

### **Acknowledgement of Country:**

The Chairperson to acknowledge the continuing connection of Aboriginal people to Country, culture and community, including traditional custodians of this land, the Wardandi and Kaneang People of the Noongar Nation, paying respects to Elders, past and present.

The Chairperson to declare the meeting open at ##:##am/pm and welcome the public gallery.

## 2. Attendance

### **Members Present:**

- |  |   |
|--|---|
| <input type="checkbox"/> Cr Vivienne MacCarthy | <input type="checkbox"/> Mr Ian Telfer, External Member       |
| <input type="checkbox"/> C Cr John Bailey      | <input type="checkbox"/> Mr Angelo Loguidice, External Member |
| <input type="checkbox"/> Cr Alexis Davy        |   |

### **Staff Present:**

- |  |   |
|--|---|
| <input type="checkbox"/> Nick O'Connor, Chief Executive Officer              | <input type="checkbox"/> Ross Marshall, Director Operations |
| <input type="checkbox"/> Loren Clifford, Acting Director Finance & Corporate |   |

### **Other Members Present:**

Public Gallery:

Livestream Viewers:

Guests:

### 2.1. Apologies

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### 2.2. Approved Leave of Absence

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### 2.3. Application for Leave of Absence

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### 3. Announcements from the Chairperson

### 4. Declarations of Interest

Division 6: Sub-Division 1 of the *Local Government Act 1995*. Care should be taken by all Councillors to ensure that a financial/impartiality interest is declared and that they refrain from voting on any matter, which is considered to come within the ambit of the Act.

### 5. Public Question Time

#### 5.1. Responses to previous public questions that were taken on notice

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Question from: Shane Sercombe

*The Audit and Risk Committee has not resided over concerning staff turnover. Our workers compensation rate indicating significant avoidable harm to employees, mystery resignation of 5 Councillors, repeated large financial losses, erosion of assets and reserves, misleading statements on financial position, and no oversight of the troubled 12 million project. How do you rate the performance of the Audit and Risk Committee during the past 18 months?*

Response: Chief Executive Officer – Temporary (Tim Clynych)

The Committee is fulfilling its responsibilities. It should be noted that the current membership of the Committee has only been in place since last November.

While the Committee does not directly oversee human resource functions, it would acknowledge the importance of a safe and supportive working environment. The Committee encourages the Shire Executive to continue improving workplace safety and employee well-being. However, it is critical to note that compensation claims and employee turnover fall under operational management, with the Committee's role limited to oversight of risk management processes.

To address some specific claims in your question:

- Staff turnover at the Shire of Donnybrook-Balingup is considered acceptable. The most recent benchmarking comparison is from 2021/22 when staff turnover percentage was just under 18%, compared to an average staff turnover of 27.6% that year for 77 local governments that participated in a salary and workforce survey coordinated by the Western Australian Local Government Association. Dealing with staff turnover is normal business and for local government even more so. For our shire we are dealing with greater competition from the private sector for trained staff as well as dealing with greater competition within the local government sector (particularly in the south-west region).
- Our workers compensation rates are very manageable. At the time of providing this response there are only 2 open claims with the Shire.

The resignation of elected representatives is a matter of personal and individual choice, outside the Committee's scope of responsibility. The Audit and Risk Committee's role is focused on financial oversight and risk management, and it does not involve governance matters related to elected members (councillors).

The Committee monitors financial performance and works with the Executive to mitigate financial risks. The Committee is unaware of "misleading statements on financial position" being published.

The Audit and Risk Management Committee doesn't have a direct role in the planning and project management of large capital projects. Its function is focused on oversight of risk management, financial reporting, and governance, rather than involvement in the operational aspects of specific projects – such as the V C Mitchell Community Park project.

Response from: Shane Sercombe

*The Audit and Risk Committee was unable to oversee neither the internal or nor the external audit due to information being withheld and by being excluded from meetings with the auditors. With such an experienced leadership why has the Audit Committee been so ineffective at its primary function of overseeing audits?*

Response: Chief Executive Officer – Temporary (Tim Clynych)

At the meeting of the Audit and Risk Management Committee held on 20 December 2023 you asked a similar question about attendance of Committee members at the audit exit meeting. That question was answered at that meeting, specifically that attendance at the audit exit meeting was determined upon direction from the Assistant Director from the Office of the Auditor General. Your opinion that the Committee has been ineffective in overseeing audits isn't supported. The Audit and Risk Management Committee plays an important role in overseeing the process of internal and external audits, but its function is not to directly manage the audits themselves.

Here's a more detailed explanation:

1. Role of the Audit and Risk Management Committee: The Committee's primary function is to provide oversight and governance over audit processes, risk management, and financial reporting, but it does not conduct the audits itself or directly manage auditors. Instead, the Committee reviews and monitors the outcomes of internal and external audits, ensuring that the recommendations are considered and implemented by the Executive.
2. Independence of Auditors: Both internal and external auditors must remain independent from the organization and its management in order to provide an objective evaluation of financial practices and risk management systems. This independence occurs by ensuring auditors have direct access to information and are free to report their findings without interference.
3. Oversight of Audit Process vs. Direct Management: The Committee's role is to ensure that audits are carried out properly, that they cover relevant areas of concern, and that any issues raised are addressed. However, it does not perform the audit or intervene in its detailed operations. The Committee reviews the scope, findings, and recommendations from these audits and works with the Executive to ensure appropriate action is taken in response to identified risks or deficiencies.
  - a. Advisory and Monitoring Role: Rather than overseeing the day-to-day execution of audits, the Committee's responsibility is to: Approve the audit plans (both internal and external) to ensure they are comprehensive and cover key risk areas.
  - b. Review audit reports and ensure that management responds appropriately to audit findings.
  - c. Monitor implementation of audit recommendations and follow up on key issues.
  - d. Ensure compliance with legal, financial, and regulatory requirements based on audit feedback.

- e. **Management's Responsibility:** It is the responsibility of the Shire Executive, not the Audit and Risk Management Committee, to implement controls, manage day-to-day risks, and respond to audit findings. The Committee ensures that the Executive is fulfilling these duties, but it does not directly manage how audits are conducted or how staff respond to them.

In summary, the Audit and Risk Management Committee provides high-level oversight, ensuring that the audits are performed independently and effectively, but it does not directly control or oversee the audit activities. Its focus is on ensuring governance, monitoring outcomes, and supporting an effective risk management framework.

Further response from: Shane Sercombe

*When did the administration receive the internal audit from AMD and why has it taken so long to present the findings to the Audit Committee.*

**Response: Chief Executive Officer – Temporary (Tim Clynych)**

The internal audit report contains a copy of a letter from the auditor dated 16 May 2023, presenting the report. Current staff aren't aware of reasons why the internal audit report wasn't presented to a meeting of the Audit and Risk Management Committee in 2023. That was obviously an oversight as staff worked to implement the findings of the 2023 internal audit and provided a confidential attachment to the Committee meeting on 21 May 2024, containing updates on how the findings were being implemented.

Further response from: Shane Sercombe

*Will the Audit and Risk Committee review why 5 finance managers have left the organisation in 6 years?*

**Response: Chief Executive Officer – Temporary (Tim Clynych)**

The Committee doesn't have any responsibilities or role in employee matters. These responsibilities rest solely with the Chief Executive Officer. Notwithstanding this, it should be clarified that in the last 6 years there has been 4 persons employed in the current Director Finance and Corporate position, or equivalent position (different title). Noting the response provided to your previous question regarding staff turnover this turnover rate is considered normal noting however that it is preferable to retain persons in senior positions for a longer period. Several factors can influence decisions by staff members to leave a job, including but not limited to remuneration, career progression, family circumstances and job satisfaction.

## 5.2. Public Question Time

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## 6. Confirmation of Minutes

### 6.1. Audit and Risk Management Committee Meeting held on 21 May 2024

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Minutes of the Audit and Risk Management Committee Meeting held 21 May 2024 are attached as Attachment 6.1(1).

#### **EXECUTIVE RECOMMENDATION:**

*That the Minutes from the Audit and Risk Management Committee Meeting held 21 May 2024 be confirmed as a true and accurate record.*

## 7. Reports of Officers

### 7.1. Director Finance and Corporate

#### 7.1.1. Risk Management Framework

##### Report Details:

**Prepared by:** Loren Clifford, Acting Director Finance and Corporate

**Manager:** Loren Clifford, Acting Director Finance and Corporate

**File Reference:** CNL 31 **Voting Requirement:** Simple Majority

##### Attachment(s):

- 7.1.1(1) Draft – Council policy EXE/CP-6-Organisational Risk Management
- 7.1.1(2) Current - Council policy EXE/CP-6-Organisational Risk Management
- 7.1.1(3) Draft - Risk Management Framework (RMF)

#### Executive Recommendation

##### That the Audit and Risk Management Committee:

- 1. Receives the report presenting the:**
  - 1.1. Draft – Council policy EXE/CP-6-Organisational Risk Management as per Attachment 7.1.1(1); and**
  - 1.2. Risk Management Framework as per Attachment 7.1.1(3).**
- 2. Recommend that Council adopt the draft – Council policy EXE/CP-6-Organisational Risk Management as per Attachment 7.1.1(1) and the Risk Management Framework as per Attachment 7.1.1(3).**
- 3. Recommend that a Risk Management Dashboard summarising the 16 risk theme profiles is presented on quarterly basis to the Audit and Risk Management Committee.**

#### Strategic Alignment

The following outcomes from the Council Plan relate to this proposal:

**Outcome:** 11 - Strong, visionary leadership.

**Objective:** 11.1 - Provide strategically focused, open and accountable governance.

**Item:** Nil.

#### Executive Summary

Council policy EXE/CP-6-Organisational Risk Management and Risk Management Framework are presented for the Audit and Risk Management Committee (ARMC) consideration and subsequent Council endorsement.



## Background

At its committee meeting held 21 May 2024, the Audit and Risk Management Committee resolved the following:

**“COMMITTEE RESOLUTION ARMC 4/24**

*That the Audit and Risk Management Committee:*

- 1. Recommends to Council the adoption of the new Policy EXE/CP-6- Organisational Risk Management, as shown in Attachment 7.1(1), to replace the existing policy of the same title; and*
- 2. Notes information contained in this report on the intent to review the remaining suite of risk management documents.”*

At its Ordinary Council meeting held 24 February 2021 Council resolved the following:

**“COUNCIL RESOLUTION 100/24**

*That Council refer Policy EXE/CP-6-Organisational Risk Management back to the Audit and Risk Management Committee for further review.”*

On 6 September, a workshop was conducted for the Audit and Risk Management Committee to review the policy content, with a specific focus on the Risk Assessment and Tolerance Tables.

## Risk Management

|                      |   |              |              |
|----------------------|---|--------------|--------------|
| Risk:                | Likelihood:   | Consequence: | Risk Rating: |
| Health               | Possible  | Major        | High (12)    |
| Risk Description:    | Increased likelihood of workplace accidents, injuries, and illnesses due to inadequate safety protocols without a RMF and policy. |              |              |
| Risk:                | Likelihood:   | Consequence: | Risk Rating: |
| Financial Impact     | Possible  | Major        | High (12)    |
| Risk Description:    | Financial losses from fraud, theft, operational inefficiencies, and unplanned expenditures without a RMF and policy.              |              |              |
| Risk:                | Likelihood:   | Consequence: | Risk Rating: |
| Service Interruption | Possible  | Moderate     | Moderate (9) |
| Risk Description:    | Disruptions in service delivery due to unpreparedness for emergencies or IT failures without a RMF and policy.                    |              |              |
| Risk:                | Likelihood:   | Consequence: | Risk Rating: |
| Compliance           | Possible  | Major        | High (12)    |
| Risk Description:    | Non-compliance with laws and regulations, leading to legal actions and fines without a RMF and policy.                            |              |              |

| Risk:             | Likelihood:  | Consequence: | Risk Rating: |
|-------------------|--|--------------|--------------|
| Reputational      | Possible   | Moderate     | Moderate (9) |
| Risk Description: | Damage to the organization’s reputation from incidents such as data breaches, fraud, or service failures without a RMF and policy.   |              |              |
| Risk:             | Likelihood:  | Consequence: | Risk Rating: |
| Choose an item.   | Possible   | Moderate     | Moderate (9) |
| Risk Description: | Negative impact on the community due to poor service delivery, environmental incidents, or safety issues without a RMF and policy.   |              |              |
| Risk:             | Likelihood:  | Consequence: | Risk Rating: |
| Property          | Possible   | Moderate     | Moderate (9) |
| Risk Description: | Damage to physical assets from natural disasters, vandalism, or inadequate maintenance without a RMF and policy.   |              |              |
| Risk:             | Likelihood:  | Consequence: | Risk Rating: |
| Environment       | Possible   | Moderate     | Moderate (9) |
| Risk Description: | Environmental damage due to inadequate management of environmental risks without a RMF and policy.   |              |              |
| Mitigation:       | Adopting a risk management policy and framework can help mitigate the risks associated with the 16 risk themes. Ongoing quarterly updates will ensure that controls and treatments plans are addressing risks. |              |              |

### Financial Implications

Nil.

### Policy Compliance

#### *Council Policy EXE/CP-8- Policy Framework*

Draft – Council policy EXE/CP-6-Organisational Risk Management ([Attachment 7.1.1\(1\)](#)) has been amended in accordance with the requirement of the Policy framework.

### Statutory Compliance

Although there is no requirement for local governments to have a Risk Management Framework, it is considered crucial in providing good governance.

## Consultation

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To assist with reviewing the policy, the Shire consulted with the services of Council's insurer, Local Government Insurance Services WA (LGISWA).

On 6 September, a workshop was conducted for the Audit and Risk Management Committee to review the policy content, with a specific focus on the Risk Assessment and Tolerance Tables.

## Officer Comment

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Following the workshop, it became evident that the policy alone would not provide sufficient assurance. Consequently, the administration has developed Draft – Council policy EXE/CP-6-Organisational Risk Management ([Attachment 7.1.1\(1\)](#)), alongside a Draft Risk Management Framework (RMF) ([Attachment 7.1.1\(3\)](#)). The RMF sets out the Shire's approach to the identification, assessment, management, reporting and monitoring of risks. All components are based on the aim and intent to meet the AS/NZS ISO standards for Risk Management and have been tailored to suit the Shire.

The changes made to the policy since its presentation to the June 2024 OCM are outlined below, the detailed amendment did not allow for tracked changes.

### Risk Definition

The definition of risk has been updated to: "Risk is the effect of uncertainty on objectives. Note 1: An effect is a deviation from the expected, positive or negative. The purpose of this policy is to address negative effects."

### Risk Management Approach

The policy now emphasises that the Shire will "work" to improve its management of unacceptable risks that threaten the Shire, shifting from risk acceptance terminology to risk tolerance, tolerating a risk is more proactive and involves ongoing management to ensure the risk remains within acceptable levels.

### Roles and Responsibilities

Roles and responsibilities are now detailed more comprehensively in the Risk Management Framework (RMF).

### Organisational Risk Reporting

The policy outlines that all organisational risks must be assessed using the Shire's Risk Assessment and Tolerance Criteria (Risk Tables) as outlined in Appendix A of the Risk Management Framework. This ensures consistency and informed decision-making by employees, management, and the Council.

Every report to the Council and its committees will include a risk assessment for the subject matter. This assessment will cover:

- Consequence Category
- Risk Profile Theme
- Inherent Risk Rating

- Effectiveness of Controls in place
- Control/Mitigation Recommendations
- Residual Risk Rating after mitigation

Note: Inherent risk ratings of Moderate (9) or below do not require reporting.

The reporting format is proposed below:

| Risk Details         |   |                      | Risk Mitigation                     |                                |   |
|----------------------|---|----------------------|-------------------------------------|--------------------------------|---|
| Consequence Category | Risk Profile Theme  | Inherent Risk Rating | Effectiveness of Controls in place: | Control/mitigation recommended | Residual Risk Rating after mitigation applied |
| Health & Safety      |   |                      |                                     |                                |   |
| Financial            |   |                      |                                     |                                |   |
| Service Interruption |   |                      |                                     |                                |   |
| Compliance/Legal     |   |                      |                                     |                                |   |
| Reputation           |   |                      |                                     |                                |   |
| Community            |   |                      |                                     |                                |   |
| Property             |   |                      |                                     |                                |   |
| Environment          |   |                      |                                     |                                |   |
| Notes:               | <ul style="list-style-type: none"> <li>• If no risk profile theme identified, insert N/A.</li> <li>• Inherent Risk Ratings of Moderate (9) or below do not require mitigation to be applied, insert "Risk is below the tolerated threshold and is not required to be reported on."</li> <li>• If Effectiveness of Controls in place is Effective or Adequate, insert "Risk Mitigated" and insert the Residual Risk Rating after mitigation applied.</li> <li>• If Effectiveness of Controls in place is Inadequate, note the controls/mitigation to be applied and insert the Residual Risk Rating after mitigation applied.</li> </ul> |                      |                                     |                                |   |

Similarly to the roles and responsibilities the Risk Assessment and Tolerance tables are now detailed more comprehensively in the Draft Risk Management Framework (RMF) ([Attachment 7.1.1\(3\)](#)).

### Risk Control Rating

The current control rating system includes categories of Excellent, Adequate, and Inadequate. During the workshop, a proposal was made to simplify this to Effective or Ineffective. However, after further research and consideration of our assessment methods, it is recommended that the control ratings incorporate three categories: Effective, Adequate, and Inadequate. Each category will have corresponding definitions for Control Documentation, Operating Effectiveness, and Design Effectiveness to ensure accurate classification. See Table 1: Controls rating below:

| TABLE 1: CONTROLS RATING |                          |  |
|--------------------------|--------------------------|--|
| Rating                   | Description              |  |
| Effective (E)            | Documentation:           | Processes (Controls) fully documented, with accountable 'Control Owner'.             |
|                          | Operating Effectiveness: | Subject to ongoing monitoring and compliance to process is assured.                  |
|                          | Design Effectiveness:    | Reviewed and tested regularly.   |
| Adequate (A)             | Documentation:           | Processes (Controls) partially documented, with a clear 'Control Owner'.             |
|                          | Operating Effectiveness: | Limited monitoring, ad-hoc approach and compliance to process is generally in place. |
|                          | Design Effectiveness:    | Reviewed and tested, but not regularly.  |
| Inadequate (I)           | Documentation:           | Processes (Controls) not documented or no clear 'Control Owner'.                     |
|                          | Operating Effectiveness: | No monitoring or compliance to process is not assured.                               |
|                          | Design Effectiveness:    | Have not been reviewed or tested for some time.                                      |

During the workshop, the committee requested the inclusion of the “Community” Consequence Category in Table 2: Measures of Consequence. This addition aims to assess the outward-facing impact on the community. It is important to note that the assessments against these categories will be conducted by staff and do not represent a fixed position from the Council. See Table 2: Measures of Consequence below:

| TABLE 2: MEASURES OF CONSEQUENCE |  |  |  |   |  |
|----------------------------------|--|--|--|---|--|
| Rating                           | Insignificant  | Minor  | Moderate   | Major   | Catastrophic   |
| Health & Safety                  | First aid injuries   | Medical treatment  | Lost time injury of > 5 days   | Notifiable incident   | Fatality, permanent disability   |
| Financial                        | Less than \$2,000  | \$2,000 - \$20,000<br>Or < 5% variance in cost of project                            | \$20,001 - \$100,000<br>Or > 5% variance in cost of project  | \$100,001 - \$1M  | More than \$1M   |
| Service Interruption             | No material service interruption   | Temporary interruption to an activity – backlog cleared with existing resources      | Interruption to Service Unit/(s) deliverables – backlog cleared by additional resources              | Prolonged interruption of Service Unit core service deliverables – additional resources; performance affected           | Indeterminate prolonged interruption of Service Unit core service deliverables   |
| Compliance/ Legal                | No noticeable regulatory or statutory impact   | Some temporary non-compliances   | Short term non-compliance but with significant regulatory requirements imposed                       | Non-compliance results in termination of services or imposed penalties  | Non-compliance results in criminal charges or significant damages or penalties   |
| Reputation                       | Unsubstantiated, localised low impact on community trust, low profile or no media item     | Substantiated, localised impact on community trust or low media item                 | Substantiated, public embarrassment, moderate impact on community trust or moderate media profile    | Substantiated, public embarrassment, widespread high impact on community trust, high media profile, third party actions | Substantiated, public embarrassment, widespread loss of community trust, high widespread multiple media profile, third party actions |
| Community                        | No noticeable effect on constituents, community, organisations, businesses, services, etc. | Limited effect on constituents, community, organisations, businesses, services, etc. | Moderate and manageable effect on constituents, community, organisations, businesses, services, etc. | Substantial effect on constituents, community, organisations, businesses, services, etc.                                | Devastating effect on constituents, community, organisations, businesses, services, etc.   |
| Property                         | Inconsequential or no damage.  | Localised damage rectified by routine internal procedures                            | Localised damage requiring external resources to rectify   | Significant damage requiring internal & external resources to rectify   | Extensive damage requiring prolonged period of restitution. Complete loss of plant, equipment & building                             |
| Environment                      | Contained, reversible impact managed by on site response                                   | Contained, reversible impact managed by internal response                            | Contained, reversible impact managed by external agencies  | Uncontained, reversible impact managed by a coordinated response from external agencies                                 | Uncontained, irreversible impact   |

During the workshop, the committee requested that Table 5: Risk Tolerance Criteria be updated to shift from risk acceptance terminology to risk tolerance, tolerating a risk is more proactive and involves ongoing management to ensure the risk remains within acceptable levels.

See Table 5: Risk Tolerance Criteria below:

| Risk Rank | Description               | Criteria For Risk Tolerance   | Responsibility      |
|-----------|---------------------------|---|---------------------|
| Low       | Tolerated                 | Risk tolerated with adequate controls, managed by routine procedures and subject to annual monitoring   | Operational Manager |
| Moderate  | Monitor                   | Risk tolerated with adequate controls, managed by specific procedures and subject to semi-annual monitoring   | Operational Manager |
| High      | Urgent Attention Required | Risk tolerated with effective controls, managed by senior management / executive and subject to monthly monitoring  | Director / CEO      |
| Extreme   | Unacceptable              | Risk only tolerated with effective controls and all treatment plans to be explored and implemented where possible, managed by highest level of authority and subject to continuous monitoring | CEO / Council       |

### 7.1.2. Appointment of Internal Auditor – RFQ331

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#### Report Details:

**Prepared by:** Loren Clifford, Acting Director Finance and Corporate

**Manager:** Loren Clifford, Acting Director Finance and Corporate

**File Reference:** CNL 31

**Voting Requirement:** Simple Majority

#### Attachment(s):

7.1.2(1) RFQ 331 submissions - Confidential

#### Executive Recommendation

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**That the Audit and Risk Management Committee:**

1. Recommend to Council deferring the internal audit to the 2025/2026 financial year; and
2. Requests the Chief Executive Officer to present a report detailing an updated scope for the 2025/2026 Internal Audit, for the ARMC's consideration, following the Financial Management Systems Review and Audit Regulation 17 Review.

#### Strategic Alignment

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The following outcomes from the Council Plan relate to this proposal:

**Outcome:** 12 - A well respected, professionally run organisation.

**Objective:** 12.1 - Deliver effective and efficient operations and service provision.

**Item:** 12.1.2 - Provide and deliver an Internal Audit Program.

#### Executive Summary

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The Audit and Risk Management Committee (ARMC) are requested to consider recommending to Council not to accept any quotes and to requests the Chief Executive Officer to present a report detailing an updated scope for an Internal Audit in 2025/2026, following the Financial Management Systems Review and Audit Regulation 17 Review.

#### Background

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At its Ordinary Council meeting held 24 February 2021 Council resolved the following:

*"COUNCIL RESOLUTION 16/21*



*That Council instruct the Chief Executive Officer to include for consideration in the 2021-2022 Shire of Donnybrook Balingup Draft Budget an amount of up to \$45,000 toward the establishment of an internal audit function.”*

At its meeting held 7 December 2021 the Audit and Risk Management Committee made the following resolution:

**COMMITTEE RESOLUTION**

*“That the Audit and Risk Management Committee notes that a Request for Expression of Interest for Internal Audit functions will be prepared by Officers to encompass the following requirements:*

- 1. To be undertaken in accordance with the Institute of Internal Auditors Code of Ethics;*
- 2. To be undertaken in accordance with the Internal Auditors Professional Practices Framework; and*
- 3. The broad scope of the Internal Audit program will include, at least, the following items with componentized costings:*
  - a. Information technology;*
  - b. Security and emergency procedures including accident / incident reporting;*
  - c. Vehicle fleet management;*
  - d. Lease management (where Local Government Lessor);*
  - e. Service contract management;*
  - f. FBT/GST review;*
  - g. Assessment of attractive asset control – i.e., phones, tablets and fraud awareness;*
  - h. Compliance (Local Government Act and local laws);*
  - i. Asset management (capital expenditure, asset control, depreciation schedules and preventative maintenance programs);*
  - j. Insurance management;*
  - k. Stock control; and*
  - l. Policy and procedure maintenance.*

*The Final Scope for the Internal Audit program will be reviewed at the Audit and Risk Management Committee and recommendations made to Council at the February 2022.”*

At its Audit and Risk Management committee meeting held on 3 March 2022 the Audit and Risk Management Committee resolved the following:

**COMMITTEE RESOLUTION**

*“That the Audit and Risk Management Committee:*

- 1. Review the Internal Audit Proposal attached as a confidential document, and*

2. *Recommends that Council accept the proposal for a 3 Year Internal Audit Function from AMD Chartered Accountants."*

At its Ordinary Council meeting held 23 March 2022 Council resolved the following:

*COUNCIL RESOLUTION 30/22*

*"That Council accept the proposal 3 Year Internal Audit Proposal from AMD Chartered Accountants."*

At its Audit and Risk Management committee meeting held on 8 March 2023 the Audit and Risk Management Committee resolved the following:

*"COMMITTEE RESOLUTION*

*That the Audit and Risk Management Committee note the update provided within this report in relation to the Internal Audit status."*

The Shire engaged AMD Accountants in 2023 to prepare an Internal Audit Proposal, towards the future development and implementation of a Strategic Internal Audit Plan. However, AMD Accountants withdrew from the Internal Audit initiative after being awarded the tender by the OAG to conduct the Shire's Annual Audit.

At its Audit and Risk Management committee meeting held on 21 May 2024 the Audit and Risk Management Committee resolved the following:

*COMMITTEE RESOLUTION ARMC 5/24*

*That the Audit and Risk Management Committee:*

1. *Notes the receipt of the Strategic Internal Audit Plan (Confidential Attachment 1), and the 2023 Internal Audit Report (Confidential Attachment 2) prepared by ADM Accountants; and*
2. *Notes the Internal Audit Findings Update (Confidential Attachment 3); and*
3. *Notes that the Chief Executive Officer will issue the Request for Quote (RFQ) to seek a suitably qualified replacement for the provision of the remainder of the 2023-2026 Internal Audit areas listed below:*
  - a. *Annual Review of Strategic Internal Audit Plan,*
  - b. *Review of Prior Year recommendations – Internal Audit,*
  - c. *Review of Prior Year recommendations – External Audit,*

- d. Planning,
- e. Information Technology,
- f. Security and emergency procedures including accident / incident reporting,
- g. Vehicle fleet management,
- h. Lease management (where Local Government Lessor),
- i. Service contract management,
- j. FBT/GST review,
- k. Assessment of attractive asset control,
- l. Compliance (Local Government Act and local laws),
- m. Asset management (capital expenditure, asset controls, depreciation schedules and preventative maintenance programs),
- n. Insurance management,
- o. Stock control,
- p. Policy and procedure maintenance,
- q. Risk Management, and
- r. Review and Reporting.

4. Notes that the Chief Executive Officer will provide quarterly updates on findings to the Audit and Risk Management Committee.

### Risk Management

| Risk:             | Likelihood:  | Consequence: | Risk Rating: |
|-------------------|--|--------------|--------------|
| Compliance        | Likely   | Minor        | Moderate (8) |
| Risk Description: | Intentional activities more than authority granted to an employee, which circumvent endorsed policies, procedures or delegated authority. Due to lack of governance and oversight, training and awareness. |              |              |
| Mitigation:       | Deferring the internal Audit until 2025/2026 when a revised scope can be presented.  |              |              |

| Risk:             | Likelihood:  | Consequence: | Risk Rating: |
|-------------------|--|--------------|--------------|
| Compliance        | Likely   | Minor        | Moderate (8) |
| Risk Description: | Failure to correctly identify, interpret, assess, respond and communicate laws and regulations because of an inadequate compliance framework. This could result in fines, penalties, litigation or increase scrutiny from regulators or agencies. This includes, new or proposed regulatory and legislative changes, in addition to the failure to maintain updated legal documentation (internal and public domain) to reflect changes. |              |              |
| Mitigation:       | Deferring the internal Audit until 2025/2026 when a revised scope can be presented.  |              |              |

| Risk:                | Likelihood:  | Consequence: | Risk Rating: |
|----------------------|--|--------------|--------------|
| Service Interruption | Almost Certain   | Moderate     | High (15)    |
| Risk Description:    | Failure to effectively manage the day-to-day operations of the Shire.<br>Casual Factors – Untrained staff, staff turnover, resource shortages, budget constraints, System failure, lack of coordination, non-compliance. |              |              |
| Mitigation:          | Deferring the internal Audit until 2025/2026 when a revised scope can be presented.  |              |              |

| Risk:                | Likelihood:   | Consequence: | Risk Rating: |
|----------------------|---|--------------|--------------|
| Service Interruption | Almost Certain  | Moderate     | High (15)    |
| Risk Description:    | Errors, omissions or delays in operational activities because of unintentional errors or failure to follow due process.<br>Casual Factors – <ul style="list-style-type: none"> <li>• Lack of Training: Insufficient training leading to mistakes and oversights,</li> <li>• Fatigue: Employees experiencing fatigue or burnout, affecting their performance.</li> <li>• Time Pressure: High-pressure environments where speed is prioritised over accuracy.</li> <li>• Cultural Issues: Organisational culture that does not prioritise accuracy and due process.</li> <li>• Resource Constraints: Limited resources leading to rushed or incomplete work.</li> <li>• Lack of Accountability: No clear accountability for errors and omissions.</li> <li>• Data Entry Mistakes: Mistakes in data entry due to human error.</li> <li>• Lack of Automation: Manual processes that are prone to human error.</li> <li>• Inadequate Tools: Inadequate or inappropriate tools for the task at hand.</li> </ul> |              |              |
| Mitigation:          | Deferring the internal Audit until 2025/2026 when a revised scope can be presented.   |              |              |

### Financial Implications

Nil.

### Policy Compliance

Nil.

## Statutory Compliance

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Nil.

## Consultation

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Key staff have been consulted internally to determine the optimal outcome for the Shire.

## Officer Comment

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The Shire issued a Request for Quote for Internal Audit Services via WALGA's Vendor Panel, with submissions closing on 2 September 2024. The following respondents made submissions:

1. Audit Australia Pty Ltd
2. Moore Australia Audit (WA)
3. Paxon Business and Financial Services Pty Ltd
4. Stantons International Audit and Consulting Pty Ltd
5. William Buck Consulting (WA) Pty Ltd

The submissions were evaluated by:

1. Maurice Battilana, Acting Director Finance & Corporate
2. Loren Clifford, Manager Corporate Services
3. Stuart Eaton, Finance Project Manager

Each panel member scored the submissions using a predetermined rating scale. The panel then convened to reach a consensus score and determine their recommendation to the Audit and Risk Management Committee.

The panel determined a preferred respondent (Respondent C). The preferred respondent's submission was highly detailed, thoroughly outlining the scope of work for each audit area and demonstrating a strong understanding of the specific areas to be reviewed. Additionally, the submission highlighted extensive internal audit experience within local government.

The submissions received [Attachment 7.11\(1\)](#) are provide as a confidential attachment for the committee's information. It will be noted from the submissions received the amount quoted by the preferred respondent was much more than the \$20,000 allocated for this purpose in the adopted 2024/2025 budget.

Given the following circumstances, the administration recommends deferring the internal audit to the 2025/2026 financial year:

1. The original scope of the internal audit dates back to 2021, and the organisation has since undergone significant changes.

2. The administration believes it is essential to incorporate findings from the Financial Management Review and the Audit Regulation 17 review. Additionally, it is advisable to include areas identified as High/Extreme risk in accordance with the Risk Management Framework.
3. Implementing changes that may conflict with or duplicate efforts from the Financial Management Review and the Audit Regulation 17 review would be inefficient, especially given the limited resources/capacity to act on recommendations from any internal audit findings on top of the two review findings. This approach seems counterproductive, and
4. The quotes obtained from external consultants exceed the amount allocated in the 2024/2025 adopted budget.

Therefore, it is advised that the ARMC recommends to Council not to accept any quotes at this time. Instead, the administration will workshop a new scope of work for the internal audit function for 2025/2026, which incorporates the two reviews required under legislation on 2024/2025, the annual financial review, and the implementation of the Risk Management Framework.

Furthermore, delaying the audit will allow the organisation to stabilise after recent changes and ensure that any new processes or structures are fully integrated. This additional time will also enable the administration to allocate resources more effectively, ensuring that the audit, when conducted, will be comprehensive and aligned with the current operational environment. By deferring the audit, the Council can ensure that the findings will be actionable and relevant, ultimately leading to more effective governance and risk management.

### 7.1.3. 2025 ARMC Meeting Schedule and Review of Terms of Reference

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#### Report Details:

**Prepared by:** Loren Clifford, Acting Director Finance and Corporate

**Manager:** Loren Clifford, Acting Director Finance and Corporate

**File Reference:** CNL 31

**Voting Requirement:** Simple Majority

#### Attachment(s):

7.1.3(1) 2025 Audit and Risk Management Committee meeting schedule

7.1.3(2) Current Terms of Reference

#### Executive Recommendation

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##### That the Audit and Risk Management Committee:

- 1. Notes the proposed 2025 Audit and Risk Management Committee meeting schedule as outlined in Attachment 7.1.3(1); and**
- 2. Notes that the Chief Executive Officer will advertise the Audit and Risk Management Committee meeting dates on the Shire’s website; and**
- 3. Recommends a review of the current Audit and Risk Management Committee Terms of Reference (Attachment 7.1.3(2) to be presented at its March 2025 meeting.**

#### Strategic Alignment

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The following outcomes from the Council Plan relate to this proposal:

**Outcome:** 11 - Strong, visionary leadership.

**Objective:** 11.1 - Provide strategically focused, open and accountable governance.

**Item:** Nil.

#### Executive Summary

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It’s requested that the Audit and Risk Management Committee (ARMC) notes the proposed 2025 meeting schedule and recommend the review of the current Terms of Reference.

#### Background

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In accordance with the terms of reference outlined for the Audit and Risk Management Committee “the Committee”, it is specified that the Committee shall convene meetings at its discretion. Furthermore, the Committee Chairperson, or presiding individual, retains the authority to summon additional meetings as deemed necessary to address referred matters or pursue topics of interest to the Committee.

The Terms of Reference were last reviewed in October 2020 and are overdue for review.

## Risk Management

| Risk:             | Likelihood:   | Consequence:  | Risk Rating: |
|-------------------|---|---------------|--------------|
| Compliance        | Possible  | Insignificant | Low (3)      |
| Risk Description: | No meeting schedule established to ensure sufficient resource allocations to manage the ARMC meeting process and updates. |               |              |
| Mitigation:       | Establish a meeting schedule to ensure resource allocations and availability.   |               |              |

## Financial Implications

Nil.

## Policy Compliance

Nil.

## Statutory Compliance

### Local Government Act 1995

While the *Local Government Act 1995* does not specify the exact frequency of meetings, the committee must meet often enough to fulfill its responsibilities effectively. The typical practice is for the audit committee to meet at least quarterly.

### Local Government (Audit) Regulations 1996

The *Local Government (Audit) Regulations 1996* provide further guidance on the committee's functions and responsibilities, which imply regular meetings to ensure oversight and compliance.

## Consultation

Nil.

## Officer Comment

While the *Local Government Act 1995* and associated regulations do not mandate a specific number of committee meetings per year, scheduling at least annual meetings is a minimum best practice. Annual meetings provide a structured opportunity to review financial statements, monitor internal controls and risk management, ensure compliance, and maintain public accountability. Regular, well-planned meetings are crucial for the effective governance and financial stewardship of the Shire.

Outlined in [Attachment 7.1.3\(1\)](#) is the proposed 2025 Audit and Risk Management Committee meeting schedule, it should be noted that the dates provided serve as a guideline and may be adjusted based on the auditors' responses.



The Terms of Reference (TOR) were last reviewed in October 2020 and are overdue for review.

While the regulations do not explicitly mandate a periodic review of the terms of reference, it is implied that maintaining clear and comprehensive terms of reference is essential for the effective operation of the Committee. Regular reviews ensure that the terms of reference remain relevant and aligned with current legislative requirements and best practices.

Therefore, it is good practice for local governments to periodically review and update the terms of reference for their audit committees to ensure they continue to meet legislative requirements and effectively support the audit committee's role.

It's proposed to present the reviewed TOR to the March 2025 Audit and Risk Management Committee meeting.

### 7.1.4. Quarterly Audit Findings Progress Report (May – September 2024)

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#### Report Details:

**Prepared by:** Loren Clifford, Acting Director Finance and Corporate

**Manager:** Loren Clifford, Acting Director Finance and Corporate

**File Reference:** CNL 31

**Voting Requirement:** Simple Majority

#### Attachment(s):

7.1.4(1) Quarterly Audit Findings Progress Report (May – September 2024)

#### Executive Recommendation

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**That the Audit and Risk Management Committee:**

- 1. Notes the update provided in Quarterly Audit Findings Progress Report for the period covering May – September 2024 Attachment 7.1.4(1).**

#### Strategic Alignment

---

The following outcomes from the Council Plan relate to this proposal:

**Outcome:** 11 - Strong, visionary leadership.

**Objective:** 11.1 - Provide strategically focused, open and accountable governance.

**Item:** Nil.

#### Executive Summary

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It's requested that the Audit and Risk Management Committee (ARMC) notes the update provided on the Quarterly Audit Findings Progress Report for the period covering May – September 2024.

#### Background

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Under the *Local Government Act 1995* and associated regulations, the Shire is required to undertake several types of audits to ensure accountability and transparency. These Audit's consist of:

1. Financial Audits – The Shire must have their financial statements audited annually. This is mandated under Section 7.9 of the *Local Government Act 1995*.
2. Financial Management Review - is governed by Regulation 5(2) of the *Local Government (Financial Management) Regulations 1996*. This regulation requires the CEO to regularly review the appropriateness and effectiveness of the financial management systems and procedures of the local government, with a minimum frequency of once every three financial years.
3. Compliance Audits – The Shire must complete a compliance audit return (CAR) annually, which is reviewed by the ARMC, and Council then submitted to the Department of Local Government,

Sport and Cultural Industries. This requirement is outlined in Regulation 14 of the *Local Government (Audit) Regulations 1996*.

4. Audit Regulation 17 Review - is a requirement under the *Local Government (Audit) Regulations 1996*. It requires the Chief Executive Officer (CEO) of a local government to review the appropriateness and effectiveness of the local government's systems and procedures in relation to:
  - Risk Management
  - Internal Control
  - Legislative Compliance
5. Internal Audits - While not explicitly mandated, internal audits are recommended as part of good governance practices. They help the Shire identify and mitigate risks proactively.

Regular reporting on progress and actions taken in response to audit findings to the Audit and Risk Management Committee should be undertaken to ensure transparency and accountability, demonstrating a commitment to addressing identified issues and improving governance.

### Risk Management

| Risk:             | Likelihood:   | Consequence: | Risk Rating: |
|-------------------|---|--------------|--------------|
| Compliance        | Likely  | Minor        | Moderate (8) |
| Risk Description: | Not reporting updates on audit findings to the audit committee on a regular basis can lead to a lack of oversight, delayed corrective actions, and potential non-compliance with regulatory requirements. |              |              |
| Mitigation:       | Establish a reporting schedule and process as outlined in this report.  |              |              |

### Financial Implications

Nil.

### Policy Compliance

Nil.

### Statutory Compliance

Nil.

### Consultation

An internal review of the findings contained in [Attachment 7.1.4\(1\)](#) Quarterly Audit Findings Progress Report (May – September 2024) were reviewed by key responsible officers, providing an Administration Update, and Status Update.

## Officer Comment

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Regular reporting on progress and actions taken in response to audit findings to the Audit and Risk Management Committee is crucial for the Shire. This practice ensures transparency and accountability, demonstrating a commitment to addressing identified issues and improving governance. By keeping the committee informed, the Shire can receive timely feedback and guidance, which helps in mitigating risks and enhancing operational efficiency. Additionally, the regular reporting fosters a culture of continuous improvement and builds public trust, as the community can see the Shire is proactive in managing resources responsibly and effectively addressing any shortcomings.

Quarterly reporting will occur if there are findings to report on, covering the five audit areas:

1. financial audits,
2. financial Management Review,
3. compliance audit,
4. audit Regulation 17 Review, and
5. internal audits.

The planned reporting periods are for the following quarters:

- 1 December – 28 February,
- 1 March – 30 April,
- 1 May - 31 September, and
- 1 October – 30 November.

The ARMC are requested to note the update provided on the Quarterly Audit Findings Progress Report for the period covering May – September 2024.

8. Meetings Closed to the Public

8.1. Matters for which the Meeting may be closed

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Nil.

8.2. Public reading of Resolutions that may be made public

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Nil.

9. Closure

The Chairperson to advise that the next Audit and Risk Management Committee Meeting will be held on ## month 20## at ##:##AM/PM, in the Shire of Donnybrook Balingup Council Chamber.

The Chairperson to declare the meeting closed at ##:##AM/PM.