

SHIRE OF LEONORA



AUDIT AND RISK COMMITTEE MEETING

MINUTES OF MEETING HELD 19TH DECEMBER 2017, AT 3:88PM.

1.0 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS / FINANCIAL INTEREST DISCLOSURE

Chairperson, Cr PJ Craig, declared the meeting open at **3:18pm**.

2.0 RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE

2.1 Present

President	PJ Craig
Deputy President	RA Norrie
Councillors	RM Cotterill
	AE Taylor
	LR Petersen
	AM Moore
	F Harris
Chief Executive Officer	JG Epis
Deputy Chief Executive Officer	TM Browning
Visitors	A Cheng (Moore Stephens)

2.2 Apologies

Nil

2.3 Leave of Absence

Nil

3.0 CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING

That the Minutes of the Ordinary Meeting held on 19th September, 2017, be confirmed as a true and accurate record.

Moved Cr AE Taylor, Seconded Cr RA Norrie that the Minutes of the Ordinary Meeting held on 19th September, 2017, be confirmed as a true and accurate record.

CARRIED (7 VOTES TO 0)

4.0 REPORTS OF OFFICERS

4.2 DEPUTY CHIEF EXECUTIVE OFFICER

4.2.1 RELATED PARTY TRANSACTIONS AND DISCLOSURES

SUBMISSION TO: Meeting of Audit Committee
Meeting Date: 19th December 2017

AGENDA REFERENCE: 4.2.1 AUDIT DECEMBER 17

SUBJECT: Related Party Transactions and Disclosures

LOCATION / ADDRESS: Leonora

NAME OF APPLICANT: N/A

FILE REFERENCE: 1.8

AUTHOR, DISCLOSURE OF ANY INTEREST AND DATE OF REPORT

NAME: Tanya Browning

OFFICER: Deputy Chief Executive Officer

INTEREST DISCLOSURE: Nil

DATE: 12th December 2017

BACKGROUND

In accordance with AASB 124 *Related Party Disclosures*, local governments must disclose in the annual financial statements related party relationships, transactions and outstanding balances (including commitments) from 1 July 2016. Related parties include Key Management Personnel (KMP), which in the Shire of Leonora's case will include all elected members and executive staff, their close family members and any entities that they control or jointly control.

The disclosure requires any transactions with these parties, whether monetary or not, to be identified and assessed whether disclosure is required or not. A disclosure may be in aggregate and will only occur where a transaction has actually occurred. This disclosure has been calculated and included in the 2017 annual financial report.

For larger local governments and perhaps local governments that are located in the metropolitan region, this disclosure would be fairly simple given the variety of suppliers and operators available, and as such, the reporting aspect would not be too onerous on staff. With smaller local governments located in more remote areas however, the circumstances are different in that family businesses operate extensively within small communities, there are fewer alternatives available, and that inevitably family members and connections are much more prevalent due to the smaller employment pool and population base. In this respect, not only is it important to properly disclose and declare related party transactions, the data collection and evidence trail is much more labour intensive.

With regard to the disclosures, the following approach was developed to ensure that management can properly address the requirements of the accounting standard:

- A procedure / guide for related party disclosures to be established
- Establishment of a system to identify and record related parties of KMPs
- Establishment of a system to identify and record related party relationships of KMPs
- Establishment of a system to identify and record related party transactions
- Identify 'Ordinary Citizen Transactions' (OCTs) that will not be disclosed by Council
- Create declaration forms to be completed by KMPs
- Set a materiality threshold for management to apply when assessing transactions for inclusion in the financial statements

A workshop was held at the June 2017 Audit and Risk Committee Meeting to assist the Audit and Risk Committee gain some insight and understanding into the disclosure requirements, and to begin declarations ready for 2016/17 annual financial statements.

The workshop provided the committee the opportunity to review the approach taken by the management team in relation to addressing the requirements of AASB 124, and explanation behind the reasoning for the requirement. During the workshop, it was noted that the exercise of declarations should be completed quarterly, to ensure that staff are progressively collecting and collating information, and that the Audit and Risk Committee Meetings (also held quarterly) is a good forum to table this item whilst keeping abreast of any changes to interpretations to regulations etc.

These declarations will again be provided at the meeting, for completion and return to the administration so that data collection can be progressively undertaken. This process also allows the committee to recommend any changes required to future risk review processes.

For newly elected members, a separate workshop can be scheduled prior to the meeting at a convenient time to review the systems and forms.

STATUTORY ENVIRONMENT

Accounting Standard AASB 124 Related Party Disclosures was extended in July 2015 to include application by not for profit entities, including local governments. Disclosures are required 1 July 2016, with the first disclosures to be made in the Financial Statements for the year ended 30 June 2017.

POLICY IMPLICATIONS

There are no policy implications resulting from the recommendation of this report.

FINANCIAL IMPLICATIONS

There are no financial implications resulting from the recommendation of this report that will have any detrimental effect on the Shire's finances.

STRATEGIC IMPLICATIONS

Strategic References within the Shire of Leonora Strategic Community Plan 2017-2027 demonstrate connections between services and the desired outcomes and community vision for the Shire of Leonora, particularly in relation to Governance services in this instance such as 4.1 Efficient service offerings to the community, 4.2 Effective and open engagement with all sections of the community, 4.5 Strong leadership and planning.

RECOMMENDATIONS

That the Audit and Risk Committee note the approach taken and the systems established by management with regard to addressing the requirements of *AASB 124 Related Party Disclosures*.

VOTING REQUIREMENT

Simple Majority

COMMITTEE DECISION

Moved Cr AM Moore, Seconded Cr RA Norrie that the Audit and Risk Committee note the approach taken and the systems established by management with regard to addressing the requirements of *AASB 124 Related Party Disclosures*.

CARRIED (7 VOTES TO 0)

4.0 REPORTS OF OFFICERS

4.2 DEPUTY CHIEF EXECUTIVE OFFICER

4.2.2 RISK MANAGEMENT SUPPORT SERVICES

SUBMISSION TO: Meeting of Audit Committee
Meeting Date: 19 December 2017

AGENDA REFERENCE: 4.2.2 AUDIT December 17

SUBJECT: Risk Management Support Services

LOCATION / ADDRESS: Leonora

NAME OF APPLICANT: N/A

FILE REFERENCE: 1.46

AUTHOR, DISCLOSURE OF ANY INTEREST AND DATE OF REPORT

NAME: Tanya Browning

OFFICER: Deputy Chief Executive Officer

INTEREST DISCLOSURE: Nil

DATE: 12th September 2017

BACKGROUND

At its meeting held on 19th September 2017, the Audit and Risk Committee were presented with an item documenting the work undertaken to date by the Shire of Leonora in relation to risk management and efforts to achieve compliance with Audit Regulation 17. The report noted that due to inadequate internal resources, external consultants and employees independent of operations featured within risk reporting structures had been engaged to provide assistance with reports etc. This structure has worked well as their independence to operations provides greater transparency and minimizes the risk of mis-representation of information that could expose the organization to higher levels of risk.

At that meeting, the committee resolved the following:

That the Audit and Risk Committee:

- 1. Endorse the actions of the executive management team in engaging Moore Stephens for initial risk management support service work*
- 2. Request the executive management to provide a report for presentation to the Audit & Risk Committee on the outcomes of the initial review, as outlined in the above report*
- 3. Request the executive management to provide an assessment into the viability and a costing summary of ongoing risk management support services through Moore Stephens following the initial review process*

Since that time, Ms Anne Cheng of Moore Stephens, has met with the Deputy CEO via phone and in Perth to progress the review, and has also travelled to site to undertake an examination of general operations, roles & responsibilities of various staff members, as well as interviewing individual staff members about practices and segregation of duties etc. This visit was with the assistance of Mr Gavin Prime who has been providing assistance with risk management to the Shire of Leonora for almost two years. Mr Prime has been offered employment elsewhere and was to conclude his work with the Shire of Leonora in October 2017, however has continued to provide much assistance since then. Mr Prime's support with this transition has been very helpful in progressing the work in this field and his commitment to the Shire of Leonora is acknowledged with great appreciation.

Following on from the on-site review/examination, Moore Stephens have provided a cursory assessment of the practices currently employed by the Shire of Leonora with regard to risk management, as well as recommendations to begin some refinement on those practices. Ms Cheng will be in attendance at the meeting to present to the audit

committee an overview of this work, including recommendations for measured deliverables and actions to take place over the next twelve months to support these recommendations.

Some of the items that have been recommended include refreshing the Risk Management Framework for the Shire of Leonora to simplify and adapt to suit the organisation's needs. This draft framework will be discussed during the presentation to the committee by Ms Cheng. Other items include the review of business processes and reporting (following on from initial review), removal of redundant controls and exploring the feasibility to utilise existing technology more, as well as clarifying roles and responsibilities within the organisation (formalising for transparency). More detailed explanations will be supplied during the presentation to the committee.

Essentially, this presentation will form the report to the Committee on the outcomes of the initial risk management review (as endorsed by the Audit and Risk Committee at the last meeting) that has been undertaken. Once the outcomes of the report have been discussed and tabled, the executive management team can progress to providing an assessment into the viability and a costing summary of ongoing risk management support services through Moore Stephens for consideration at the next committee meeting. There are sufficient budget funds to continue with the work already indicated until the next meeting of the Audit & Risk Committee in March 2018, particularly with savings in staff costs following the gradual withdrawal of service by Mr Gavin Prime.

STATUTORY IMPLICATIONS

Areas of risk are subject to change and modification during the year on the authorisation of the Chief Executive Officer and Audit Committee, whom as per section regulation 17.1 of the Local Government (Audit) Regulations 1996 will continue to monitor the Appropriateness and Effectiveness of the Councils Systems and Procedures.

POLICY IMPLICATIONS

The Risk Management Policy outlines the Shire's commitment and approach to managing risks that may impact on its day-to-day operations and threaten the delivery of strategic objectives.

FINANCIAL IMPLICATIONS

The improvement of risk profiling and reporting may increase opportunity for funding towards key service delivery objectives. Provision is included in the 2017/18 Adopted Budget to utilise consultants for this purpose.

STRATEGIC IMPLICATIONS

The Chief Executive Officer plays a key role in the establishment and development of an effective risk management framework. To ensure the successful delivery of the Strategic Planning objectives, the framework requires ongoing monitoring and revision for Strategic Planning alignment.

The role of the audit committee is to monitor identified strategic high risks and their treatment solutions to ensure the community receives the services delivered effectively as outlined within the Strategic Plans.

Monitoring and reviewing activities will continue to provide evidence of the appropriateness and effectiveness of systems and procedures in regard to risk management, internal control and legislative compliance, as required by the Local Government (Audit) Regulations 1996.

Strategic References within the Shire of Leonora Strategic Community Plan 2017-2027 demonstrate connections between services and the desired outcomes and community vision for the Shire of Leonora, particularly in relation to Governance services in this instance such as 4.1 Efficient service offerings to the community, 4.2 Effective and open engagement with all sections of the community, 4.5 Strong leadership and planning.

RECOMMENDATIONS

That the Audit and Risk Committee:

1. Note the presentation as delivered by Moore Stephens and tabled at the meeting
2. Note the revised draft Risk Management Framework as presented and tabled at the meeting
3. Request the executive management team to provide an assessment into the viability and a costing summary of ongoing risk management support services through Moore Stephens for presentation at the March 2018 committee meeting.

VOTING REQUIREMENT

Simple Majority

COMMITTEE DECISION

Moved Cr LR Petersen, Seconded Cr RA Norrie that the Audit and Risk Committee:

1. Note the presentation as delivered by Moore Stephens and tabled at the meeting
2. Note the revised draft Risk Management Framework as presented and tabled at the meeting
3. Request the executive management team to provide an assessment into the viability and a costing summary of ongoing risk management support services through Moore Stephens for presentation at the March 2018 committee meeting.

CARRIED (7 VOTES TO 0)

Shire of Leonora

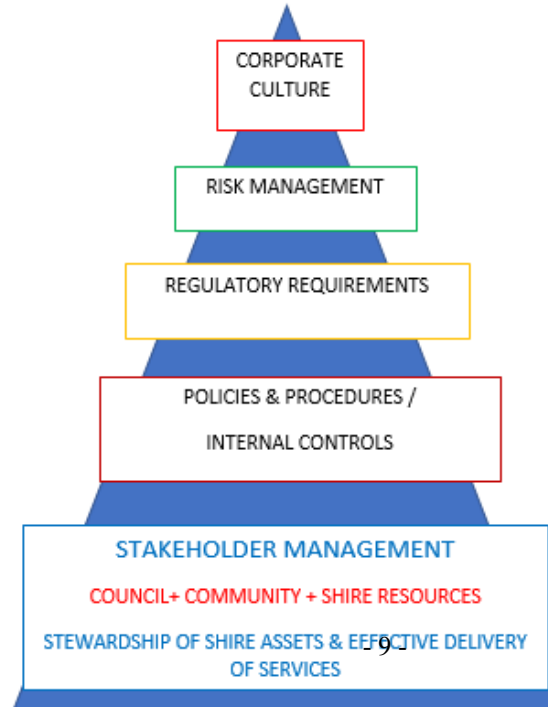
Risk Management Overview

Audit & Risk Committee

19 December 2017

The Big Picture

GOVERNANCE FRAMEWORK



Regulatory Audit Requirements

Re-fresher of key Audit Committee responsibilities

- Review Compliance Audit Return (CAR)
- Consider CEO bi-ennial review of risk management, internal control and legislative compliance (AR 17)
- Review of Financial Management Systems and Procedures (FMR must be conducted every 4 years)
- Consider External Audit Report and CEO's report to the matters raised

Key Governance Principles

SUCCESS FACTORS

- Strategic Focus
- Clear Roles & Responsibilities
- Structured Processes
- Management Controls have integrity and support accountability
- Transparency
- Communication

PERFORMANCE INDICATORS

- ➔ Execution of Informing Plans
- ➔ Efficient & effective workforce
- ➔ Relevant Policies and Procedures
- ➔ Evidence of control and management oversight
- ➔ Reporting of financial outcomes, issues; independent assurance
- ➔ Engaged community, council and workforce

Risk Management – linkage to governance

- Effective ‘risk management’ relies on a sound governance foundation.
- Closing gaps relating to governance automatically reduces risk and through time enables the appropriate focus on managing the strategic and high level risks.
- Operational staff are responsible for day to day risk management through structured processes, policies and procedures.

Risk Management Work Plan

- Agree on priority areas of focus and recommend remediation plan (refer to slide 6).
- Assist with development of regular management reporting from line managers to feed into CEO 'Reporting'.
- Consolidate previous risk registers and focus on articulation of top risks, capture existing and required risk mitigation (to be implemented); calibrate risks.
- Prepare one Executive Risk Summary Report for Council – quarterly.

Summary - Focus Areas

Priority Items

- ❖ Refresh Risk Management Framework – simplify, adapt from industry standards – ISO, Governance Institute of Australia;
- ❖ Review business processes /reporting; remove redundant controls, assess feasibility to utilize existing technology more and develop sustainable control framework; and
- ❖ Clarify roles & responsibilities; formalise for transparency.

Thank you

Contact Details

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Draft Risk Management Framework 2017

DRAFT

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DRAFT

TERMINOLOGY

Definitions	
Consequence	The outcome of an event affecting achievement of organisational objectives.
Control	A measure that modifies a risk or manages risks within an organisation.
Establishing the context	Defining the external and internal parameters to be taken into account when managing risk, and setting the scope and evaluating the significance of a risk (i.e. risk criteria).
Event	The occurrence or change of a particular set of circumstances.
Likelihood	The chance of a risk event occurring.
Monitoring	Continual checking, critically observing or determining status in order to identify change from the performance level required or expected.
Operational Risk	Operational risks are linked to the Business Plan objectives and take into consideration risks which will prevent departments from delivering their annual business plans and ongoing services to the community.
Residual risk	The risk remaining after risk treatment.
Risk	The effect of uncertainty on objectives. An effect is a deviation from the expected and can be either positive or negative.
Risk analysis	The process to comprehend the nature of risk and to determine the level of risk.
Risk assessment	The overall process of risk identification, risk analysis and risk evaluation.
Risk attitude	The organisation's approach to assessing and eventually pursuing, retaining, taking or turning away from risk.
Risk criteria	The terms of reference against which the significance of a risk is evaluated.
Risk evaluation	The process of comparing the results of a risk analysis with the risk criteria to determine whether the risk and/or its magnitude are acceptable or tolerable.
Risk identification	The process of finding, recognising and describing risks.
Risk management	The co-ordinated activities to direct and control an organisation with requirements to manage risk.
Risk management framework	The set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organisation.

Definitions	
Risk management plan	The scheme within the risk management framework that specifies the approach, the management components and the resources that are to be applied to the management of risk.
Risk management policy	The Shire's statement of overall intention and direction related to risk management.
Risk management process	Risk management is the identification, assessment and prioritisation of risks followed by the co-ordinated and economical use of resources to minimise, monitor and control the probability or impact of undesirable events. Managing risks also pertains to the realisation of opportunities to the benefit of the organisation.
Risk owner	The person with the accountability and authority to manage a risk.
Risk profile	The acceptable level of risk an organisation is prepared to accept. For the purposes of this Framework, the Shire's risk profile is the overall exposure to risk based on its aggregated risks, at a point in time.
Risk source	An element that, either alone or in combination, has the intrinsic potential to give rise to a risk.
Risk treatment	The process to modify risk.
Stakeholder	A person or organisation that can affect, be affected by or perceive themselves to be affected by a decision or activity.
Strategic Risk	Strategic risks are the risks that will prevent the Shire from meeting the objectives outlined in its "Strategic Plans".
<i>Reference: ISO 31000:2009 Risk management—Principles and guidelines</i>	

RISK MANAGEMENT FRAMEWORK

1.1 Introduction

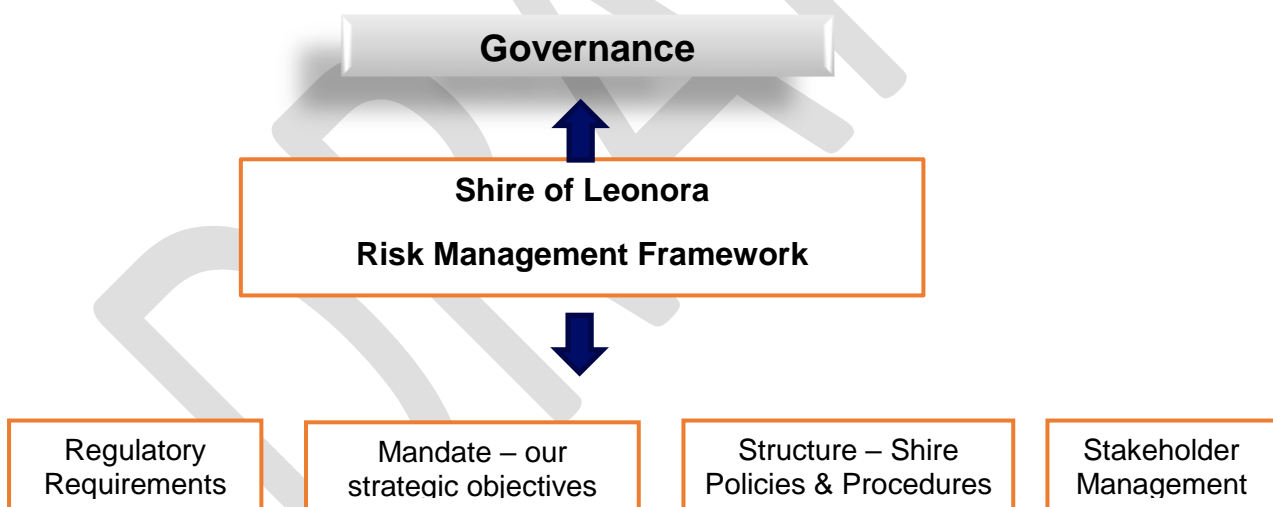
The Risk Management Framework (Framework) aims to support an **integrated** and effective approach to risk management to ensure an organisation-wide approach to risk management. This includes consistent assessment of risks including risk mitigation activities from a top down perspective as well as bottom up through operational processes and procedures.

The Shire has adopted a structured approach to risk management based on ISO 31000:2009, Australian / New Zealand International Standard for Risk Management – Principles and Guidelines and other industry standards which advocate an integrated enterprise risk management approach such as Committee of Sponsoring Organisations of the Treadway Commission (COSO) Integrated Enterprise Risk Management. This should encourage proactive identification of risks, improve operational efficiency and increase the likelihood of successful delivery of projects and services.

The Framework has been developed with input and review from the Executive Leadership Team and the Audit Committee and adopted by Council.

1.2 Risk Management and linkage to Governance Model

Risk management is integral to the Shire's Governance Model. The diagram below depicts the key components and drivers of the risk management framework:



The key **objectives** of the Framework are to:

- ensure there is a consistent and systematic approach to risk management through decision-making and corporate planning; this will contribute towards an effective and efficient risk management culture over time;
- provide tools to assist management with risk identification and articulation of risks to enable appropriate risk mitigation strategies; and
- supports the overall governance framework through integration of corporate culture, internal controls, policies and procedures (“internal control environment”) and management oversight.

RISK MANAGEMENT FRAMEWORK

1.3 Risk Management Policy

The Shire’s Risk Management Policy (A.2.13) states the mandate and commitment including roles and responsibilities of all staff and Council:

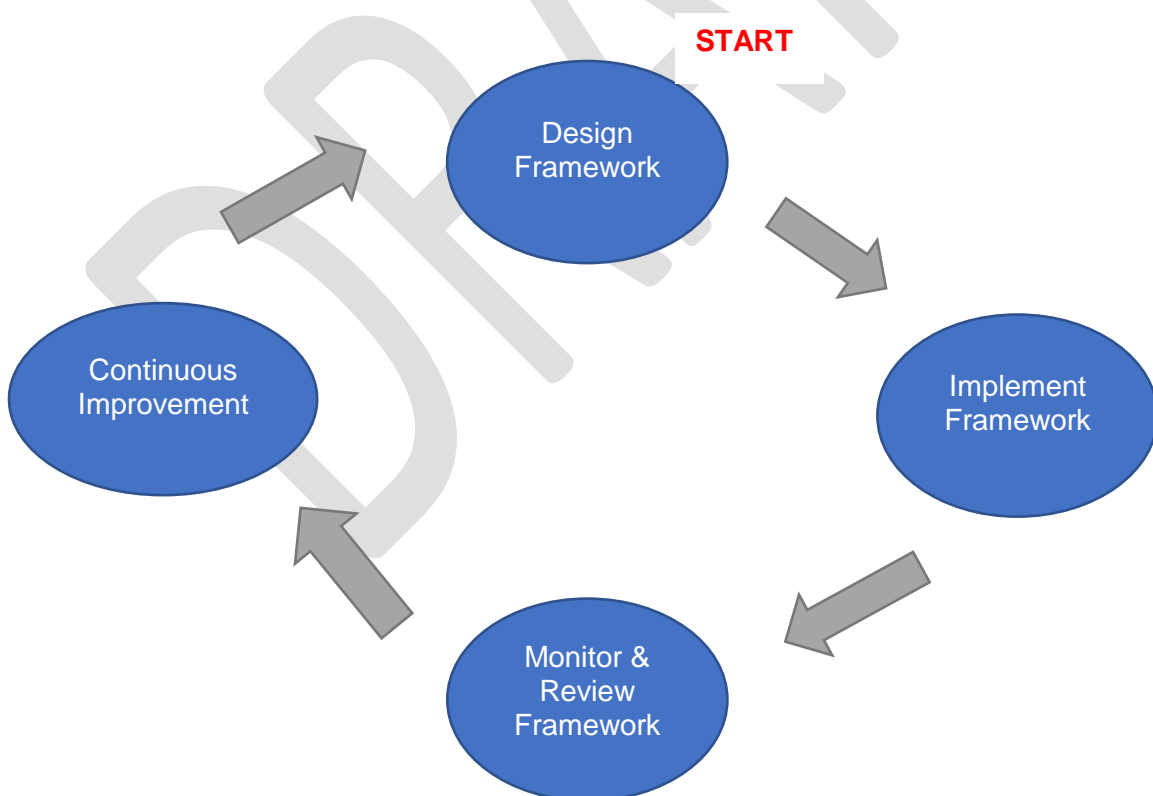
“The management of risk is the responsibility of everyone and should be an integral part of organisational culture and be reflected in the various policies, protocols, systems and processes used to ensure efficient and effective service delivery.”

The Risk Management Policy must be read and understood in conjunction with this Framework.

1.4 Risk Management Principles

In accordance to ISO 31000:2009, the following key principles provide necessary guidance and methodology when implementing a structured risk management process.

HIGH LEVEL OVERVIEW OF FRAMEWORK



RISK MANAGEMENT FRAMEWORK

The above process is an iterative one which over time should result in more mature risk management techniques. Details of each stage are:

Design Framework

- Understand the organisation and its context
- Establish and adopt a Risk Management Policy
- Establish roles, responsibilities and accountabilities
- Integrate risk management into organisational processes
- Allocate resources
- Establish internal and external communication and reporting mechanisms

Implement the Framework

- Adopt the Risk Management framework
- Implement corporate risk management processes for the identification, assessment and treatment of risk

Monitor and Review the Framework

- Ensure controls are effective and efficient in both design and control operation
- Identify changes in the internal and external context
- Identify emerging risks or changed risk conditions

Continuous Improvement

- Capture learnings from risk processes and continuously refine and tweak the framework and key elements which support the risk management process
- Develop performance indicators through risk process

Refer to the Tables for more details of how the key elements of the framework.

[Risk Management Principles \(adapted for Shire of Leonora\)](#)

Risk Culture: Risk culture should be aligned with the Shire's core values and risk mindset. The risk management behaviour of the people within the Shire and Council should reflect community expectations and those of key stakeholders.

Structured Process: Refers to the risk management process which encompasses:

- Risk identification, assessment and treatment
- Risk monitoring and review
- Risk reporting and communication

Refer to Diagram 1 (page 12) for the full process stages.

Accountability and transparency: Clear roles and responsibilities; involves stakeholders and decision makers in ensuring risk management remains relevant and up-to-date, and is based on informed choices and agreed priorities.

RISK MANAGEMENT FRAMEWORK

Strategic focus: Managing risks should create and protect value by contributing to the achievement of objectives (i.e. Strategic Community Plan, Corporate Business Plan) and improving Shire performance as an integrated activity within existing processes.

Tailored to Shire risk profile: Recognises the Shire's external and internal influences and challenges due to its geographical location and community needs.

Dynamic: Risks needs to be managed in a dynamic, iterative and responsive manner.

Continuous Improvement: Developing a more risk aware workforce will result in operational processes which take into account risk considerations and enable processes and decision making to improve over time.

1.5 Risk Exposures / Risk Themes

To be developed with Executive Group

Suggested examples

Strategic projects not reflective of community requirements due to lack of robust planning and co-ordination

Failure to identify and close gaps in the delivery of essential services (i.e. inadequate or insufficient health service providers)

Business Interruption caused by an unexpected event resulting in the temporary alternative delivery methods through to forced loss of multiple services (i.e. technology failure or property damage)

Unplanned changes to funding arrangements impacting on current and future year budgets

Loss of major source of revenue

Liability claim from Shire run event

Inadequate protection of Shire's assets /electronic records/financial system

Stagnant population growth resulting in under-utilised resources

Reduction in tourist numbers and expected revenues

Noncompliance to regulatory requirements

Emerging risks not identified or flagged

Environmental risks

RISK MANAGEMENT FRAMEWORK

1.6 Risk Tolerance / Risk Appetite

Risk tolerance or risk appetite can be defined as the amount and type of risk that the Shire is willing to take in order to meet its strategic objectives. Given the inherent risk profile of local governments, it is important that the CEO and Council members understand and consider the relatively low appetite for risk when evaluating major decisions. To facilitate meaningful analysis of the Shire's risk exposures, a role of the Audit & Risk Committee is to constructively challenge management's proposals and decisions.

As the risk management processes mature, a risk appetite framework which pre-defines types of risk and quantifies them in a structured manner will ensure that the Shire's strategic objectives are effectively planned and managed. This results in understanding the trade-offs between risk versus reward, leading to appropriately calibrated risk outcomes at an entity level. It also enables articulation of specific actions/practices i.e. the Shire does not tolerate any risk that breaches regulatory obligations / legislative requirements. This assists with staff understanding of how their day-to-day risk management activities contribute towards the Shire's risk culture and risk profile.

Risk appetite statement to be developed with Council and Executive following risk training

1.7 Risk Reporting and Communication

An effective Framework relies on a continual process by all Shire staff and management of:

- risk monitoring via embedded operational activities and at the strategic level
- review of risk practices and consolidated risk reports
- continuous improvement of the Framework to ensure it is relevant and reflects top-down, bottom up risk management

Formal Risk Reporting

This section will be updated when the improved risk reporting processes have been implemented and training provided to staff

Current Practice – for information purposes; will be updated when the process for regular reporting of agreed

Operating Risk Report: Operating risks which are actively managed via internal controls and /or planned control activities. The Operating Risks contain risk descriptions, risk ratings, existing controls, solutions and progress comments. Based on the information presented, it is not clear why the risk items have been reported.

The September 2017 Operating Risk report is about fifty pages and includes risks which are being mitigated via internal controls and therefore may not represent operating risks which require management attention via formal Operating Risk reporting.

Recommendations for a more streamlined and effective process for Audit & Risk / Executive management of operational risks.

- Assess effectiveness of key internal controls (use the last Operating Risk report as starting point and include others which should be included to support accurate, compliance and complete financial reporting).

RISK MANAGEMENT FRAMEWORK

- Any controls which are deemed not designed or operating effectively need to be remediated:
 - ineffective control design means that the control that is being performed does not mitigate the intended risk;
 - ineffective control operation means that the control is not consistently performed to be reliable as a control).
- A review of the controls which are being remediated should be assessed for impact to the Shire risk profile. Any controls which are not operating effectively and identified as risks to the Shire's achievement of its strategic objectives should be carried forward and reported in the Shire Risk Report.
- To assist with oversight of internal control environment by CEO, monthly reports (templates to be provided) should be prepared by functional department heads to keep CEO informed of potential risks and issues which require management attention.
- Similar to point 3, any risks and or controls which are not being performed which have an impact on the overall Shire's risk profile, should be carried forward to the Shire Risk Report.

Strategic Risk Report: Same format and content as Operating Risk report. Similar to the comments made above, it is not clear from the report why the items have been reported as Strategic Risks.

Recommendations for Strategic Risk Report:

Similar to the points made for the Operating Risk Report, the Strategic Risk Report will be the starting point for identification of risks and will follow a similar process as recommended for Operating Risks.

Confirmation of Strategic Risks to be carried forward to the Shire Risk Report will be based on discussions with CEO and Executive Leadership team.

Effective from January 2018, the Audit & Risk Committee will be provided with one Risk Report, Shire Risk Report and it will contain risks which represent "risks that threaten the delivery of strategic objectives". Note – risk ratings matrix is being reviewed and will be included in this Framework when finalised.

The following pages contain tools and guidance useful in the implementation of this Framework.

List of guidance material:

Table 1: Roles & Responsibilities

Diagram 1: Risk Management Process flow diagram

Diagram 2: Risk Treatment / Risk Mitigation Process

Guidance on Risk Ratings – TO BE UPDATED

RISK MANAGEMENT FRAMEWORK

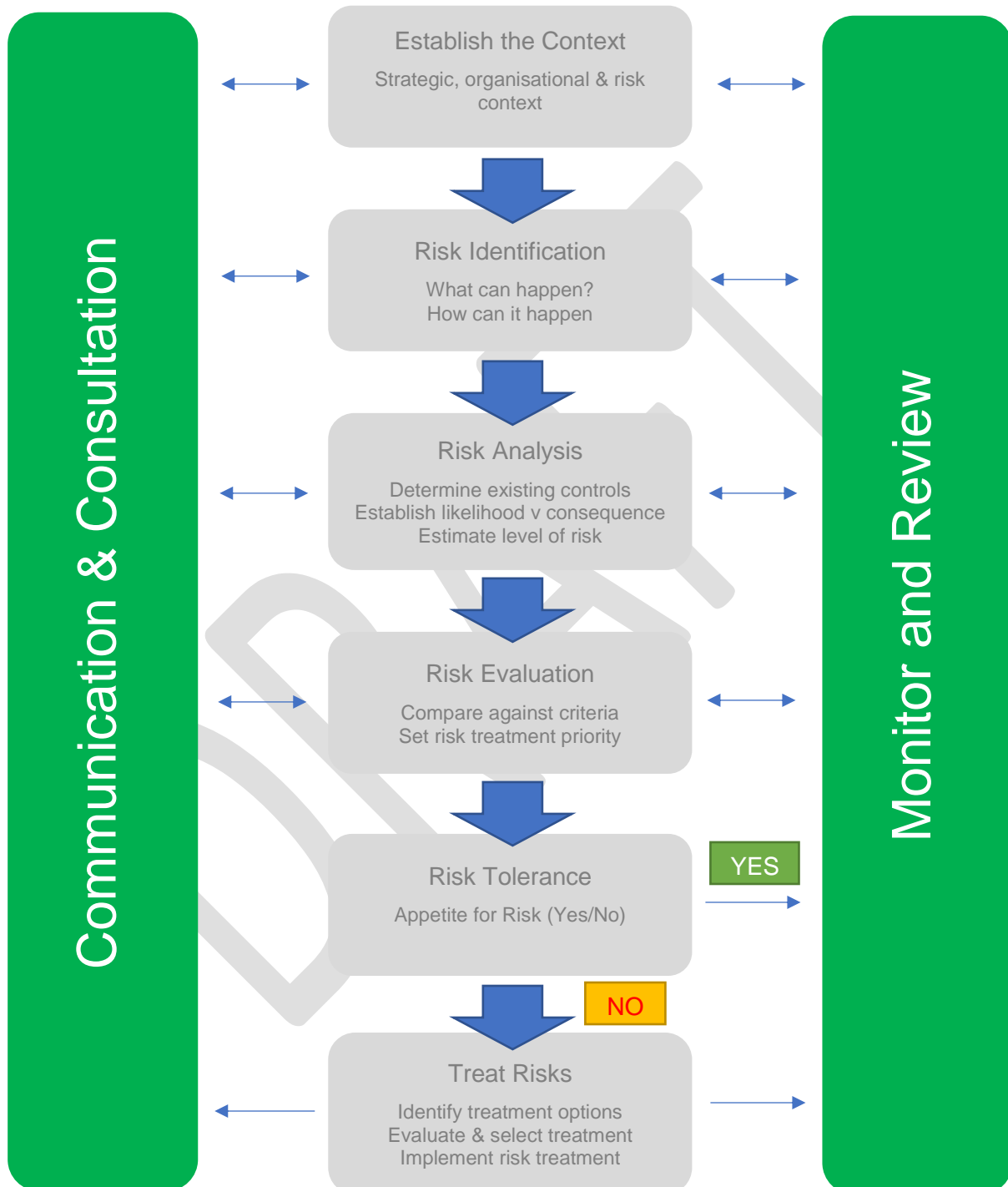
Table 1: Roles and Responsibilities

Role	Responsibilities
Council	<p>Council's responsibilities are to:</p> <ul style="list-style-type: none"> • Adopt a Risk Management Policy that complies with the requirements of AS/NZS ISO 31000:2009 and to review and approve the Policy in a timely manner and/or as required. • Adopt the Risk Management Framework for the Council. • Be satisfied that risks are identified, managed and controlled appropriately to achieve Shire's strategic objectives.
Audit & Risk Committee	<ul style="list-style-type: none"> • Oversight over the Shire's risk management process. • Requests and reviews reports on risk management on a quarterly basis (minimum) or as required depending on the nature of the risk(s). • Monitors the overall risk exposure of the Shire and escalates to Council as appropriate. • Assesses for effectiveness the risk control measures / risk treatment plans in reducing the severity of the risk(s).
Executive	<ul style="list-style-type: none"> • Creates an environment where staff are responsible for and actively involved in managing risk. • Ensures a consistent risk management approach is embedded in the operations and processes of the Shire. • Actively participates and supports the risk management framework through identification and creation of suitable risk treatments to control strategic and operational risks facing the Shire. • Supports the allocation of funds / resources to treat risks as required. • Monitors the strategic and operational risk management performance. • Reviews the Shire Risk Report prior to submission to the Audit & Risk Committee.
Staff	<ul style="list-style-type: none"> • Adopt and understand the principles of risk management and comply with policies, processes and practices relating to risk management. • Alert and bring to management's attention, the risks that exist within their area. • Conduct risk assessments which are appropriate with the scope of the task and the associated level of risk identified.

RISK MANAGEMENT FRAMEWORK

Diagram 1: Risk Management Process

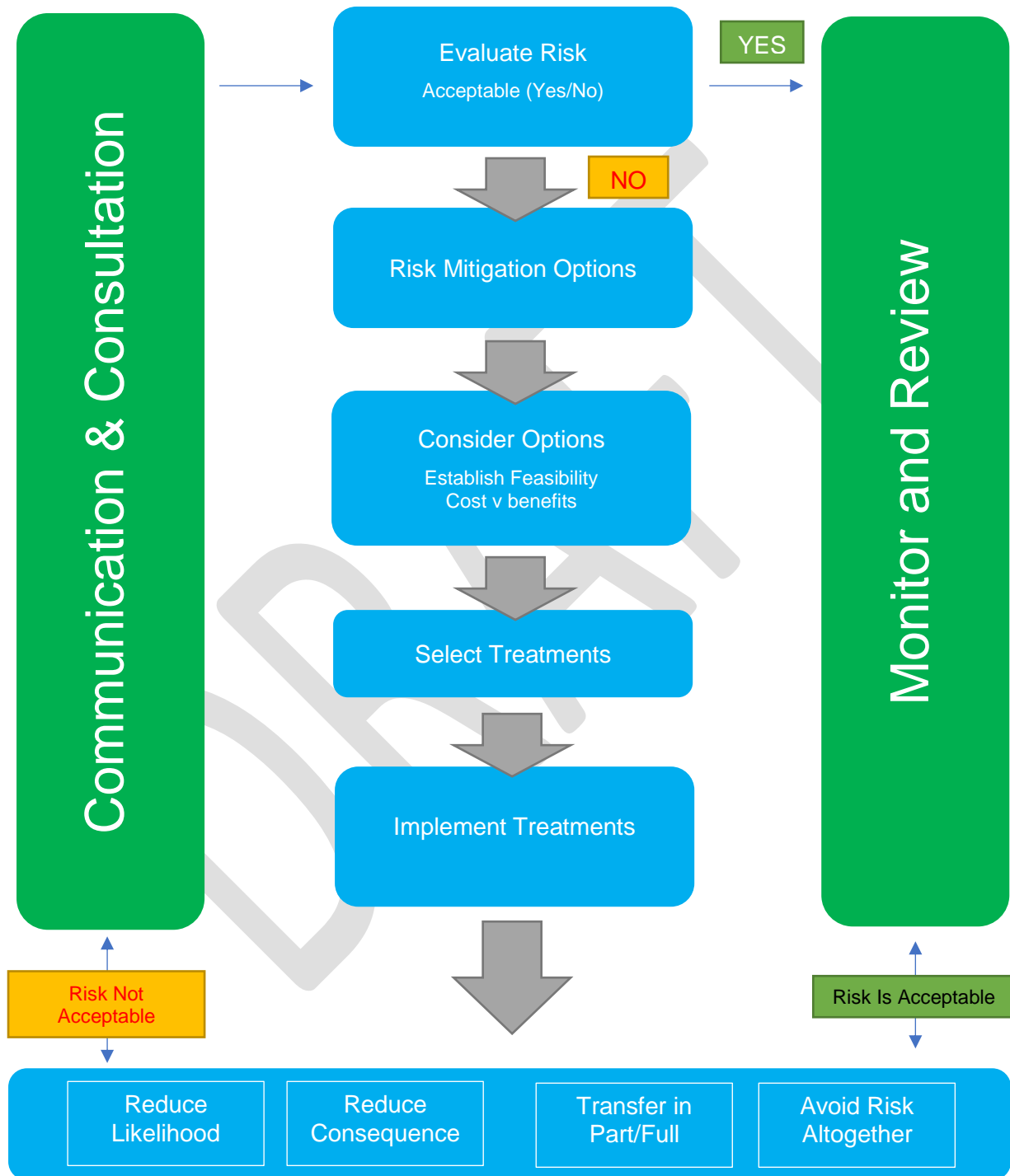
The diagram below depicts the re-iterative and continuous process for managing risks.



RISK MANAGEMENT FRAMEWORK

Diagram 2: Risk Treatment Process

The diagram below depicts the key steps involved in risk mitigation.



RISK MANAGEMENT FRAMEWORK

Guidance on Risk Ratings - to be reviewed and recalibrated by June 2018

DESCRIPTION	INJURY (STAFF OR PUBLIC)	FINANCIAL LOSS	ENVIRONMENTAL IMPACT	REPUTATION	LEGISLATION & REGULATIONS	STRATEGIC
CATASTROPHIC	Death	> significant financial loss (e.g. > \$5 Million)	Toxic release off site with long term effects Substantial / long term damage to flora / fauna, soil / water	Very high customer sensitivity and irreparable damage to Council name. Intense media coverage	Total failure to meet relevant legislation and regulations leading to dismissal of Council.	Selection of a strategic direction that negatively impacts on the future of Council.
MAJOR	Serious injury to one or more persons resulting in a permanent disability	Major financial loss (e.g. >\$1M - \$5M)	Off-site release with no long term effects Limited damage to flora/fauna, soil / water	Significant customer sensitivity and damage to Council name Statewide media coverage	Failure to meet relevant legislation and regulations resulting in Material fines, penalties and restrictions on Council operations due to regulatory non-compliance. Senior employees charged for breaches/fraud.	Selection of a strategic direction which requires significant resources, both monitoring and time to correct, impacting a part of Council
MODERATE	Injury requiring hospitalisation to one or more persons	High financial loss (e.g. >\$50,000 - \$1M)	On site release contained with outside assistance No damage to flora / fauna and short term effects on soil, water and air	Moderate customer sensitivity and damage to Council name impacting noticeably on business activities Significant local community coverage	Activity does not meet all of the requirements of relevant Australian Standards exposing Council to possible litigation risks.	Selection of a strategic direction which impacts on smaller parts of Council and will require considerable resources to correct
MINOR	Minor injury requiring first aid only	Medium financial loss (e.g. >\$10,000 - \$50,000)	On site release contained immediately	Minimal customer sensitivity and damage to Council name Limited local community coverage	Activity does not follow established Industry / Western Australian / Australian guidelines	Minimal impact on strategic / operational objectives
INSIGNIFICANT	Injury requiring no medical treatment	Low financial loss (e.g. < \$10,000)	Minor leak, non-contaminating	No impact on reputation of Council No media coverage	No regulatory impact	Consequences are dealt with by routine operations

RISK MANAGEMENT FRAMEWORK

Date approved:	TBD
Responsible officer:	TBD
Endorsed by:	TBD
Approved by:	Chief Executive Officer
Next review:	20xx

DRAFT

4.0 REPORTS OF OFFICERS

4.2 DEPUTY CHIEF EXECUTIVE OFFICER

4.2.3 2017 AUDIT MANAGEMENT REPORT

SUBMISSION TO: Meeting of Audit Committee
Meeting Date: 19th December 2017

AGENDA REFERENCE: 4.2.3 AUDIT DECEMBER 17

SUBJECT: 2017 Audit Management Report

LOCATION / ADDRESS: Leonora

NAME OF APPLICANT: N/A

FILE REFERENCE: 1.10

AUTHOR, DISCLOSURE OF ANY INTEREST AND DATE OF REPORT

NAME: Tanya Browning

OFFICER: Deputy Chief Executive Officer

INTEREST DISCLOSURE: Nil

DATE: 12th December 2017

BACKGROUND

As the committee is aware, the 2016/17 audit for the Shire of Leonora was completed in October, with a 'clean' audit report being achieved (i.e. no notes of non-compliance noted). In addition to the Audit Report, a Management Report is also issued which may note some matters that Council should be aware of that auditors observed during the course of the audit.

There were three matters noted in the management report (copy attached) which are detailed below along with management comments provided at the time, and where appropriate, action to be taken by management on the matters noted.

Segregation of Duties

- Auditor's comments – We appreciate that due to the nature and size of the Shire, management oversees all the functions within the Shire, however there is an inherent risk of lack of segregation of duties within the general financial administrative process and we recommend that this should be continually considered by the management in designing compensating controls.
- Management comment – (no comment was requested to this point)
- Action taken – these risks have been considered within the risk management review currently being undertaken within the organisation. Some preliminary recommendations have already arisen with regard to this point, including better clarification of roles and responsibilities and formalisation of procedures for improved transparency. This will be further developed and monitored as part of revised risk management framework etc.

Financial Ratios

- Auditor's comments – Note 17 of the financial report sets out various financial ratios. We note that the Operating Surplus Ratio does not meet the benchmarks set by the Department of the Local Government. We are required by the Regulations to report this to the Department of Local Government and our report has been modified as such.
- Management comment – Acknowledge the requirement to refer to the Department of Local Government, and further analysis will be undertaken to investigate possible reasons for the ratio not meeting necessary benchmarks.

- Action taken – Examination of the financial accounts has highlighted some anomalies that will not necessarily be expected to be seen each year. This includes expenses relating to flood damage and cost of opening claims associated with urgent works required to bring roads to a standard where they can be re-opened, and a provision for impairment/loss resulting in revaluation of land and buildings.

With expenses relating to flood damage, AASB 116 provides some direction in relation to the treatment of expenses, as well as recognition of revenue. Guidance Notes on the subject published by Moore Stephens has also been consulted in regard to this matter. In relation to the expenses incurred by the Shire of Leonora in the 2016/17 reporting period, costs incurred to repair the assets, up to the condition prior to impairment, (i.e. ‘cost of opening’) should be accounted for as an expense in the Statement of Comprehensive Income and not be capitalised.

Further to this, AASB 116 Paragraph 65 refers that the WANDRRA reimbursement claim should be recognised as income when it becomes receivable, which is when it is virtually certain to be received (i.e. once the claim is approved). Unfortunately, these processes are quite onerous and take a long time to be approved, so although a claim was submitted in May 2017, no further correspondence had been received at the time of audit that would allow for an adjustment to allow the expense to be offset with revenue (this is normally in the form of an invoice being raised). The result is unbudgeted expense affecting the net operating result that impacts on this ratio.

In relation to the impairment/loss resulting from revaluation of land and buildings, this adjustment is a direct result of requirements to undertake ‘fair value’ reporting and subsequent requirements to undertake revaluations by licenced valuers as regulatory requirements. The movements are reflective of the market / fair value considerations and management will need to make greater consideration as to how these movements might affect future results and plan accordingly. Further examination and analysis will be required.

Provisions for Annual Leave

- Auditor’s comments – We noted that a number of employees at the Shire have accrued more than four weeks of leave. We recommend that employees are encouraged to utilise their leave entitlements.
- Management comment – Management will liaise with employees regarding annual leave exceeding four weeks and encourage them to take leave, or to consider opportunities to cash out leave. Some employees are holding leave for planned family occasions but we will make contact and appropriately document such arrangements.
- Action taken – There were four employees at the 30th June 2017 with more than four weeks annual leave accrued, with accruals ranging from 5.6 weeks to 7.8 weeks of accrued annual leave. Since that time, one employee has resigned and had his leave entitlements paid out, and the other three employees have all taken leave (therefore reducing their accrual). Two of the three employees noted above have taken substantial leave, as planned and noted within management comments to the auditor. The committee should also note that reserves exist to ensure that appropriate funds are available to meet leave liabilities of staff.

Each of the abovementioned actions are for the information of the committee.

STATUTORY ENVIRONMENT

Section 7.9 of the Local Government Act 1995 requires the auditor to examine the accounts and annual financial report of the local government and to prepare a report on that work which is to be submitted to the Shire President, the CEO and the Minister.

Section 7.12A (1) of the Local Government Act 1995 sets out duties of the local government with respect to audits, including that the local government must do everything in its power to ensure the auditor is assisted to efficiently and successfully conduct the audit.

POLICY IMPLICATIONS

There are no policy implications resulting from the recommendation of this report.

FINANCIAL IMPLICATIONS

There are no financial implications resulting from the recommendation of this report that will have any detrimental effect on the Shire’s finances.

STRATEGIC IMPLICATIONS

Strategic References within the Shire of Leonora Strategic Community Plan 2017-2027 demonstrate connections between services and the desired outcomes and community vision for the Shire of Leonora, particularly in relation to Governance services in this instance such as 4.1 Efficient service offerings to the community, 4.2 Effective and open engagement with all sections of the community, 4.5 Strong leadership and planning.

RECOMMENDATIONS

That the Audit and Risk Committee notes the actions taken in response to the matters noted within the 2017 Audit Management Report.

VOTING REQUIREMENT

Simple Majority

COMMITTEE DECISION

Moved Cr AM Moore, Seconded Cr RM Cotterill that the Audit and Risk Committee notes the actions taken in response to the matters noted within the 2017 Audit Management Report.

CARRIED (7 VOTES TO 0)

5.0 NEXT MEETING

20th March, 2018, following the conclusion of the Ordinary meeting of Council commencing at 9:30am.

6.0 CLOSURE OF MEETING

There being no further business, Chairperson Cr PJ Craig declared the meeting closed at 4:32pm.