TOWN of
EAST FREMANTLE

MINUTES

Audit Committee Minutes
Wednesday, 26 July 2023 6:00 PM

CONTENTS

MINUTES

1 DECLARATION OF OPENING OF MEETING/ANNOUNCEMENTS OF VISITORS

The Presiding Member declared the meeting open at 6.02pm.

2 ACKNOWLEDGEMENT OF COUNTRY

"On behalf of the Council I would like to acknowledge the Whadjuk Nyoongar people as the traditional custodians of the land on which this meeting is taking place and pay my respects to Elders past, present and emerging."

3 RECORD OF ATTENDANCE

3.1 ATTENDANCE

The following members were in attendance:

Cr T Natale   Presiding Member
Mayor J O'Neill
Cr M Wilson
Mr B Arnold   Independent Committee Member

The following staff were in attendance:

Mr P Kocian   Executive Manager, Corporate Services
Mr P Garoni   Manager, Finance
Ms N McGill   Senior Finance Officer
Mrs B Browning   Minute Secretary

3.2 APOLOGIES

Cr K Donovan, Cr A White, Mr A Malone

3.3 APPROVED

Cr McPhail

4 MEMORANDUM OF OUTSTANDING BUSINESS

Nil.

5 DISCLOSURES OF INTEREST

Nil.

6 PUBLIC QUESTION TIME

Nil.

7   PRESENTATIONS/DEPUTATIONS

Nil.

8   CONFIRMATION OF MINUTES OF PREVIOUS MEETING

8.1   AUDIT COMMITTEE WEDNESDAY, 1 MARCH 2023

OFFICER RECOMMENDATION

Moved Mayor O'Neill, seconded Cr Wilson

That the minutes of the Audit Committee meeting held on Wednesday, 1 March 2023 be confirmed as a true and correct record of proceedings.

<u>(CARRIED UNANIMOUSLY)</u>

9   ANNOUNCEMENTS BY THE PRESIDING MEMBER

Nil.

10   REPORTS

Reports start on the next page

10.1 INTEGRITY FRAMEWORK SELF ASSESSMENT TOOL

Report Reference Number	ACR-449
Prepared by	Peter Kocian, Executive Manager Corporate Services
Supervised by	Andrew Malone, A/Chief Executive Officer
Meeting date	Wednesday, 26 July 2023
Voting requirements	Simple
Documents tabled	Nil
Attachments	

1. Town of East Fremantle Integrity Snapshot Tool

PURPOSE

The Town of East Fremantle Integrity Framework was previously submitted to the Audit Committee for endorsement and recommendation to Council for adoption. The Audit Committee requested that the Integrity Snapshot Tool (self-assessment) be presented to a future meeting.

EXECUTIVE SUMMARY

This Integrity Framework outlines the policies, mechanisms and responsibilities that help the Town of East Fremantle deliver on our Strategic Community Plan 2020-2030 through high levels of honesty, objectivity, ethics and accountability.

BACKGROUND

Part of the Public Sector Commissioner's (PSC) role is to promote and maintain integrity, conduct and ethics in the WA government sector. The PSC has developed an Integrity Strategy for WA Public Authorities 2020-2023, which focuses in four key improvement areas with actions and controls to promote integrity and help prevent misconduct and corruption:

1. Plan and Improve Integrity – effective governance systems and frameworks are established.
2. Model and embody a culture of integrity – a culture of integrity exists and is reinforced and communicated by leaders.
3. Learn and develop integrity knowledge and skills – individual and authority integrity knowledge, skills and competence are grown.
4. Be accountable for integrity – prevention, detection and response to integrity matters are everyone's personal and professional responsibilities.

The Public Sector Commissioner intends to instruct public sector bodies under the Public Sector Management Act 1994 to have an integrity framework in place by June 2023.

Using the resources available from the PSC, the Chief Executive Officer has prepared the attached Integrity Framework.

CONSULTATION

Executive Leadership Team

STATUTORY ENVIRONMENT

Public Sector Management Act 1994
Corruption, Crime and Misconduct Act 2003
Public Interest Disclosure Act 2003

POLICY IMPLICATIONS

The Town of East Fremantle Integrity Framework is linked to a suite of corporate documents relating to integrity management such as the Code of Conduct, Policies, Delegations, Authorisations etc…

FINANCIAL IMPLICATIONS

The delivery of publicly funded infrastructure, facilities and services for the Town of East Fremantle occurs in a complex political and operational environment. The community rightly expects that these are delivered in a responsible and ethical manner that delivers value for money.

The Town's resources will be managed with integrity and transparency in accordance with our values and vision for the future. This Integrity Framework provides the first step in being accountable and ensuring our services are delivered in accordance with community expectations.

STRATEGIC IMPLICATIONS

The Town of East Fremantle Strategic Community Plan 2020 – 2030 states as follows:

Strategic Priority 5: Leadership and Governance

A proactive, approachable Council which values community consultation, transparency and accountability.

5.1 Strengthen organisational accountability and transparency.

RISK IMPLICATIONS

RISKS

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
Misconduct	Possible (3)	Major (4)	High (10-16)	REPUTATIONAL Substantiated, public embarrassment, moderate impact, moderate news profile	Manage by adopting and implementing an Integrity Framework ….

RISK MATRIX

Consequence Likelihood		Insignificant 1	Minor 2	Moderate 3	Major 4	Extreme 5
Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives: occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

RISK RATING

Risk Rating	12
Does this item need to be added to the Town's Risk Register	Yes
Is a Risk Treatment Plan Required	No

SITE INSPECTION
Not Applicable.

COMMENT

The Town of East Fremantle Integrity Framework includes a maturity self-assessment tool which will assist the Town in identifying the strengths and weaknesses of its current approach to integrity in relation to 4 levels of maturity – emerging, developing, embedded and excelling.

The self-assessment was undertaken by the CEO in consultation with the Executive Leadership Team in late 2022 and is attached to this report.

The self-assessment details 53 separate activities:

- 26 activities have been assessed to be in place.
- 3 activities are assessed to be in progress.
- 24 activities are yet to commence.

The above compliance is deemed to be at an acceptable level for the first maturity assessment given that the framework was only recently endorsed, and the Town has not assigned dedicated resources to complete activities.

A quick win may be to establish an Accountable and Ethical Decision-Making training module in the Town's online learning platform.

CONCLUSION

That the Audit Committee receive the Town's self-assessment against the Integrity Framework as detailed in the Integrity Snapshot Tool.

10.1 OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

Committee Resolution 012607

OFFICER RECOMMENDATION

Moved Cr Wilson, seconded Mr Arnold

1. **That the Audit Committee receive the Administration's self-assessment against the Town of East Fremantle Integrity Framework as detailed in the attached Integrity Snapshot Tool.**

2. **That the Audit Committee request the incoming CEO to complete the self assessment check list within six months and report back to the Audit Committee with the results.**

3. **That the results from the self assessment check list be incorporated into the Town of East Fremantle's Risk Register for review and action.**

(CARRIED UNANIMOUSLY)
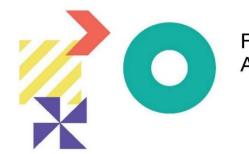
REPORT ATTACHMENTS

Attachments start on the next page
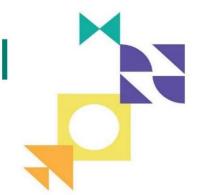
Integrity Snapshot Tool

FOR WA PUBLIC AUTHORITIES

Integrity Snapshot Tool

The snapshot tool supports the Integrity Strategy for WA Public Authorities 2020-23. It gives public authorities a clear view of what they have in place to support integrity, and can help them identify areas for development or more focus that should feature in their planning. The snapshot tool is not meant to be an exhaustive list of things to consider and should be used by public authorities in a manner that best suits their contexts. It is not intended to replace more detailed or specific risk management activities.

The tool can:

- help public authorities evaluate their approaches to promoting integrity and reducing misconduct risks
- identify any gaps in the current approaches to integrity by public authorities that could be actioned.

How to use the snapshot tool

As this is a self-assessment tool, public authorities can benefit by using it to review the status of their approach to integrity and make decisions about where further or additional work is needed.

Public authorities are encouraged to update their assessments as they progress with actioning items. In this way they capture their assessments on an ongoing basis. It is acknowledged that each public authority has a different risk profile and operating context, and is at varying points of progress in managing integrity risks.

Assessment guide	
Activity	Description
In place	Suggested activity has been addressed or is subject to review.
In progress	Steps are in place to address suggested activity.
Not in place	Steps may be required to address suggested activity.

PSC1956726

01 Plan and act to improve integrity

Effective governance systems and frameworks are established.

	In place	In progress	Not in place	Proposed actions and comments
Assess if your authority:				
has developed and implemented a Code of Conduct that sets out its standards of conduct and integrity, and incorporates code requirements into policies and procedures to reinforce conduct expectations *For public sector agencies, the Code of Conduct should reflect Commissioner's Instruction No. 7: Code of Ethics, and comply with Commissioner's Instruction No.8: Codes of Conduct and Integrity Training.*	☒	☐	☐	
has identified its integrity risks considering its work and operating context, and records those risks (e.g. in a risk register, fraud and corruption control plan)	☒	☐	☐	
enacts controls to address identified risks	☒	☐	☐	
identifies and links policies that relate to risks to ensure they have consistent principles and objectives, and are clear and easy to follow (e.g. fraud and corruption, use of public resources, record keeping and use of information, conflicts of interest, gifts and benefits)	☒	☐	☐	
has an organisation structure that provides clear lines of accountability and responsibility for integrity and misconduct functions (including the role of leaders and managers)	☒	☐	☐	
has documented delegation schedules in place that align to organisation structure and legislative obligations	☒	☐	☐	
reviews delegation schedules regularly to ensure they remain current and operate with appropriate levels of authority	☒	☐	☐	

01 Plan and act to improve integrity (continued)

Assess if your authority:	In place	In progress	Not in place	Proposed actions and comments
has a position, team or committee with documented responsibility to consider findings and recommendations from integrity audits, assessments, reviews and investigations	☒	☐	☐	
assigns accountability and responsibility for monitoring and oversighting risks and controls (e.g. in authority's structure, job descriptions)	☒	☐	☐	
has an internal audit committee with an independent chair	☐	☒	☐	
uses tools and templates provided by the Commission or other sources to support its approach to managing integrity risks	☐	☐	☒	
has a process to review regularly its integrity risk profile to ensure it is responsive to emerging risks and recommendations made by integrity bodies (e.g. policy and practice review, process improvements)	☐	☐	☒	
evaluates and refines any processes, systems and controls that are in place or may be introduced to inform its detection and prevention of irregularities and corrupt practice (e.g. detection software, data analytics)	☒	☐	☐	
conducts regular assessments of business areas and functions that are, or may be, vulnerable to integrity risks (e.g. procurement and contracting; use of and access to confidential information; recruitment)	☐	☐	☒	
connects and collaborates with other authorities to seek or share expertise and advice on integrity matters (e.g. conducting investigations, policy development and process improvements)	☐	☐	☒	

02 Model and embody a culture of integrity

A culture of integrity exists, and is reinforced and communicated by leaders.

Assess if your authority:	In place	In progress	Not in place	Proposed actions and comments
has values that include integrity integrated into all aspects of its business (e.g. in policies, processes and systems)	☒	☐	☐	
promotes integrity in and outside the authority (e.g. website, publications, staff newsletters, division meetings, annual reports and everyday practices)	☐	☒	☐	
has leaders who role model integrity and demonstrate zero tolerance for breaches of ethical codes and misconduct	☒	☐	☐	
has a consultation mechanism to engage with and involve staff when reviewing integrity policies, procedures and information to gain shared commitment and understanding	☐	☐	☒	
has human resource policies and practices that reflect a commitment to recruiting staff who demonstrate a strong alignment to its values	☐	☒	☐	
ensures recruitment materials include information on values and conduct expectations	☒	☐	☐	
conducts integrity checking, including qualification and employment history checks, as a normal part of selection and recruitment practices, particularly for positions of trust (e.g. integrity officers, finance and procurement staff)	☒	☐	☐	
uses staff performance processes to discuss and reinforce its values and conduct expectations	☒	☐	☐	
measures staff confidence and attitudes about its integrity, including confidence in speaking up about misconduct and integrity matters (e.g. through staff perception surveys) and identifies steps to address any findings	☐	☐	☒	

Model and embody a culture of integrity (continued)

Assess if your authority:	In place	In progress	Not in place	Proposed actions and comments
has staff formally acknowledge that they have read its code of conduct at appointment/induction	☒	☐	☐	
encourages staff to report misconduct (e.g. in policies, codes of conduct, staff communication)	☒	☐	☐	
makes information available about public interest disclosure processes and other reporting mechanisms to staff and stakeholders	☒	☐	☐	
has reporting policies or codes in place that includes a statement that reprisal action is not tolerated against those who speak up about misconduct and integrity matters	☒	☐	☐	

03 Learn and develop integrity knowledge and skills

Individual and authority integrity knowledge, skills and competence are grown.

	In place	In progress	Not in place	Proposed actions and comments
Assess if your authority:				
ensures integrity training programs are up to date (e.g. reflects its code, legislative and policy requirements)			☒	
maintains records of staff who attend induction and integrity training	☒			
follows up with staff where necessary to ensure learnings from integrity training are embedded			☒	
has a process for communicating with staff about integrity matters including updating them about changes to policies, processes and systems (e.g. through newsletters, emails, meetings)	☒			
has a formal induction process in place for all new staff and contractors that includes a clear focus on integrity	☒			
delivers Accountable and Ethical Decision Making (AEDM) training (or equivalent) and refresher training to staff that:				
• is aligned to its Code of Conduct			☒	
• is customised to its context and business, and covers its specific integrity risks			☒	
• is up to date and reflects changes to systems and processes			☒	
• includes information on its integrity framework, policies, processes and systems			☒	
• includes information on how to recognise, respond to and report misconduct			☒	
• records attendance and completion rates which can be provided to the Commission and other integrity bodies as required			☒	

03 Learn and develop integrity knowledge and skills (continued)

Assess if your authority:	In place	In progress	Not in place	Proposed actions and comments
provides specific integrity training to staff working in high risk roles (e.g. finance, procurement, integrity) in relation to fraud and corruption, accountability requirements and reporting suspected misconduct	☐	☐	☒	
evaluates staff awareness of its integrity requirements (e.g. through staff perception surveys) and acts on any knowledge deficits	☒	☐	☐	
encourages, supports and provides a mechanism for staff to seek advice on integrity matters when they are unsure	☒	☐	☐	
makes staff aware of the process of identifying integrity risks and contributing to the risk register	☐	☐	☒	
ensures staff who respond to and investigate integrity matters are suitably skilled (e.g. have Certificate IV in Government Investigations or higher qualification and/or relevant experience)	☐	☐	☒	
exercises due diligence when engaging contractors to deal with integrity matters to ensure they have the necessary qualifications, skills and/or experience (e.g. through reference and qualification checks)	☐	☐	☒	
seeks opportunities for further learning about integrity matters by identifying key staff to attend events and forums provided by the Commission and other bodies	☐	☐	☒	
establishes networks with other integrity practitioners	☐	☐	☒	

04 Be accountable for integrity

Prevention, detection and response to integrity matters are everyone's personal and professional responsibilities.

	In place	In progress	Not in place	Proposed actions and comments
Assess if your authority:				
has a clear and documented process to assess potential misconduct that guides decision making about when to notify the Public Sector Commission and Corruption and Crime Commission of minor misconduct and serious misconduct (respectively), using their online reporting tools	☒	☐	☐	
articulates the roles and responsibilities of the leadership team in overseeing integrity	☒	☐	☐	
has a documented and active process to review and learn from internal and external reports, including focusing on individual conduct as well as system, cultural and capability weaknesses that may have provided the opportunity for misconduct to occur	☐	☐	☒	
monitors, reviews and addresses its approach to changing and emerging risks (e.g. due to restructure, introduction of technology and legislative change) and ensures: • a new integrity risk assessment is completed • its risk register is updated • internal policies, processes and systems are updated to reflect the new operating context	☐	☐	☒	
collected data is analysed and reported to the leadership team (e.g. reports of integrity breaches, complaints, grievances, staff survey results, training records, conflicts of interest, gifts and benefits register)	☐	☐	☒	
has integrity as a standing agenda item for its leadership team to provide a forum to interrogate data, and identify and respond to emerging trends (e.g. data about breaches of Code of Conduct or policy, allegations of misconduct, complaints received, and recommendations from self-assessments and audits)	☐	☐	☒	

10.2 EXTERNAL AUDIT SCHEDULE

Report Reference Number	ACR-453
Prepared by	Phil Garoni, Finance Manager
Supervised by	Peter Kocian, Executive Manager Corporate Services
Meeting date	Wednesday, 26 July 2023
Voting requirements	Simple
Documents tabled	Nil

Attachments

1. Entrance meeting – Annual financial audit for year ending 30 June 2023 (confidential)
2. Audit planning summary - Confidential

PURPOSE

The purpose of this report is to inform the Audit Committee of the External Audit Schedule for 2023.

EXECUTIVE SUMMARY

The Audit Committee is required to consider reports/findings arising from the external audit. This report informs the Audit Committee of the External Audit Schedule, with audit findings from the audits to be presented to the Audit Committee at is meeting of 22nd November 2023, should reports be available.

BACKGROUND

External Audit Framework:

Pursuant to section 7.2 of the *Local Government Act 1995,* the accounts and annual financial report of a local government for each financial year are required to be audited. The Act and Regulations prescribe the scope of the external audit of the annual financial statements of the local government.

The critical matters for audit are:

- Revenue – rates revenue, government grants, fees and charges
- Expenditure – salaries and wages, depreciation, materials and contract expense, insurance
- Current Assets – bank and short-term assets, receivables, inventory
- Non-Current Assets – property, plant, furniture and equipment, infrastructure and depreciation
- Liabilities – creditors and accruals, loan borrowings, provision for annual and long service leave entitlements
- Reserve Funds
- Contingent Liabilities
- Capital Commitments
- Accounting Policies
- Cash Flow Statement
- Financial Ratios

CONSULTATION

Executive Leadership Team
Finance Team

STATUTORY ENVIRONMENT

The local government audit framework is governed by the *Local Government Act 1995* and Regulations including the *Local Government (Administration) Regulations 1996*, *Local Government (Audit) Regulations 1996*, *Local Government (Financial Management) Regulations 1996* and *Local Government (Functions and General) Regulations 1996*.

POLICY IMPLICATIONS

There are no Council Policies relevant to this matter.

FINANCIAL IMPLICATIONS

The cost of the Annual Financial Audit is incorporated into the Town's Annual Audit Fee. The indicative audit fee for the 22/23 year is anticipated to be circa $45k, similar to last year.

It is envisaged that additional expenses will be associated with the implementation of findings from the 2023 Annual Financial and Information Systems Audit.

STRATEGIC IMPLICATIONS

Strategic Priority 5 – Leadership and Governance.

5.1 Strengthen organisational accountability and transparency.

5.3 Strive for excellence in leadership and governance.

RISK IMPLICATIONS

RISKS

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That key findings from the external audit are not actioned	Possible (3)	Moderate (3)	Moderate (5-9)	SERVICE INTERRUPTION Prolonged interruption of services - additional resources; performance affected <1 month	Accept Officer Recommendation

RISK MATRIX

Consequence / Likelihood		Insignificant	Minor	Moderate	Major	Extreme
		1	2	3	4	5
Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives: occupational health and safety, financial, service interruption, compliance, reputation and

environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

RISK RATING

Risk Rating	9
Does this item need to be added to the Town's Risk Register	Yes
Is a Risk Treatment Plan Required	No

SITE INSPECTION
Not Applicable.

COMMENT
The following is the planned external audit schedule for 2023:
Annual Financial Audit for year ending 30 June 2023
Interim Audit: Monday 17 April – Friday 12 May (1 week onsite)
Final Audit: Monday 25 September – Friday 24 November (4 weeks onsite)

Information Systems Audit from July to August 2023. As at the date of writing this report, this audit has yet to commence.

Roads to Recovery and Local Roads and Community Infrastructure Program audit from 15 September to 31 October 2023.

The time allocated by the Office of Auditor General for the interim and annual audit is similar to prior years.

The timing for the final audit has also been brought forward slightly, which is a terrific result. This illustrates that the Town has been well prepared for audit in the last couple of years, and audit work papers have been completed in a timely manner. All things going well, this should ensure audit clearance and the issuance of the Auditors Opinion prior to 31 December.

CONCLUSION
Audit committee note the planned external audit schedule for 2023.

10.2 OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

Committee Resolution 022607

OFFICER RECOMMENDATION

Moved Cr Wilson, seconded Mayor O'Neill

That the Audit Committee note the planned external audit schedule for 2023 outlined below, with findings from the Final Audit and Information Systems Audit to be presented to the Audit Committee Meeting of 22 November 2023, should reports be available:

Interim Audit: Monday 17 April – Friday 12 May (1 week onsite)

Information Systems Audit: July/August 2023 (Entrance Meeting TBA)

Final Audit: Monday 25th September – Friday 24th November (4 weeks onsite)

(CARRIED UNANIMOUSLY)

REPORT ATTACHMENTS

Attachments start on the next page

Entrance Meeting

ANNUAL FINANCIAL AUDIT OF THE TOWN OF EAST FREMANTLE
FOR THE YEAR ENDING 30 JUNE 2023

ATTENDEES:

Town of East Fremantle

Gary Tuffin	Chief Executive Officer
Peter Kocian	Executive Manager Corporate Services
Phil Garoni	Manager Finance

Office of the Auditor General

Aram Madnack	Director, Financial Audit
Michelle Lai	Audit Manager, Financial Audit

Interview Date & Time:	Thursday, 11 May 2023, 10am
Location:	Town of East Fremantle – Town Hall

Agenda

1. **Introduction**

2. **Planning summary, including:**
   - **Significant aspects of this year's audit**
   - **Audit approach**
   - **Key requirements and schedule for providing information**

3. **Closing comments**

Attachment -2

Confidential Attachment

10.3 RECEIPT OF THE INTERIM AUDIT MANAGEMENT LETTER

Report Reference Number	ACR-455
Prepared by	Phil Garoni, Finance Manager
Supervised by	Peter Kocian, Executive Manager Corporate Services
Meeting date	Wednesday, 26 July 2023
Voting requirements	Simple
Documents tabled	Nil
Attachments	

1. Interim audit management letter (Confidential)

PURPOSE

The purpose of this report is to inform the Audit Committee of the interim management letter arising from the interim audit conducted by OAG from Monday April 17 – Friday April 21, 2023, for the 22/23 financial year.

EXECUTIVE SUMMARY

The Audit Committee is required to consider reports/findings arising from the external audit. This report informs the Audit Committee of the findings from the interim audit held in April 2023.

BACKGROUND

Interim Audit results for the year ended 30 June 2023 are presented to the Audit Committee in the attached management letter. The focus of the interim audit was to evaluate the Town's overall control environment and to obtain an understanding of the key business processes, risks, and internal controls relevant to the audit of the annual financial report.

The primary role of the Audit Committee is to support Council in fulfilling its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, internal and external audit functions, and ethical accountability. The Committee should critically examine the audit and management reports provided by the external auditor and then determine if matters raised in the reports require action to be taken by the local government administration.

CONSULTATION

Executive Manager Corporate Services
Finance Team

STATUTORY ENVIRONMENT

In accordance with section 7.2 of the *Local Government Act 1995,* the accounts and annual financial report of a local government for each financial year are required to be audited by an Auditor.

Part 7 of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996* addresses the situation of audit. In relation to the duties of the local government with respect to audits –

a. the local government is to do everything in its power to –
   i.   assist the auditor to conduct an audit and carry out his or her other duties under the Act; and

ii.   ensure that audits are conducted successfully and expeditiously;

b. a local government is to meet with its auditor at least once in every year;

c. a local government is to examine the report of the auditor and is to –
    i.   determine if any matters raised require action to be taken by the local government; and
    ii. ensure that appropriate action is taken in respect of those matters;

d. local government is to –
    i.   prepare a report on any actions taken in respect of any matters raised in the report of the auditor; and
    ii. forward a copy of that report to the Minister by the end of the next financial year, or six months after the last report prepared by the auditor is received by the local government, whichever is the latest in time.

POLICY IMPLICATIONS

There are no Council Policies relevant to this matter.

FINANCIAL IMPLICATIONS

There are no direct financial implications stemming from the Officer's Recommendation. However, should the Audit Committee request independent assurance that controls have been implemented, then 3rd party costs will be incurred.

STRATEGIC IMPLICATIONS

Strategic Priority 5 – Leadership and Governance.
5.1 Strengthen organisational accountability and transparency.
5.3 Strive for excellence in leadership and governance.

RISK IMPLICATIONS

RISKS

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
Audit findings are not actioned within a timely manner	Possible (3)	Moderate (3)	Moderate (5-9)	FINANCIAL IMPACT $250,001 - $1,000,000	Control through oversight by the audit committee. ...

RISK MATRIX

Consequence Likelihood		Insignificant 1	Minor 2	Moderate 3	Major 4	Extreme 5
Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives: occupational health and safety, financial, service interruption, compliance, reputation, and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

RISK RATING

Risk Rating	9
Does this item need to be added to the Town's Risk Register	Yes
Is a Risk Treatment Plan Required	No

SITE INSPECTION

Not Applicable.

COMMENT

There was a single finding identified during the interim audit as detailed in the attached Management Letter. Whilst Management believes that this was an isolated incident, the process to verify supplier details has been reviewed and updated.

CONCLUSION

Audit committee acknowledge receipt of the interim management letter and monitor the resolution of items.

10.3 OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

Committee Resolution 032607

OFFICER RECOMMENDATION

Moved Mayor O'Neill, seconded Cr Wilson

That the Audit Committee note the interim management letter and resolution of the items raised managed through the status report presented to the Committee.

(CARRIED UNANIMOUSLY)

REPORT ATTACHMENTS

Attachments start on the next page

Attachment -1

Confidential Attachment

10.4 AUDIT OF REQUISITIONS

Report Reference Number	ACR-451
Prepared by	Natalie McGill, Senior Finance Officer
Supervised by	Phil Garoni, Finance Manager
Meeting date	Wednesday, 26 July 2023
Voting requirements	Simple Majority
Documents tabled	Nil
Attachments	

1. Procurement Review (Confidential)

PURPOSE

The Audit Committee is requested to receive the assessment of all supplier purchases greater than $5k (ex GST) for the 2022/23 financial year (as at the time of preparing the report), for compliance against Council's Purchasing Policy.

EXECUTIVE SUMMARY

During the period of review, the Town released 157 purchase orders over $5k (ex GST). Full information is provided as confidential attachment 1, with the level of compliance against the Purchasing Policy assessed as follows:

Amount	Purchasing Requirement	No. Purchase Orders	No. Compliant with Purchasing Policy or Exempt i.e. Sole Supplier	% Compliant
Over $5001 and up to $20,000	Attempt to obtain 2 written quotes	109	105	96.33
Over $20,001 and up to $50,000	Attempt to obtain 3 written quotes	27	27	100
Over $50,001 and up to $250,000	Attempt to obtain 3 written quotes under a Request for Quotation	16	16	100
Over $250,000.00	Request for Tender unless exempt	5	5	100

BACKGROUND

The annual Internal Audit Work Plan proposes that an internal audit of all requisitions over $5,000 (ex GST) be completed and presented to the Audit Committee. This will ensure a complete sample and identify all instances of non-compliance. Findings will then inform areas for improvement, education, and if deemed appropriate, removal of financial delegation.

This review is also provided to the Town's auditors each year to assist the audit process.

CONSULTATION

All Officers with Purchasing Delegation

STATUTORY ENVIRONMENT

Section 5.41 of the *Local Government Act 1995* details the functions of the CEO.

Regulation of the *Local Government (Financial Management) Regulations 1996* details the CEOs duties as to the financial management of the local government.

Regulation 11A of the *Local Government (Functions and General) Regulations 1996* requires local governments to prepare and adopt a Purchasing Policy.

POLICY IMPLICATIONS

Council's Purchasing Policy applies.

The following requirements apply for purchases over $5,001 (ex GST):

Amount (ex GST)	Purchasing Requirement
Over $5,001 and up to $20,000	Attempt to obtain 2 written quotes
Over $20,001 and up to $50,000	Attempt to obtain 3 written quotes
Over $50,001 and up to $250,000 (previously $150,000)	Attempt to obtain 3 written quotes under a Request for Quotation
Over $250,000	Request for Tender unless exempt

FINANCIAL IMPLICATIONS

There are no financial implications relevant to this item.

STRATEGIC IMPLICATIONS

Strategic Priority 5 – Leadership and Governance

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance

RISK IMPLICATIONS

RISKS

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
Non-compliance with Purchasing Policy: -Statutory breach - Not receiving value for money - Risk of favouring certain suppliers	Possible (3)	Major (4)	High (10-16)	COMPLIANCE Short term non-compliance but with significant regulatory requirements imposed	Treat through regular review/audit

RISK MATRIX

Consequence		Insignificant	Minor	Moderate	Major	Extreme
Likelihood		1	2	3	4	5
Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives: occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

RISK RATING

Risk Rating	12
Does this item need to be added to the Town's Risk Register	No
Is a Risk Treatment Plan Required	No

SITE INSPECTION
Not Applicable.

COMMENT
An internal audit of all purchases greater than $5k (ex GST) has been completed.

- All purchases over $250k were assessed to be compliant as a public tender process was followed.
- All purchases between $50k and $250k were assessed to be compliant as they were either subject to a public tender, formal request for quotation, a council resolution or purchasing of services from a regional local government.
- There were 157 purchase orders released between $5k and $50k.

Of these orders, 97.46% of purchases greater than $5k demonstrated compliance with Council's Purchasing Policy by having a copy of the requisite number of quotes uploaded into the financial system or an exemption provided under the Purchasing Policy. This is an increase of 3.46% on last financial year. Each of the instances of non-compliance were for purchases below $10k ex GST, indicating a relatively low material risk that the Town did not receive value for money.

10.4 OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

Committee Resolution 042607

OFFICER RECOMMENDATION

Moved Cr Wilson, seconded Mayor O'Neill

That the Audit Committee receive the procurement review of all purchases over $5k (ex GST), as detailed in the confidential attachment, for assessment of compliance against Councils Purchasing Policy.

<u>(CARRIED UNANIMOUSLY)</u>

REPORT ATTACHMENTS

Attachments start on the next page

Attachment -1

Confidential Attachment

10.5 RISK REGISTER

Report Reference Number	ACR-447
Prepared by	Bron Browning, Manager, Corporate Services
Supervised by	Peter Kocian, Executive Manager, Corporate Services
Meeting date	Wednesday, 26 July 2023
Voting requirements	Simple Majority
Documents tabled	Nil

Attachments

1. Risk Register Dashboard Report
2. JLT Public Sector Risk Report

PURPOSE

It is recommended that the Audit Committee receive the attached Risk Register Dashboard Report. The annual JLT Public Sector Risk Report is also provided for reading.

EXECUTIVE SUMMARY

The 2019 Financial Management Review identified the requirement for a comprehensive Risk Register to be developed and presented to the Audit Committee as a standing item. A dashboard of this register is appended to this Report.

BACKGROUND

A report providing background to the Town's Risk Management Governance Framework was considered by the Audit Committee at its meeting of 7 November 2019. A risk assessment tool has since been adopted by Council, and features in all Council agenda items.

Smart Office Systems was engaged to assist the Town in establishing a SharePoint Risk Register for the ongoing management and reporting of strategic and operational risks. This project work has resulted in the development of a Risk Register Dashboard Report, which is appended to this report.

A number of actions and timeframes have been attached to each of the risks, the status of which will be reported to the Audit Committee on a reoccurring basis.

JLT Public Sector Risk Report

The Town has received the above report from its insurers. 197 Council CEOs and General Managers contributed to the survey, providing their perspective on the greatest risks for the sector at this time. The top 10 risks deemed applicable to the Public Sector were:

1. Financial sustainability
2. Cyber security
3. Assets and Infrastructure
4. Business Continuity
5. Disaster and catastrophe
6. Climate change
7. Statutory and regulatory requirements
8. HR management
9. Waste management

10. Ineffective governance

CONSULTATION
Executive team

STATUTORY ENVIRONMENT
Regulation 17 of the *Local Government (Audit) Regulations 1996* requires the CEO to review the appropriateness and effectiveness of a local governments systems and procedures in relation to risk management, internal control and legislative compliance separately or all at the one time, on the provision that each matter is reviewed at least once every three years. The CEO is also required to report the results of that review to Council.

POLICY IMPLICATIONS
Council has adopted Policy 2.2.4 Risk Management.

FINANCIAL IMPLICATIONS
There are no financial implications relevant to this item.

STRATEGIC IMPLICATIONS
Strategic Implications

Strategic Priority 5 – Leadership and Governance
5.1 Strengthen organisational accountability and transparency
5.3 Strive for excellence in leadership and governance

RISK IMPLICATIONS

RISKS

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
A major function of the Audit Committee is to oversee the treatment/management of extreme risks. Failure to do so may result in adverse consequences.	Unlikely (2)	Major (4)	Moderate (5-9)	SERVICE INTERRUPTION Prolonged interruption of services - additional resources; performance affected <1 month	Manage by actively monitoring ….

RISK MATRIX

Consequence Likelihood		Insignificant 1	Minor 2	Moderate 3	Major 4	Extreme 5
Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives: occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

RISK RATING

Risk Rating	8
Does this item need to be added to the Town's Risk Register	No
Is a Risk Treatment Plan Required	No

SITE INSPECTION

Not applicable.

COMMENT

The 365 Risk Register application is still a work in progress as staff familiarise themselves with the specific components of the new register. The assessment of inherent risks and risk controls have been completed by staff. The following tasks still remain:

- Risk owners are required to review risk actions and treatments
- Risk owners are required to assess the residual risk rating
- Identified risks from Council and Committee reports are required to created in the Risk Register

CONCLUSION

The Dashboard report from the Risk Register identifies a number of actions to be completed within the next 12-months. The Committee's attention is drawn to these items and any queries/concerns/prioritised actions will be documented in the minutes from this meeting and reported against by staff at the next meeting.

10.5 OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

Committee Resolution 052607

OFFICER RECOMMENDATION

Moved Cr Wilson, seconded Mayor O'Neill
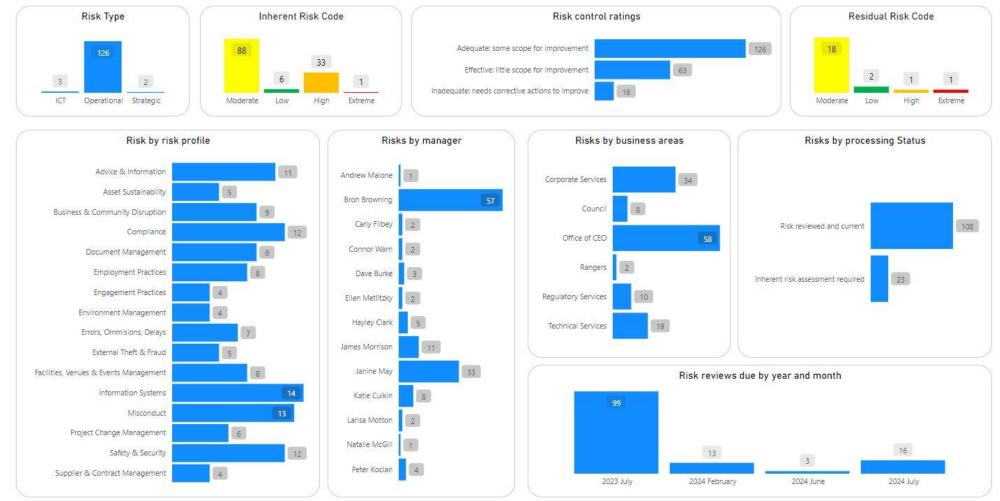
That the Audit Committee:

1. **recommend Council receives the Risk Register Dashboard as appended to this report and note that the current actions and timeframes contained within this document will be reviewed by the Committee on a reoccurring basis.**

2. **request that the Risk Register report incorporate a summary of high and extreme risks specifically those where risk treatments and controls are deemed not to be adequate and request the risk owner to attend future Audit Committee meetings to discuss these.**

3. **receive the JLT Public Sector Risk Report.**

(CARRIED UNANIMOUSLY)

NB: The Committee requested that all future Town Committee Agendas include an item on the risk register items pertaining to their areas. Peter Kocian was asked to discuss the matter with the Executive Leadership team.

REPORT ATTACHMENTS

Attachments start on the next page

Attachment -1

Risk Type

ICT	3
Operational	126
Strategic	2

Inherent Risk Code

Moderate	88
Low	6
High	33
Extreme	1

Risk control ratings

Adequate: some scope for improvement	126
Effective: little scope for improvement	63
Inadequate: needs corrective actions to improve	16

Residual Risk Code

Moderate	18
Low	2
High	1
Extreme	1

Risk by risk profile

Advice & Information	11
Asset Sustainability	5
Business & Community Disruption	9
Compliance	12
Document Management	9
Employment Practices	8
Engagement Practices	4
Environment Management	4
Errors, Ommisions, Delays	7
External Theft & Fraud	5
Facilities, Venues & Events Management	8
Information Systems	14
Misconduct	13
Project Change Management	6
Safety & Security	12
Supplier & Contract Management	4

Risks by manager

Andrew Malone	1
Bron Browning	57
Carly Filbey	2
Connor Warn	2
Dave Burke	3
Ellen Metlitzky	2
Hayley Clark	5
James Morrison	11
Janine May	33
Katie Culkin	8
Larisa Motton	2
Natalie McGill	1
Peter Kocian	4

Risks by business areas

Corporate Services	34
Council	8
Office of CEO	58
Rangers	2
Regulatory Services	10
Technical Services	19

Risks by processing Status

Risk reviewed and current	108
Inherent risk assessment required	23

Risk reviews due by year and month

2023 July	99
2024 February	13
2024 June	3
2024 July	16

Attachment -2

JLT Public Sector
Risk Report

JLT Public Sector is your trusted expert in the design and delivery of risk solutions for governments and their communities.

Our solutions are built on knowledge and expertise across advice, protection, claims, risk and insurance service areas and our clients are our number one priority.

Our experience in the sector and in product innovation create risk solutions for stronger local, state and federal governments and more resilient communities for the future.

Acknowledgement of Country

In the spirit of reconciliation, JLT Public Sector acknowledges the Traditional Custodians of country throughout Australia and their connections to land, sea and community. We pay our respect to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples today.

The 2022/23 JLT Public Sector Risk Report highlights the unpredictability of events that are arising, the indescribable effects that are coming out of these and how Local Governments are at the coal face of these events.

NOTE FROM **GARY OKELY**

Welcome

←

Through 2019 to 2021, Australia experienced disruption and impacts from bushfires, cyclones and the pandemic. During 2022 the impact of La Nina bought new challenges for Local Government, with flood events impacting across four different states.

This fifth edition of the Risk Report charts the significant challenges that local government leaders identify, the interconnectivity of the risks on their radar and, as we see herein, the potential of a domino effect.

197 Council CEOs and General Managers contributed to the JLT Public Sector Risk Survey, providing their perspective on the greatest risks for the sector at this time. Local Government insights provide the basis of this report and we again incorporate our observations and knowledge of the industry to comment on these risks.

Unprecedented flooding events across the country and multiple local government areas leaving little to no time for communities to recover and prepare for the next event. These extraordinary events elevated the challenges that governments at all levels are facing, compounding the complexities and not allowing time for solutions to be

developed and executed to provide support and protection to their communities.

Additionally, the attacks on Optus and Medibank Private brought to the forefront the serious impact cyber criminals can have on organisations holding personal data. These incomparable attacks where the community were effected highlighted how organisations are cyber reliant and at the same time cyber vulnerable and continuous management of cyber security is so vital.

As different events unfold, the interconnectivity of risk and the domino effect of these risks on government and the community is clear.

Thank you to all the CEOs and General Managers who participated in the survey. Your contribution is a vital attribute of the JLT Public Sector Risk Report.

GARY OKELY
Head of JLT Public Sector, Pacific

Financial Sustainability

The perennial 'number one risk' for the sector. Financial constraints to invest in the future and manage community expectations, being a common theme. The underlying factors varying greatly across the sector.

Cyber Security

With two major attacks on organisations gaining personal client data, the focus is on how to protect constituent data.

Assets & Infrastructure

With the major disaster and catastrophic events in 2022 – the impact on aged infrastructure is a serious concern.

Business Continuity

The events of the past three years have impacted Business Continuity. This has a domino affect to Council servicing the community.

TOP 10 RISK

Disaster & Catastrophe

Continuing floods in the same regions has showcased disasters and catastrophes never seen in Australia. Communities have not been able to recover before a major event has occurred again.

Climate Change

Climate Change is affecting councils specifically through disaster and catastrophe. The unpredictability makes it difficult to develop and implement new policies and programs.

Statutory & Regulatory Requirements

The continued shifting of responsibility to Local Government along with new regulations, does not incorporate resources to equip Councils to maintain requirements.

HR Management

Attracting and retaining professional staff due to not having the financial capacity to meet the market.

Waste Management

The ability to manage waste and meet community expectations surrounding managing waste environmentally are a concern for Council.

Ineffective Governance

Linking to Financial Sustainability, the inadequacy of financial controls. Concerns around misconduct or challenges from employees or elected members lead this.

Attachment -2

TABLE OF
CONTENTS

EXECUTIVE
SUMMARY

In 2022, local governments and communities continued to be impacted by unprecedented natural hazard events that quickly escalated to disaster status.

Data indicates the devastating floods that swept through south-east Queensland and northern New South Wales in late February and early March 2022 caused $5 billion in insured damages. Rated the third most costly extreme weather event in Australia's history, the 2022 east coast flood is now the most costly flood event in Australian history.

While climate change is described as the cause for delivering such an intense period of natural disasters, lack of local knowledge, inability to prepare, inadequate resources to respond and access to contemporary data results in a country that is unable to cope. Lack of capacity and capability across all levels of government to prepare, respond and protect communities against the impacts of natural disasters continues to overwhelm local governments and devastate communities.

The JLT Public Sector Risk Report (Risk Report) highlights all of the above. The key "risks" that keep a CEO/GM up at night, continue to highlight financial sustainability, climate change, disaster/catastrophic events, cybercrime and governance. The extremity of the flow-on effects of these circular risks are at the coal face for local governments.

The Risk Report provides a measure for the maturity of local government's strategic risk profile. CEOs and GMs recognise the risks and the underlying reasons why they are ranked as set out in the Report.

The 2022 events, off the back of previous disasters, continue to focus the lens on financial sustainability. While climate change continues to be a key risk, the risk of impacts of disaster/catastrophic events on communities here and now has understandably leap frogged climate change in the list.

The 2022 survey responses include feedback that highlights the need to understand what makes a council vulnerable and how investment in mitigating the impacts of hazard events will support vulnerable communities.

Local government has been confronted with a myriad of issues as impediments from the pandemic have lifted. Across Australia, Federal and State Government elections have transpired and caused a shift in the political landscape. Globally the economic fallout caused by Covid-19, impacted and continues to impact tourism, aviation, health, building and government sectors. These occurrences have further been affected by chain of supply issues, the Russian-Ukrainian War and inflation, contributing to a domino effect on increase of costs across the local government sector.

The Report highlights concerns for the emerging risks CEOs and GMs continue to face at an executive level. Ability to oversee and ensure compliance with good governance highlights the value of measuring sustainability (ESG).

The interconnectivity for these risks continued to be acknowledged in this year's report, with the top six contributing to the overall key risk - financial sustainability.

The findings of the survey also demonstrated a domino effect. As one risk is impacted by an event, it falls and topples into the next risk creating a circular list of key risks, all impacting on each other.

The survey responses recognise the domino affect disasters and catastrophes have on assets & infrastructure, in particular ageing and/or inadequate infrastructure. Outside of disasters, the survey indicated issues around the cost of upgrade or betterment of infrastructure and the ability to appropriately manage assets as an ongoing concern.

In response to disaster events, compounded in some situations with successive disaster events, there is an identified need to have in place effective business continuity plans. The survey results established the interconnection between the event and sustainability of business continuity plans, extending to information technology capabilities.

Compounding the issues for local government is the heightened awareness and reality of what a cyber-attack can mean for a council organisation; in particular the risk of exposure of personal information of the community.

The major and public attacks on Optus, Medibank and Latitude brought to the forefront the vulnerability of pubic facing organisations in relation cyber security.

While appropriate risk transfer (insurance) is important, the importance equally lies in risk mitigation. The Australian Cyber Security Centre's Annual Cyber Threat Report said "critical infrastructure networks are being increasingly targeted" with the "rapid exploitation of critical public vulnerabilities"[1] becoming the norm.

The Risk Report has cyber risk remaining at ranking number two - demonstrating CEOs and GMs continue to recognise that maturing the strategic risk reduction framework aligned with strategic plans and informed budgets is paramount to successful ongoing business.

Local Government is the pillar of its community. To be able to better support communities, councils need financial and resource support to have in place effective strategic plans, budgets and risk reduction initiatives that are able to contemplate unforeseen and unpredictable events.

The annual contribution by CEOs and GMs in responding to the Risk Survey enables JLT Public Sector to deliver powerful information and data that gives the Risk Report integrity and continue to provide valuable insight into the thoughts and views of the sector's leaders as strategic and financial considerations continue to mould the key risk framework of local government in Australia.

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[1] Australian Government, ACSC Annual Cyber Threat Report, Australian Signals Directories et al

OVERVIEW

2022

The 2022 Survey provides compelling insight of local government executives from across the country. There are certainly similarities in the risks that concern the sector, but the underlying reason behind the concerns can vary, depending on the State, geography (metro and regional) and the local regulatory environment.

This year, JLT Public Sector interviewed the CEOs of two Councils, asking for insights they have in particular risks within the survey. This provided deeper information into what Councils are facing within these risks. We thank Troy Green of Tweed City Council and Glenn Pattison of Casey City Council for contributing to this year's Risk Report.

We made changes to how Councils responded to the survey. Rather than choosing the leading reason for why they selected a risk, we gave the opportunity for respondents to rank the underlying reasons driving their perception of the risk. Using these findings, along with the historic data, we hope this report continues to help Councils consider how they approach risks, consider their vulnerabilities and shape their frameworks.

"

As different events unfold, the interconnectivity of risk and the domino effect of these risks on government and the community is clear.

GARY OKELY
CEO, JLT Public Sector
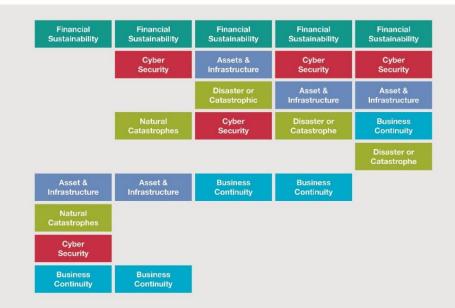
THE MOVEMENT OF THE

TOP FIVE RISKS 2018-2022

The following diagram maps the movement of top risk rankings from 2018 to 2022. This diagram demonstrates how risks have shifted and in particular how business continuity has become a focus for Local Government – reaffirming the importance of councils' understanding their risks and vulnerabilities and working to put mechanisms in place through their risk framework.

2018	2019	2020	2021	2022
Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability
	Cyber Security	Assets & Infrastructure	Cyber Security	Cyber Security
		Disaster or Catastrophic	Asset & Infrastructure	Asset & Infrastructure
	Natural Catastrophes	Cyber Security	Disaster or Catastrophe	Business Continuity
				Disaster or Catastrophe
Asset & Infrastructure	Asset & Infrastructure	Business Continuity	Business Continuity	
Natural Catastrophes				
Cyber Security				
Business Continuity	Business Continuity			

12

RISK RANKINGS
2018-2022

2018	2019	2020	2021	2022
Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability
Theft, fraud and/or crime	Cyber Security	Assets & Infrastructure	Cyber Security	Cyber Security
Reputation	Reputation	Disaster or Catastrophic	Asset & Infrastructure	Asset & Infrastructure
Statutory & regulatory Requirements	Natural Catastrophes	Cyber Security	Disaster or Catastrophe	Business Continuity
Environmental Management	Climate Change/Adaption	Reputation	Reputation	Disaster or Catastrophe
Asset & Infrastructure	Asset & Infrastructure	Business Continuity	Business Continuity	Climate Change/Adaptation
Natural Catastrophes	Statutory & regulatory Requirements	Waste Management	Climate Change/Adaptation	Statutory & regulatory Requirements
Cyber Security	Ineffective governance	Statutory & regulatory Requirements	Impact of Pandemic	HR Management
Business Continuity	Business Continuity	Climate Change/Adaptation	Statutory & regulatory Requirements	Waste Management
Ineffective Governance	HR/WHS Management	HR/WHS Management	Ineffective Governance	Ineffective Governance
HR/WHS Management	Environmental Management	Ineffective Governance	Waste Management	Reputation
Errors, omissions or civil liability exposure	Errors, Omissions or Civil Liability Exposure	Theft, fraud & crime threats (including social media)	HR/WHS Management	Impact of Pandemic
	Theft, fraud and Crime	Errors, omissions or civil liability exposure	Civil Liability Claims	
	Terrorism	Terrorism	Terrorism	

THE RANKING OF THE
12 RISKS

The two major cyberattacks on Optus and Medibank Private in Australia in 2022 contributed to continuing concerns about Cyber Security and the Breach of Data keeping Cyber Security top of mind in local government.

With the ongoing effects of devastating events of 2019, 2020 and 2021, the destructive floods of 2022 held influence on how risks impact local government. The impact of floods in New South Wales, Victoria and Queensland has maintained concerns around business continuity, disaster and catastrophic events continuing to be in the sights of Council.

Highest Ranking by respondents - Ranked 14

58%	Financial Sustainability
54%	Cyber security
35%	Infrastructure and assets
28%	Business continuity planning
27%	Disaster/ Catastrophic Events
25%	Climate Change/Adaptation
22%	Human Resources
21%	Statutory / Regulatory requirements

9%	Waste Management
8%	Ineffective governance
7%	Reputation risks
5%	Pandemic
2%	Claims
0%	Terrorism

This report demonstrates that Councils are recognising the interconnectivity of risks and the domino effect they have on each other. Even with particular risks moving within the ranks, they know the impact of one risk will have a chain reaction across a number of others.

FINANCIAL
SUSTAINABILITY

1

The evolving local government risk environment continues to present council executives with challenges in developing and resourcing business plans that enable the delivery of the organisation's strategic direction.

Catastrophic events, many being weather related, continue to dominate the local government landscape. The new post-Covid work environment and community expectations provide Executives with challenges and opportunities; and the ever changing exposure to cyber related crime has challenged Local Government like no other time in history.

Since 2018, Financial Sustainability has been ranked by Risk Survey respondents as the number one concern they face. While councils benefit from the relative stability of annual Council rates which increase modestly most years, it is the escalating cost of meeting community expectations with maintaining and modernising public living spaces and key public assets - including ageing assets – which presents executive teams with major planning and budgetary hurdles year-on-year.

There are certainly similarities in the type of financial challenges faced by metro and regional councils across Australia. Not only are they navigating the ongoing cost shifting from state to local governments but also a disproportionate allocation of needed Federal Assistance Grants (FAGs). The ever increasing impost of compliance across all aspects of local government additionally makes recruiting appropriately experienced staff in a competitive jobs market an ongoing challenge.

Competition for talent across the country increase intensely and a common theme is that local government has lost both talent and capacity in recent times as employees are attracted to the private sector. The general consensus is councils are a great platform for developing skilled talent due to the breadth and diversity of operations, services provided. This is further exacerbated in regional areas where talent attraction and retention has always been difficult.

Local government in most states is also responsible for the care and maintenance of many critical state-owned assets which are leased to councils. The arrangements were often cast years ago when the assets were in reasonable conditions either through rates or grants to maintain the assets in line with community or regulatory expectations. An example is jetties and wharves which are extremely expensive to maintain and replace but are seen as a critical asset to a town's tourism and local economy. If closure was to occur, the impacts would be far-reaching with broad financial implications for the community and its visitors.

Financial sustainability and the underlying risks can vary depending on the geographic location and demographic mix of each community. This report endeavours to unpack some of these challenges.

Weather-related events continue to rate as one of the biggest risks councils face, compounded by the continual moving responsibilities on from federal and state jurisdictions to local government with minimal to no financial support for these transferred responsibilities.

The impacts that have occurred across the past three years are not well supported financially through the FAGs. In 1996, 1% of Commonwealth taxation revenue was committed to FAGs but by 2017 this had dropped to only 0.55%[1]. This is despite population growth, increased responsibilities, along with the surge in disasters, catastrophes and the pandemic.

"One of the biggest issues with the national disaster relief is liquidity," says Troy Green, of Tweed City Council. "The process after a disaster places a great deal of strain on the financial position of local government." In some cases, councils are drawing down on limited unrestricted cash reserves to pay for the immediate requirements of day to day expenses and rebuild the community after a disaster. In some instances, it can take years before the money is reimbursed as per the guidelines.

- -

"Disaster impacts all capital works programs," continues Mr Green, "focus is completely on rebuild and programmed capital works are impacted. This affects financial sustainability of council and conversely our 'Fit for the Future' asset renewal and maintenance ratios."

- -

The largest concern is that there is cost shifting moving from other governments with no increased funding to local government to assist. 41.62% of respondents of the risk survey ranked cost shifting as the leading issue underpinning Financial Sustainability which impact councils. This was followed by 35.53% of respondents ranking insufficient rate revenue or growth to support the delivery of services.

In many instances, local government is managing infrastructure and assets built after the second-world war and delivered during the Australia Boom. Today, this sector manages physical assets valued at $523B.

With the four highest-ranking concerns for councils associated with assets, it is little surprise these impact on the sector's Financial Sustainability outlook.

As noted in 2021, councils continue to be limited in how they can increase revenue in order to deliver operational requirements. This provides considerable pressure to meet the demand and expectations of the community. Rate pegging continues to impact Councils and with such constraints in place, grant funding stagnating, the ability for Councils to maintain Financial Sustainability is minimal placing a burden on how local government can maintain services to the community.

"
One of the biggest issues with the national disaster relief is liquidity.

TROY GREEN
CEO, Tweed City Council

[1] LG Professionals Australia, Local Government Professionals 2020-21 Pre-Budget Submission, December 2019
[2] Australian Local Government Association, 2021 National State of the Assets Report

Financial Sustainability survey results

42% Respondents ranked **cost shifting** from other tiers of government as the leading reason for this risk

35% Ranked **insufficient rate revenue** (and/or growth) to deliver functions, services as the leading issue.

5.6% Recognised the **impact of Climate Change and maintaining assets** ranking this issue fourth as the leading issue.

10.6% **Inadequate government funding/grants** was ranked in third place contributing to Financial Sustainability as the leading risk

2

CYBER SECURITY

43% Not sure of their IT infrastructure or provider proactively manages cyber security

41% Are concerned about Cyber security failure

The frequency and sophistication of malicious cyber-attacks against organisations is increasing. This increase affects online services at all levels of government, within businesses and the community due to the increasing dependency on the internet and hybrid working models. These circumstances provide greater opportunity for cyber-criminals to exploit vulnerabilities within the broad range of technology being used in society.

With COVID19 fast-tracking how work, school and engaging with people and organisations, take place virtually solutions were quickly developed using technology. Councils were no different and needed to respond and reshape how services could be delivered online and from the home environment where possible.

Over 43% of Councils listed their leading concern underlining the issue of Cyber Security as not knowing their vulnerability of IT infrastructure and their proactive ability to manage cyber security. The second ranking issue at 25% was their concern on cyber security failure. These two are supported by the fact that when ranking what underpins this risk, Local Government is not confident it is not aware of potential attacks and how they would respond.

Cyber has also been affected by the disaster and catastrophes in 2022 impacting business continuity.

Troy Green of Tweed City Council noted, "This has led to the need to look at how we manage and deliver our services differently. When we lost access to our services during the floods and the NBN was taken out, we couldn't be as effective or efficient. This has led us to evaluate our BCP and look at moving everything to the Cloud. By moving our core applications to software as a service (SAAS), our services will continue, in any event, as our people can work from any location. By looking at outsourcing to the Cloud, we are outsourcing our cyber risk as well as addressing the business continuity aspect with the added benefit we have our data in a secure vault, backed by Tier 1 vendors".

The Australian Cyber Security Centre reported in its 2022 Annual Cyber Threat Report, there were over 76,000 cybercrime reports in the 2021/2022 year, an increase of nearly 13% on the previous year. This was attributed to state sponsored cybercrime incidents, Australia's prosperity attracting cybercriminals, evolution of ransomware attacks and the rapid exploitation of critical public vulnerabilities.[3]

Through the work JLT Public Sector has performed in partnership with our Council clients, it is clear that basic cyber-controls such as email filtering, web security, managing secure system configurations and keeping secured, encrypted and tested backups is relatively commonplace. However other controls require a renewed focus including endpoint detection and response, privileged access management and multifactor authentication to enhance the sector cyber-security posture.

The Allianz Risk Barometer found Cyber as the highest issue that organisations globally are facing and second in Australia. This was pipped by Business Interruption.[4]

[3] https://www.cyber.gov.au/sites/default/files/2022-11/ACSC Annual Cyber Threat Report 2022
[4] Allianz Global Corporate & Specialty, Allianz Risk Barometer 2022

Councils are responsible for approximately one third of Australia's public sector owned assets and infrastructure. The most recent estimated value of this portfolio exceeds $523 billion annually and costs over $35 billion to manage.[7]

Figure 1 depicts the split over a range of asset classes. The Australian Local Government Association (ALGA) estimates that of the total portfolio under council control, nearly three of every 100 assets require replacement and one in 10 assets require urgent attention. The cost of this is considerable, with estimates for replacing infrastructure in poor condition sitting in the order of $51 billion and those in fair condition ranging up to $138 billion.[6]

To put this into perspective, the cost of replacing the assets in poor condition exceeds the total annual revenue available to local government.

It should be noted, those estimates were compiled before the surge in inflation over the course of 2022 and into 2023 and do not directly account for the cost to councils to adequately manage and maintain the remaining components of the total infrastructure portfolio.

This clearly has significant implications for councils and highlights the strong interconnectedness between asset management and the underlying financial sustainability of the sector. This has a domino effect with significant implications for liability exposures associated with local government operations.

Further, it is recognised that this is potentially not just a liability matter, but could possibly incorporate property as assets in poorer condition are more vulnerable to loss. This in turn has implications for continuity of operations, reputation among the community as custodians of assets.

Figure 1: Value of financial & non-financial assets control by local government (June 2020)[6]

3 ASSETS & INFRASTRUCTURE

"Such assets have a shorter renewal cycle" says Glenn Pattison, CEO of City of Casey. "While in recent years efforts have been made to increase the funding envelope for this asset class, other pressures on the capital program, along with a need to move developer contribution funds into project delivery creates a tension between the new and renewal requirements."

This underlines the imperative for a substantial expansion to the funding that is available to councils from other tiers of government to support asset management. These funding mechanisms include financial assistance grants and other targeted infrastructure funding programs such as the Commonwealth road black spot funding, various disaster risk reduction funding programs and disaster recovery funding that supports building back better and the development of resilient infrastructure.

It also highlights the importance of the need for dependable and mature data that is capable of supporting informed and robust planning and decision-making that reflects the fundamental and determinative interrelationship between asset management planning and financial sustainability.

The impacts from the profound socio-demographic shifts arising from the COVID-19 pandemic are also likely to have significant implications for asset and infrastructure management into the future. This is from interregional migration and population shift, changes in infrastructure demand and utilisation, skilled and affordable contractor, and the ability of councils to attract and retain skills and capacity within their workforce.

With the 2022 survey providing the opportunity for councils to provide specific rankings of issues underlying a risk, Figure 2 demonstrates the national overview of each issue underlying this risk. The leading concern by a significant number of points is the capacity to finance the assets further magnified by the significant funding required due to the supply chain issues and inflation.

Figure 2 highlights that councils do not believe they have the capacity to finance the management of infrastructure assets and this is the biggest risk driver across the sector. This is exacerbated by inflation and supply chain disruption and disaster impacts. These, along with betterment in recovery were identified and are seen as interrelated and compounding factors.

Equal second place of underlying issues to management of assets and infrastructure is the cost of upgrading or betterment of repairing these. For example, councils are finding assets have shorter lifecycles and the funds to deliver new assets is not achievable.

For example, City of Casey has concerns surrounding open space assets such as playgrounds and sports fields.

Figure 2: Management of and/or damage of property, Infrastructure and Asset risk\heat map

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[6] Australian Local Government Association, 2021 National State of the Assets Report
[7] Source ALGA, 2021

20

With the events of the past three years, local governments have turned their attention to business continuity and the consideration of short, medium and long-term steps they need to take help their communities navigate uncertainty during an event. Well-crafted and implemented business continuity plans typically aim to quickly and efficiently restore normal service through the actions of staff and the executive.

Unsurprisingly, business continuity awareness has moved up two spaces in 2022 from sixth to fourth position.

The substantial devastation and effects of the 2022 floods across Australia has moved the destruction of council assets/infrastructure due to an insured peril and to the second highest issue underpinning the Business Continuity risk. Widespread global volatility impacting supply chains, labour costs and inflation, has created a perfect storm impacting asset and business interruption declared values. We have seen a surge in valuation activity from proactive councils seeking to ensure their declared values reflect the reality of replacement under current market conditions; a task which cannot be overlooked when planning for business continuity.

There is a linkage between disaster and catastrophic events and the domino effect on councils' Business Continuity plans, impacting processes which in some cases are compounded by unplanned IT outages; each being part of the interconnectivity of risks.

Respondents demonstrated an active interest in processes to respond to unplanned outage of IT / social media / telecommunications, which has become a focus for councils. IT resilience is a growing challenge for local government, and the financial impact of unplanned outages and security breaches is increasing.

Failure to align IT security capabilities with councils' strategic goals and appetite for risk, including the integration of operational disaster recovery plans into the strategic business continuity plans may expose vulnerabilities to the continuity of services and should be a priority of local government.

Finally, councils recognise that the development of community resilience plans and processes to mitigate the impact on council services and functions need to be addressed. Councils forced to distil critical and operational choices with the executive during the pandemic escalation must now ensure business continuity plans allow for a triaged approach to the continuity of services. This needs to be delivered in an orderly manner and in a way that communicates with affected communities with compassion and transparency.

22

BUSINESS **CONTINUITY**

4

41% CEO's and GM's ranked the leading underlying concern for Business Continuity, the destruction of council assets / infrastructure due to natural and other disasters.

23% The next ranking concern within the Business Continuity Risk is the destruction of council assets/ infrastructure due to an insured peril.

16% Process to respond to unplanned outages of IT/social media/ telecommunications is the third concern unpinning the risk for Business Continuity.

DISASTER AND CATASTROPHE

5

It comes as no surprise the impacts from disasters and catastrophic events on councils and their communities and features highly, rounding out the top five in the 2022 survey.

In the shadow of the 2019/20 Black Summer bushfires, followed by severe weather wrought by a return to La Nina conditions in 2020/21 across most of Australia, councils were already stretched and exhausted by the continued impacts of the COVID-19 pandemic. Councils were then having to brace for a second conservative La Nina in 2021/22.

Yet it was an earthquake that sounded the bell of things to come when it centred in Mansfield, Victoria, in September 2021. Tremors were felt in Tasmania and into New South s magnitude 5.9 event caused damage to a number of homes and commercial buildings.

South Australia and Victoria were first hit by widespread severe weather, with strong winds, lightening and hail causing extensive and catastrophic damage to agriculture, buildings and community infrastructure in late October 2021.

The unforeseen three weather systems which combined to cause flooding across the east coast of Australia in February 2022, with the most severe flooding experienced in South East Queensland as well as Central and Northern New South Wales, brought communities under extreme stress. Flooding impacts occurred in more than 70 local government areas and

caused damage of over $5 billion in insured losses according to the Insurance Council of Australia – the third costliest weather event in Australia's history.

Saturated catchments and widespread flooding from ongoing rain events continued into 2023. This included the Hawkesbury-Nepean which experienced its worst flooding in nearly 50 years in July, then the Murray-Darling where unprecedented flooding in November devastated Forbes and surrounding towns in Central West NSW before impacting downstream communities in the months that followed.

Unsurprisingly, disaster hazards occupy the most attention of councils, however emergency response, event predictability, funding, community awareness and planning aspects of disaster management were identified as high concern by respondents as indicated by Figure 3.

Glenn Patterson, CEO of City of Casey Council agree councils are working to reduce climate change risks through long-term planning, ensuring this is reflected in policies and planning controls.

"It is important that government responses are informed by accurate data and science, and that collaboration occurs between all levels of government, community and industry to effectively address mitigation and adaption".

The impact of the events of 2022 and 2023 are well seen in how they connect with other risks. The roll on effect from these events is seen throughout this report from the financial implications, to the impact on technology, as well as business continuity programmes unable to survive reoccurring events.

Since 2020, it is estimated that there have been over $12 billion in claims. These events come at a significant additional economic impact, with Treasury estimating a $5billion cost on the national economy due to the 2022 disasters through crop losses, mining and construction delays, supply chain disruption and increased inflationary pressure. The events of 2021/22 are a stark reminder of how Councils must continue to focus on understanding vulnerabilities, improving systems, and building community and organisational capacity to reduce risk and strengthen resilience.

"The hidden cost of a catastrophic event, which is hard to factor, is the emotional cost" stated Troy Green of Tweed City Council. "Staff are working ridiculous hours to manage operations of Council as well as responding to the immediate effects of a disaster. The community doesn't have the lens over all aspects of what is involved in a disaster and eventually, Council employees are at the end of multiple complaints each day. The emotional impact on Council staff during such events can impact morale. One of the hidden effects of a disaster is in trying to obtain additional skilled human resources to assist those agencies undertaking recovery deal with the additional demands placed upon them over an extended period of recovery."

The results of the survey, as shown in figure 4 demonstrate that the immediate response to manage assets and infrastructure during a disaster and catastrophic event. What all councils across remote, rural, regional, metropolitan and city are equally concerned about is if their emergency management response plans can be effectively implemented and is the community aware of the response plans are.
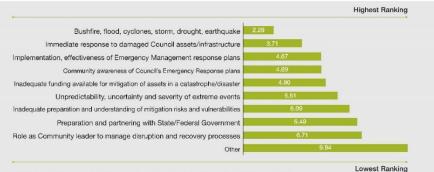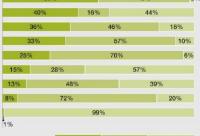

Figure 4: Disaster/Catastrophic Event Average Ranking of underlying concerns 1 to 10

Figure 3: Disaster/Catastrophic Events Heat Map

The unpredictability of disasters coupled with La Nina and the Negative Indian Ocean Dipole in the second half of 2022 have contributed considerably to the impact of catastrophic events. This layered over the events of 2019 through 2022 has applied pressures to all councils with more significant impacts on those communities who have had the effects of multiple events over this time period.

The annual Bureau of Meteorology and CSIRO State of the Climate Report[3] draws on the most recent national and international climate research, encompassing observations, analyses and future projections. The report notes associated changes in weather and climate extremes—such as extreme heat, heavy rainfall and coastal inundation, fire weather and drought—have a large impact on the health and wellbeing of our communities and ecosystems.

These changes are happening at an increased pace with the past decade seeing record-breaking extremes leading to natural disasters; as well as having a growing impact on the lives and livelihoods of all Australians. These, combined with chronic, periodic and local stressors, will compound local communities' vulnerability to such disasters.

The 2022 risk survey results show all states/ territories, and in NSW in particular, have been effected substantially by four major flood events in 2022. The time required to identify, investigate and assess the damage and then work through what needs to be rebuilt is considerable. In some cases, a number of communities have not had the time to work through this process before another major flood event occurred.

The effort to ensure that infrastructure and the community reduce their vulnerability is important as this will contribute to better preparedness in the future.

As noted above, though this example represents primarily NSW, all states and territories are concerned that the ability to procure insurance is not achievable or the cost of doing so is unsustainable to pay. This is very much at the forefront of councils affected by multiple events across a short period of time.

The basic premise is that natural hazards only lead to disasters if they intersect with a community that is exposed, un-prepared and vulnerable. Disasters are increasingly exceeding the capacity and capability of councils and local communities to respond to and recover, thus making it necessary to invest more and smarter in disaster risk mitigation.

Mitigating the risk of disaster requires identifying and understanding the direct and indirect cause

and effect of vulnerability. Exploring how local community values influence 'vulnerability' needs to be properly understood and calculated. Local government decisions effecting a community's ability to build resilience are the result of multiple, cumulative, non–linear processes by which local community values, tensions and trade-offs are able to be effectively managed.

Respondents continued to identify assessment of predicted climate change impacts on their community functions and activities as the key issue they face within this risk. The need to develop strategic policies informed by credible knowledge of climate change impacts and supported by robust risk reduction is the reason this risk in sixth position.

The 2022 State of the Climate Report has projected that Australia will continue to be affected by increasing temperatures with more heat extremes, a decrease of cool seasons and dangerous fire seasons.

In accord with the National Disaster Resilience Strategy, the Australian Government is looking at a broader policy and framework engaging with local government in order to support the development of skills and expertise to build resilience in the community.

The creation of a vulnerability profile of local government, as the community leader, will assist in understanding and identifying how it can influence the capacity of a local community to prepare for, absorb and recover from a natural hazard event while building resilience.

The transition of resilience from a descriptive concept to a series of accepted values, able to be integrated into a strategic plan, attracts challenges while providing opportunities.

Achieving resilience will not be an outcome. Resilience is an ongoing course that will mature and evolve as the risk environment of local government continues to be influenced by varying factors.

Governments are encouraged to commit to specific funding programs to enable local governments to invest in and undertake essential mitigation programs. These will help reduce the exposure of communities to the impacts of natural disasters enabling the ongoing maturity of community resilience.

A resilient community is better prepared for, more able to respond, and able to recover from a natural disaster event. Increasing community resilience will create a more attractive environment for the insurance industry to maintain affordable and appropriate insurance and/or risk solution products.

	Rank 1		Rank 6
Assessment of predicted Climate Change impacts on Council business/functions	61%	30%	9%
Development and adequacy of strategic policies and operational programs to mitigate and adapt to climate change	49%	41%	10%
Sufficiency of disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets that are capable of withstanding future climate scenarios	37%	25%	38%
Impacts of climate change projections on Council business/functions and ability to satisfy the needs and expectations of the local community	22%	53%	25%
Understanding legislative changes due to predicted climate change impacts (Development and Planning legislation, Emergency Management processes, budget impact on assets/infrastructure)	18%	24%	58%
Identifying Council's carbon footprint to respond to community expectations	13%	27%	60%

Figure 5: Climate change and/or adaption risk heat map

Ranked 1-2   Ranked 3-4   Ranked 5-6

3 Bureau of Meteorology and CSIRO State of the Climate Report

6

CLIMATE
CHANGE/ADAPTION

> ## "
> ## It is important that government responses are informed by accurate data and science, and that collaboration occurs between all levels of government, community and industry to effectively address mitigation and adaption.
>
> **GLENN PATTERSON**
> CEO, City of Casey Council

STATUTORY & REGULATORY **REQUIREMENTS**

7

Local governments across Australia are operating in an environment of increased statutory and regulatory requirements. The driving forces behind this trend include ongoing cost shifting mechanisms from other tiers of government, increasing governance and accountability requirements, which have come about as a result of integrity and accountability related legislative reform.

Respondents have indicated that this area is significantly influencing their organisation's risk profile as evidenced by the movement in risk ranking in this year's report from ninth in 2021 to sixth in 2022.

Local governments may see these risks manifest in a number of ways including:

· An increase in litigation and claims activity as a result of non-compliance activity (including governance and accountability matters against councillors and officers), which in turn connects to the risk of Ineffective Governance.

· Financial sustainability implications as a result of local governments needing to provide additional services and functions to communities that were previously the responsibility of other tiers of government. This connection with the leading risk, places further pressure on organisations already stressed from a resourcing perspective.
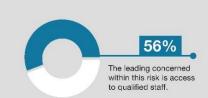
Increased exposure to additional fines and penalties for non-compliance and the additional cost associated with compliance management.

· Increased risk shifting from state/territory government agencies to local government, including complexity around Planning and Development regulations and obligations, and

· Increased community complaints and adverse audit findings resulting in risk to reputational damage.

The key challenges identified in managing and controlling this risk include access to appropriately qualified staff which links with the seventh ranked risk – Human Resources. This is further exacerbated by the sheer pace of legislative change and cost shifting mechanism from other tiers of government as they too grapple with financial sustainability pressures.

There is a continuing focus by individuals, stakeholders, interest groups and regulators on corporate governance structures and decision-making processes across all levels of government. This is particularly in the areas of environmental, social and governance matters, which we anticipate will continue to drive the ever changing and expanding legislative agenda facing local governments in the coming years.

56%
The leading concerned within this risk is access to qualified staff.

26%
The second highest ranked concern is changes in legislation or its application to shifting regulatory requirements.

The Australian Local Government Association (ALGA) reported in September 2022 that "around nine in ten Australian councils are now experiencing skill shortages – an increase of 30% in four years and two thirds of councils have had local projects impacted or delayed as a result".[10]

The Local Government employment profile is complex, with low unemployment rates creating a skills shortage across many key roles with this challenge further compounded for regionally located Councils. The complexity of council service delivery and the challenge of meeting regulatory obligations and community expectations makes it very difficult for councils to appropriately resource their organisations.

The age profile of Local Government is also significantly geared towards the more senior age brackets, creating workplace efficiency and transition to retirement challenges. The clear distinction in roles and responsibilities of 'outside' and 'inside' workers presents hurdles such as how to overcome a transition for workers to a more labour intensive role.

Governments in general were not set up for a work from home arrangement prior to the pandemic and being able to sustain this and manage performance is proving difficult.

Councils have started to develop Employee Value Propositions (EVPs) to source, attract, recruit and retain staff.

"Local Government needs to identify what can be offered through benefits, remuneration and career development", states Glenn Patterson, CEO of Casey City Council. "We need to shift from traditional and reactive sourcing to a strategic and proactive approach".

Mr Patterson continues that "to retain talented staff, local government must uplift culture and implement future focussed, new ways of working. We need a

Highest Ranking

Concern	Value
Limited capacity to attract and retain professional staff	1.75
Rapidly rising employment market costs	3.50
Managing staff productivity and performance	3.45
Challenges of managing a remote workforce	3.66
Providing health, safety and wellbeing to all employees	4.14
OSH & PWHS Fines & Penalties	5.58
Workers' Compensation Claims	5.88
Other	7.94

Lowest Ranking

Figure 6: Human Resources Average Ranking of underlying concerns 1 to 8

Consistent feedback in the 2022 Risk Survey showed local government in general needs to consider how it can compete in the low-unemployment environment and better position local government as an industry of choice for new graduates. This can also be said of the challenge to attract the best leadership talent to help overcome succession challenges for senior positions.

There is minimal differences in rankings between meeting market costs and being able to manage employee productivity which is supported by the fact councils face challenges when it comes to managing a remote workforce.

robust, employee centred approach that actively engages employees throughout their work lifecycle".

With minimal ability to influence operating revenues through rate increases and being primarily reliant on federal assistance and grants, councils are financially constrained in being able to effectively resource and attract the best talent to the organisation.

Further compounded by the heavy media scrutiny around Council spending and the public access to Executive remuneration.

[10] ALGA, News & Events

"

We need to shift from traditional and reactive sourcing to a strategic and proactive approach.

GLENN PATTERSON
CEO, City of Casey Council

8

HUMAN
RESOURCE
MANAGEMENT

WASTE **MANAGEMENT**

9

The 2018 National Waste Report noted that "Australia generates more waste than the average Western economy".[1] Local Government manages approximately 26% of Australia's waste via self-management or specialised services and kerbside, dispatched and recycled material.

Over 9.7 million tonnes of waste is collected and managed nationally each year costing around $3.5 billion.

In 2020, an Action Plan was put in place for better waste management practices. An 80% recovery rate target across all waste streams by 2030. Further requirements within this report include halving organic waste to landfill and phasing out unnecessary plastics by 2025. These targets put pressure on Councils with minimal financial support to achieve this.

Concerns for financial capacity to meet these requirements is reflected in the results of the 2022 Public Sector Risk Survey. Waste Management moved up two places in the rankings from 2021. The cost and ability to effectively manage waste was ranked as the number one reason for this concern. This accounted for 68% of Councils ranking this as number one.

Councils are under increasing pressure to repurpose, build, fund and educate residents around the changing requirements. Waste management is a high-risk activity with significant losses sustained in the industry, every year. The most obvious risk posed is environmental contamination.

Clean up expenses, fines and damages, increased costs, are all further potential outcomes. Overarching these operational hazards is the significant reputational risk to mitigate environmental harm whilst innovating to create a circular economy, in a climate of increased environmental sensitivity.

The increased focus on reducing waste to landfill creates opportunities but also opens the door to new risks such as:

· Maintenance run-off of older facilities and monitoring of legacy landfill which will create a burden to balance sheets as well as regulatory changes.

· Increased costs to manage

· Stockpiling because of insufficient, suitable infrastructure and limited demand in the domestic market.

Waste facilities have evolved from past models of landfill-only operations to sophisticated waste management solutions including refuse recovery, recycling, and energy generation.

This change in pace around waste management creates opportunities in the waste-2-energy space, potentially opening the door to new revenue streams for local government. Whilst these opportunities appear attractive, a move into this space will change the profile of local government waste management activities and the implications of this are something that Councils ought to thoroughly consider when planning for and evaluating these opportunities.

There are a number of local government projects underway across Australia directly engaged in W2E, investigating W2E solutions and developing solutions to cater for the waste generated from these plants.

Highest Ranking

Concern	Ranking
Cost and ability to effectively manage waste	1.44
Managing community expectations on Council	2.05
Policy and procedures for managing recycling operations	3.13
Risks of harm to people or the environment arising from waste facilities/activities	3.41
Other	4.97

Lowest Ranking

Figure 7: Waste Management Average Ranking of underlying concerns 1 to 5

[1] Parliament of Australia, Waste Management & Recycling, Budget Review 2020 21 Index

INEFFECTIVE **GOVERNMENT**

10

REPUTATION

11

Governance within a local government encompasses all the structures, systems and processes by which it is controlled and operated, and the organisation as whole, and its people, are held to account. Effective governance processes and practices (including enterprise risk management) within local governments are critical to their success and meeting the needs of the communities they serve.

While ineffective governance remains in 10th position, failure to initially set up and maintain appropriate governance structures, and then appropriately apply and monitor them is the key feature in the continued increase of claims in Public and Professional Liability, Council and Officers, and Fidelity/Crime covers.

The largest issue council executives identified this year relating to ineffective governance is the inadequacy of financial controls. While previously ranked at the bottom of the underlying governance sub issues, respondents ranked this as the leading issue for ineffective governance. The driving forces behind this movement may be linked to the increasing budgetary pressures in a challenging operating environment of inflationary pressures, supply chain issues, and workplace planning difficulties.

Challenges from managing elected member and or employee behaviour/misconduct and challenges with managing Council meetings, efficiently and effectively were ranked closely being the adequacy of financial controls. The driving forces behind these sub groups emerging as priorities for a large number of councils likely include the integrity related legislative reform agenda across the country.

In the procurement of contractors, facilities and events, councils need to ensure there is planning incorporating justification for engagement as well as the approach taken in how they go to the market to deliver services and events. The process must ensure sourcing is carried out transparently and the process is managed effectively. This can be particularly challenging in the current environment with pressures on supply chains and the labour market. Failing to undertake appropriate due diligence and get these critical processes right exposes councils to public liability claims, financial loss, and significant reputational damage.

With the ranking of risks this year, councils have considered a number of issues around what effects local government. Reputation has been ranked 11th out of the 12 risks.

As the closest level of government to the community, councils are best in touch with their community needs and understand the best ways to ensure those needs are met.

Councils are responsible for providing a wide range of key services but, also have a legislative responsibility to provide governance and leadership for their local community through advocacy, sound decision making and action.

Councils are accountable to their local communities in the performance of their functions, the exercise of powers and the use of resources. Should there be any real or perceived failure in performance of these duties, there could be significant consequences to a council's reputation.
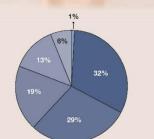
In 2022, councils have been under increased pressure to continue to provide essential services while supporting their local communities through a number of events that have occurred across 2022.

While councils have been seen in the community, advocating for their needs, council resources have been tested as well as stretched which in some circumstances has led to frustration in the community and potential impacts to a Councils reputation.

Local Government identified their biggest concern in the reputation category is their ability to administer council governance effectively. However, this was closely followed by the impact of failing to comply with or undertake legislative requirements as these change. While related to the shifting of responsibilities, changes of legislation and the inability to engage and maintain the right people to manage this through. This leads to the loss of community trust in elected members and administrative staff.

This year, with the ability for respondents to specifically rank their reasoning behind each risk, there has been movement in the specific number one ranked risks. The ability to administer council governance effectively moved to number one with the loss of confidence in elected members moving to number 2. It should be noted these remained extremely close.

Figure 8: Ineffective Government Concern Rankings

	Rank 1		Rank 7
Adequacy of financial controls	67%	24%	9%
Challenges from managing Elected Member and/or Employee behavior/misconduct	61%	37%	2%
Challenges with managing Council Meetings, efficiently and effectively	55%	37%	8%
Compliance with Strategic Planning process	51%	39%	10%
Failure to manage contractors, facilities, and events	45%	45%	10%
Increased activating with managing Investigations by ICAC or similar bodies	17% 19%	64%	
Other please specify	3%	97%	

Ranked 1-3   Ranked 4-5   Ranked 6-7

- Ability to administer Council governance effectively — 32%
- Loss of community trust Elected Members — 29%
- Failure to comply with/undertake legislative requirements — 19%
- Loss of community trust in Council Administration — 13%
- Investigations by external government bodies — 6%
- Other please specify — 1%

34

Attachment -2

12 **PANDEMIC**

The COVID-19 outbreak tested previous thinking about planning and responding to an evolving pandemic. It continued to impact organisations and communities in 2022. Though shut downs have eased, the third and fourth pandemic waves in conjunction with the first serious flu season in two years continued to see governments and business have employees work from home when needed. This reduced the capacity of local businesses being able to bounce back and thrive with people returning to work in metropolitan and regional cities.

Public sector pandemic planning had two key underlying assumptions:

· Phased approach to linear developing pandemic conditions in accordance with relevant health authorities declared phases.

· Focus on continuity of critical and core service deliverables associated with 40-60% workforce reduction and supply chain interruptions due to people being sick or caring for the sick.

The COVID-19 pandemic challenged all previous pandemic planning assumptions because there was:

· Rapid non-linear escalation;

· Global, national and state based border closure;

· Lock downs at various stages across the country;

· Mass vaccination responses to reduce transmission and protect vulnerable populations, along with;

· Technology advancements that facilitated communications (including misleading information);

· Work from home capabilities.

While the COVID-19 pandemic continues to have impacts, the lifting of border closures, lock downs and supply chain delays eased during 2022. The lessons learned over the past three years have changed pandemic planning and response for local government in many ways, not only addressing the risk but also realising opportunities. Today local government is adapting to:

· The return of visitors and workers to capital and major cities following a mass exodus during the pandemic.

· Some regional areas are experiencing increased community population, changed demographics and associated changes to service expectations.

· Different ways and evolving expectations for community services, events and engagement.

· The critical role local government plays in facilitating and delivering key health messages to their local communities.

There have been high levels of demonstrated resilience at a whole of community and local government level with the proven ability to deliver continuity of critical and core services. This 'new normal' prepares us for future pandemic threats with recent monitoring of Foot and Mouth outbreak in Indonesia and reported Monkey Pox cases in Australia.

The 2022 JLT Risk Survey was carried out through September and October of 2022. Due to the continued events in October, November and December, the report has moved for release in March 2023. 197 CEOs and GMs participated in the questionnaire representing rural/remote, regional, metropolitan and city councils from across Australia.

Reshaping the ranking of Risk
The survey provides the view of CEOs and General Managers of local government and their perception of 12 key risks.

- -

This year, we provided the opportunity for respondents to be more specific in ranking their risks. In the first instance, each risk was ranked in order of concern.

- -

THE KEY RISK INDICATOR REPORT
METHODOLOGY

The following explains the approach off the example of rankings.

Risk Category:
Business continuity planning and Community disruption

Risk Category	1	2	3	4	5	6
Destruction of Council assets/infrastructure due to natural and other disasters (bushfire, flood, extreme storms, terrorism, etc.)	40.61%	22.34%	14.21%	13.20%	9.14%	0.51%
Destruction of Council assets/infrastructure due to an insured peril (fire, storm, vandalism)	22.84%	31.47%	18.27%	15.74%	11.68%	0.00%
Process to respond to unplanned outages of IT/social media/telecommunications	16.24%	15.23%	14.21%	19.29%	34.01%	1.02%
Development of community resilience plans and processes to mitigate the impact of a loss of/reduced Council services and functions	11.17%	10.66%	38.07%	20.81%	19.29%	0.00%
Process to ensure clear, consistent communication with affected community/ies integrity of current business continuity plan and process	8.63%	19.29%	15.23%	30.96%	25.89%	0.00%
Other please specify	0.51%	1.02%	0.00%	0.00%	0.00%	98.48%

If we take business continuity risk category as an example, the highlighted column above sums to 100% and shows a breakup of all the risks ranked at number 1.

This sample shows 40.61 % of responders had Destruction of Council assets/infrastructure due to natural and other disasters (bushfire, flood, extreme storms, terrorism, etc.) ranked 1.

To identify high, medium and low risks we have bundled the rankings as follows.

6 - 9 Rank

MEDIUM

LOW   HIGH

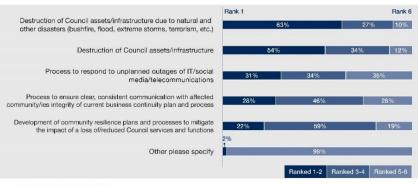1 - 5 Rank   10 - 12 Rank

While the above key is true for the overall risk picture (1 to 12) there are tables showcasing the findings for the individual risk as a comparable risk map. In this instance, respondents were provided the opportunity to rank the underlying concerns within each risk.

The following example looks at Business Continuity Planning and Community Disruption. The underlying issue Destruction of Council assets/infrastructure due to natural and other disasters (bushfire, flood, extreme storms, terrorism, etc.) has an average rank of 2.29

Destruction of Council assets/infrastructure due to an insured peril (fire, storm, vandalism) has an average rank of 2.62

This means when we average out all the rankings the responders placed these risks for business continuity (high, med, low) they averaged out to be fairly close, this is an example where people had differing opinions on the rank 1 risk for this category.

	Rank 1		Rank 6
Destruction of Council assets/infrastructure due to natural and other disasters (bushfire, flood, extreme storms, terrorism, etc.)	63%	27%	10%
Destruction of Council assets/infrastructure	54%	34%	12%
Process to respond to unplanned outages of IT/social media/telecommunications	31%	34%	35%
Process to ensure clear, consistent communication with affected community/ies integrity of current business continuity plan and process	28%	46%	26%
Development of community resilience plans and processes to mitigate the impact of a loss of/reduced Council services and functions	22%	59%	19%
Other please specify	2%	98%	

Ranked 1-2 · Ranked 3-4 · Ranked 5-6

Survey Respondents

197 local government CEOs and General Managers participated in the 2022 JLT Public Sector Risk Survey. Participants were from each state and territory – these also represented metropolitan, city, regional, regional city and rural/remote communities.

Participants ranked 14 risks from highest to lowest, drilling down further into the reasons behind each risk. We have presented the results of the top 12.

State representation nationally

The 2022 Risk Survey had 197 respondents representing 37% of council CEO/GM's. Of this 37% the representation of State responses is in figure 9.

NSW 25% · QLD 15% · TAS 7% · WA 19% · NT 4% · SA 12% · VIC 18%

Figure 9: State respondent representation

Regions

The representations within these charts consider small populations in remote Australia through to densely populated cities. Remoteness is based on the level of access to services. The following provides the breakdown of councils by region.
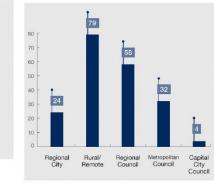

Regional City 24 · Rural/Remote 79 · Regional Council 58 · Metropolitan Council 32 · Capital City Council 4

Figure 10: Regional Representation

HIGHEST RISKS BY STATE

Table 1 shows the impact of varying events and how different States are identifying issues that effect them. For example, Financial Sustainability doesn't rank first across the board. In some cases Cyber Security is ranked first. In most states, the same risks are ranked somewhere in the top five.

Top 5 Risks compered by state

Nationally
Financial Sustainability · Cyber Security · Asset & Infrastructure · Business Continuity · Disaster or Catastrophe

Victoria
Cyber Security · Financial Sustainability · Climate Change · Asset & Infrastructure · Business Continuity

Northern Territory
Financial Sustainability · Asset & Infrastructure · Business Continuity · Regulatory/Statutory Requirement · Human Resources

South Australia

Cyber Security	Financial Sustainability	Asset & Infrastructure	Climate Change	Regulatory/Statutory Requirement

Tasmania

Cyber Security	Financial Sustainability	Disaster or Catastrophe	Climate Change	Business Continuity

Western Australia

Financial Sustainability	Cyber Security	Human Resources	Asset & Infrastructure	Business Continuity

Queensland

Financial Sustainability	Cyber Security	Disaster or Catastrophe	Business Continuity	Asset & Infrastructure

NSW

Financial Sustainability	Cyber Security	Disaster or Catastrophe	Business Continuity	Asset & Infrastructure

GLOSSARY

Term	Definition
Financial Sustainability	Financial Sustainability
Cyber Security	Cyber security / data breach / vulnerable IT infrastructure
Assets & Infrastructure	Management of and/or damage to ageing, property, assets infrastructure and assets
Business continuity planning	Business continuity planning and community disruption
Disaster / Catastrophic Events	Disaster or Catastrophic Events
Climate Change/ Adaptation	Climate Change and/or Adaptation
Human Resources	Implementation and maintenance of efficient, effective HR & WHS management systems
Statutory/ Regulatory requirements	Increased Statutory&/or Regulatory requirements
Waste Management	Waste Management Environment Management
Ineffective governance	Ineffective governance
Reputation	Reputation risks
Pandemic	Impact from infectious diseases/pandemic
Claims	Negligence causing civil liability claims against Council
Terrorism	Terrorism

REFERENCES

- Australian Government, ASCS Annual Cyber Threat Report, Australian Signals Directorate et al, November 2022
  https://www.cyber.gov.au/acsc/view-all-content/reports-and-statistics/acsc-annual-cyber-threat-report-july-2021-june-2022
- LG Professionals Australia, Local Government Professionals 2020-21 Pre-Budget Submission, December 2019
  https://treasury.gov.au/sites/default/files/2020-09/115786_LOCAL_GOVERNMENT_PROFESSIONALS_AUSTRALIA.pdf
- Australian Local Government Association, 2021 National State of the Assets Report
  https://alga.com.au/app/uploads/ALGA_NSofA_SummaryReport2021.pdf
- Bureau of Meteorology and CSIRO State of the Climate Report, 2022,
  http://www.bom.gov.au/state-of-the-climate/ Allianz Global Corporate & Specialty, Allianz Risk Barometer 2022
- Insurance Council of Australia, Media release, 28 June 2022
  https://insurancecouncil.com.au/resource/2022-flood-now-third-costliest-natural-disaster-ever/
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  https://alga.com.au/jobs-and-skills-crisis-in-local-government/#:~:text=Around%20nine%20in%20ten%20Australian,or%20delayed%20as%20a%20result, 2September 2022
- Parliament of Australia, Waste Management & Recycling, Budget Review 2020-21 Index
  https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview202021/WasteManagementRecycling

10.6 UPDATE ON 2022 IS AUDIT FINDINGS

Report Reference Number	ACR-475
Prepared by	Peter Kocian, Executive Manager Corporate Services
Supervised by	Andrew Malone, A/Chief Executive Officer
Meeting date	Wednesday, 26 July 2023
Voting requirements	Simple
Documents tabled	Nil

Attachments

1. Findings Identified during the 2022 Information Systems Audit (Confidential)
2. Quote QU-6570G (Confidential)
3. Project update provided by Focus Networks (Confidential)

PURPOSE

This report provides a succinct update on the progress of findings from the 2022 Information Systems Audit.

EXECUTIVE SUMMARY

There were 9 findings identified in the 2022 Information Systems Audit and 1 finding outstanding from the 2019 Information Systems Audit.

INDEX OF FINDINGS	RATING		
	Significant	**Moderate**	**Minor**
Findings identified in the current audit			
1. Application Security Management		✓	
2. Email Authentication		✓	
3. HR Security		✓	
4. Data Loss Prevention		✓	
5. Classification of Information			✓
6. Removal of User Access Rights			✓
7. Endpoint Security			✓
8. Remote Access Controls			✓
9. Cyber Security Incident Planning			✓
Matters outstanding from prior audits			
10. Management of Technical Vulnerabilities		✓	

BACKGROUND

The Office of the Auditor General performed an Information Systems Audit of the Town of East Fremantle in 2022. The previous (and inaugural Audit) was conducted in 2019 and serves as a baseline. A further Information Systems Audit is scheduled for July – September 2023.

The following is a summary of the audit methodology.

Scope: the audit focuses on:

- Policies and procedures – The entity should ensure that they have appropriate policies and procedures in place for key areas such as IT risk management, information security, business continuity and change control.
- Management of IT risks - The entity need to ensure that IT risks are identified, assessed and treated within appropriate timeframes and that these practices become a core part of business activities.
- Information security - The entity should ensure good security practices are implemented, up-to-date and regularly tested and enforced for key computer systems. Agencies must conduct ongoing reviews for user access to systems to ensure they are appropriate at all times.
- Business continuity - The entity should have a business continuity plan, a disaster recovery plan and an incident response plan. These plans should be tested on a periodic basis.
- Change control - change control processes should be well developed and consistently followed for changes to computer systems. All changes should be subject to thorough planning and impact assessment to minimise the likelihood of problems. Change control documentation should be current, and approved changes formally tracked.
- Physical security – The entity should develop and implement physical and environmental control mechanisms to prevent unauthorised access or accidental damage to computing infrastructure and systems.

Approach: as follows:

- Determine whether appropriate controls are in place;
- Prepare and execute test plans to obtain assurance of the operation of controls,
- Review appropriate documentation,
- Evaluate the effectiveness of the controls.
- Internal vulnerability scans of Finance, HR systems and key operational systems identified.

Focused Audit: in addition to the above, a focus audit is performed against the ISO 27002:2015 standard.
The testing focused on the International Security Standard 27002 (A/NZS ISO/IEC 27002: 2015). The standard sets out controls to ensure computer systems are designed, configured and managed to preserve the confidentiality, integrity and availability of information. A gap analysis of the entity's controls against the standard was performed.
Results from these audits are published in the attachments and will form part of the Office of Auditor General's Annual Information Systems Audit Report to Parliament.

CONSULTATION
Focus Networks
Manager Corporate Services
Manager Finance

STATUTORY ENVIRONMENT
Part 7 of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996* addresses the situation of audit. In relation to the duties of the local government with respect to audits –

e. the local government is to do everything in its power to –

   iii.   assist the auditor to conduct an audit and carry out his or her other duties under the Act; and

     iv.   *ensure that audits are conducted successfully and expeditiously;*

f. *a local government is to meet with its auditor at least once in every year;*

g. *a local government is to examine the report of the auditor and is to –*

     iii.   *determine if any matters raised require action to be taken by the local government; and*

     iv.   *ensure that appropriate action is taken in respect of those matters;*

h. *local government is to –*

     iii.   *prepare a report on any actions taken in respect of any matters raised in the report of the auditor; and*

     iv.   *forward a copy of that report to the Minister by the end of the next financial year, or six months after the last report prepared by the auditor is received by the local government, whichever is the latest in time.*

POLICY IMPLICATIONS

There are no Council Policies relevant to this item.

FINANCIAL IMPLICATIONS

Council approved a quote of $16,392 (GST Inc) from Focus Networks in November 2022 to undertake the scope of works as per the attached.

STRATEGIC IMPLICATIONS

Strategic Priority 5 – Leadership and Governance
5.1 Strengthen organisational accountability and transparency
5.3 Strive for excellence in leadership and governance

RISK IMPLICATIONS

RISKS

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That key findings from the IS Audit are not actioned	Possible (3)	Moderate (3)	Moderate (5-9)	Service Interruption	Control through Audit Committee monitoring and ensuring adequate budget allocation

RISK MATRIX

Consequence / Likelihood		Insignificant	Minor	Moderate	Major	Extreme
		1	2	3	4	5
Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives: occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

RISK RATING

Risk Rating	9
Does this item need to be added to the Town's Risk Register	Yes
Is a Risk Treatment Plan Required	No

SITE INSPECTION

Not Applicable.

COMMENT

The following is a summary of action taken against each of the audit findings. Further commentary is provided in the consolidated Audit Status Report.

Audit Finding	Responsible Person	% Complete	Comment
Application Security Management	Executive Manager/Manager Corporate Services	50	The Town is still assessing security permissions for the payroll app Definitiv.
Email Authentication	Focus Networks	100	Completed.
HR Security	Manager Human Resources	75	Off boarding process to be developed in ELMO.
Data Loss Prevention	Focus Networks	100	The Town elected not to disable Terminal Server copy and paste function as this was creating significant workflow inefficiencies for staff in SynergySoft Business processes.
Classification of Information	Executive Manager/Manager Corporate Services	90	Information Classification Policy endorsed by ELT. Add-in for Outlook in pilot stage.
Removal of User Access Rights	Executive Manager/Manager Corporate Services	50	The Town is assessing integrating Definitiv and Microsoft Active Directory for single sign on and disablement for terminated employees.
Endpoint Security	Focus Networks	50	Pilot user group to be established. Audit of locally installed applications to be completed.
Remote Access Controls	Focus Networks	25	Largely outstanding.
Cyber security Incident Planning	Focus Networks	50	Workshops in progress with Focus to finalise suite of Policies.
Management of Technical Vulnerabilities	Focus Networks	50	Quote approved for 4 scans per annum rather than a single scan. A

			vulnerability scan was performed in April/May. Management still to review results.

CONCLUSION

The Audit Committee should satisfy itself that the Town's performance in relation to the 2022 Information Systems Audit is acceptable and within the parameters of the Risk Framework.

10.6 OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

Committee Resolution 062607

OFFICER RECOMMENDATION

Moved Cr Wilson, seconded Mr Arnold

That the Audit Committee receive this status update on findings from the 2022 Information Systems Audit.

(CARRIED UNANIMOUSLY)

REPORT ATTACHMENTS

Attachments start on the next page

Attachment -1

Confidential Attachment

Attachment -2

Confidential Attachment

Attachment -3

Confidential Attachment

10.7 AUDIT COMMITTEE STATUS REPORT

Report Reference Number	ACR-445
Prepared by	Phil Garoni, Finance Manager
Supervised by	Peter Kocian, Executive Manager Corporate Services
Meeting date	Wednesday, 26 July 2023
Voting requirements	Simple Majority
Documents tabled	Nil
Attachments	

1. Consolidated Status Report (Confidential)

PURPOSE

It is recommended that the Audit Committee receive a status report on all outstanding matters raised in external audit reports, financial management reviews, performance audits, internal audit reports and any other review relevant to the Audit Committee's Terms of Reference.

EXECUTIVE SUMMARY

A status report has been prepared reporting against identified issues with respect to audit, risk management, internal controls, procurement matters and legislative compliance. The status report is not an exhaustive listing and is a fluid document and updated as issues are identified. It is presented to the Audit Committee to assist in their role to report to Council and provide advice and recommendations on matters relevant to its terms of reference.

BACKGROUND

Department of Local Government has published an Operational Guideline on Audit in Local Government. Appendix 3 of this Guideline lists several matters that should be presented to an Audit Committee for review and monitoring:

Risk Management:

- Reviewing whether the local government has an effective risk management system;
- Reviewing whether the local government has a current and effective business continuity plan;
- Reviewing areas of potential non-compliance with legislation, regulations and standards and local governments policies;
- Reviewing the following; litigation and claims, misconduct, and significant business risks;
- Obtaining regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported;
- Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance;
- Reviewing the effectiveness of the local governments internal control system with management and the internal and external auditors;
- Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;
- Assessing the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied.

Internal Control Systems:

- Separation of roles and functions, processing and authorisation;
- Control of approval of documents, letters and financial records;
- Limit of direct physical access to assets and records;
- Control of computer applications and information system standards;
- Regular maintenance and review of financial control accounts and trial balances;
- Comparison and analysis of financial results with budgeted amounts;
- Report, review and approval of financial payments and reconciliations;
- Comparison of the result of physical cash and inventory counts with accounting records.

Legislative Compliance:

- Monitoring compliance with legislation and regulations;
- Reviewing the annual Compliance Audit Return and reporting to Council the results of that review;
- Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints;
- Obtaining assurance that adverse trends are identified and review managements plans to deal with these;
- Reviewing management disclosures in financial reports of the effect of significant compliance issues;
- Considering the internal auditors role in assessing compliance and ethics risks in their plan;
- Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements.

CONSULTATION

Executive Leadership Team
Manager Corporate Services
Responsible staff for implementing recommendations.

STATUTORY ENVIRONMENT

Regulation 17 of the *Local Government (Audit) Regulations 1996* requires the CEO to review the appropriateness and effectiveness of a local governments systems and procedures in relation to risk management, internal control and legislative compliance separately or all at the one time, on the provision that each matter is reviewed at least once every three years. The CEO is also required to report the results of that review to Council.

POLICY IMPLICATIONS

There are no Council Policies relevant to this matter.

FINANCIAL IMPLICATIONS

There are no direct financial implications stemming from the Officer's Recommendation. However, should the Audit Committee request independent assurance that controls have been implemented, then 3rd party costs will be incurred.

STRATEGIC IMPLICATIONS

Strategic Priority 5 – Leadership and Governance.
5.1 Strengthen organisational accountability and transparency.
5.3 Strive for excellence in leadership and governance.

RISK IMPLICATIONS

RISKS

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That key audit findings are not actioned within a timely manner	Possible (3)	Moderate (3)	Moderate (5-9)	COMPLIANCE Some temporary non-compliance	Control through oversight by the Audit Committee and ensuring adequate budget allocation for resourcing.

RISK MATRIX

Consequence / Likelihood		Insignificant	Minor	Moderate	Major	Extreme
		1	2	3	4	5
Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives: occupational health and safety, financial, service interruption, compliance, reputation, and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

RISK RATING

Risk Rating	9
Does this item need to be added to the Town's Risk Register	Yes
Is a Risk Treatment Plan Required	No

SITE INSPECTION
Not Applicable.

COMMENT
The consolidated status report has been updated with new findings from the recent external audit, general computer control audit, financial management review and audit reg 17 reviews completed in 2022, interim annual financial audit for 22/23 financial year and have been updated with management comment.

There was a total of 33 audit findings in the original status report that predominantly arose from the financial management review and audit reg 17 reviews completed in 2019 and 2022. Added one item arising from the interim annual financial audit for 22/23 financial year. All items that were marked as complete from the prior status report have been hidden within the document, leaving only those findings as incomplete or ongoing, with updated comment.

An Internal Audit Work Plan is submitted to the Audit Committee annually. At this time, the Audit Committee can resolve on priority internal audit projects and allocate resources accordingly.

The Town has budgeted $10k for internal audit projects in 23/24. Looking at the age and risk assessment of audit findings, there may be an opportunity to engage an external party to undertake a review of controls that have been implemented by the Town and to provide the Audit Committee with assurance on the effectiveness of controls i.e., engage LGIS to undertake a review of the Towns' Contractor Insurance Register and process?

There are also findings (17,18,19) regarding Council's Policy Manual. Quite a few local governments have engaged a consultant to provide an independent assessment of the Policy Manual. Based on prior experience, this work is relatively inexpensive.

The Town has also engaged an independent person to undertake a review of administration and indirect cost allocations (audit finding 22) and to formalise a methodology that will be able to stand up to audit scrutiny.

Risk Category	No. Active Findings	Completed	Underway	Ongoing	Not Commenced
High	10	1	2	1	6
Medium	18	5	7	2	4
Low	6	3	3	-	-
	34	**9**	**12**	**3**	**10**

CONCLUSION

The Audit Committee should satisfy itself that the Town's performance in relation to completion against the Consolidated Status Report is acceptable and within the parameters of the Risk Framework.

10.7 OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

Committee Resolution 072607

OFFICER RECOMMENDATION

Moved Mayor O'Neill, seconded Cr Wilson

That the Audit Committee:

1. **receives the Consolidated Status Report on items relevant to its Terms of Reference.**

2. **request that the Consolidated Status Report be submitted to the September Audit Committee meeting with status and actions updated against high-risk items.**

(CARRIED UNANIMOUSLY)

REPORT ATTACHMENTS

Attachments start on the next page

Attachment -1

Confidential Attachment

11   MATTERS BEHIND CLOSED DOORS

Nil.

12   CLOSURE OF MEETING

There being no further business, the Presiding Member declared the meeting closed at 7.46pm.

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*I hereby certify that the Minutes of the ordinary meeting of the **Audit Committee** of the Town of East Fremantle, held on **26 July 2023**, Minute Book reference 1 to 12. were confirmed at the meeting of the Council on*

27 SEPTEMBER 2023

Presiding Member