

Review of Risk Management,
Legislative Compliance and Internal
Controls

Shire of Shark Bay

December 2016

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1.0 Background

1.1 Scope of Services

The Shire of Shark Bay engaged Moore Stephens to provide services in relation to the requirements of Regulation 17 of the Local Government (Audit) Regulations 1996, as follows:

- To undertake a high level review of the risk management systems policies, procedures and plans in place at the Shire;
- To evaluate the financial internal control systems and procedures at the Shire;
- To evaluate the operational internal control systems and procedures at the Shire;
- To assess systems and processes for maintaining legislative compliance;
- Develop a 'gap analysis' of any improvements identified during this assessment; and
- To provide in our report recommendations, identified during our assessment of the systems and procedures, relating to risk management, internal audit and legislative compliance to assist the Chief Executive Officer assess the appropriateness and effectiveness of these systems and procedures.

1.2 Review Required by Legislation

The Local Government (Audit) Regulations 1996, Regulation 17, requires the following:

1. *The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to:*
 - a) *risk management; and*
 - b) *internal control; and*
 - c) *legislative compliance.*
2. *The review may relate to any or all of the matters referred to in sub regulation (1) (a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.*
3. *The CEO is to report to the audit committee the results of that review.*

This review was undertaken in response to the above requirements, and this report has been prepared for the Chief Executive Officer (CEO) to assist with the task of achieving legislative compliance.

In accordance with Regulation 16(c) of the same Audit Regulations, the Audit Committee is required to review a report prepared by the CEO, and subsequently report to the Council the results of the Committee's review, while at the same time, attaching a copy of the CEO's report to the Audit Committee.

Operational Guidelines prepared by the Department of Local Government and Communities (Audit in Local Government, number 09 September 2013) provides some background to the intended outcomes from the review. An extract of the relevant content of the operational guidelines has been reproduced at 'Appendix E – Operational Guidelines'.

2.0 Introduction

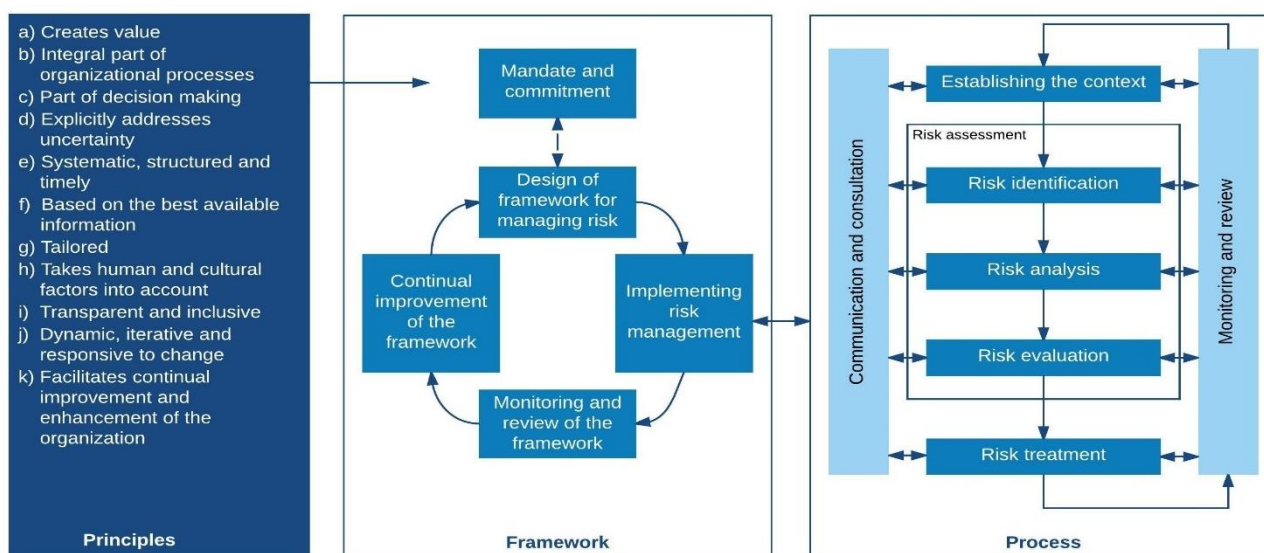
2.1 Review Methodology

The primary goal of this review is to assist the CEO of the Shire of Shark Bay in establishing the appropriateness and effectiveness of the Shire of Shark Bay's systems and procedures in relation to risk management, legislative compliance and internal controls.

Internal controls are designed to treat risks and are part of the risk management process. Non-compliance with legislation is one of the risks that would usually be identified as part of applying a risk management process.

The Australian Standard for Risk Management (ISO 31000) identifies three components in the application of risk management being *Principles, Framework and Process* as set out in Diagram 1 below.

Diagram 1. Risk Management Principles, Framework and Process



(Source: Standards Australia/Standards New Zealand, 2009)

In undertaking our review, we have applied the three ISO 31000 framework component, as set out above, to each of the three review topics (risk management, internal controls and legislative compliance). This involves a review that incorporates the five framework components, being *mandate and commitment, framework design, implementation, monitoring and continuous improvement* as follows:

- Identify the extent of commitment and mandate to the principles;
- Establish an appropriate framework for the three review topics (risk management, legislative compliance and internal controls) after considering the overall context in which the review occurs;
- Assess the appropriate framework against the current framework;
- Assess the implementation of the current framework;
- Assess the degree of monitoring of the current framework and its effectiveness;
- Assess the gaps (if any) between the current framework and the identified appropriate framework and document improvements; and
- Report on the appropriateness and effectiveness of current systems and procedures.

3.0 Review Context

3.1 Review Context - Shire of Shark Bay

It is important to understand the external and internal context in which the Shire of Shark Bay operates relevant to risk, the internal control environment and its legislative compliance obligations. That is, to understand the environment in which the Shire seeks to achieve its overall strategic objectives.

The external and internal influences identified during the course of the review are set out below:

External Influences	Internal Influences
Increasing community expectations in relation to service levels and service delivery	The objectives and strategies contained in the Council's current Strategic Community Plan
Rapid changes in information technology changing the service delivery environment	The timing and actions contained in the Council's Corporate Business Plan
Increased compliance requirements due to Government Policy and Legislation	The current organisational size, structure, activities and location
Cost shifting by Federal and State Governments	The current human resourcing levels and turnover rate
Reducing external grant funding for infrastructure and operations	The current financial capacity
Land and housing availability and affordability	The maintenance of corporate records

3.1 Risk Appetite - Shire of Shark Bay

A number of the above influences will be factors in the Shire's appetite for risk; being the level of risk the organisation is willing to accept or pursue through the setting of risk criteria and policy.

Understanding risk appetite helps determine the level of acceptable/unacceptable risk in relation to breaches of legislation or controls and the extent to which additional controls are required to treat risk.

As a public body, there is an expectation the Shire will maintain an inherent low appetite for the risk of non-compliance with legislation and adopted a policy to maintain the organisation's reputation and to protect public funds from loss or misappropriation.

The appetite for risk in relation to service delivery, finance, health, safety and the environment is considered to be 'low to medium', requiring treatment with effective controls. Where the level of risk is considered 'high' or 'extreme', additional controls are required to reduce the risk level. In circumstances where the level of risk cannot be reduced below that of 'high', close monitoring of risk controls is required to ensure these internal controls remain effective.

4.0 Review Summary

4.1 Risk Management

4.1.1 Appropriateness

The Shire of Shark Bay has adopted a documented entity-wide risk management strategy to guide the implementation of risk management across the organisation. Considering the size, resources, operations and the context in which the Shire of Shark Bay operates, a single documented risk management strategy and framework are considered appropriate as a means to uniformly support decision making and document the organisation's response to risks.

4.1.2 Effectiveness

Currently, the entity wide risk management framework has not been consistently applied throughout the organisation, with a different framework applied to the various risk assessments. Risk management processes continue to be developed and improved and the measures recently implemented have been effective when applied. A lack of significant adverse risk events cannot be used as evidence of the effectiveness of current practices.

4.1.3 Improvements

Improvements to risk management practices and policies are set out in detail in the Improvement Plan in Section 9 of this report. A key improvement to risk management is the uniform implementation of the documented risk management procedures across the organisation and business processes of Shire of Shark Bay.

4.2 Internal Control

4.2.1 Appropriateness

Subject to the implementation of the improvements as outlined in this report and considering the size, resources, operations and the internal/external context in which the Shire of Shark Bay operates the internal control framework, procedures and systems are generally considered appropriate.

4.2.2 Effectiveness

With the exceptions noted and detailed within this report and considering the results of the monitoring and compliance practices undertaken by the Shire of Shark Bay, the current internal control framework, procedures and systems are considered to be generally operating effectively.

4.2.3 Improvements

Recommended improvements to the current internal control framework, procedures and systems are set out in Section 9.0 of this report. The key improvements to internal controls are summarised as follows:

- The development of a documented Internal Control Policy, promoting a risk based approach to the development and maintenance of documented internal controls and procedures. This improvement is intended to encourage the continual assessment of the appropriateness of controls throughout the organisation with the need for new controls being identified and existing outdated controls discontinued;
- That a number of Shire policies be reviewed and amended where appropriate; and
- That the scope of the Code of Conduct be amended to include volunteers.

4.0 Review Summary (Continued)

4.3 Legislative Compliance

4.3.1 Appropriateness

Considering local governments generally maintain an inherently low risk appetite for breaches of legislation, a documented legislative compliance strategy is considered appropriate to reduce the risk of breaching legislation. The Shire is yet to establish a legislative compliance strategy.

The Shire completed the Annual Compliance Audit Return in relation to compliance with the *Local Government Act 1995*.

4.3.2 Effectiveness

In smaller local governments, maintaining legislative compliance is heavily reliant on the knowledge, experience and commitment of the CEO and senior staff to identify and prevent breaches of legislation. As a consequence, staff turnover, competing priorities and variations in workloads can have a significant negative impact on legislative compliance. Therefore, one of the most important controls in maintaining legislative compliance is a motivated, stable, experienced and knowledgeable senior management group.

In the instances where the effectiveness was able to be assessed, the current legislative compliance control procedures and systems, although largely informal, are considered to be operating effectively.

There were no significant compliance breaches noted in the most recent Annual Compliance Audit Return and no identified breaches of the Local Government Act 1995. In respect of effectiveness, it is important to note the Return was not independently prepared or verified.

4.3.3 Improvements

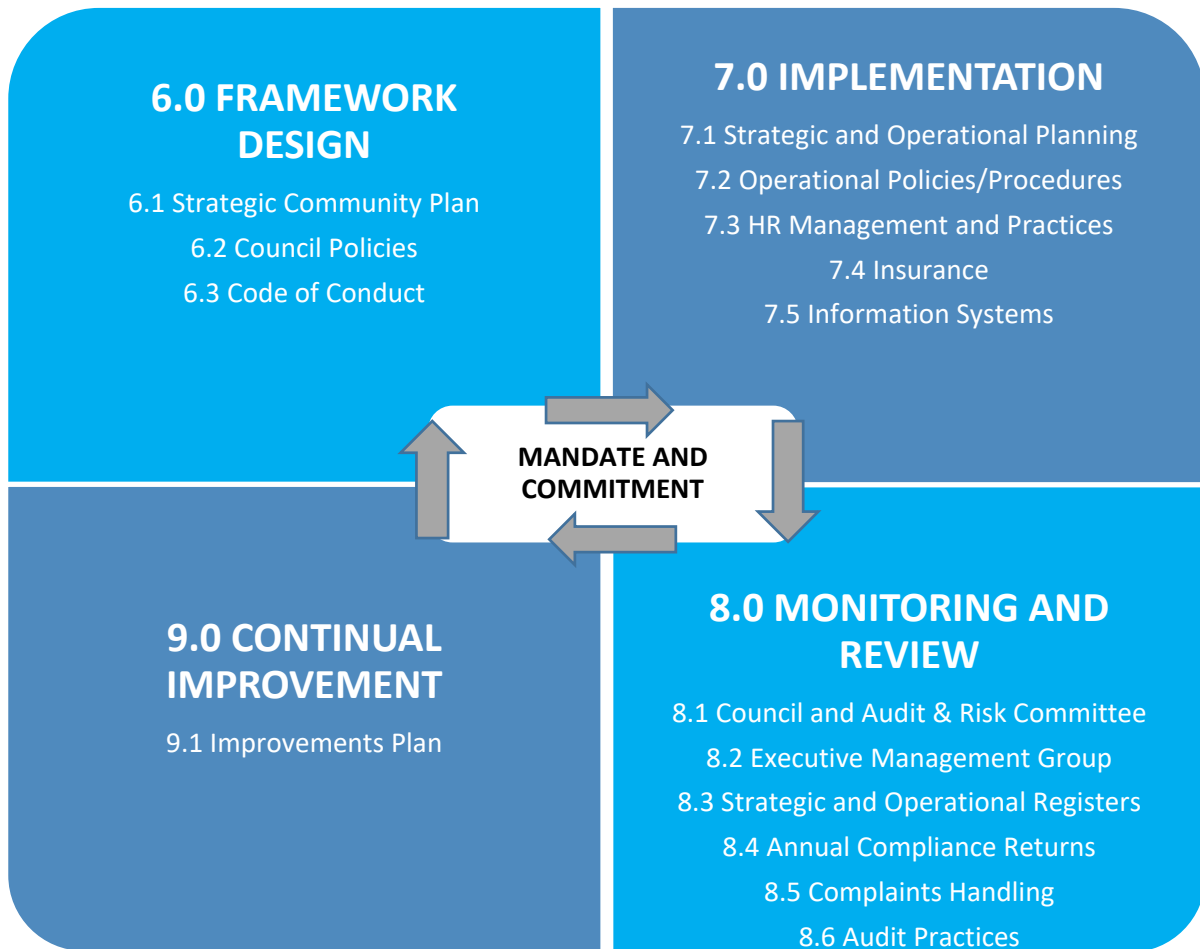
Improvements to the current framework, procedures and systems for legislative compliance are set out in Section 9.0 of this report. A key improvement is the development of legislative compliance policy to evidence Council's commitment to legislative compliance and its importance to the organisation. A risk based training matrix to help ensure senior staff with the responsibility for preventing, identifying and reporting breaches of legislation are offered relevant training to ensure their knowledge of legislative requirements is also suggested.

5.0 Appropriate Framework

5.1 Risk Management, Internal Control and Legislative Compliance

The following framework was identified as being appropriate for risk management, internal control and legislative compliance for the Shire of Shark Bay after consideration of the current internal and external influences.

Diagram 2. Risk Management, Internal Control and Legislative Compliance Framework



We undertook a high level review of risk management, internal controls and legislative compliance which precluded detailed testing of all internal controls and legislative compliance.

The results of our review of the structure of the above framework are set out in Section 9.0 and summarised on the following pages.

6.0 Framework Design

6.1 Strategic Community Plan

The Shire of Shark Bay has adopted two key strategic documents, the Strategic Community Plan (2016-31) and the Corporate Business Plan (2016-2020). These plans identify the Council's organisational objectives and key outcomes as the Shire progresses on its stated vision *'Shark Bay is a proud, unified community, respecting and sharing our pristine environment and great lifestyle.'*

The Strategic Community Plan recognises the community's aspirations and values through the following stated objectives:

Section	Objective
Economic	'Sustainable growth and progress'
Environment	'Protect and manage our precious environment and retain our lifestyle values and community spirit'
Social	'A safe and welcoming community where everyone is valued and has the opportunity to contribute and belong'
Civic Leadership	'Respect for the rights of citizens, appropriate service delivery and a commitment to openness, transparency, honesty and fairness'

In striving to achieve its objectives, the Shire of Shark Bay faces both inherent and business risks, while also meeting an expectation it will maintain compliance with numerous legislation. To manage these risks and achieve compliance, the Shire has established various processes, systems and controls.

This review examines the appropriateness and effectiveness of the organisation's risk management systems, internal controls and legislative compliance in the context of the Shire striving to achieve its stated objectives.

There are no strategies within the Shire of Shark Bay Strategic Community Plan which directly reference risk management.

6.0 Framework Design (Continued)

6.2 Council Policies

Whilst the operation of the Shire is the responsibility of the CEO, the Council is responsible for setting the framework for operations through the adoption of Council Policies. These policies represent an overarching framework relevant to risk management, internal controls and legislative compliance and have been reviewed for appropriateness and effectiveness.

All policies were last reviewed and approved by Council on 27 August 2014. A list of policies reviewed is provided in 'Appendix A - Council Policies Examined' of this report. The table below details areas for possible improvement in relation to Council policies.

Policy	Purpose / Goal	Matters Identified / Improvements
Governance Policies		
Internal Controls	A policy to evidence Council's commitment to Internal Controls and their importance to the organization	Currently, no policy on internal controls has been adopted by Council Improvement: We suggest an internal control policy be formulated and adopted to formalise Councils' commitment to Internal Controls
Legislative Compliance	A policy to evidence Council's commitment to legislative compliance and its importance to the organization	Currently, no policy on legislative compliance has been adopted by Council Improvement: We suggest a legislative compliance policy be formulated and adopted to formalise Councils' commitment to legislative compliance
Occupational, Health and Safety	A policy to evidence Council's commitment to Occupational, Health and Safety and its importance to the Organisation	Currently, no policy on Occupational Safety and Health has been adopted by Council. An administrative policy has been approved by the executive Improvement: We suggest an Occupational Safety and Health policy be formulated and adopted to formalise Councils' commitment to Occupational Safety and Health
1.2 Policy Change and Review	To ensure policies made by Council are updated on a regular basis	We note policies have not been reviewed in accordance with Policy 1.2 Improvement: We suggest a review of all policies is undertaken in accordance with Policy 1.2
1.12 Organisational Matters	Policy to set out guidelines for the CEO to take into consideration in relation to organisational matters	We noted the Policy does not consider the role of Council in the appointment of Senior employees as required by Policy 1.13 Designated Senior Staff

6.0 Framework Design (Continued)

Policy	Purpose / Goal	Matters Identified / Improvements
		Improvement: We suggest the Policy be reviewed and amended to consider Council's role in relation to senior employees
1.15 Additional Superannuation Contribution by Employer	Policy to set out the additional contribution the Shire is prepared to make to employees' superannuation over and above any Commonwealth superannuation guarantee requirement	<p>We noted the Policy provides for additional superannuation benefits to be amended during annual budget deliberations. This may conflict with an employee's contract of employment</p> <p>Improvement: We suggest the policy be reviewed and amended to ensure there is no conflict with employee contracts</p>
General Purpose Funding Policies		
2.3 Plant Replacement Reserve	Policy to ensure the Shire has on hand, sufficient cash backed reserve funds to pay for significant items of plant and equipment	<p>To be effective of the policy, accurate estimation of depreciation rates and residual values. The Policy does not consider the ability to fund the Plant Replacement Reserve</p> <p>Improvement: That the Policy be reviewed to ensure its affordability and alignment to broader Integrated Planning</p>
2.7 Purchasing Policy – Amounts Under \$150,000	Policy to set out requirements to obtain competitive quotes when purchasing works, goods and services on behalf of the Shire where the value of any consideration under the contract is expected to be less than \$150,000	<p>We noted the Policy title and stated purpose excludes purchases over \$150,000 yet the requirement to call tenders for these purchases is stated within the Policy. We also note there are no requirements stated for instances where the scope of a contract is amended or extended</p> <p>Improvement: We suggest the Policy be amended to cover all purchases. Alternatively, a separate policy may be developed to cover purchases exceeding \$150,000</p> <p>We also suggest the Policy be amended to provide requirements where there is an extension or variation of a contract's scope after a contract is signed</p>

6.0 Framework Design (Continued)

Policy	Purpose / Goal	Matters Identified / Improvements
2.9 Credit Cards	Policy to set out the conditions under which goods and services may be procured on behalf of the Shire using credit cards	<p>We noted two credit cards are to be held by the CEO, to be used by other employees. As credit cards are in the name of an individual they should only be utilised by the person in whose name they are issued</p> <p>Improvement: We suggest the Policy be amended to, only allow credit cards to be utilised by employees in whose name the card is issued</p>
Recreation and Culture Policies		
8.3 Use of Community Bus	Policy to set out the conditions of use for the Shire's community bus	<p>We note a fuel card is provided to hirers of the bus. As the card enables community members to purchase against the Shire account, only employees with appropriate purchasing authority should be able to utilise the card. Note the bus excursion book remains on the bus</p> <p>Improvement: We suggest an employee with appropriate purchasing authority be required to refuel the bus. That the bus excursion book remains at the Shire Depot with Depot staff ensuring it is appropriately completed</p>
Transport Policies		
9.3 Access Roads and Airstrips - Pastoral Ward	Policy to establish a minimum standard of unpaved road maintenance within the Pastoral Ward	<p>We note the Policy does not require the landowner to provide written approval when grading areas which are not Crown land</p> <p>Improvement: We suggest the Policy be reviewed and require the landowner to provide written approval when grading areas which are not Crown land</p>

6.0 Framework Design (Continued)

Policy	Purpose / Goal	Matters Identified / Improvements
Risk Management Policies		
12.1 Risk Management Policy	Policy to document the commitment and objectives regarding managing uncertainty that may impact the Shire's strategies, goals or objectives	<p>We note no risk reporting is currently occurring as required by Risk Management Plan</p> <hr/> <p>Improvement: We suggest risk reporting as required by the Risk Management Plan be undertaken</p>

6.3 Code of Conduct

A Code of Conduct was adopted at an Ordinary Council Meeting on 16 December 2015 and was the subject of a minor update on 1 September 2016.

Component	Purpose / Goal	Matters Identified/Improvements
Code of Conduct	To provide a documented expectation for the behaviour of elected members, staff, contractors and volunteers when performing their duties	<p>We note the Code of Conduct does not include volunteers or contractors in its scope</p> <hr/> <p>Improvement: We suggest an expansion of the scope of the Code of Conduct to include actions by volunteers and contractors</p>

7.0 Implementation

7.1 Strategic and Operational Plans

Council has a number of strategic and operational plans which form the basis of entity level controls and provide the basis for entity level risk assessments.

A list of plans reviewed is provided Appendix B - Plans Examined of this report. The table below details areas for possible improvement in relation to plans examined.

Plan	Purpose / Goal	Matters Identified / Improvements
Workforce Plan	A Plan to make sure the Shire has the right people in the right place at the right time to meet the objectives of the Strategic Community Plan	We noted the Plan was developed in 2013 and has not been reviewed Improvement: The Workforce Plan requires review and updating
Risk Management Plan	Plan to set out the Shire's approach to the identification, assessment, management, reporting and monitoring of risks	We noted the risk assessment criteria use threshold levels which in certain instances may not relate to the context of the risk assessment being undertaken Improvement: We suggest the risk assessment and acceptance criteria be modified to be relevant to the context of each risk assessment
Crisis and Business Continuity Management Plan	Plan to provide a process to facilitate organised decision-making in the event of a major incident that might otherwise be chaotic	We note the effectiveness of the plan has not been tested Improvement: We suggest the Crisis and Business Continuity Management Plan be tested to test its effectiveness
Cyclone Contingency Plan	Plan to provide a process to facilitate organised decision-making in the event of a cyclone	We note the Plan was issued December 2009. Cyclone emergency management is now covered by Local Emergency Management Arrangements Improvements: We suggest the plan be retracted

7.0 Implementation (Continued)

7.2 Operational Policies and Procedures

In seeking to achieve its stated vision, the Shire of Shark Bay provides a number of services to the community.

Meetings were undertaken with key staff in each of the four areas of responsibility to determine the practices applied to issues of Risk Management, Internal Controls and Legislative Compliance when providing services to the community.

Daily operations are primarily based on staff knowledge and verbal instructions. Administration policies are utilised to document certain key areas of operations.

A number of these administration policies were reviewed and are listed at Appendix C – Administrative Policies Examined. The review process identified the existence of documentation and checklists other than formal administration policies, but these exist outside the scope of the administration policies and have no basis of authority.

Considering the number of services provided and current staff resourcing, a risk based approach to the prioritisation of the development of new procedures components is recommended.

Component	Purpose / Goal	Matters Identified / Improvements
Documented Procedures	Use of documented procedures by officers helps establish a standard methodology and identifies key controls for processes undertaken by officers	Limited documented procedures currently exist. We acknowledge staff are developing procedures on an ad-hoc basis Improvements: Opportunities exist to improve standard operating procedures and ensure they are documented and key controls clearly identified. Once these procedures are developed and implemented, they require constant monitoring to ensure adherence and to ensure they are effective
Checklists	Checklists document the completion of multiple steps within an overall process	A limited number of checklists are in use Improvements: Creation of standard checklists may assist in documenting key points of control
Workflow Diagrams	Workflow diagrams create a visual representation of a process clearly identifying key points of control and responsibility	Workflow diagrams are yet to be prepared Improvements: In conjunction with the development of documented procedures and checklists develop workflow process diagrams

7.0 Implementation (Continued)

7.3 Human Resource Management and Practices

A number of components constitute the organisations human resource management practices and form an essential element of risk management, internal control and legislative compliance.

Staff inductions are currently undertaken and maintained within the employee file, Senior staff are experienced and have a sound understanding of the requirements of their roles Staff have appropriate access to information. Areas for potential improvement are examined in the table below.

Component	Purpose / Goal	Matters Identified / Improvements
Code of Conduct	To provide a documented expectation for the behaviour of elected members, staff, contractors and volunteers when performing their duties	Volunteers and contractors are not bound by the Code of Conduct when performing functions on behalf of the Shire Improvement: We suggest a review the Code of Conduct, to include volunteers and contractors in the scope
Staff Training	To ensure the staff have access to ongoing and appropriate training	Training needs analysis and register has not been updated Improvement: we suggest the development of a training matrix
Contractors and Volunteers Inductions	To ensure contractors and volunteers have knowledge of the basic standards required of them	No inductions are currently performed for contractors. Contractors were noted failing to adhere to basic Occupational Health and Safety standards Improvement: Ensure all contractors and volunteer staff undergo induction before commencing

7.0 Implementation (Continued)

7.4 Insurance

The CEO and senior staff annually review the completeness of the insurance schedule with their Broker and adjust the insurance policy as considered appropriate.

Framework Components	Purpose / Goal	Matters Noted / Improvements
Project Specific Risk Assessments	A risk assessment undertaken as part of a major project. A major project is defined in Management Policy	Documented risk assessments have been undertaken for one previous and a current major project and appear appropriate Improvement: We suggest a threshold be applied and documented within the Risk Management Procedures to define a major project requiring risk assessment

7.5 Information Systems

Information Systems are maintained by independent IT specialists with offsite backups occurring. Given the ever changing IT environment, the use of an external IT specialist is considered appropriate

Framework Components	Purpose / Goal	Matters Noted / Improvements
Information Systems Plans	Plans to ensure the secure provision of information systems even in the event of a disaster	We noted no IT Disaster Recovery Plan or IT Security Plan is currently in place Improvement: We suggest an IT Disaster Recovery Plan and IT Security Plan be developed and tested

8.0 Monitoring and Compliance

Developing and implementing systems and procedures for risk management, legislative compliance and internal controls into an organisation can be a time consuming and expensive exercise with the potential to divert resources away from direct services. Considering the level of investment necessary to establish these systems, monitoring their effectiveness is an essential practice.

After implementing these systems, it is important to put in place practices that regularly monitor and assess their effectiveness to ensure they continue to meet their intended purpose.

Over time, the relevancy of established controls may change, their purpose may be forgotten, or technology may offer a more efficient or effective way to achieve the initial goal. For all these reasons, formal review procedures are required to ensure the resources applied to maintaining these systems, practices and controls are used in the most efficient way.

Currently, evidence of the monitoring of risk management, internal controls and legislative compliance is available from Minutes of Meetings, Registers of Disclosures and Reports Received.

8.1 Council and Audit & Risk Committee

The minutes of the Council Meetings and the Audit & Risk Committee contain within each item a topic for Risk and legislative matters. This is considered appropriate and an effective means of formally communicating risk and legislative compliance requirements to the Elected Members.

Regular monthly financial statements and lists of payments made in the intervening period between each meeting have been presented to the Council for review as required by legislation. This provides the basis for a high level oversight of the financial position and expenditure of the organisation.

Framework Components	Purpose / Goal	Matters Noted / Improvements
Council and Audit & Risk Committee	Provides the ultimate independent review and oversight of executive and operational functions by persons not involved in operations	We note expenditure undertaken using a credit card were not previously included in the list of payments presented to Council Improvement: We suggest all expenditure incurred via a credit card be itemised and included within the list of payments presented to Council on a monthly basis

8.2 Executive Management Group

Minutes of the Executive Management Group were examined to review matters of risk, internal control and legislative compliance as identified. The minutes reflect matters as identified and act to formally communicate risk, internal control and legislative compliance matters within the group.

8.0 Monitoring and Compliance (Continued)

8.3 Strategic and Operational Registers

A number of registers are maintained by the Shire of Shark Bay, these registers were reviewed and are listed at Appendix D – Strategic and Operational Registers Examined.

Register	Currency	Matters Identified / Improvements
OSH Incidents Register	Up to date	<p>Noted differing basis of risk assessment between Risk Management Plan, Incident Reporting forms, and Take Five booklets</p> <p>Improvement: We suggest a standardised assessment of the likelihood and consequences of identified risks in accordance with the risk management framework be undertaken for the purpose of providing a uniform rating of risks throughout the organisation based on the context of the risk assessment</p>

8.4 Annual Compliance Audit Return

Returns have been completed on a self-assessment basis and approved by Council each year with no significant matters identified.

8.0 Monitoring and Compliance (Continued)

8.5 Complaint Handling

Any suspected breaches of legislation or the Code of Conduct is to be reported to the CEO as determined by the Code which requires them to be dealt with in accordance with the principles of procedural fairness.

Framework Components	Purpose / Goal	Matters Noted / Improvements
Employee Complaints/Grievance Handling	Procedures for the handling of employee complaints and grievances	<p>We note the Code of Conduct requires breaches or suspected breaches of the Code by the CEO to be reported to the Executive Manager of Finance. A conflict (or perceived conflict) may exist where an employee is required to investigate a breach by a superior officer. This conflict could be particularly acute if the subordinate officer is in the process of contract renegotiation</p> <p>Improvement: We suggest breaches or suspected breaches of the Code of Conduct by the CEO be reported to the Shire President for further investigation</p>
Community Complaints Handling	Procedures for the handling of Community Complaints	<p>We note there are no procedures to ensure community complaints are recorded and responded to appropriately within a defined timeframe</p> <p>Improvement: We suggest a documented procedure be developed to ensure all community complaints are logged and forwarded to the appropriate officer then followed up to ensure they are resolved</p>

8.0 Monitoring and Compliance (Continued)

8.6 Audit

Council has appointed external financial auditors to the Shire of Shark Bay. External audits of items such as the waste facility are undertaken by the appropriate regulatory body. No significant items have been identified during the last two years by the external auditors.

Framework Components	Purpose / Goal	Matters Noted / Improvements
Internal Audit	Internal audit monitors the level of compliance with internal procedures and process along with assessing the appropriateness of these procedures	Currently, no internal auditors have been appointed, and limited internal audit functions have been undertaken. Future improvements in the level of documented procedures may require a higher level of internal audit function to confirm adherence to documented policies and procedures

9.0 Improvements

Suggested improvements opportunities are provided below to form an Improvement Plan.

9.1 Summary of Improvements

Paragraph	Improvements
6.2 Internal Controls	We suggest an internal control policy be formulated and adopted to formalise Councils' commitment to Internal Controls
6.2 Legislative Compliance	We suggest a legislative compliance policy be formulated and adopted to formalise Councils' commitment to legislative compliance
6.2 Occupational, Health and Safety	We suggest an Occupational Safety and Health policy be formulated and adopted to formalise Councils' commitment to Occupational Safety and Health
6.2 Policy Change and Review	We suggest a review of all policies is undertaken in accordance with Policy 1.2
6.2 Organisational Matters	We suggest the Policy be reviewed and amended to consider Council's role in relation to senior employees
6.2 Additional Superannuation Contribution by Employer	We suggest the policy be reviewed and amended to ensure there is no conflict with employee contracts
6.2 Plant Replacement Reserve	That the Policy be reviewed to ensure its affordability and alignment to broader Integrated Planning
6.2 Purchasing Policy – Amounts Under \$150,000	We suggest the Policy be amended to cover all purchases. Alternatively, a separate policy may be developed to cover purchases exceeding \$150,000 We also suggest the Policy be amended to provide requirements where there is an extension or variation of a contract's scope after a contract is signed
6.2 Credit Cards	We suggest the Policy be amended to, only allow credit cards to be utilised by employees in whose name the card is issued
6.2 Use of Community Bus	We suggest an employee with appropriate purchasing authority be required to refuel the bus. That the bus excursion book remains at the Shire Depot with Depot staff ensuring it is appropriately completed
6.2 Access Roads and Airstrips – Pastoral Ward	We suggest the Policy be reviewed and require the landowner to provide written approval when grading areas which are not Crown land
6.2 Risk Management Policy	We suggest risk reporting as required by the Risk Management Plan be undertaken

9.0 Improvements (Continued)

Paragraph	Improvements
6.3 Code of Conduct	We suggest an expansion of the scope of the Code of Conduct to include actions by volunteers and contractors
7.1 Workforce Plan	The Workforce Plan requires review and updating
7.1 Risk Management Plan	We suggest the risk assessment and acceptance criteria be modified to be relevant to the context of each risk assessment
7.1 Crisis and Business Continuity Management Plan	We suggest the Crisis and Business Continuity Management Plan be tested to test its effectiveness
7.1 Cyclone Contingency Plan	We suggest the plan be retracted
7.2 Documented Procedures	Opportunities exist to improve standard operating procedures and ensure they are documented and key controls clearly identified. Once these procedures are developed and implemented, they require constant monitoring to ensure adherence and to ensure they are effective
7.2 Checklists	Creation of standard checklists may assist in documenting key points of control
7.2 Workflow Diagrams	In conjunction with the development of documented procedures and checklists develop workflow process diagrams
7.3 Code of Conduct	We suggest a review the Code of Conduct, to include volunteers and contractors in the scope
7.3 Staff Training	We suggest the development of a training matrix
7.3 Contractors and Volunteers Inductions	Ensure all contractors and volunteer staff undergo induction before commencing
7.4 Project Specific Risk Assessments	We suggest a threshold be applied and documented within the Risk Management Procedures to define a major project requiring risk assessment
7.5 Information Systems Plans	We suggest an IT Disaster Recovery Plan and IT Security Plan be developed and tested
8.1 Council and Audit & Risk Committee	We suggest all expenditure incurred via a credit card be itemised and included within the list of payments presented to Council on a monthly basis
8.3 OSH Incidents Register	We suggest a standardised assessment of the likelihood and consequences of identified risks in accordance with the risk management framework be undertaken for the purpose of providing a

9.0 Improvements (Continued)

Paragraph	Improvements
	uniform rating of risks throughout the organisation based on the context of the risk assessment
8.5 Employee Complaints/Grievance Handling	We suggest breaches or suspected breaches of the Code of Conduct by the CEO be reported to the Shire President for further investigation
8.5 Community Complaints Handling	We suggest a documented procedure be developed to ensure all community complaints are logged and forwarded to the appropriate officer then followed up to ensure they are resolved

10.0 Other Matters

Disclaimer

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Conflicts of Interest

The firm currently provides extensive audit and advisory service to Shire of Shark Bay and Local Government, however we do not believe the provision of the services covered in this report under the responsibility of a different engagement partner would compromise our objectivity in the conduct of the Audit.

Should the possibility of a perceived or actual conflict arise, the matter would be raised with the CEO immediately and activities suspended until the issue is resolved to the satisfaction of the CEO.

Moore Stephens

Level 15 Exchange Tower
2 The Esplanade
PERTH WA 6000
Phone +61 (0)8 9225 5355
Email rjbarnes@moorestephens.com.au
ABN 99 433 544 961

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Appendix A - Council Policies Examined

The Council Policies examined as part of the review are as follows:

Policy Topic	Policy Topic
1 Governance	3 Law, Order and Public Safety
1.1 Frequency of Council Meetings	3.1 Election Signs
1.3 Councillors Information Bulletin – Contents	4 Health
1.4 Reimbursement of Councillors' Expenses	5 Education and Welfare
1.5 Council Representatives on External Committees and Bodies	6 Housing
1.6 President's and Councillors' Reports	6.1 Allocation Criteria for Herald Denham Centre Units
1.7 Instrument of Delegation	7 Waste and Community Amenities
1.8 Honorary Freeman of the Shire of Shark Bay	8 Recreation and Culture
1.9 Legal Proceedings and Prosecutions	8.1 Standard Conditions for Hire of Halls and Equipment
1.10 Legal Representation Costs Indemnification	8.2 Standpipe and Bore
1.11 Shire Logo and Colours	9 Transport
1.13 Designated Senior Staff	9.1 Crossovers
1.14 Gratuity Payments to Employees	9.2 Standards of Road Construction
1.16 Use of Council Corporate Flight Account by Shire Staff	9.4 Street Names
2 General Purpose Funding	9.5 Road Train Approvals
2.1 Budget Consideration Processes	10 Building and Economic Services
2.2 Financial Assistance/Donations	10.1 Building Sites – Dust Suppression and Sand Drift Control, Litter Control
2.4 Investment of Surplus Funds	10.2 Protection of kerbs, roads and footpaths during construction work
2.5 Debt Collection	11 Other Property and Services
2.6 Self-Supporting Loans	11.1 Light Vehicles
2.8 Local Price Purchasing Preference	11.2 Private Works

Appendix B - Plans Examined

The Plans examined as part of the review are as follows:

Plan	Currency
Strategic Community Plan.	Strategic Community Plan 2016-31 adopted by Council April 2016
Corporate Business Plan	Corporate Business Plan 2016-20 adopted by Council April 2016 Plan currently being reviewed
Asset Management Plan	Plan currently being reviewed
Long Term Financial Plan	Plan currently being reviewed
Workforce Plan	Plan developed in 2013
Annual Budget	2016-17 Budget adopted by Council August 2016
Risk Management Plan	Plan developed November 2015
Crisis and Business Continuity Management Plan	Plan developed March 2016. Reviewed September 2016
Local Emergency Management Arrangements	Plan reviewed 26 May 2014
Cyclone Contingency Plan	Plan issued December 2009
Disability Access and Inclusion Plan	Plan reviewed August 2014
Event Management Plan – 1616 Celebrations	Draft Plan prepared September 2016

Appendix C – Administrative Polices Examined

The administrative policies examined as part of the review are as follows:

	Policy Topic
1	Occupational Health and Safety
1.1	Safety Policy
1.2	Uniforms, Dress Code, & Hygiene at Work
1.3	Smoke Free Workplace
2	Recruitment and Selection
2.1	Recruitment and Selection Policy
2.2	Medical Examinations
2.3	Probationary Period Guidelines
2.4	Reimbursement of Relocation Expenses
2.5	Equal Opportunity Policy Statement
3	Conditions of Employment and Leave
3.1	Annual, Long Service and Other Leave
3.2	Employee Travel and Accommodation Policy
3.3	Secondary and Other Employment
3.4	Personal / Carer's Leave Policy
4	Employee Conduct
4.1	Code of Conduct
4.2	Disciplinary Policy
4.3	Discrimination, Harassment and Bullying
4.4	Grievances, Investigations & Resolution Policy
4.5	Grievances, Investigations & Resolution Procedure
4.6	Use of Shire Vehicles, Using Private Vehicles for Work Purposes.
5	Records Management
5.1	Recordkeeping Plan
6	Use of Shire ICT Systems
6.1	Social Media
6.2	Information Communication Technology Use Policy
7	Governance
7.1	Compliance Management Policy

Appendix D – Strategic and Operational Registers Examined

The registers examined as part of the review are as follows:

Register

Disclosure of Interest Register

Tender Register

Risk Register

Gifts Register

Complaints Register

OSH Incidents Register

Common Seal Register

Freedom of information Register

Delegations Register

Appendix E – Operational Guidelines

Risk Management

The internal control and risk management systems and programs are a key expression of a local government's attitude to effective controls. Good audit committee practices in monitoring internal control and risk management programs typically include:

- *Reviewing whether the local government has an effective risk management system and that material operating risks to the local government are appropriately considered;*
- *Reviewing whether the local government has a current and effective Business Continuity Plan (including disaster recovery) which is tested from time to time;*
- *Assessing the internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk, particularly in the following areas:*
 - *potential non-compliance with legislation, regulations and standards and local government's policies*
 - *important accounting judgements or estimates that prove to be wrong*
 - *litigation and claims*
 - *misconduct, fraud and theft*
 - *significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the local government*
- *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 government's 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;*
- *Should the need arise, meeting periodically with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment; and*
- *Ascertaining whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented, communicated, monitored and there is regular reporting and ongoing management of fraud and misconduct risks.*

Appendix E – Operational Guidelines (Continued)

Legislative Compliance

The compliance programs of a local government are a strong indication of attitude towards meeting legislative requirements. Audit committee practices in regard to monitoring compliance programs typically include:

- a) Monitoring compliance with legislation and regulations*
- b) Reviewing the annual Compliance Audit Return and reporting to Council the results of that review*
- c) Staying informed about how management is monitoring the effectiveness of its compliance and making recommendations for change as necessary*
- d) Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints*
- e) Obtaining assurance that adverse trends are identified and review management's Plans to deal with these*
- f) Reviewing management disclosures in financial reports of the effect of significant compliance issues*
- g) Reviewing whether the internal and / or external auditors have regard to compliance and ethics risks in the development of their Audit Plan and in the conduct of audit projects, and report compliance and ethics issues to the audit committee*
- h) Considering the internal auditor's role in assessing compliance and ethics risks in their Plan;*
- i) Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements*
- j) Complying with legislative and regulatory requirements imposed on audit committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the local government and disclosing conflicts of interest*

Internal Controls

Internal controls are systems of policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations.

These systems not only relate to accounting and reporting but also include communication processes both internally and externally, staff management and error handling.

Operational Guidelines prepared by the Department of Local Government and Communities (Audit in Local Government number 09 September 2013) provide the background to Internal Controls in the context of this review as follows:

'Internal control is a key component of a sound governance framework, in addition to leadership, long-term planning, compliance, resource allocation, accountability and transparency. Strategies to maintain sound internal controls are based on risk analysis of the internal operations of a local government.

Appendix E – Operational Guidelines (Continued)

Internal Controls (continued)

An effective and transparent internal control environment is built on the following key areas:

- k) integrity and ethics;*
- l) policies and delegated authority;*
- m) levels of responsibilities and authorities;*
- n) audit practices;*
- o) information system access and security;*
- p) management operating style; and*
- q) human resource management and practices.*

Internal control systems involve policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with legislation and achieve effective and efficient operations and may vary depending on the size and nature of the local government.

Aspects of an effective control framework will include:

- a) delegation of authority;*
- b) documented policies and procedures;*
- c) trained and qualified employees;*
- d) system controls;*
- e) effective Policy and process review;*
- f) regular internal audits;*
- g) documentation of risk identification and assessment; and*
- h) regular liaison with auditor and legal advisors.*

The following are examples of controls that are typically reviewed:

- a) separation of roles and functions, processing and authorisation;*
- b) control of approval of documents, letters and financial records;*
- c) comparison of internal data with other or external sources of information;*
- d) limit of direct physical access to assets and records;*
- e) control of computer applications and information system standards;*
- f) limit access to make changes in data files and systems;*
- g) regular maintenance and review of financial control accounts and trial balances;*
- h) comparison and analysis of financial results with budgeted amounts;*
- i) the arithmetical accuracy and content of records;*
- j) report, review and approval of financial payments and reconciliations; and*
- k) comparison of the result of physical cash and inventory counts with accounting records.*

MOORE STEPHENS

Level 15, 2 The Esplanade
Perth WA 6000

T +61 (0)8 9225 5355

F +61 (0)8 9225 6181

rjbarnes@moorestephens.com.au