SHIRE OF KOJONUP

Risk Management Plan

March 2017

Kojonup
One community, many choices

Contents

Introduction

The role of this Risk Management Plan is to provide Councillors and staff of the Shire of Kojonup with guidance in how to apply consistent and comprehensive risk management. This plan provides information on how to identify, analyse, evaluate and treat risks. In addition, it identifies other key activities needed for an effective risk management approach. The risk management process contained in this plan aligns with the Australian Standard for Risk Management (AS/NZS ISO31000:2009). **Risk is the chance of something happening that will have an impact on objectives.** It is important that we manage risks in order that the negative impact of risks upon achievement of our objectives is minimised and our ability to realise potential opportunities is maximised.

Roles and Responsibilities

Council

Responsible for strategic decision making and ensuring adequate resources to meet the requirements of the Plan for the Future requirements of the *Local Government Act 1995*.

Senior Management Team (SMT)

Responsible for the delivery of the Plan for the Future, ensuring effective management relating to resourcing, staffing and compliance requirements associated with the operations of the Shire. Also responsible for development and implementation of the Risk Management Plan and its integration into all aspects of the Shire's activities.

Risk Management Co-ordinator (RMC) (Senior Administration Officer)

Responsible for follow up and review of all risks identified in the Risk Registers and ensuring the actions under the Risk Management Action Plan and specific areas of applied risk management are completed against key performance indicators.

Staff members assigned a risk:

Once a risk has been assigned to an officer for action, they will ensure appropriate resources are allocated to mitigate, or resolve the risk. If identified risks cannot be resolved at an operational level, they are to be referred to the SMT for resolution.

Occupational Safety and Health Representatives:

- The designated OHS Representatives have the following authority and responsibilities:
  - Risk identification and recording on Shire's template;
  - Updating the risk register and priority listings;
  - Establishing OSH risk mitigation measures;

- ○ Reporting risk resolution strategies to SMT; and
- ○ Assignment of risk responsibility.

Definitions

Risk management: is the culture, processes and structures that are directed towards realising potential opportunities whilst managing adverse effects.

Risk: is the chance of something happening that will have an impact on objectives.

Hazard: the source of potential harm or loss.

Corporate risk: those risks that are holistic in nature, spread across the organisation and are more appropriately managed at the SMT and Council level.

Strategic risk: risks that may result in the non-achievement of strategic goals and objectives, or where decisions may potentially result in harm or loss to the Shire.

Operational risk: those risks that occur at the operational level and can be sufficiently or appropriately managed within the Shire management and staff structure.

OSH: Occupational Safety and Health.

OSH Representative: a nominated staff member, who is trained in the principles and practices of OSH compliance, carries out workplace inspections, facilitates communication between staff and management on OSH issues, and represents their department at the OSH Committee meetings of the Shire.

Likelihood: the chance, probability and/or frequency of an event occurring.

Consequence: the outcome of an event expressed by qualitative and / or quantitative criteria

Event: an incident or situation which occurs in a particular place at a particular time.

Risk analysis: a systematic assessment of available information to determine how often specified events may occur and the magnitude of their consequences.

Risk treatment: involves the provision of policies, standards and procedures or actions to eliminate or minimise adverse risks.

Risk Management Strategy

Purpose

To develop and implement a structure, systems and processes for risk management incorporating the principles and practices of AS/NZS ISO 31000:2009 that is implemented across all aspects of the Shire.

Organisational Objectives

To provide a systematic approach to the early identification and management of risks; provide consistent risk assessment criteria, make available accurate and concise risk information that informs decision making including business direction; adopt risk treatment strategies that are cost effective and efficient in reducing risk to an acceptable level; and monitor and review risk levels to ensure that risk exposure remains within an acceptable level.

Outcomes

- A Shire Policy – implemented and communicated to all staff and stakeholders.

- An organisational risk management structure.

- Establishment of the current risk profile developed by Councillors and Senior Management Team.

- An induction program for new staff to ensure an ongoing and proactive hazard and risk management culture.

- Meet compliance and governance requirements.

- Development of an evaluation process linked to the planning cycle of the Organisation.

Shire Risk Management Policy

The Council's Risk Management Policy (number 2.3.5) was first adopted by the Council on 16 September 2014 and is reviewed annually. A copy of the Policy is found at Appendix Four of this Risk Management Plan.

Developing a Strategic Risk Management Culture

To determine the risks associated with the **strategic role** of the Council and Senior Management Team, you need to understand the different components of that role. In the Council Meetings, when discussing issues such as strategic planning, business development and problem solving, the major objective is to make a decision that will have an impact on the Shire as it currently operates and in accordance with the adopted strategic direction.

This is very different to the **operational role** which is about following the approved course set by the Council and SMT, and ensuring the goals and objectives are met in the most efficient and effective manner.

To be able to separate the strategic risks from operational ones, you have to determine if the issue at hand is in a planning phase or already delegated and implemented. From the implementation point, strategic risk management activities become about monitoring and review, both during the implementation process and on completion of the activity or project.

Context:

Strategy: a carefully devised plan of action to achieve a goal, or the art of developing or carrying out such a plan.

Strategic Risk: The risks associated with a strategy that is speculative – an opportunity for profit or loss.

These include the risks associated with:

- Providing services or facilities.

- Compliance with relevant legislation.

- Protecting the Shire from liability.

- Corporate Governance.

- Finances and fraud control.

- Asset development and management.

- Responsibilities and behaviours of the Council or SMT.

- Long term strategic planning and financial management.

- Development of strategies to achieve Vision, Goals and Objectives.

- Managing the organisational capacity or capability.

- Allocation of resources (human, fiscal and physical) to achieve goals.

- Delegation of responsibility for implementation.

- Monitoring of progress and timelines.

- Post implementation reviews.

- Determining Organisational Risk Profile Categories.

- Managing Property, Operational Activities, Compliance, Public Liability, Business Continuity / Disasters Management, Common Law and Legal Issues.

- OSH, Environmental, Technology, Transaction Processing, Human Resources, Fraud and Security.

Areas of risk exposure in an organisation.

Outlined below are four distinct areas of risk, with the strategic and financial mainly being the realm of the strategic risk deliberations. The operational and hazard based risks are predominantly managed by staff with delegated authority or as part of Officer's duty statements or job descriptions.

These risks are dealt with by Council and SMT

Strategic Risks

Risks arising from the implementation of decisions or initiatives

Risk arising from changes in the organisation's environment

Risks arising from missed opportunities

Financial

Risk arising from the use of money

The risk that an investment will result in losses

Credit, purchasing, budgetary risks.

Enterprise RM

When all facets are brought together under one framework with risk tolerance and appetite determined, communicated and used in decision making,

Operational Risks

Risks arising out of daily operations

Risk arising from the execution of business functions of the entity

Risks of loss resulting from inadequate or failed internal processes, systems or human error.

Hazard Based Risks

Pure risks that only have a downside impact that can be man made or by natural disaster

Generally are insurable

Personal, Property and Legal / Liability related risks

These risks are dealt with by those who have the responsibility for the tasks, services or functions

Managing Risk in Strategic Planning

- Review current plans.
- Review projects or activities not yet delegated or implemented against current risk criteria.
- Determine 'risk' owners.
- Determine current business / strategic risks.
- To identify business risk exposure / profile.
- To determine Senior Management Team strategic risk portfolio owner.
- Analyse risks against tolerance and risk appetite.
- Determine treatments.
- Develop the strategic risk register.

- Identifying Strategic Risks currently faced.

- Conduct a brainstorm session for issues facing Council / SMT and determine whether they are strategic or operational.

- Determine priority for strategic risk assessment.

- Work through risk assessment process for top risks.

- Document remainder for future assessment; and

- Compile Strategic Risk Register.

Where to apply risk management in the strategic context

- Changes or innovations - existing, enhanced or new services.

- Facilities.

- Compliance.

- Legislation and Liability.

- Corporate Governance.

- Finances:

  - Long Term Financial Plan

  - Investments

  - Credit

  - Annual Budgets

- Human Resources:

  - Skills and knowledge

  - Availability

  - Affordability

  - Recruitment and Retention

- Reputation.

- Representing best interests of the community.

- Sustainability.

- Achievability of projects.

- Affordability of activities / strategies.

- Business Continuity.

- Critical functions.

- Contingency plans.

- Joint Ventures / Services.

- Due Diligence.

- Common Interests.

- Common goals and objectives.

- Approved Memorandum of Understandings / Service Agreements.

- Assets:

    – Asset Management Policy

    – Asset Improvement Strategy

    – Whole of Lifetime Financial Plan

- Environment.

- Damage.

- Enhancement.

- Legislative breaches.

- Professional Indemnity:

    – Ensuring staff are qualified to make the decisions

    – Professional advice from a reliable source

    – Determining if there is a potential for liability

The Strategic Risk Register

The Strategic Risk Register shall include risk types such as:

- Issues that need actions or approvals before progressing;

- Issues that need monitoring regularly;

- Issues that need funding in next or subsequent budgets;

- Issues that need a resolution or action from the SMT or Council;

- Projects or activities that are implemented in a staged approach; and

- Projects or activities that require review on completion.

Financial Planning flags can form part of the register so that significant items requiring additional budget to be fully addressed can be reviewed and risk assessed as part of the overall process. This allows items to be carried forward if necessary subject to the risk rating being appropriate.

Note: All issues that are put on a register need a risk owner, an action / treatment plan, performance measures and a timeline for closeout.

Monitoring the implementation of the Strategic Community Plan

Once the strategies are approved and responsibilities delegated, the next part of the strategic role is to monitor the progress to ensure they are on track and this should form part of the risk management activities. Depending on the size and scope of the project, these should be updated every three (3) to six (6) months and should be viewed with an eye on the external environment. If there are cost or time overruns they should be reported in due course. At the completion of each, a post implementation review should take place to determine outcomes against objectives, and to look for any learning opportunities to come out of the strategy.

Relationship with other processes

Risk management is not a stand-alone process. In order to maximize risk management benefits and opportunities, it needs to be integrated with existing business processes.

Some of the key business processes with which risk alignment is necessary are:

- Internal Audit – Internal Audit reviews the effectiveness of controls. Alignment between the Internal Audit function and that of the controls within the Risk Management process is critical, and the role of the SMT will seek to align these core processes.

  Integrated Planning (including budget) – Identifying risk during the integrated planning process allows us to set realistic delivery timelines for strategies / activities or to choose to remove a strategy / activity if the associated risks are too high or unmanageable. The impact of changing risk levels over the year can then be mapped to the relevant objective, enabling us to conduct more timely expectation management with key stakeholders.

- Performance Management – All risk responsibilities, whether a general responsibility to use the risk management processes or specific responsibilities such as risk ownership or implementation of risk treatments should be included within the relevant individuals' performance plans.

Strategic Risk Management Checklist

Areas that have not been addressed can result in the Organisation having exposure to risks.

Item to be assessed	N/A	Yes	No
1. Does the initiative / service / facility / strategy link to a key results area of the strategic plan?			
2. Have you determined the goals and objectives?			
3. Have key stakeholders been identified?			
4. Do you have the appropriate resources available over the life of the initiative / service / facility / strategy?			
a. Financial			
b. Physical assets			
c. Human - skills / knowledge			
d. Time			
e. Maintenance			
f. Replacement costs			
5. Are there any political issues?			
6. Are there any supply chain issues?			
7. Do you have a management plan for the life of the initiative / service / facility / strategy?			
8. Does the initiative / service / facility / strategy have an 'owner'?			
9. Is there potential for changes that may impact on the initiative / service / facility / strategy?			
10. Do you have an approval / development and / or implementation timeline?			
11. Have you identified any operational risks that will require further assessment or treatments?			
12. Have you planned for monitoring progress?			
13. Have you determined review requirements once established?			
14. Have you a contingency plan for cost / time over runs?			
15. Are there other options you can consider?			
16. Are there any other concerns			

Risk Appetite and Tolerance of the Shire

Consequences

DESCRIPTION	FINANCIAL	HEALTH	REPUTATION	OPERATION	ENVIRONMENT	COMPLIANCE	PROJECT
Insignificant	<Less than $10,000	No injuries or illness	Unsubstantiated, low impact, low profile or "no news" item	Little impact	Little impact	Minor breach of policy, or process requiring approval or variance	Small variation to cost , timelines, scope or quality of objectives and required outcomes
Minor	$10,000 – 100,000	First Aid treatment	Substantiated, low impact, low news item	Inconvenient delays	Minor damage or contamination	Breach of policy, process or legislative requirement requiring attention of minimal damage control	5-10% increase in time or cost or variation to scope or objective requiring managers approval
Major	$100,000-$500,000	Medical treatment	Substantiated, public embarrassment, moderate impact, moderate news profile	Significant delays to majordeliverables	Environmental damage requiring restitution or internal cleanup	Breach requiring internal investigation, treatment or moderate damage control	10 -20 % increase in time or cost or variation to scope or objective requiring Senior Management approval
Critical	$500,000 - $1millon	Extensive injuries or disabilities	Substantiated, organisational embarrassment, high impact news profile, third party actions	Non-achievement of major deliverables	Minor Breach of legislation / significant contamination or damage requiring third party assistance	Breach resulting in external investigation or third party actions resulting in tangible loss and some damage to reputation	20 — 50 % increase in time or cost or significant variation to scope or objective requiring restructure of project and Senior Management or Council approval
Extreme	>More than $1 million	Death or permanent disabilities	Substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile, third party actions	Non-achievement of major deliverables	Major breach of legislation or extensive contamination and environmental damage requiring third party intervention	Breach resulting in external investigation or third party actions resulting in significant tangible loss and damage to reputation	>50% increase in cost or timeline, or inability to meet project objectives requiring the project to be abandoned or redeveloped.

Likelihood

LEVEL	DESCRIPTION	EXAMPLES	FREQUENCY
A	Almost Certain	Expected to occur in most circumstances	More than once per year.
B	Likely	Will probably occur in most circumstances	At least once per year.
C	Possible	Should occur at some time	At least once in three years.
D	Unlikely	Could occur at some time	At least once in ten years.
E	Rare	May occur, only in exceptional circumstances	Less than once in fifteen years.

Defining the Level of Risk

The following matrix is used to determine the level of risk, using the 'consequence' and 'likelihood' definitions from the previous page:

Consequence / Likelihood	Insignificant 1	Minor 2	Major 3	Critical 4	Extreme 5
Almost Certain A	H	H	E	E	E
Likely B	M	H	H	E	E
Possible C	L	M	H	E	E
Unlikely D	L	L	M	H	E
Rare E	L	L	M	H	H

E = Extreme Risk: Immediate action required by the SMT

H = High Risk: Manager attention needed

M = Medium Risk: Managed by specific monitoring or response procedures

L = Low Risk: Managed by routine procedures, unlikely to need specific application of resources

Risk Management Activities

Risk Identification

The techniques used to identify risks associated with the development, transition and operation of the Shire include:

Activity	Detail / timeframe	Participants
Strategic risk assessment as part of the decision making process	In planning processes and phased implementation timelines	Council, Senior Management Team and key stakeholders
Corporate risk analysis	In annual planning cycle and at key review points	Council, Senior Management Team and key stakeholders
Operational risk analysis	Agenda Item on all regular Council, project, committee and staff team meetings	All Managers and Officers
Internal and external emergency management	As required	Senior Management Team , relevant staff and LEMC
Business Continuity	Ongoing with regular review	SMT, Council and relevant Staff
Review of current risk treatments and assessment of future organisational and project plans in relation to risk	Annually and as relevant	SMT, Council and relevant Officers

Incident / Issue reporting, investigation and review	When reported and monthly	All relevant staff and stakeholders
Feedback processes	Ongoing	Officers and stakeholders

Organisational Risk Assessment Categories

- Strategy and Planning – key decision making process

- Assets

- Operation and maintenance

- Community

- Environment and Heritage

- Financial (short and long term)

- Legal and political

- Occupational Safety and Health

- Workforce Planning

- People Management

- Services and Functions

Risk analysis, prioritisation and Treatment Management Processes

- The Shire's Risk Management Co-ordinator (RMC) and/or the person responsible for OSH will assign each significant risk to a staff member who will ascertain the probability, likelihood and consequence utilising the Shire's incident and hazard reporting forms.

- All risks unable to be closed out by the Officer will be forwarded to the SMT.

- OSH reporting forms are to be administered by the OSH Committee and must be approved by the SMT (facilitated by the Occupational Health and Safety committee).

- All other risks will be recorded in the risk register and reported through the line management escalation process as appropriate to their level of risk.

Risk Recording and Reporting

- The RMC is responsible for ensuring that operational and organisational risks classified as "Critical" or "Extreme" after treatments are applied, are recorded in the risk register and included in the organisation's risk mitigation plan. Treatments must be approved and monitored by the appropriate Manager, or Council commensurate to the level of risk and the availability of resources to address it.

- The OSH Representative is responsible for operational safety and health risks, ensuring actions that will either reduce the likelihood or consequence of the risk

element and/or suggest ways in which the risk can be controlled, reduced or eliminated.

Risk resolution

The action officer assigned the risk is responsible for executing the risk mitigation plan and its associated activities, and for ensuring the activities are continued until the risk is closed out and recorded in the risk register.

Closing out risks

A risk item can be considered closed when it meets the following criteria:

It no longer exists; or

- The risk rating is determined to be low to medium and has appropriate controls in place that are regularly reviewed for effectiveness.

- The risk is accepted and formal monitoring and assessment is in place as part of the SMT or Council Meeting, as appropriate.

Risk Monitoring

Risks are to be monitored in the following manner by the RMC:

- Status and effectiveness of risk mitigation.

- Inform the OSH Rep. and / or SMT of any OSH risks requiring operational or financial support.

- Inform the appropriate level of management of any risk which escalates and moves to a higher risk rating or is closed out.

Risk Documentation

Risk register

The risk factors identified and managed for the Shire will be monitored in a risk register. This register will be reviewed by the RMC monthly, after which the status is to be reported to the Manager responsible for Risk. Summary reports are to be given to the Audit Committee each time they meet.

Risk items

The following information will recorded in the Shire Risk Register.

- Risk identification and description;

- Risk classification;

- Risk likelihood;

- Risk consequence;

- Risk treatment and date for completion;

- Risk owner (staff member assigned risk/action officer); and

- Outstanding actions.

Implementation Plan

Integrating and Communicating Risk Management

Objectives

- To include risk management in planning to ensure integration and linkages.

- To develop and implement a sustainable risk management framework and structure.

- To foster and develop a risk management culture with organisation wide and effective communication principles and processes.

- To achieve ownership and accountability for all risks facing the Shire.

- To ensure risk management is resourced through planning, treatment development and review processes.

Scope

- Across all aspects of governance and compliance

- Across all aspects of integrated planning:

  ○ Strategic Direction and Strategic Plan;

  ○ Financial Plans — short, medium and long term;

  ○ Asset and resource management; and

  ○ Workforce Planning

- Across all aspects of operations, services, functions, products, roles and responsibilities.

- As part of all acquisitions, projects, tenders, resource sharing and sub-contracting.

Organisational Risk Management Structure

- Council and SMT accountability and ownership.

- Dedicated resource to support development and communication (Senior Administration Officer).

- Linkages to planning, safety, governance and compliance functions.

- Risk management accountability given to whoever is responsible for the functions, products and services, recorded in position descriptions and included in contractual documentation.

- Built into projects, tenders and contracts.

Organisational Culture

- Implemented using a change management approach.

- Adoption of a no blame approach to reporting and EEO principles and practices.

- Incorporated in all planning decision making.

- Organisational and Individual performance expectations set and monitored.

- Built into Position Descriptions and performance appraisals for all positions.

- Part of a formal induction process for all employees, contractors, consultants and volunteers

Implementation

- Council and Senior Management Team leadership.

- Management resources allocated.

- Incorporated into systems, policies and procedures.

- Baseline awareness and culture survey.

- Communication and training.

- Induction and Training

- Key Performance Indicators (KPI's) and reporting requirements set.

- Timelines and review requirements clearly defined.

Sustainability

- Ownership and accountability across the whole Shire.

- Embedding through frameworks, systems, policies and processes, ongoing orientation and training.

- Demonstration of benefits.

- Sharing of success stories as well as less than favourable outcomes.

Review

- Establishment of strategic & operational risk registers with close out and progress reporting

- Risk management processes included as part of the annual planning cycle

- Risk management included in the strategic planning cycle and processes

- Annual review of Key Result Areas (KRA's) and KPIs as an organisation and as individuals

- Inclusion of risk management outcomes in annual reports

Implementation Milestones

Key process management issues are to be identified and addressed in a timely fashion during the implementation process

Implementation Task	Timeline	Responsible Person
~~Manager appointed to lead risk management process~~	~~2014~~	~~MRS~~
~~Risk Management Co-ordinator role ratified~~	~~2014~~	~~RMC~~
~~Risk Management Plan and policy developed and ratified~~	~~2014~~	~~CEO~~
~~Risk tolerances determined and ratified~~	~~2014~~	~~RMC~~
~~Elected Member briefing~~	~~2014~~	~~RMC~~
~~SMT briefing~~	~~2014~~	~~RMC~~
~~Implementation strategy developed and approved~~	~~2014~~	~~RMC~~
~~Risk registers (operational) developed and implemented~~	~~2014~~	~~RMC~~
Risk registers (strategic) developed and implemented	2017	RMC
~~Policy and strategy communicated to all staff~~	~~2014~~	~~RMC~~
Risk audits undertaken as deemed appropriate	2017	RMC
Operational risk management workshops held with Managers and their supervisors to identify, analyse and treat major risks and record in risk registers.	2018	RMC
Divisional risk management strategies developed	2018	RMC
Training for managers, supervisors and staff	2017	RMC
Training for frontline employees with their risk management issues identified and included in the process	2017	RMC
Risk management champions identified and trained	2018	SMT

Monitoring and Review

- Review risk management performance against objectives.

- Review performance of the risk management reporting and management system.

- Review organisational risk management culture.

- Include review of the risk registers in strategic and operational planning and budgeting.

- Risk Management is included in all new business ventures and activities.

- Risk Management is included as part of purchasing process.

- Risk management is included in annual performance appraisals.

- Conduct annual risk management internal audit.

- Continuous improvement opportunities are identified and implemented.

- Risk Management Plan is used as reference and orientation document.

- Review if risk management accountabilities and responsibilities are included in position descriptions and KPIs.

- Review if hazard management processes are aligned for both OSH and all organisational risks.

Key Performance Indicators (KPIs) and Performance Measures

Below are some examples of objectives for KPIs that may be developed and linked to the strategic objectives of the Organisation:

- The level of achievement of Organisational and Individual's Goals and Objectives.

- The number of Managers and staff aware of Risk Management and their roles and responsibilities in it.

- The number of areas complying with the requirements of the Risk Management Policy 2.3.5.

- The number of working days lost due to staff absenteeism stemming from injury or work related illnesses are reduced and below 1%

- The number of incidents resulting in injuries to staff are reduced.

- The number of incidents resulting in injuries or financial loss to volunteers, contractors and general public are reduced.

- There is a reduction in loss or damage to property and other assets.

- Project schedules and cost overruns are being managed within the organisation.

- Limited interruption to business continuity and a thorough action plan if disaster were to occur.

- Positive public perception of Council.

- Equal Opportunity principles are applied in the workforce.

Examples of Individual KPIs:

- Risk Management is included in the staff meeting agendas and minutes.

- The number of staff in each Manager's team that have had RM training.

- The number of hazards and near misses reported.

Further References:

For further information on risk management, the following documents provide a comprehensive and practical overview:

- AS/NZS ISO 31000:2009 – Risk management - Principles and guidelines
- ISO Guide 73:2009 – Risk management - Vocabulary
- IEC/ISO 31010:2009 – Risk Management - Risk assessment techniques
- HB 327:2010 – Communicating and consulting about risk
- AS/NZS 5050:2010 – Business continuity - Managing disruption-related risk
- HB 266:2010 – Guide for managing risk in not-for-profit organisations
- WA Local Government website – http://integratedplanning.dlg.wa.gov.au
- WA Local Government Accounting Manual Chapter 7 – Internal Control Framework

Appendix One: Financial Risk Management and Regulatory Requirements

All information in this section is extracted from the WA Local Government Accounting Manual, Section 7, 'Internal Control Framework' which should be referred to in conjunction with this plan for full information and regulatory references.

Major Financial Risk Areas (ref WA Accounting Manual Section 7.2.10)

The following table presents a number of typical financial risk areas for local governments and provides a useful basis for performing a risk assessment of the financial management. The nature of financial risks is such that the list cannot be relied on as being exhaustive and does not substitute undertaking a formal risk assessment process by the local government.

Financial Areas	Risk Areas
Strategic Financial Planning and Reporting	Annual budget Annual statutory reporting Monthly statutory reporting Long term financial plans Asset management plans Workforce plans Corporate business plans
Revenues	Receipting Rates including interim and back rates Operating grants Financial contributions Non-financial contributions Fees and charges Service charges Investment/interest income Other revenue
Expenditure	Purchasing and procurement Employee costs Credit cards Councillors expenses Employee reimbursements Other expenses

Assets	Cash floats and petty cash bank accounts and banking
	Investments
	Rates receivables
	Trade receivables
	Property plant and equipment
	Infrastructure assets
	Prepayments
	Loans to clubs/community groups
	Inventory
	Depreciation
	Project costing
Liabilities	Goods receiving
	Trade payables
	Other payables
	Borrowings
	Employee liabilities
	Accrued expenses
	Taxation
General Ledger	Routine journals
	Cost reallocations
	Error corrections
	Period end processing
	Chart of accounts
	Sub ledger
External Services	Contracting
Information Technology	General IT risks
	Application IT risks

Principles of Internal Control

Internal control environments may be viewed as five interrelated elements which impact on the Financial Reporting objectives of the local government. These five elements are represented in the following diagram.

Control Environment
Refers to the attitude, awareness and actions of the Council and staff towards internal controls and good governance. The control environment has the broadest impact of any of the elements and is the most pervasive.

Risk Assessment
The purpose of an internal control is to mitigate business risks including error and fraud. As all controls carry a cost of implementation, no control should exist which does not mitigate risk therefore the identification of risks is of paramount importance when establishing, implementing or reviewing controls.

Information Systems
Information systems usually combine manual operations and computerised activity. These systems should provide the appropriate records for maintaining accountability and allow the CEO to fulfil part of their obligations under the *Local Government Act 1995* and *Local Government (Financial Management) Regulations 1996*.

Control Activities

The day to day operational policies and procedures which help to ensure management directives are carried out are referred to as control activities. These controls include performance review activities, physical controls over assets as well as general and application controls over the IT system. Control activities exist for operational and financial processes with some control activities covering both processes as represented in the diagram below.

Operational processes and internal controls
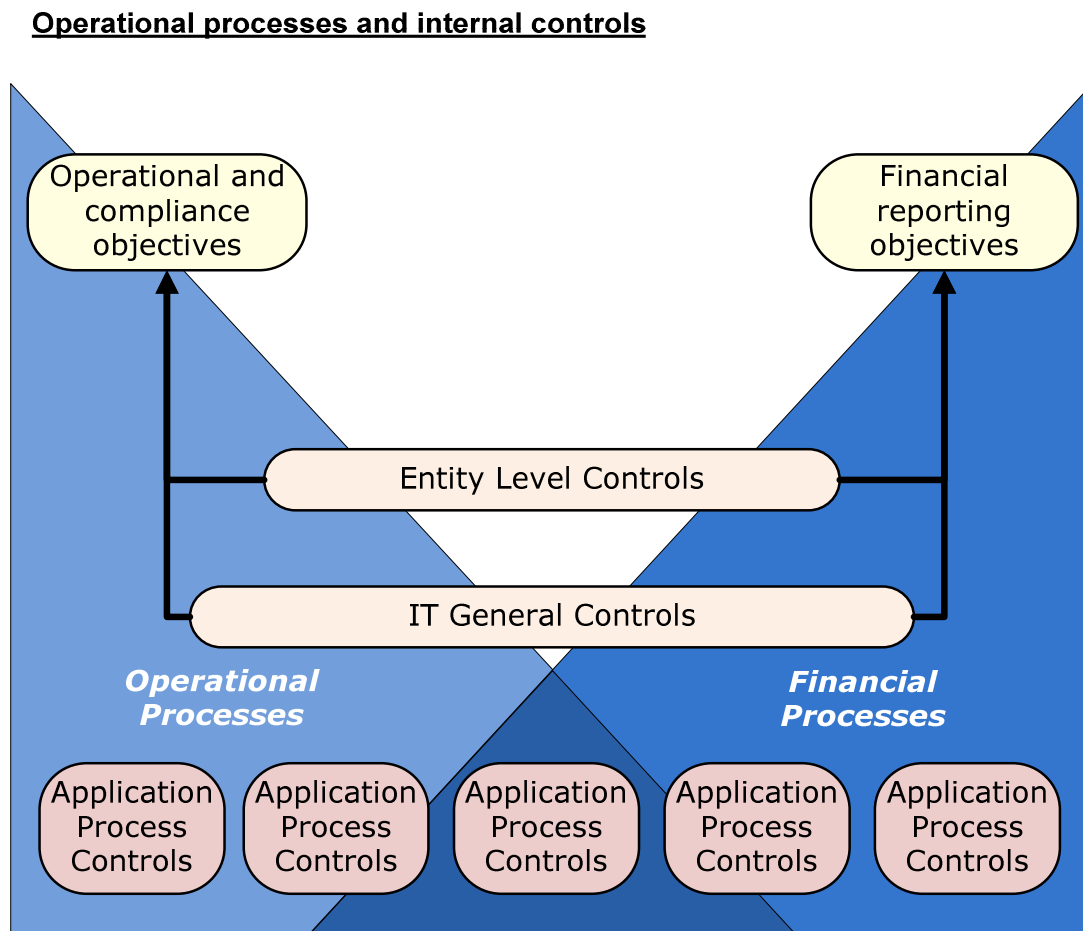
Adapted from 'Guide to Using International Standards on Auditing in the Audits of Small and Medium Sized Entities' Volume 2 – Practical Guidance

Control activities for financial processes impact on the ability of the organisation to meet its financial reporting objectives.

Documentation of procedures and segregation of duties form the two primary elements of control activities over financial processes. This is due to their function as entity level controls and their impact on a large number of application process controls.

Monitoring of Controls

The ongoing assessment of the design and operating effectiveness of controls along with the corrective actions helps the Council and the CEO ensure appropriate controls exist and are being implemented.

Risk Area	Recommended Monitoring Activities
1. Annual Budget	a) Monthly actuals are compared to budget and significant variances fully investigated and explained.
2. Financial reporting	a) Through the presentation of the Monthly Statement of Financial Activity (SFA) to Council, actual results are compared to budget each month; management reviews, investigates and explains significant variances.
3. Grants	a) Management regularly reviews all grant income and monitors compliance with both the terms of grants and council's grant policy (including claiming funds on a timely basis). b) Through the SFA; grant revenue is compared to budget; management reviews, investigates and explains significant variances.
4. Receipting	a) Income is compared to budget regularly in the SFA; management reviews, investigates and explains significant variances. b) Statements of accounts receivable are sent to customers enabling review.
5. Rates	a) Management reviews rates ageing profile on a monthly basis and investigates any outstanding items. b) Actual rate revenue is compared to budget; management reviews, investigates and explains significant variances. c) Annual valuation update is balanced prior to the generation of rates; this is reconciled to the rate record and reviewed. d) Interim valuation updates are balanced prior to the generation of the interim rates; this is reconciled to the rate record and reviewed.
6. Receivables	a) Receivables and revenue are compared to budget monthly; management reviews, investigates and explains significant variances. b) Management reviews provision for doubtful debts on a regular basis. c) Management reviews debtors ageing profile on a monthly basis and investigates any outstanding items. d) Trade receivables age reconciliation to the general ledger is reviewed at least monthly.

Risk Area	Recommended Monitoring Activities
7. **Bank accounts and banking**	a) Management reviews journal transactions to the bank account. b) Management reviews bank reconciliations monthly to confirm large outstanding items are adequately explained and subsequently resolved.
8. **Investments**	a) Review the Council investment performance regularly. b) Actual investment income compared to budget on a regular basis; management reviews, investigates and explains significant variances. c) Investments register maintained in accordance with regulations and investment policy. d) Reconciliation of investment register to general ledger routinely prepared and reviewed.
9. **Payroll**	a) Management reviews employee costs against budget on a monthly basis and investigates any outstanding items. b) Each departmental manager performs a regular review of reports detailing all employees listed on payroll master file; all unusual items are investigated. c) Salary and hourly payroll reports (including compensation and withholding information) are reviewed and approved by management before payments are approved. d) The payroll deduction table data is periodically reviewed by management for accuracy and ongoing pertinence. e) Management reviews a selection of salary sacrifice calculations for accuracy and compliance with statutory requirements; identified errors are promptly corrected. f) Each pay run is reviewed prior to authorisation for payment for consistency with prior pay runs and for abnormal items such as overtime.
10. **Purchasing, procurement and payments**	a) Actual expenditure is compared to budget monthly; management reviews, investigates and explains significant variances. b) A list of all payments is prepared and presented monthly to the Council; management reviews, investigates and explains any unusual or large payments. c) Management reviews supporting documentation before approving payments.
11. **Trade payables**	a) Management reviews trade payables ageing profile on a monthly basis and investigates any outstanding items. b) Trade payables age reconciliation to the general ledger is reviewed at least monthly.

Risk Area	Recommended Monitoring Activities
12. Fixed Assets	a) Management compare actual fixed asset balance to budget; management reviews, investigates and explains significant variances. b) Activity recorded in fixed asset register is reviewed by management, including comparison to the capital budget. c) Management regularly reviews valuation of fixed assets (i.e. methodology and useful lives of assets) to ensure that assets' valuation is appropriate and in accordance with Australian Accounting Standards. d) Management reviews depreciation rates and methodology (at least annually) to ensure that rates and remaining useful lives are reasonable. e) Fixed asset register to the general ledger reconciliation is prepared and reviewed routinely.
13. Borrowings	a) Borrowings actual and interest charges are compared to budget monthly; management reviews, investigates and explains significant variances.
14. Journals	a) All journals are independently reviewed (including check to ensure correct account allocation) and contain sufficient support information.
15. General IT Risks	a) Regular IT audits performed focusing on data accuracy, retention, recovery and security. Results of these IT Audits reviewed by management and action plan promptly implemented.

Key Control Activities (ref WA Accounting Manual Section 7.3.7)

The limited resources and number of staff in small rural local governments results in a reduced capacity to segregate tasks. However, regardless of the size of the local government it is important for certain key control activities to be undertaken due to the inherent high risks associated with various transactions.

The following key activities should be undertaken in addition to the key monitoring activities, any legislative requirements and any additional activities identified by the risk management process.

Risk Area	Key Control Activities
1. Financial Report Preparation	a) Employees responsible for financial report preparation are competent and adequately trained. b) All journal entries require supporting documentation. Any non-routine entries require documented approval prior to being posted. c) Accounting software used contains application controls that prevent or detect an error from occurring.
2. Payroll	a) Payroll staff are competent for their assigned tasks, adequately trained and supervised. b) Persons processing payroll are independent of other payroll functions, such as hiring/firing of staff, timekeeping and EFT payment. c) Approval in writing is obtained before adding new employees to payroll. d) Signed and dated approval of each employee's pay rate is documented on employee file. e) Timesheets and totals of hours worked are approved before being processed for payment f) Procedures exist to ensure terminated employees are immediately removed from payroll. g) Payroll register is reconciled to the general ledger and reviewed by a senior officer independent of payroll. h) Costs by sub program, are compared to budget.
3. Revenue	a) Rates/debtors officers are competent for their assigned tasks, adequately trained and supervised. b) Monthly statements are issued to trade debtors. c) Rates are raised in line with the approved budgeted rate in the dollar. d) The rate record is updated and reconciled monthly to the Valuer Generals Office (VGO) records. e) Documented procedures are in place to ensure the VGO is informed of any building works approved and completed. f) The rates ledger is reconciled to the General Ledger. g) The approved schedule of Fees and Charges is used for invoice preparation. Exceptions require documentation and approval. h) Automatic or manual checks are performed on serial continuity of invoice documents. i) Credit note approvals are independent of accounts receivable.
4. Receivables/ Receipting	a) Staff handling cash receipts and managing receivables are competent for their assigned tasks, adequately trained and supervised. b) Bank reconciliation is prepared monthly (with statements from

Risk Area	Key Control Activities

bank) and management approval documented.

   c) Customers are informed (signs, etc.) that they should obtain receipts.

   d) Pre-numbered cash receipts are issued for every cash sale. Serial continuity is reviewed periodically and checked against cash deposits data.

   e) Staff required to take their leave entitlements annually.

   f) When opening mail, cheques are stamped "for deposit only" with the local government bank account number. Cheques received are listed, totalled and reviewed before deposit.

   g) All receipts cash/cheques are deposited on a regular and timely basis.

   h) Reconciliation of daily deposit total to receivable posting and cash sales is prepared and reviewed.

   i) A reconciliation of aged receivables to control accounts is prepared monthly and management approval documented.

   j) Procedures exist to ensure receipts are recorded in the correct period.

   k) Significant overdue customer accounts are investigated by management and actions taken documented.

5. Purchases, Payables, Payments

   a) Personnel responsible for the purchasing, shipping, receiving and payable functions are competent, adequately trained and supervised.

   b) Management reviews outstanding cheques on period-end bank reconciliation.

   c) Pre-numbered cheques are used EFT's are allocated a sequential number for each creditor payment and details for every number is documented. Spoiled cheques are clearly marked "VOID" and cancelled.

   d) The purchasing policy clearly defines who can issue purchase requisitions/orders and to what dollar limit.

   e) Access to purchasing, receiving, accounts payable, and inventory records is restricted to authorised personnel.

   f) Spending limits are set by budget or individual levels of authority. These limits are monitored by the system or manually.

   g) A list of preferred suppliers is maintained and used where possible.

   h) Controls exist to ensure corporate buying cards/credit cards are only issued to authorised staff and personal purchases are not allowed.

   i) Pre-numbered purchase orders and receiving reports are used and exceptions are approved and documented.

   j) Period-end procedures exist to detect and account for unprocessed

Risk Area	Key Control Activities
	goods/service receipts.
	k) Personnel receiving goods do not perform any accounting functions.
	l) An aged accounts payable listing is reconciled to general ledger each month and exceptions investigated by management.
	m) Aged report of open orders is reviewed each month and old/unusual items are investigated.
	n) Unit prices on invoices received are checked against price lists, quotes or approved purchase orders. Invoices are checked for correct calculations, discounts, taxes and freight before payment.
	o) System has checks to prevent duplicate payments on same order.
	p) A list of accounts for payments is prepared in line with the legislation and authorised by Council or a person with delegated authority before cheques are signed or EFT is authorised.
	q) Signing officers examine supporting documentation to payments and document approval
	r) All cheques must be made out to authorised vendors and cannot be made out to "cash".
	s) A reconciliation of the accounts payable sub ledger to the general journal is prepared monthly and approved by management.
	t) Suppliers' statements are reconciled to accounts payable monthly and reviewed by management.
	u) Procedures exist to ensure payments are recorded in the correct period.
	v) Procedures exist to ensure all bank accounts and signatories are authorised by council.
	w) The accounting policy for when goods should be capitalised is documented and clearly understood by accounting personnel.
	x) Management regularly compares actual purchases (costs and expenses) to budgeted purchases and investigates and documents variances.
	y) Management follows up creditor queries on at timely basis.
	z) Management addresses the reasons for debit balance creditor accounts on a timely basis.

Application of Controls to Different Sized Local Governments (ref WA Accounting Manual section 7.3.8)

Whilst there is no one standard set of internal controls for different size local governments, there are some variations which may be expected. These are illustrated in the table below.

Control environment	Small	Medium	Large
Risk Management approach	Limited risk management approach to all high level plans.	Risk management approach to all high and medium level plans.	Enhanced risk management with a risk management approach to all decision making
Entity Level Controls	Entity level controls required by regulation as a minimum. Further entity level controls identified by risk assessment.	Entity level controls required by regulation as a minimum. Further entity level controls identified by risk assessment.	Entity level controls required by regulation as a minimum. Further entity level controls identified by risk assessment.
IT General Controls	IT General Controls administered by external service providers subject to routine monitoring	IT General Controls administered by internal or external service providers routinely monitoring controls.	IT General Controls administered by internal IT staff routinely monitoring controls.
IT Application Controls	IT application controls administered by external service providers subject to routine monitoring	IT application controls administered by internal or external service providers routinely monitored	IT application controls administered by internal or external service providers routinely monitored
Documented Procedures	Documented procedures for all high risk operational activities and processes.	Well documented procedures for all high and medium risk operational activities and processes.	Well documented procedures for all operational activities and processes. Timely exception reporting in place
Segregation of Duties	Low level of segregation of duties. High level of review of overall results by council.	Segregation of high risk duties with timely documented reviews by officers independent of operations.	High level of segregation of duties with timely reviews by independent officers.
Experience and Qualification of staff	Experienced and qualified staff required for all key roles.	Experienced staff in key roles undertaking reviews with lower qualified staff in operational roles.	Experienced staff in senior roles with full range of experience and qualification of staff below.

Appendix Two: Risk Management Action Plan

Organisational Culture and Change Management

Objectives	Strategies	Actions	Responsible Officer	Performance Indicator
To develop and embed a Risk Management Culture within the Shire	Continue with a risk management training and development program throughout the organisation	Strategic Risk Management Training and Development of Risk Appetite and Tolerance Levels. Risk management training to staff within the Administration Building, Depot , Springhaven and Kodja Place Follow-up higher level risk management training to identified staff to further embed risk management within the areas of Strategic Planning, key processes and projects	SMT SMT SMT	☺ Risk Appetite and Tolerance Levels Developed. ☺ All Administrative Staff Trained ☺ All Councillors Trained ☺ % of staff understand what their risk management responsibilities are, as reported

	Undertake corrective actions arising from risk management audit assessments.	Treatments at the High and Extreme level identified in the Risk Register to be addressed. (Ongoing)	RMC	☺ >50% of identified corrective actions have been controlled or closed out
		Establish time-frames for treatment options to be reviewed by Senior Management Team	SMT	☺ Half yearly reviews
		Auditing of time-frames to be carried out on a quarterly basis.	RMC	☺ Quarterly reports to audit committee
	Regular audits of all risk management system in the key result areas and reporting of associated corrective action	Timely completion of audit assessments	RMC	☺ Evidence of regular audit assessments undertaken and associated reports.

	Develop a schedule of ongoing risk assessments on all Key Result Areas	Schedule for Senior Management Team (SMT) level/whole of organisation risk assessments completed & communicated	RMC	☺ Risk assessments scheduled for key result areas
		Schedule for Functional Areas completed & communicated	RMC	☺
		Schedule for Business Continuity Activities completed & communicated	RMC	☺
Risk Management Cultural Change	Embed Risk Based Performance Indicators within the organisation	Risk Management Performance indicators to be included in PD's that reference Risk and OSH responsibilities	SMT	☺ **100**% of staff to have PD's that reference Risk and OSH responsibilities
	Ensure all current staff are trained and held accountable for risks in functions they have direct responsibility for.	Workshops for all staff with content relevant to areas for direct personal and organisational responsibility	SMT	☺ All staff have attended the relevant workshops
	Ensure Risk Management Awareness and Training is included in all inductions of new staff Orientation	All new staff are briefed and inducted relevant to areas of service and responsibility	SMT	☺ All new staff and Councillors are inducted in risk management

Appendix Three: Specific Areas of Applied Risk Management

Objectives	Strategies	Actions	Responsible Officer	Performance Indicator
Emergency Management				
To ensure the Emergency Management System is robust, communicated and tested	Determine skills, knowledge and awareness of Emergency Management	Perform baseline emergency management knowledge and awareness survey and complete a skills gap analysis for emergency training of staff;	RAO/RMC	☺ EM Plan and Recovery Plan updated and consistently reviewed
	Develop a training schedule for emergency training of critical staff identified in the skills gap analysis;		RAO/RMC	☺ Matrix established and training commenced
	Ensure that documented procedures are in place for workplace emergency preparedness;	Audit current documentation and address gaps	OHS Committee/RMC	☺ Staff awareness of procedures
	Ensure that Emergency Evacuation signage is in place throughout all Shire controlled buildings;	Audit signage and address gaps

Document same | OHS Committee | ☺ |
| | Develop a schedule to ensure that fire and evacuation plans are completed for all Shire controlled buildings; | Determine current level of emergency evacuation planning and address gaps | OHS Committee | ☺ |
| | Develop a schedule to ensure that evacuation drills are conducted in Shire | Determine current level of emergency evacuation testing and address gaps | OHS Committee | ☺ |

Objectives	Strategies	Actions	Responsible Officer	Performance Indicator
	Develop a schedule to ensure that debriefings are carried out at the completion of all drills, exercises or a critical incident	Determine current level of emergency evacuation test debriefing and response to issues arising and address gaps	OHS Committee	☺
To review Shire Business Continuity / Community Emergency Recovery Arrangements	Review current arrangements and address identified gaps	Develop Shire Emergency Recovery Arrangements with LEMC and key stakeholders.	RAO/MCS	☺ Completion of arrangements with endorsement from Council and LEMC
Asset Management				
Development and maintenance of an ongoing Asset Management Plan	Compile Asset Register as part of Asset Management Plan	Identify all assets of the Shire, ensure they are recorded appropriately in a register that also identifies purpose and service levels	MCS	☺ Completed and Ongoing
	Identify and assess risks associated with Shire assets	Develop a process to identify and assess risks associated with Shire assets, whole of life maintenance and asset purpose	MCS	☺ Fair value undertaken in accordance with legislation
	Implement an asset management treatment and reporting framework and timelines.	Develop schedule to ensure that risks identified regarding Asset Management are reported and treatment plans identified, approved and funded. Determine reporting frameworks and timelines	MRS/RMC MRS	☺ ☺

Objectives	Strategies	Actions	Responsible Officer	Performance Indicator
	Training of all staff responsible for assets in the Shire	Identify key staff and develop and deliver relevant training in asset management systems and processes.	MCS	☺
Corporate Risk				
	Corporate plan accountabilities are identified, relevant risks are identified, reported and treatment plans developed.	Develop schedule to ensure that risks are identified in operational plans are identified and accountability assigned for reporting timelines and treatments	SMT	☺
	Auditing of contracts and tender processes are carried out	Contracts and management processes are audited and potential contract management risks are reported and treatment plans identified.	SMT	☺ MCS to draft a policy for audit committee
	Project risks are identified and reported and treatment plans developed and ratified	Project plans are completed that include a feasibility study and risk assessment, which are then reviewed before approval of the project.	SMT	☺ Checklist in place
Legal Compliance				
	Identification and management of compliance risks that pose significant risks to the Shire	Development of a guideline identifies the sections of legislation that that pose a significant risk and the potential of fines and penalties	Senior Administration Officer	☺ Annual reporting guidelines in place for most projects/divisions

Objectives	Strategies	Actions	Responsible Officer	Performance Indicator
	To address the risk of actions arising from inappropriate advice or information management	Development of policy and procedure for FOI and professional advice	Records Officer	☺ Record keeping plan, handouts for building enquiries, and information statements in place, training
	Evaluation of access to standards and best practice resources for Officers.	Review of access to best practice for all officers and key stakeholders and develop strategies to address gaps and omissions.	Senior Administration Officer	☺ All in place
Finance				
	Finance risks are identified, reported and addressed.	Identification of significant financial risks facing the Shire and strategies developed to address them	MCS	☺ Monthly processes, annual audit, interim audit, 4 year reviews
Strategic Planning				
To determine risks in developing responses to Community aspirations and development of the Strategic Community Plan	Review Community Engagement Framework and Processes	Framework and process to be defined in the development of a Communications Plan.	CEO	☹ Plan adopted by the Council
	Setting and Managing Community Expectations	Framework and process to be defined in the development of a Communications Plan.	SMT	☺ Promotion of Customer Service Charter
	Viability and sustainability of strategies	Framework and process to be defined in the	Council and	☺ Does it form part

Objectives	Strategies	Actions	Responsible Officer	Performance Indicator
	and actions	development of a Communications Plan.	SMT	of the routine?
	Feasibility and affordability	Framework and process to be defined in the development of a Communications Plan.	Council & SMT	☺
	Communication of SCP and relevant Timeframes	Framework and process to be defined in the development of a Communications Plan.	SMT	☺
Workforce Management				
	Review of gaps and omissions identified in the Workforce Plan	Workforce Plan updated annually	CEO	☺
	Review of Organisational Systems Policies and Processes	Organisational review conducted	CEO and SMT	☺
	Review of Training and Development Plans	IT module to be included in budget	MCS	☺

Appendix Four: Shire of Kojonup Risk Management Policy

The Council has adopted a policy pertaining to Risk Management, Policy 2.3.5. The Council Policy manual should always be checked for the most up-to-date copy of this policy, but at the time of reviewing this plan the policy was as follows:

2.3.5   RISK MANAGEMENT

Adopted or Reviewed by Council:	17/11/15	Council Minute Reference:	183/15
Reviewer: Manager of Corporate Services			
Local Law:			
Procedure: Risk Management Plan			
Delegation:			

POLICY INTENT

The Shire is committed to organisation-wide risk management principles, systems and processes that ensure consistent, efficient, and effective assessment of risk in all planning, decision making and operational processes. This will ensure compliance with the Integrated Planning requirements of the *Local Government Act (1995) Section 5.56(2):*

DEFINITION OF RISK:

AS/NZS ISO 31000:2009 defines risk as "the effect of uncertainty on objectives."

- 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. An objective may be financial, related to health and safety, or defined in other terms.
- Risk Management is defined as the application of coordinated activities to direct and control an organisation with regard to risk.

PRINCIPLES – FRAMEWORK - PROCESS

The Shire of Kojonup considers risk management to be an essential management function in its operations. They recognise that the risk management responsibility for managing specific risks lies with the person who has the responsibility for the function, service or activity that gives rise to that risk. Council is committed to the principles, framework and process of managing risk as outlined in AS/NZS ISO 31000:2009

The Shire will manage risks continuously using a process involving the identification, analysis, evaluation, treatment, monitoring and review of risks. It will be applied to decision making through all levels of the organisation in relation to planning or executing any function, service or activity.

In particular it will be applied to:

- Strategic and operational planning
- Expenditure of large sums of money
- New strategies and procedures
- Management of projects, tenders and proposals
- Introducing significant change
- The management of sensitive issues

Risk management objectives

- The achievement of organisational goals and objectives.
- Compliance with *Local Government Act (1995) Regulation S5.56(2)*
- The ongoing health and safety of all employees at the workplace
- Ensuring public safety within the Council's jurisdiction is not compromised.
- Limited loss or damage to property and other assets.
- Limited interruption to business continuity.
- Positive public perception of Council and the Shire.
- Application of equal opportunity principles in the workforce and the community.

RESPONSIBILITIES

- Senior Management Team (SMT), and supervisors have the responsibility and accountability for ensuring that all staff effectively manage the risks within their own work areas. In each of these areas, risks should be anticipated and reasonable protective measures taken.
- All managers will encourage openness and honesty in the reporting and escalation of risks.
- All staff will be encouraged to alert management to the risks that exist within their area, without fear of recrimination.
- All staff will, after appropriate training, adopt the principles of risk management and comply with all policies, procedures and practices relating to risk management.
- All staff and employees will, as required, conduct risk assessments during the performance of their daily duties. The level of sophistication of the risk assessment will be commensurate with the scope of the task and the associated level of risk identified.
- Failure by staff to observe reasonable directions from supervisors regarding the management of risks and/or failure of staff to take reasonable care in identifying and treating risks in the workplace may result in disciplinary action.
- It is the responsibility of every department to observe and implement this policy in accordance with procedures and initiatives that are developed by management from time to time.
- Council is committed morally and financially to the concept and resourcing of risk management.

MONITOR AND REVIEW

The Organisation will develop and implement a robust reporting and recording system that will be regularly monitored to ensure closeout of risks and identification of ongoing issues and trends.

Risk management key performance indicators, relating to both organisational and personal performance will be developed, implemented and monitored, by the Shire's Senior Management Team (SMT) and Council as appropriate

Significant or Extreme Risks will be reported to the Council Audit and Risk Committee and reviewed to determine appropriate treatments or whether to continue with the activity or service from which the risk arises.