



APPENDICES

AUDIT & RISK COMMITTEE MEETING

To Be Held

Wednesday, 16 June 2021
Commencing at 2.00pm

At

Shire of Dardanup
ADMINISTRATION CENTRE EATON
1 Council Drive - EATON

This document is available in alternative formats such as:
~ Large Print
~ Electronic Format [disk or emailed]
Upon request.

RISK ASSESSMENT TOOL								
OVERALL RISK EVENT: Update on Regulation 17 Audit Findings RISK THEME PROFILE: 3 - Failure to Fulfil Compliance Requirements (Statutory, Regulatory) RISK ASSESSMENT CONTEXT: Strategic								
CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATMENT OR CONTROL		
		CONSEQUENCE	LIKELIHOOD	INHERENT RISK RATING		CONSEQUENCE	LIKELIHOOD	RESIDUAL RISK RATING
HEALTH	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
FINANCIAL IMPACT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
SERVICE INTERRUPTION	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
LEGAL AND COMPLIANCE	Failure to fulfil obligations pursuant to the Local Government (Audit) Regulations 1996, Regulation 17.	Moderate (3)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
REPUTATIONAL	Council's reputation could be seen in a negative light for not adhering to its requirement to fulfil duties and functions that are prescribed in legislation.	Moderate (3)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
ENVIRONMENT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.

Risk Dashboard Report – June 2021

This Risk Dashboard Report summarises the Shire's risks within the Risk Management Governance Framework. The focus continues to be on embedding and driving continual improvement.

Theme 1 Asset Sustainability Practices		Risk	Control
		Moderate	Adequate
Risk Responsibility		Manager Operations	
Current Actions	Due Date	Responsibility	
Develop Maintenance Plans	Sep 21	Manager Operations	
Update the Heritage Inventory List to form part of the Town Planning Scheme review	Jun 22	Manager Development Services	
Review of Council properties that contain asbestos	Dec 21	PEHO	
Review of Asset Management Plans	Jun 22	Manager Assets	
Report/Business Case to be produced with a proposition towards 'Managing Shire Leased Facilities' with a view towards property management	Dec 21	Deputy CEO	
Establish a database for property information of leased facilities	Dec 21	Deputy CEO	

Theme 9 External Theft and Fraud (inc. Cyber Crime)		Risk	Control
		Moderate	Effective
Risk Responsibility		Manager Financial Services	
Current Actions	Due Date	Responsibility	
Review of Visitor Procedure and Sign-In Book	Sep 21	HR Coordinator	

Risk Dashboard Report – June 2021 (Continued)

Theme 2 Business & Community Disruption		Risk	Control		Theme 10 Management of Facilities, Venues and Events		Risk	Control
		Moderate	Adequate				Moderate	Effective
Risk Responsibility		Manager Information Services			Risk Responsibility		Manager Community Services	
Current Actions	Due Date	Responsibility			Current Actions	Due Date	Responsibility	
Draft IT Disaster Recovery run sheets	Sep 20	IT Manager			Nil			
Cyber security incident plan	Jun 20	IT Manager						
Fire Warden Training to be undertaken	Sep 21	HR Coordinator						
IT Disaster Recovery Plan – review required of specific recovery items and scenarios to fully test the effectiveness of the Plan	Dec 22	Team Leader BS & Senior IDS Officer						
Theme 3 Failure to Fulfil Compliance Requirements (Statutory, Regulatory)		Risk	Control		Theme 11 IT, Communication Systems and Infrastructure		Risk	Control
		Low	Effective				Moderate	Adequate
Risk Responsibility		Manager Financial Services			Risk Responsibility		Manager Information Services	
Current Actions	Due Date	Responsibility			Current Actions	Due Date	Responsibility	
Nil					Develop IT Asset Register	Dec 20	IT Manager	
					Develop IT/IS Service Management	Dec 21	IT Manager/MIS/MS/IDS	

Risk Dashboard Report – June 2021 (Continued)

Theme 4 Document Management Processes		Risk	Control		Theme 12 Misconduct		Risk	Control	
		Moderate	Adequate				Moderate	Effective	
Risk Responsibility		Manager Information Services			Risk Responsibility		Manager Financial Services		
Current Actions	Due Date	Responsibility			Current Actions	Due Date	Responsibility		
Investigate workflow on Records Management System	Jun 21	Manager Information Services			Inventory Management System to assign responsibilities and ensure minor inventory items are accounted for	Mar 22	Manager Operations		
Completion of Retroscan Project to improve physical security of documents	Jun 23	Manager Information Services							
Investigate a centralised task management system	Jun 22	Deputy CEO							
Theme 5 Employment Practices		Risk	Control			Theme 13 Project/Change Management		Risk	Control
		Moderate	Effective					Moderate	Adequate
Risk Responsibility		Manager Governance & HR		Risk Responsibility		Manager Operations			
Current Actions	Due Date	Responsibility		Current Actions		Due Date	Responsibility		
Establishment of Competency Framework (Staff Training)	Sep 21	HR Coordinator		Standardise a formal structure for all projects from conception to completion		Jun 21	Director Infrastructure Services		
				Explore a Change Management Framework and Administration Policy		Dec 21	Manager Governance & HR		



Risk Dashboard Report – June 2021 (Continued)

Theme 6 Engagement Practices			Risk	Control		Theme 14 Safety and Security Practices		Risk	Control
			Moderate	Adequate				Moderate	Effective
Risk Responsibility			Manager Community Services			Risk Responsibility		Manager Governance & HR	
Current Actions	Due Date	Responsibility		Current Actions		Due Date	Responsibility		
Develop system and procedure to ensure Customer Service Charter Implementation	Jun 21	Deputy CEO		Emergency Building and Facility Plans to be updated to include COVID response		Sep 21	HR Coordinator		
Develop Communications Plan that will detail different levels and responsibilities of communication across the organisation	Jun 21	Communications Officer - Media							
Theme 7 Environment Management			Risk	Control		Theme 15 Supplier and Contract Management		Risk	Control
			Moderate	Adequate				Moderate	Adequate
Risk Responsibility			Manager Operations			Risk Responsibility		Manager Operations	
Current Actions	Due Date	Responsibility		Current Actions		Due Date	Responsibility		
Develop Environmental Management Plan	Jun 21	Manager Operations		Develop Formalised procedures for Contractor site-induction in relation to Policy AP028 Contractor		Jun 21	HR Coordinator		
				Training and Launch of Procurement Framework		Jun 21	Compliance Officer/Procurement Officer		
Theme 8 Errors, Omissions and Delays			Risk	Control					
			Moderate	Adequate					
Risk Responsibility			Manager Governance & HR						
Current Actions	Due Date	Responsibility							
FUSION review being undertaken by BS Team	Jun 21	Manager Governance & HR							

RISK ASSESSMENT TOOL								
OVERALL RISK EVENT: Bi-Annual Risk Management Dash Board Report RISK THEME PROFILE: 3 - Failure to Fulfil Compliance Requirements (Statutory, Regulatory) RISK ASSESSMENT CONTEXT: Strategic								
CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATMENT OR CONTROL		
		CONSEQUENCE	LIKELIHOOD	INHERENT RISK RATING		CONSEQUENCE	LIKELIHOOD	RESIDUAL RISK RATING
HEALTH	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
FINANCIAL IMPACT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
SERVICE INTERRUPTION	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
LEGAL AND COMPLIANCE	Failure to fulfil compliance obligations pursuant to the Local Government (Audit) Regulations 1996, Regulation 17.	Moderate (3)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
REPUTATIONAL	Council's reputation could be seen in a negative light for not adhering to its requirement to fulfil duties and functions that are prescribed in legislation.	Moderate (3)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
ENVIRONMENT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.

RISK ASSESSMENT TOOL								
OVERALL RISK EVENT: Western Australian Auditor General – Schedule of Reports RISK THEME PROFILE: 3 - Failure to Fulfil Compliance Requirements (Statutory, Regulatory) RISK ASSESSMENT CONTEXT: Strategic								
CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATMENT OR CONTROL		
		CONSEQUENCE	LIKELIHOOD	INHERENT RISK RATING		CONSEQUENCE	LIKELIHOOD	RESIDUAL RISK RATING
HEALTH	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
FINANCIAL IMPACT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
SERVICE INTERRUPTION	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
LEGAL AND COMPLIANCE	Not considering the risks, controls and recommendations arising from the Auditor General's report could have an impact on Council not meeting its compliance requirements.	Moderate (3)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
REPUTATIONAL	Council's reputation could be seen in a negative light for not adhering to its requirement to fulfil duties and functions that are prescribed in legislation.	Moderate (3)	Unlikely (2)	Moderate (5 - 11)	Not required.	Not required.	Not required.	Not required.
ENVIRONMENT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.

Western Australian Auditor General's Report



Regulation of Consumer Food Safety by the Department of Health

Office of the Auditor General
Western Australia

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(to assist people with hearing and voice impairment)

We can deliver this report in an alternative format for
those with visual impairment.

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The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

**Regulation of Consumer Food Safety by the
Department of Health**



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

REGULATION OF CONSUMER FOOD SAFETY BY THE DEPARTMENT OF HEALTH

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

Performance audits are an integral part of my Office's overall program of audit and assurance for Parliament. They seek to provide Parliament and the people of WA with assessments of the effectiveness and efficiency of public sector programs and activities, and identify opportunities for improved performance.

This audit assessed whether the Department of Health effectively regulates consumer food safety in food businesses. It focused on the Department's inspection and enforcement processes, support to local government entities, and monitoring and reporting of regulation activities.

I wish to acknowledge the Department's staff for their cooperation with this audit.

A handwritten signature in black ink, appearing to read 'C Spencer'.

CAROLINE SPENCER
AUDITOR GENERAL
1 April 2021

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Auditor General's overview

Food businesses, the Department of Health (Department) and local government entities (LG entities) have a shared responsibility to ensure that the food we consume is safe. The Department's role includes supporting LG entities to implement the *Food Act 2008* and regulating food businesses not located within a local government area, such as Rottnest Island and Kings Park.



In June 2020, I tabled my report on the regulation of food safety by LG entities.¹ This report builds on that audit by examining how effectively the Department regulates consumer food businesses, supports LG entities, and monitors and reports its regulatory activities.

We found several shortcomings in the Department's practices, which include overdue inspections and lack of timely follow up, poor recordkeeping, inefficient reporting practices and a lack of up-to-date guidance material. These weaknesses reduce the Department's ability to efficiently and effectively regulate consumer food safety and ensure the support it provides is relevant and useful. The findings relating to inspections and recordkeeping are similar to those we found in the audited LG entities.

As I noted in my previous report, the findings and recommendations in this report are not intended to add more layers of regulation for business. Instead, by improving the regulatory framework and the associated processes, the Department can ensure that regulatory resources are focused on the highest risk businesses and that all food businesses are subject to the same rules, regardless of where they are operating.

I trust that in the future the Department and LG entities can work together to make improvements to the regulation of consumer food safety in Western Australia (WA). I am pleased the Department has agreed to all the findings presented in this report and has already commenced work to respond to the recommendations.

We delayed finalising this audit to allow the Department, and the Public and Aboriginal Health Division in particular, to focus on its response to the COVID-19 pandemic. Together with our June 2020 audit, this report provides greater context and transparency as to how consumer food safety is regulated in WA.

¹ Western Australian Auditor General's Report, *Regulation of Consumer Food Safety by Local Government Entities*. Report 28: June 2019-20.

Executive summary

Introduction

This audit assessed whether the Department of Health (Department) effectively regulates consumer food safety in food businesses. It focused on the Department's inspection and enforcement processes, support to local government entities (LG entities), and monitoring and reporting of regulation activities.

During this audit we also examined how effectively 2 LG entities monitored consumer food safety, inspected food businesses and enforced compliance. We tabled our report on this part of the audit in Parliament on 30 June 2020² and it is available on our website at audit.wa.gov.au. It provides background and other information relevant to this report, and consequently, both reports should be read together. We delayed auditing some aspects of the Department's role in food safety until now, to allow it to focus on the State's COVID-19 pandemic response.

Background

The aim of food business regulation is to reduce the number of food related diseases and ensure food is safe for consumption.³ At June 2019, Western Australia (WA) had over 25,000 registered food businesses. Across WA over 7,000 cases of intestinal infectious disease, such as salmonella, were reported in 2017.⁴ The Department estimates that a 1% decrease in foodborne illness could save the community and health system nearly \$6 million annually.

In WA, the Department and LG entities are responsible for the regulation of food businesses. The *Food Act 2008* (the Act) and the Food Regulations 2009 (Regulations) allow the Department and LG entities to inspect food businesses and enforce compliance with legislation and the *Australia New Zealand Food Standards Code* (Standards). The Department is responsible for 30 food businesses that are not in a local government area, such as businesses on Rottnest Island and in Kings Park. While the Department is also responsible for regulating food safety in hospitals, and for primary producers, including dairy, the production and processing of bivalve molluscs⁵, and it is the controlling authority for meat, these were out of scope for this audit.

The Department has a key role in facilitating food safety regulation in WA. It liaises with national bodies, coordinates statewide food safety activities and supports LG entities to implement food safety legislation.

The Department's Environmental Health Directorate (EHD), which is part of the Public and Aboriginal Health Division (PAHD), is responsible for managing food safety in WA. There are 2 separate units within the EHD which manage issues related to food and its regulation. One unit coordinates food science and policy, and the other oversees compliance and enforcement of food safety legislation. Similar to LG entities, the Department has environmental health officers (EHOs) to register food businesses and conduct inspections. The PAHD also provides strategic and operational direction for public health issues such as COVID-19.

² Western Australian Auditor General's Report, *Regulation of Consumer Food Safety by Local Government Entities*. Report 28: June 2019-20.

³ Department of Health *Report on the Food Act 2008 (WA) – A Report on the Performance of the Food Act 2008 (WA) Regulatory Functions for the Period 1 July 2013 to June 2016*.

⁴ Not all of these cases were linked to food businesses.

⁵ These include clams, oysters, mussels and scallops.

Conclusion

The Department has weaknesses in its inspection and enforcement processes, and can provide more support to LG entities. Addressing these shortcomings will help improve efficiency and effectiveness of consumer food safety regulation across WA.

The Department's key guidance on risk classification, compliance and enforcement is out-of-date. This means LG entities can assess similar risks differently and food businesses may not be subject to appropriate enforcement action after non-compliance is identified. In addition, the Department does not collect sufficient data to effectively monitor and report on food safety, and the Act has not been reviewed as required. These weaknesses can lead to inconsistent or inefficient regulation of food businesses by LG entities and the Department.

While the Department conducts inspections for the food businesses it is responsible for, some inspections were overdue, enforcement of compliance with the Standards was not always consistent or timely, and practices for recording compliance history need improvement. As we found in the LG entities we reviewed, these shortcomings may lead to unsafe food practices going undetected or left unaddressed.

Findings

The Department can improve how it monitors and reports on food safety regulation

The Department lacks timely and appropriate data to effectively monitor and report on food safety regulation across WA. For example, the Department does not know:

- the frequency and types of non-compliance found during inspections carried out by LG entities
- whether risk-based inspections are completed by LG entities in a timely manner
- whether enforcement and follow-up is actioned consistently by LG entities.

The Department uses LG entity data on the number of inspections and enforcement activities for its annual performance report on food regulation activities, which it publishes on its website. However, the Department advised that due to the manual and time consuming process, of manually recording 137⁶ LG entity responses into a central register, and the lack of verification of LG entity data, some data is up to 18 months old and may be inaccurate. This limits the Department's ability to assess how well LG entities regulate food safety.

The Department acknowledged the need to improve its processes, and in June 2019, staff prepared a business case to review and improve the efficiency and effectiveness of the reporting process. The project is ongoing, but the Department expects it will improve how it monitors the performance of food safety regulation, and identify trends and the guidance needed for LG entities to respond to emerging issues.

The Department has not reviewed the operations and effectiveness of the Act since it commenced in 2008. Under the Act, a review was required, as soon as practicable, 5 years after the Act commenced. The Department started a review in 2018 by drafting a discussion paper, which was to be issued to stakeholders for comment. However, the Department advised the review was put on hold due to loss of key staff through the Government's voluntary redundancy scheme. A comprehensive review of the Act provides an opportunity to clarify roles and responsibilities of regulators, ensure legislation reflects modern regulatory practices, and identify further opportunities to protect the WA community from food-borne illnesses.

There are also emerging food safety issues, such as mobile food trucks (Case study 1), food delivery providers and the production of kombucha, which are not adequately covered under existing legislation or supporting guidance.

Case study 1: Regulation of mobile food trucks in WA

Mobile food trucks are a popular and increasing presence at local events and tourist or recreational areas. However, the current regulatory framework does not adequately address food safety issues associated with these mobile businesses.

For example, mobile food trucks are known to serve food in multiple LG entity areas, including those who have not licensed or inspected the businesses. As there is no central register of licensed mobile food trucks, LG entities cannot quickly check licensing and inspection records of mobile food trucks operating in their area. For the LG entities we audited, inspection and enforcement practices vary, compounding the impact of this issue.

⁶ Does not include Christmas and Cocos Islands.

The Department, along with LG entities have identified these issues and are working to find solutions. The Department told us it is currently developing and piloting a central register of mobile food trucks.

The Department provides inadequate regulatory guidance and support for LG entities

The Department has not reviewed key documents it provides to LG entities on business risk assessments, compliance, enforcement and roles and responsibilities for a number of years. For example:

- The guidance for conducting business risk assessments was last reviewed in 2010, despite the Department's policy requiring it to be reviewed annually. This review is important to ensure that guidance to LG entities is clear and is interpreted consistently. For example, there is limited guidance about whether businesses need to be reassessed when non-compliance is found. The 2 LG entities audited did not always reassess businesses when non-compliance was found.⁷
- The compliance and enforcement guideline has not been reviewed and updated since 2014. It has not been updated to reflect the Department's decision that written warnings are an inappropriate enforcement option when inspectors identify non-compliance with the Standards. At the 2 audited LG entities, we found instances where they were not using improvement notices to formally enforce compliance.

A lack of up-to-date and clear guidance increases the risk entities will respond to and follow-up non-compliance inconsistently.

LG entities also told us that they are increasingly seeking information and support from other LG entities and jurisdictions, such as for compliance advice for egg products. This is due, in part, to the Department not having readily available staff or documented guidance. The Department runs food safety training workshops for LG entities and businesses about emerging issues and stakeholder feedback is mainly positive. However, LG entities advised that they are finding it increasingly difficult to access specific support for regulatory issues from the Department. Frequent and accessible food safety information will help encourage consistent regulatory practices.

Twenty percent of food businesses have not been inspected on time

The Department has not completed all required inspections and is not following its own good practice inspection frequencies. We reviewed all 30 consumer food businesses monitored by the Department. At October 2019, 6 were overdue for inspection; 4 of these are in Kings Park where there are only 8 food businesses in total. The business inspections not carried out according to guidance and overdue included:

- 1 high risk business inspection that was 9.5 months overdue
- 4 medium risk businesses that were overdue between 1 and 3 years for an inspection.

Without timely inspections, the Department cannot be sure it effectively manages food safety risks and that businesses are meeting the Standards. The Department advised its capacity to complete inspections and other food safety activities has been reduced through recent

⁷ Western Australian Auditor General's Report, *Regulation of Consumer Food Safety by Local Government Entities*. Report 28: June 2019-20.

organisational restructures. We note since being made aware of the findings the Department has committed to conducting overdue inspections, with 3 now completed.

Inspection records were generally well documented, but compliance history records can be improved

Department EHOs generally had clear documentation to support the results of inspections and any subsequent enforcement actions. In a sample of 13 inspection reports from 2018 and 2019, we found the reports included itemised non-compliance, photographic evidence and documentation of discussions with the business. Appropriately and consistently documenting inspection outcomes and providing these to businesses aligns with recordkeeping good practice and assists with carrying out future compliance activities.

However, at inspections, EHOs did not use a checklist to systematically assess compliance with the Standards. Use of a checklist is required by the Department's procedures. By not using a consistent process for inspections, the Department cannot ensure it has fairly and thoroughly inspected all businesses against the same Standards.

We also found weaknesses in how the Department records and tracks business compliance history. The Department has not recorded the results of its inspections and follow-up activities in its central register since 2017. This means to understand a businesses' compliance history, an EHO would need to access and review a number of inspection and enforcement documents. This is inefficient and increases the risk that the Department does not follow-up non-compliant businesses.

Enforcement of non-compliance was not always timely or did not occur

The Department uses improvement notices as the first enforcement option when non-compliance is identified, consistent with its guidelines. In our sample of 13 inspection reports from 2018 and 2019 we found the Department issued improvement notices to all businesses when non-compliance was identified. This sends a clear and important message to businesses that their food safety practices need to be improved.

While the Department issued improvement notices, it did not always follow them up and when it did, it was not timely. EHOs set timeframes for follow-up according to the severity of the non-compliance. Of the 13 improvement notices, 7 had no evidence of a follow-up inspection, and 2 were not followed up until 4 and 5 months after the required date. Delays in follow-up inspections increase the risk that the public will be exposed to unsafe food practices, particularly at businesses already found to be non-compliant with the Standards.

Recommendations

The Department should:

1. ensure the support and information it provides to LG entities is up-to-date, accessible and responsive to current issues

Department response: Agreed

The guidance materials and support information on the Department's website for LG entities and consumers is in the process of review and will be updated to reflect current consumer food safety issues.

Implementation timeframe: 31 December 2021.

2. update its data collection processes to provide it with a comprehensive and accurate picture of food safety regulation to respond to needs of the LG entities

Department response: Agreed

- a. A draft proposal has been developed to improve the reporting requirements under the Act. There will be consultation with LG entities in this regard, due to the proposal potentially requiring changes to LG entity databases.

As part of this process there is an opportunity to consider how further data could be collected to address the information, i.e. the frequency and type of non-compliance found; whether risk-based inspections are completed according to an appropriate schedule and whether enforcement and follow-up is actioned consistently within, and across LG entities.

Note: New questions have already been agreed to for next reporting period (i.e. 1 July 2020 – 30 June 2021), and negotiations are underway with LG entities for the following reporting period (i.e. 1 July 2021 – 30 June 2022).

- b. The Department acknowledges that the data collection process from the 137 LG entities would benefit from being updated from the current manual approach to a more automated, self-populated system of data collection and management.
- c. The Department will scope and develop an approach for the verification of data, in consultation with LG entities, and explore options i.e.; benchmarking against other jurisdictions, and other States and Territories; and/or an annual to bi-annual process of verification limited representative sample of LG entities.

Implementation timeframe:

- a. Request for relevant data, completion date 30 June 2021.
- b. An automated system for data collection, requires further consideration, planning and costing. This is subject to Department procurement processes. Ongoing timeframe to be considered as part of the planning and costing process.
- c. 31 December 2021.

3. review and improve its procedures and staff guidance to ensure non-compliant food businesses are followed up, and Standards enforced in a consistent and timely manner

Department response: Agreed

The Department will:

(Appendix AAR: 8.3B)

- a. Review Standard Operating Procedures to improve guidance on non-compliant food businesses and following-up on non-compliant food businesses.
- b. Identify training needs of authorised officers relevant to consumer food safety and the Act.
- c. Develop and implement a training schedule for ongoing professional development of authorised officers.

Implementation timeframe:

a-c. Third quarter 2021.

4. ensure food business inspections are prioritised and carried out according to the schedule and best practice

Department response: Agreed

The schedule for food safety assessments of not in a district (i.e. Kings Park, Rottnest Island and Perry Lakes) will be reviewed and updated in accordance with the Department's *WA Food Regulation: Food Business Risk Profiling – Guidance to the classification of food businesses*.

Implementation timeframe:

Food businesses (not in a district) assessments are up to date as of 9 March 2021. Priority afforded to these assessments being completed according to guidance / best practice will be ongoing.

5. improve recordkeeping for food business inspections and compliance reporting to:
 - a. better understand inspection and compliance history
 - b. identify compliance issues and follow-up activities
 - c. respond to emerging food safety issues.

Department response: Agreed

The Department will:

- a. Review the Standard Operating Procedure for food businesses not in a district to improve recordkeeping requirements.
- b. Update the Department's website to include information on how the emerging consumer food safety issues are identified and managed in the local, State, National and Bi-national environment.

The Bi-national Food Safety network, with members across all States and Territories, the Commonwealth, New Zealand and Food Standards Australia New Zealand, and the National Food Incident Response Protocol can be engaged for immediate action to discuss, trace and remove food products that pose a risk to consumer health, across multiple jurisdictions, from the marketplace.

In addition, the Food Regulation Standing Committee and the Implementation Sub-committee on Food Regulation seek to address emerging food safety issues, like fermented beverages (i.e. kombucha), by way of developing guidelines, processes, and supporting action to amend to food standards contained in the Australia New Zealand Food Standards Code, as needed.

(Appendix AAR: 8.3B)

- c. Commit to improving current practices and procedures, to update, review and monitor the existing central register recording compliance history information; and schedule follow-up action related to food business non-compliance.

Longer term, the current method / central register used by the Department for managing food business compliance history requires modernisation and it is envisaged that introduction of digital technologies and automated processes are the preferred option.

Implementation timeframe:

- a. 30 September 2021
- b. 30 September 2021
- c. 30 September 2021. An automated system requires further consideration, planning and costing. This is subject to Department procurement processes. Ongoing timeframe to be considered as part of the planning and costing process.

Response from the Department of Health

The Department welcomes the OAG's findings and supports all 5 recommendations. The Department is mindful of the potential resource implications that will need consideration during the implementation process when addressing the recommendations.

The Department is committed to continuous improvement principles and, as indicated in the responses to the recommendations, will be implementing measures to address the recommendations for improvement identified by the OAG.

Audit focus and scope

This audit assessed if the Department effectively regulates consumer food safety in food businesses. It focused on the Department's inspection and enforcement processes, support to LG entities, and monitoring and reporting of regulation activities. We did not attempt to detect instances of non-compliance in food businesses.

We also examined how effectively 2 LG entities monitored consumer food safety, inspected food businesses and enforced compliance. This part of our audit was tabled in Parliament on 30 June 2020.⁸

We reviewed the Departments practices for regulating food safety, including:

- its food business register for all 30 food businesses not in a LG entity area
- policies and procedures for regulating food businesses
- records and data on food businesses and regulatory activities
- risk assessments, and 13 inspection records and enforcement actions from a sample of 10 food businesses (5 high risk and 5 medium risk) from 2018 and 2019
- the timeliness and consistency of follow-up inspections and enforcement actions.

We accompanied an EHO on a food business inspection carried out by the Department. We also assessed how the Department provides support to LG entities and the food industry on food safety in WA.

We spoke with staff who deal with registration, risk assessment, inspection, education and enforcement of food businesses.

This audit did not review hospitals, primary producers or the primary production and processing of bivalve molluscs.

This was an independent performance audit, conducted under Section 18 of the *Auditor General Act 2006*, in accordance with Australian Standard on Assurance Engagements ASAE 3500 *Performance Engagements*. We complied with the independence and other ethical requirements related to assurance engagements. Performance audits focus primarily on the effective management and operations of entity programs and activities. The approximate cost of undertaking the audit and reporting was \$118,000.

⁸ Western Australian Auditor General's Report, *Regulation of Consumer Food Safety by Local Government Entities*. Report 28: June 2019-20.

Auditor General's 2021-22 reports

Number	Title	Date tabled
17	Department of Communities' Administration of Family and Domestic Violence Support Services	11 March 2021
16	Application Controls Audits 2021	9 March 2021
15	Opinions on Ministerial Notifications – Tax and Funding Information Relating to Racing and Wagering Western Australia	26 February 2021
14	Opinion on Ministerial Notification – Hotel Perth Campaign Reports	24 February 2021
13	Opinion on Ministerial Notification – Release of Schedule of Stumpage Rates	24 February 2021
12	Grants Administration	28 January 2021
11	COVID-19 Relief Fund	21 December 2020
10	COVID-19: Status of WA Public Testing Systems	9 December 2020
9	Western Australian Registry System – Application Controls Audit	26 November 2020
8	Regulating Minor Pollutants	26 November 2020
7	Audit Results Report – Annual 2019-20 Financial Audits of State Government Entities	11 November 2020
6	Transparency Report: Major Projects	29 October 2020
5	Transparency Report: Current Status of WA Health's COVID-19 Response Preparedness	24 September 2020
4	Managing the Impact of Plant and Animal Pests: Follow-up	31 August 2020
3	Waste Management – Service Delivery	20 August 2020
2	Opinion on Ministerial Notification – Agriculture Digital Connectivity Report	30 July 2020
1	Working with Children Checks – Managing Compliance	15 July 2020

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 Office of the Auditor General for
Western Australia

Western Australian Auditor General's Report



Regulation and Support of the Local Government Sector



Office of the Auditor General
Western Australia

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(to assist people with hearing and voice impairment)

We can deliver this report in an alternative format for
those with visual impairment.

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The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

**Regulation and Support of the Local
Government Sector**



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

REGULATION AND SUPPORT OF THE LOCAL GOVERNMENT SECTOR

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

Performance audits are an integral part of my Office's overall program of audit and assurance for Parliament. They seek to provide Parliament and the people of WA with assessments of the effectiveness and efficiency of public sector programs and activities, and identify opportunities for improved performance.

This audit assessed whether the Department of Local Government, Sport and Cultural Industries effectively regulates and supports the local government sector.

I wish to acknowledge the Department's staff for their cooperation with this audit.

A handwritten signature in black ink, appearing to be 'C Spencer'.

CAROLINE SPENCER
AUDITOR GENERAL
30 April 2021

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Auditor General's overview

The local government (LG) sector provides a range of essential and valued services to the Western Australian community – more than simply “roads, rates and rubbish”.

Good governance and transparency are central to LG entities performing well and maintaining the confidence and support of the community, and have been a focus of attention as the legislative framework that establishes and supports the LG sector has been reviewed and reformed.



Given the diversity of LG entities across Western Australia – ranging from large city councils to very small remote shires – there is a range of maturity in governance and administration, and there are varying risks to service delivery and resource management. We see those risks in the interactions and findings from our financial, information systems and performance audits, and in the complaints and referrals my Office receives about the sector. The Parliament too sees those risks in the submissions to its Inquiries, and the issues raised with Members on a daily basis in their electorates.

While each LG entity is responsible for its own good governance, the Department of Local Government, Sport and Cultural Industries (Department) is charged with regulating and supporting the LG sector. It has a role for the LG sector that is similar to central agencies such as the Departments of Treasury and Finance in the State sector, which includes for example advising on, promulgating and overseeing the financial framework.

Like all State government entities, the Department has limited resources, and implementing the legislative reform agenda has been both a priority and significant workload. However, as this report shows, the Department's use of its limited resources is not underpinned by a good understanding of risk and clear objectives for the LG sector. Moreover, its performance in regulating and supporting the sector does not currently reflect the expectations of LG entities and their communities.

One impact of this has been an increase in reactive regulation – investigations and inquiries – which has absorbed resources at the expense of preventative earlier interventions such as education, guidance and monitoring. This is not cost-effective, and the Department needs to rebalance its regulatory activities if it is to make a significant contribution to improving good governance in LG entities.

I am pleased that the Department has already commenced steps to address some of the findings from this audit. Our recommendations will help the Department establish a more effective LG regulatory framework and help it to target resources to areas of greatest risk and impact.

Executive summary

Introduction

This audit assessed whether the Department of Local Government, Sport and Cultural Industries (Department) effectively regulates and supports the local government (LG) sector.

It focused on how the Department fulfils its regulatory functions under the *Local Government Act 1995* (Act) and the support activities it provides to Western Australian local governments and regional councils (LG entities).

Background

The Department is established by legislation and funded by Parliament to regulate and support the LG sector. It has a statutory role to assist the Minister for Local Government in administering the Act and its associated regulations. In 2019-20, the Department allocated \$14.4 million to LG regulation and support activities.

Western Australia (WA) has 148 LG entities for a population of approximately 2.5 million people. LG entities make a significant contribution to the State's economy and provide a wide range of services and facilities to their communities. They spend more than \$4 billion a year, employ around 17,000 staff and administer approximately \$45 billion in assets.

LG entities range in size, governance capacity and levels of risk. For example, the City of Stirling has a population of more than 200,000 people and an operating expenditure of more than \$230 million. Whereas the Shire of Sandstone has a population of under 100 people and around \$7 million of operating expenditure. The Shire of Peppermint Grove is widely acknowledged as the smallest and wealthiest LG area in Australia.

The Department's stated strategic objective is to support the sector through a fit for purpose, sound legislative framework, that enables efficient and effective services to communities, good governance and compliance.

A full list of the Department's regulatory and support responsibilities is in Appendix 1. These include:

- advising the Minister in exercising functions under the Act
- processing of statutory approvals
- conducting authorised inquiries into LG entity operations and affairs
- developing policy and legislation
- advising the LG sector on the operation of the Act
- supporting the WA LG Grants Commission, the LG Advisory Board and the LG Standards Panel
- managing the State LG Partnership Agreement.

An effective and efficient LG policy agency and regulator provides timely advice and assistance to build capacity and conducts early intervention to prevent governance or relationship breakdowns. When there are breaches in the Act, the Department needs to investigate them in a timely way. Figure 1 summarises the key elements of a standard good practice regulatory framework, which we have adapted to suit the regulation and support of LG.



Source: OAG

Figure 1: Key elements of a good practice regulatory framework

Audit conclusion

We recognise that there has been a significant LG reform agenda in recent years. However, the Department is not providing efficient and effective regulation and support to the LG sector and lacks fundamental aspects of a good regulatory framework.

It is not effectively using the information it has available to assess the risk of non-compliance in the LG sector or to identify the areas where support is most required. Internally the Department is not addressing risks to its own delivery of regulatory and support services, some of which were identified as having significant gaps in a 2018 internal audit report and remain unresolved. It does not have a plan that links its regulatory and support activities for LG entities into achieving its overall objectives for the sector and does not have targets and measures in place to track its delivery and performance.

This means that the Department's regulatory intervention is largely reactive to emerging issues, rather than preventing breakdowns in governance. Not providing timely advice or effective capability-building increases the risk that LG entities will not provide good government and services to their communities.

Key findings

The Department is not targeting its regulation and support activities to key risks

It does not have a structured approach to gathering intelligence and using it to understand key risks in the sector

The Department is not using internal and annually reported information about the sector and individual LG entities effectively, and is not gathering external intelligence and linking it into its risk assessment. The Department's LG risk assessment register, developed in 2017, has not been maintained since 2018.

The Department is therefore missing opportunities to identify and target areas of regulatory and support risk and inform its strategic and operational planning. This impacts its ability to provide effective and efficient proactive regulation and support and allocate resources to where they are most needed. This increases the risk that non-compliance and poor governance will not be addressed.

The Department has advised us that it has undertaken extensive consultations with the LG sector on legislative reform and that it has worked with a consultant over the last 6 months to develop a risk analysis tool for the LG sector that will be finalised in May 2021.

Internal risks to effective and efficient delivery of regulation and support have not been addressed

Significant risks to the delivery of regulation and support were identified in a 2018 internal audit of LG enforcement, investigations and authorised inquiries. Fourteen of the 17 audit recommendations to reduce these risks have not been fully implemented. This includes not finalising the Department's LG strategic priorities and draft Capacity Building and Compliance Framework. This increases the risk that:

- investigations will not be completed in a proactive manner
- serious breaches of the Act will not be identified and actioned in a timely manner
- education, advice and support may not provide appropriate support to the sector.

The Department has advised us that it will complete the outstanding recommendations by 30 June 2021.

There is a lack of proactive input into financial framework matters, including timely guidance on a key financial reporting matter

The Department does not effectively manage the LG financial framework, contributing to reporting uncertainty and inefficiency in the sector. For example, it has not updated financial management guidance for some years to address emerging reporting concerns and capability to support fit-for-purpose financial reporting.

Furthermore, it was recently very slow in providing guidance following changes to Australian Accounting Standards. The result of which meant that there was a risk that 2019-20 financial reporting of some assets by LG entities would not comply with the treatment of leases. Failure to comply with the new accounting standard would have a material impact on the financial statements of some LG entities. The lack of timely guidance has contributed to a delay in the finalisation of financial statements and audits for a significant number of LG entities. Although the changes were made in December 2018, the relevant Local Government (Financial Management) Amendment Regulations 2020 were not gazetted until 6 November 2020.

There is no strategic plan for regulation and support activities that links into the achievement of overall objectives for LG entities or usefully guides departmental actions

The Department's responsibilities for the regulation and support of LG entities are described in legislation and strategic documents available on its website. Although its *Strategic Directions: 2020-2023* document lists several programs in the LG sector, we found that the Department does not have a plan that links its LG regulation and support activities into the achievement of its overall objectives. Consequently, the Department cannot demonstrate how it prioritises its regulatory and support activities, determines what resources it needs and show how it allocated the more than \$14 million it spent on these functions in 2019-20.

The Department has advised us that a specific LG statement of purpose with key outcomes will be developed based on risk profiling by 30 June 2021.

The Department does not effectively measure its performance in supporting and regulating LG entities

The Department has not set measures and targets to effectively assess how well it delivers its regulatory and support functions. This makes it hard for the Department and stakeholders to know how well it is doing and understand operational performance.

The level of early intervention has reduced as resources were directed to other more reactive and high-profile activities

Regulatory activities include proactive early intervention and reactive activities including authorised inquiries and investigations responding to minor and serious breach complaints. We found that:

- the level of early intervention has reduced in the last few years, in part because resources were directed to minor and serious breaches and authorised inquiries
- the trends in minor and serious breach complaints and authorised inquiries illustrate the imbalance between preventative and reactive regulatory activities
- finalising authorised inquiries and investigations into minor and serious breach complaints can take a long time.

This indicates that the Department's regulation has become more reactive and less preventative. Increased numbers of complaints and inquiries are both an indicator that standards in LG governance may not be being maintained and greater education and support is required.

In the absence of time targets and performance measures it is also hard to assess if these regulatory functions are managed efficiently and effectively. The Department has advised us that it has focused on completing long-standing authorised inquiries and minor and serious breach matters, reducing the resources available for preventative activities like guidance and support.

The Department has limited understanding of how effectively its LG support functions build capability within the sector

Support is provided through the LG advisory hotline, guidance documents and several projects to build capability within the sector. But the Department does not analyse which of these approaches is effective in supporting and improving good governance in LG entities. For example, a significant fall in the number of calls to the LG advisory hotline since 2015 could reflect improved capability within LG entities or it could indicate that LG entities believe they can no longer rely on the Department. Understanding the reasons for fewer calls could help improve the support provided to the sector.

The Department told us that it must manage expectations about the level of support it provides, as most of its resourcing is used for reactive regulation, resolving complaints and minor and serious breach investigations. It also told us that it intends to reallocate resources towards capacity building in the LG sector once the legislative reform process is completed. At the time of reporting, a new LG Act is expected to be completed in 2021.

Audited key performance indicators only provide a limited view of the Department's regulation and support activities

The Department's 3 audited key performance indicators (KPIs) that measure performance against LG business objectives provide high-level insights into operational aspects. Although the Department has discussed future KPIs with our Office and has proposed changes, that the Department believes would provide a more effective measurement of activities and functions, the KPIs need to be supported by robust performance measures and analysis to

(Appendix AAR: 8.3C)

examine the impact of the Department's LG activities. On their own, the KPIs do not inform where the Department should focus its strategies and resources, and rarely provide sufficient information for sound internal decision-making.

Recommendations

The Department should:

1. review how it gathers, records and reports information to maintain an up to date LG sector risk assessment

Department response: Agree

Implementation timeframe: by 31 August 2021

2. target its regulation and support activities to areas of highest risk, with regard to the potential benefits to improved outcomes across the LG sector

Department response: Agree

Timeframe for implementation: by 31 August 2021

3. clearly define its LG regulation and support objectives, deliverables, and targets. This should include robust performance monitoring measures and reporting that are communicated to staff, LG entities and other key stakeholders.

Department response: Agree

Implementation timeframe: by 31 August 2021

Response from the Department of Local Government, Sport and Cultural Industries

The Department is currently updating a risk-based approach to be able to align regulatory and compliance frameworks, and to direct resources, support and guidance towards the greatest threats to local government's ability to govern and function effectively in the interests of the community.

The updated risk analysis tool will be completed by May 2021. In addition, the Department's operational plan for 2020/21 includes all outstanding audit items which will be completed by 30 June 2021.

As part of normal operations, the Department monitors the local government sector through environmental scanning (including print and social media and intelligence from various sources), industry reviews and audits. This has informed the development of the risk analysis tool to better guide the prioritisation of targeted proactive regulation.

Audit focus and scope

This audit assessed whether the Department of Local Government, Sport and Cultural Industries (Department) effectively regulates and supports the local government (LG) sector.

Our specific criteria were:

- Does the Department effectively regulate LG entities?
- Does the Department effectively support LG entities?

We focused on how the Department fulfils its regulatory functions under the *Local Government Act 1995* (Act), and the support activities it provides to LG entities.

During the audit we:

- reviewed relevant Department policies, procedures, strategic and operational planning documents, including its *Local Government Compliance Framework* and its draft Capacity Building and Compliance Framework
- interviewed key Department staff involved in regulation and support functions
- analysed calls to the LG advisory hotline over the period 2014 to 2020 and reviewed minor and serious breach complaints received from 2017 to 2020
- assessed the implementation status (on 6 October 2020) of recommendations from the Department's internal audit of enforcement, investigations and authorised inquiries
- met with the WA Local Government Association (WALGA) and Local Government Professionals Australia WA (LG Pro WA), the peak LG industry and representative bodies in the State, to discuss and examine the Department's role and responsibilities in regulating and supporting the LG sector from the perspective of key stakeholders
- drew on results of other OAG audit work in the LG sector.

We did not review as part of this audit:

- the assessment and outcomes of individual LG entity complaints, investigations and authorised inquiries
- the Department's role in managing other legislation within the LG portfolio, which includes the control and management of domestic animals and the regulation of caravanning, camping and off-road vehicle use
- the activities of the other oversight agencies (such as the Corruption and Crime Commission, Public Sector Commission and Ombudsman Western Australia) and the peak LG industry and representative bodies in the State.

This was an independent performance audit, conducted under Section 18 of the *Auditor General Act 2006*, in accordance with Australian Standard on Assurance Engagements ASAE 3500 *Performance Engagements*. We complied with the independence and other ethical requirements related to assurance engagements. Performance audits focus primarily on the effective management and operations of entity programs and activities. The approximate cost of undertaking the audit and reporting was \$341,000.

Audit findings

The Department is not targeting its regulation and support activities to key risks

The Department does not have a structured approach to gathering intelligence and using it to understand key risks in the LG sector

Information about the sector and individual LG entities is not being used effectively and the Department is not actively gathering external intelligence and linking it into its risk assessment. This increases the risk that LG entities' non-compliance and poor governance will not be addressed.

The Department's LG risk assessment register, developed in 2017, has not been maintained since 2018. The Department is therefore missing opportunities to identify areas of regulatory and support risk and use this to inform its strategic and operational planning. This impacts its ability to provide effective and efficient regulation and support and allocate resources to where they are most needed.

There is a range of information that could be used more effectively to maintain the risk assessment. For example:

- the Department's complaints database
- requests for advice received by the LG advisory hotline and other staff within the Department
- LG entity compliance audit returns
- non-compliance and control weaknesses identified in the Office of the Auditor General's (OAG) annual financial audits of LG entities
- information reported and able to be shared by various integrity agencies, who receive a significant number of minor misconduct allegations from the LG sector.

This information and intelligence can provide important insights into risks across the sector and identify areas where the Department's regulatory and support activities are needed most.

In 2018-19, OAG financial audits of 112 LG entities identified:

- 111 material matters of non-compliance at 52 entities such as non-compliance with specific sections of the Act or associated regulations. These included 11 instances where LG entities had not completed reviews of their systems and procedures for financial management or risk management, internal control and compliance as required at least once every 3 years under LG regulations
- 857 significant or moderate control weaknesses in financial management and information systems controls such as weak controls over accounting journal entries, bank reconciliation, procurement, financial ratios, changes to master files and management review.

The Department advised us that it is aware of these issues and that it will follow-up non-compliance where necessary. It also told us that it:

- has undertaken extensive consultations with the LG sector on legislative reform

- has worked with a consultant over the last 6 months to develop a risk analysis tool for the LG sector that will be finalised in May 2021. By updating the risk-based regulatory approach, the Department advised that it would understand the key risks and direct resources towards the greatest threats to the LG sector's ability to govern and function effectively in the interests of the community. The completed analysis tool will enable the Department to ensure that (staffing) structures and resources are effectively allocated to the key sector risks
- established a new Executive Director LG position in August 2020 to integrate the Department's 5 LG function areas to achieve cohesion and efficiencies, whilst retaining the separation between complaint investigations and general support and compliance.

Internal risks to effective and efficient delivery of regulation and support have not been addressed

Significant risks to the delivery of regulation and support were identified in a 2018 internal audit of the Department's LG enforcement, investigations and authorised inquiries.¹ Three risks required immediate management action:

- the functional structure was under review and the overall objectives of its compliance program, structure and resourcing requirements had not been defined
- a draft Capacity Building and Compliance Framework had been prepared but had not been endorsed
- only limited resources had been allocated to LG advice, education and support.

Fourteen of the 17 audit recommendations to reduce these risks have not been fully implemented (Appendix 2 details the 17 recommendations and their implementation status). This increases the risk that:

- investigations will not be completed in a proactive manner
- serious breaches of the Act will not be identified and actioned in a timely manner
- education and advice may not provide appropriate support to the sector.

One of the recommendations was to finalise the Capacity Building and Compliance Framework that was drafted in August 2017. The new framework has not been approved or published. The draft framework:

- described the Department's proposed risk-based regulatory approach
- provided guidelines for LG entities to understand the Department's approach to improve the sector's performance
- acted as a diagnostic tool for the Department to identify and implement the most appropriate capacity building and compliance strategies for each LG entity.

Had it been finalised, the framework would have informed the LG sector of the Department's approach and helped target support to known capability, accountability and legislative compliance risks.

The Department has advised us that it will complete all 14 outstanding recommendations by 30 June 2021. Completing these should be a management priority.

¹ Department of Local Government, Sport and Cultural Industries internal audit report *Enforcement, Investigations & Authorised Inquiries*, June 2018.

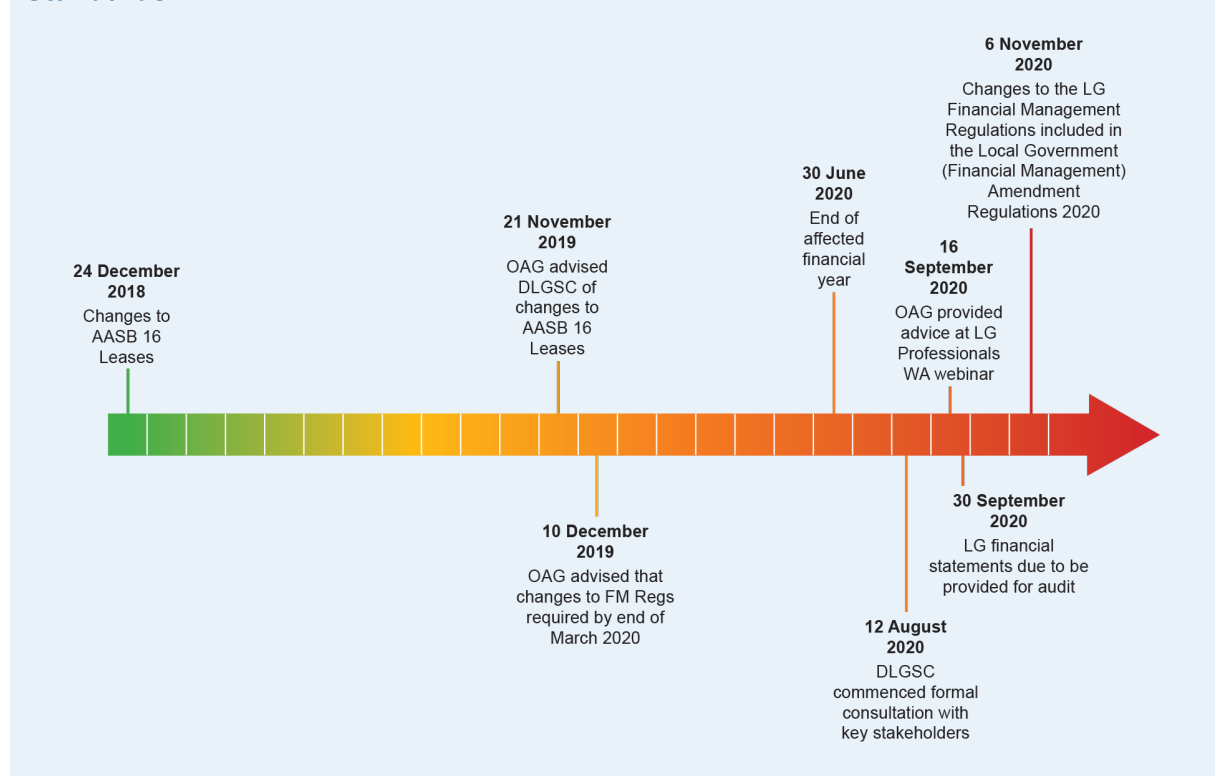
There is a lack of proactive input into financial framework matters, including timely guidance on a key financial reporting matter

The Department does not effectively manage the LG financial framework, contributing to reporting uncertainty and inefficiency in the sector. For example, it has not updated financial management guidance for some years to address emerging reporting concerns or to build capability to support fit-for-purpose financial reporting for LG entities.

The Department is responsible for advising the Minister and sector on the financial framework, but it has been largely absent from this space in recent years. The LG accounting manual for the sector has not been fully updated and 2 sections have been under review since 2012. Furthermore, the Department was recently very slow in determining its position and amending regulations following changes to Australian Accounting Standards.² The result of which meant that there was a risk that 2019-20 financial reporting of some assets by LG entities, if they complied with the LG financial management regulations, would not comply with Australian Accounting Standards.

Failure to comply with the new accounting standard would have a material impact on many LG entities' reported asset values, and therefore financial statements and compliance status. The lack of timely guidance and appropriate regulatory change by the Department has contributed to a delay in the finalisation of financial statements and audits for a significant number of LG entities for the year ended 30 June 2020. Moreover, the level of effort required by the OAG in supporting the Department on this matter strongly indicated a lack of capability and engagement by the Department in routine financial framework matters affecting the LG sector. Further information on this matter is highlighted in the case study below.

Case study: The Department's lack of timely or effective engagement and guidance about financial framework changes following amendment to Australian Accounting Standards



² Australian Accounting Standard AASB 16 *Leases* dated February 2016, Australian Accounting Standard AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* dated December 2018.

Following the change to the accounting standard, key stakeholders and LG entities contacted the OAG for advice and cited a lack of guidance and support from the Department, and uncertainty as to the impact on their financial reporting obligations. These extensive inquiries were not just an impost on OAG audit planning resources for the 2019-20 LG financial audit cycle but, more concerning, demonstrated an absence of participation in these matters by the Department.

During the 2019 audit season, we advised the Department that there had been a change to the financial reporting (accounting) standards. We asked whether it had considered the impact of the change on LG entities' reporting of assets, and the possibility of amending the Local Government (Financial Management) Regulations 1996 (FM Regulations) to reduce the reporting requirements relating to the change.

Ultimately, the Department did not commence formal consultation with the sector, through WALGA and LG Pro WA, about proposed changes to the FM Regulations until 12 August 2020, after the end of the relevant financial year. Our Office was then asked to present at a LG Pro WA webinar to explain the proposed changes and how they might apply to LG 2019-20 financial statements. We also distributed a draft position paper to assist LG entities understand the issues and facilitate discussion.

The relevant changes to the FM Regulations were included in the Local Government (Financial Management) Amendment Regulations 2020 which were gazetted on 6 November 2020, over 4 months after the end of the relevant financial year. We issued a position paper to provide guidance to LG entities on the application of the changes to the FM Regulations.

While we are working actively to support enhanced financial management and capability across the LG sector, the level of OAG involvement required to progress this particular financial framework matter was surprising, and we would consider excessive for the independent auditor. The momentum and action on this should more appropriately have been driven by the central policy agency for the sector, the Department, as part of the regulation and support role for which it is funded.

The Department does not have a LG strategic plan to guide its regulatory and support functions

The Department's responsibilities for the regulation and support of the LG sector are described in legislation, its strategic intent and a *Local Government Compliance Framework* which are available on its website.

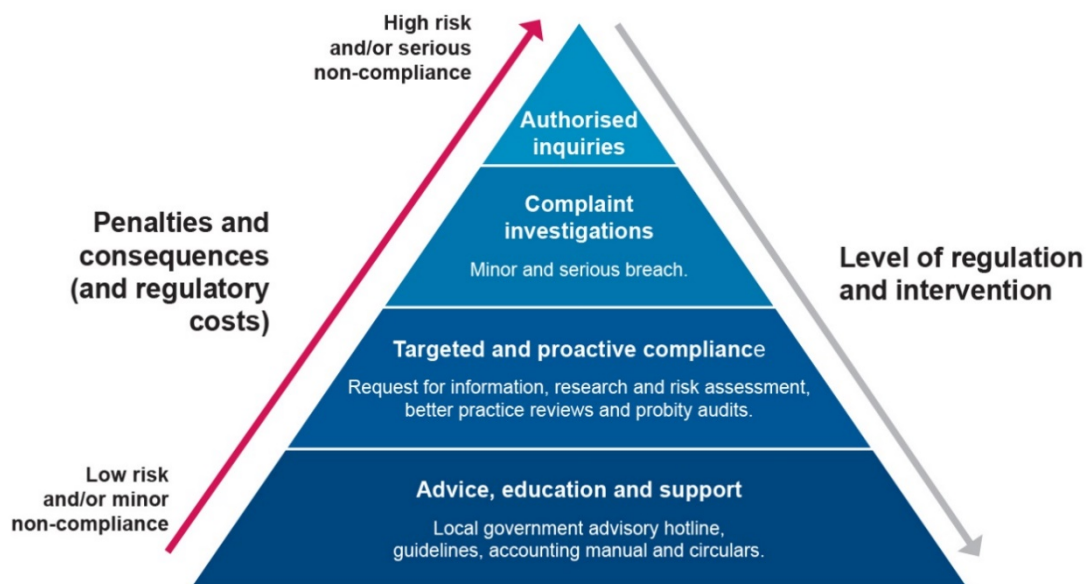
Although the Department's *Strategic Directions: 2020-2023* document lists several programs in the LG sector, the Department does not have a LG plan that sets out how it will achieve its overall objectives for LG and guide its regulatory and support functions. Consequently, the Department cannot demonstrate how it prioritises its regulatory and support activities, how it determines what resources it needs to deliver those functions, or show the appropriateness and outcomes of the more than \$14 million allocated to these functions in 2019-20.

The Department has advised us that a specific LG statement of purpose with key outcomes will be developed based on risk profiling by 30 June 2021.

The Department's *Strategic Intent 2019-21* and *Local Government Compliance Framework* outlined the Department's overall objectives and approach to the regulation and support of LG. The strategic intent focused on improving LG capability and outcomes and listed 8 LG initiatives. These included LG Act reform, developing a risk assessment model, performance framework and vision for LG, and conducting better practice reviews.

In October 2020, the Department published its new *Strategic Directions 2020-2023* document which reiterates a focus on improving LG capability and outcomes. The Department has also recently established a *Local Government Operational Plan 2020-2021*. Although the plan provides transparency over the delivery of 65 projects, it is not clear how the projects link to the achievement of its overall objectives for the sector.

The *Local Government Compliance Framework* was established in 2011. It provides a summary of how the Department aims to ensure a high-level of integrity in the LG sector, structured around 4 key strategies (Figure 2). The compliance framework's pyramid approach is consistent with recognised risk management frameworks, which apply higher levels of intervention and treatments to escalating risks.



Source: OAG and the Department

Figure 2: The Department's compliance framework's pyramid approach, with examples of regulatory and support activities

The Department does not effectively measure its performance in supporting and regulating LG entities

Apart from 3 high-level KPIs the Department has not set measures and targets to assess how well it delivers its regulatory and support functions. This makes it hard for the Department and stakeholders to know how well it is doing and understand operational performance. It also limits informed operational and strategic decision-making.

LG entity regulation involves proactive early intervention and reactive activities including authorised inquiries and investigations in response to minor and serious breach complaints. In the absence of time targets and performance measures, it is hard to assess if these regulatory functions are managed efficiently and effectively.

Key stakeholders WALGA and LG Pro WA have publicly raised concerns regarding the Department's regulation and support of LG entities in submissions to Parliament's recent Select Committee into Local Government.³ Among the issues raised were the Department's ability to respond to issues and the time it takes to complete authorised inquiries. We have

³ WALGA's submission to the 40th Parliament's Select Committee into Local Government dated September 2019 and LG Pro WA's submission to the 40th Parliament's Select Committee into Local Government dated 19 August 2019.

also received several responses through the Have Your Say form on our website indicating concerns about the management of minor breach complaints.

The level of early intervention has reduced as resources were directed to other more reactive activities

Early intervention is an effective and efficient way to prevent breakdowns in governance and help build capability within the sector. We found that the level of early intervention by the Department has reduced in the last few years, in part because resources were directed to minor and serious breaches and authorised inquiries. This indicates that the Department's regulation is becoming more reactive and less preventative.

Between 2015 and 2017, 18 better practice reviews were completed. The Department also previously conducted probity audits at LG entities. We found that no better practice reviews have been conducted since 2017 and no probity audits have been conducted since the 2018-19 financial year.

Better practice reviews and probity audits are important elements of proactive regulation. If these activities are not carried out there is a risk that breakdowns in governance will not be addressed. Early intervention through targeted proactive compliance and capacity building is also likely to be more cost efficient and effective than reactive regulation involving lengthy investigations and authorised inquiries.

The Department advised us that expectation of the levels of support that can be provided need to be considered in the context of resourcing and priorities, specifically much of the Department's support and capacity building resources being applied to the resolution of complaints and minor and serious breaches.

The trends in minor and serious breach complaints and authorised inquiries illustrate the imbalance between preventative and reactive regulatory activities

Increased numbers of complaints and inquiries are both an indicator that standards in LG entity governance may not be being maintained and greater education and support is required. In addition, increased complaints also require a greater proportion of regulatory resources to try and provide timely resolution. This presents the risk of a negative cycle as growing complaints absorb preventative capacity building resources leading to continued higher levels of complaints. There are strong indications that this risk is being realised.

The number of minor breach complaints referred to the LG Standards Panel⁴ has increased significantly since 2017. However, we recognise that the Department has reduced the time it takes to finalise minor breach complaints (Table 1). This is in part because the panel has been meeting more frequently than it did in the past but is also because resources have been diverted from education and support to reactive complaint resolution.

Calendar year	Number of minor breach complaints received	Number of minor breach complaints finalised	Median time taken (days)	Shortest (days)	Longest (days)
2017	62	78	205	37	513
2018	133	68	183	8	280
2019	125	168	156	0	346
2020	154	119	112	0	873

Source: OAG using Department data

Table 1: Number of minor breach complaints received and the length of time to finalise

⁴ The [LG Standards Panel](#) makes binding decisions to resolve allegations of minor misconduct submitted by a LG.

The pattern with serious breach complaints is less clear, but the overall trend is for increasing numbers of complaints and time taken to resolve them. Again, this absorbs increased resources, and reduces the Department's capacity to deliver preventative activity. Table 2 shows how many serious breach complaints were received in the last 4 years and how long it took to finalise investigations.

Calendar year	Number of serious breach complaints received	Number of serious breach complaints finalised	Median time taken (days)	Shortest (days)	Longest (days)
2017	46	34	54	0	197
2018	78	36	109	0	336
2019	36	70	357	0	665
2020	57	59	184	8	736

Source: OAG using Department data

Table 2: Number of serious breach complaints received and the length of time to finalise

The most resource intensive part of complaint resolution are authorised inquiries. The 6 authorised inquiries finalised in the last 2 years took between 13 and 32 months to complete. There are 5 authorised inquiries into LG entities underway that have been ongoing for between 10 and 27 months.

Lengthy authorised inquiries and investigations into minor and serious breach complaints increase the risk that poor governance will continue and generally involve significant costs to the Department and LG entities. We recognise that the time to complete authorised inquiries, and minor and serious breach complaints can depend on the complexity of issues and the need to provide LG entities with time to respond to information requests and recommendations. An example of this is an inquiry under Part 8 Division 1 of the Act where the Department is required to provide LG entities up to 35 days (or longer if the Minister allows) to respond to report recommendations.

However, the Department does not currently have timeliness targets for complaints and inquiries. Setting targets would manage stakeholder expectations and enable the Department to identify the levels of resources it needs to meet its reactive regulatory obligations. In turn this would also allow it to identify the level of resource needed for preventative activities and potentially demonstrate the impact of those activities.

Other regulatory and oversight entities have timeliness targets which measure the time taken to complete investigations. The Department also has targets and performance indicators that measure the time it takes to approve applications processed under delegation from the Minister for Local Government. These include applications under the Act to determine the method of valuation of land to be used by a LG entity as the basis for a rate and for differential general rates.

We have recommended that the Department should clearly define its LG regulation and support objectives, deliverables and targets. This should include robust performance monitoring measures. The Department has advised that the development of a risk analysis tool for the LG sector will help it define objectives, deliverables and targets.

The Department has limited understanding of how effectively its LG support functions build capability within the sector

Support is provided through the LG advisory hotline, guidance documents, and several projects to build capability within the sector. But the Department does not analyse which of these approaches to build capability is effective in supporting and improving good governance in LG. This means the Department and the LG sector do not understand if the level of support provided is adequate.

There are varying perceptions and trends around the Department's effectiveness, some of which were highlighted in WALGA and LG Pro WA's submissions to the recent Select Committee into Local Government. Without good measures and analysis, it is hard for Parliament and other stakeholders to understand if the sector is improving or not.

The Department told us that it must manage expectations about the level of support it provides, as most of its resourcing is used for reactive regulation, resolving complaints and minor and serious breach investigations. It also told us that it intends to reallocate resources towards capacity building in the LG sector once the legislative reform process is completed. At the time of reporting, a new LG Act is expected to be completed in 2021.

Examples of the support the Department provides include:

- guidance, advice, and support on legislative changes through governance bulletins, operational guidelines, and the *WA Local Government Accounting Manual*
- operation of the LG advisory hotline to support LG officers and elected members
- online LG council candidate induction
- attendance at meetings and workshops with WALGA, LG Pro WA and LG entities
- providing administrative support to the WA LG Grants Commission under the *Local Government Grants Act 1978*, the LG Advisory Board and managing the WA State LG Agreement.

The Department also provides funding to support several WALGA and LG Pro WA activities. In 2019-20 these included:

- \$133,250 payment to WALGA to build capability within the LG sector supporting the LG Corporate Partnership Agreement. This helped delivery of key outcomes relating to State Government priorities. The funding supported the promotion of diversity within councils, research, and delivery of capacity building strategies, and the 2019 LG Convention
- \$169,000 to LG Pro WA to improve content and performance of LG integrated planning and reporting. The agreement was increased by an additional \$100,000 in response to COVID-19
- a total of \$104,100 to LG Pro WA to support the Corporate Partnership Agreement and CEO Support Program, Emerging Leader Award and Standardised Chart of Accounts.

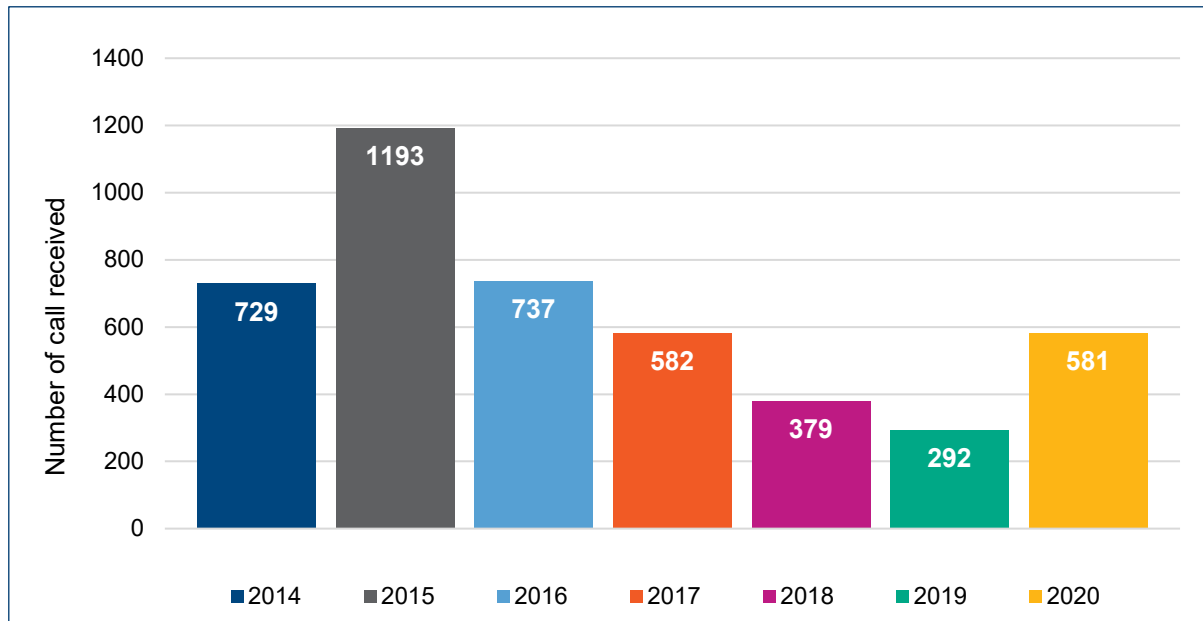
There has been a decrease in the number of calls to the LG advisory hotline, but the Department is not clear if this indicates improved LG capability

There has been an overall decline in the number of calls to the LG advisory hotline. For example, in 2015, the hotline received approximately 4 times as many calls as it did in 2019. There was then an increase in calls in 2020, albeit at a level lower than during 2014-17 (Figure 3).

The overall downward trend in requests for advice and support could reflect improved capability within LG entities, or it could indicate that LG entities believe they can no longer rely on the Department. The Department's Legislative Reform team informed us they also receive calls from LG entities seeking advice, however these calls are not recorded in the hotline register.

We saw no evidence that the Department had sought to identify the reasons for the significant fall in the number of calls received. Understanding the reasons for fewer calls could help improve the support provided.

The Department advised that a sector education and capability building framework is due to be completed by the end of April 2021. This framework will guide the development of sector educational materials and includes a toolkit of proactive strategies (e.g. revised better practice reviews and governance health checks).



Source: OAG using the Department's data

Figure 3: LG advisory hotline calls received 2014 to 2020

Audited KPIs only provide a limited view of the Department's regulation and support activities

The Department's 3 audited KPIs that measure performance against LG business objectives provide high-level insights into operational aspects. Although the Department has discussed future KPIs with our Office and has proposed changes, that the Department believes would provide a more effective measurement of activities and functions, the KPIs need to be supported by robust performance measures and analysis to examine the impact of the Department's LG activities. On their own, the KPIs do not inform where the Department should focus its strategies and resources, and rarely provide sufficient information for sound internal decision-making.

In 2019-20, the Department achieved its target in 2 of the 3 KPIs (Table 3).

KPI	Description	2018-19 actual	2019-20 target	2019-20 actual	Variance 2019-20
Effectiveness Measure LG1	Percentage of LG entities that did not have an action taken against them under the Department's framework	49%	55%	61%	6%
Effectiveness Measure LG2	Percentage of LG entities with integrated planning and reporting plans reviewed	87%	25%	100%	75%
Efficiency Measure 1.1	Average cost per LG entity for regulation and support	\$76,743	\$90,129	\$99,795	\$9,666

Source: OAG

Table 3: The Department's performance against its LG KPIs in 2019-20

We considered what the 3 KPIs reveal about the operational performance of the Department in the context of what we found during this audit.

The first KPI (Effectiveness Measure LG1) provides a high-level indication of how LG entities perform in fulfilling their statutory requirements. This measure is designed to allow the Department to understand how LG entities are performing their governance to fulfil their statutory requirements. The KPI shows that in 2019-20, 61% of LG entities did not have an action taken against them under the Department's regulatory framework. The Department reports that the increase in KPI performance in 2019-20 has been attributed to some compliance actions not being undertaken in 2019-20, as well as an overall decrease in the number of new complaints.

By itself, the KPI provides limited insights into where the Department should focus its resources to build capability in the sector. Other information could be used to inform decision-making. For example, how long the actions took, if LG entities had multiple actions, or if there were common issues within or across LG entities. This information is critical to target proactive regulation and support and build capacity within the sector. This in turn, should contribute to increasing good governance and a fall in the number of minor breach complaints, investigations, and authorised inquiries.

We reviewed the actions that made up the 2019-20 KPI (Effectiveness Measure LG1). In total, 122 actions were taken against 54 LG entities (Table 4). Some LG entities had several different actions taken against them.

Category	Number of actions
Authorised inquiries	9
Serious breach investigations	85
Recurrent breach	3
General non-compliance	14
Offence (non-elected member)	5
Other	6
Total	122

Source: OAG using Department information

Table 4: Actions taken against LG entities in 2019-20

The second KPI (Effectiveness Measure LG2) provides information about the support provided by the Department to review LG entities' integrated planning and reporting plans. This measure allows the Department to assess the level and currency of LG integrated planning. Although the Department reviewed all LG entity plans in 2019-20, there is no evidence that the Department used this review process to inform its approach to regulatory and support strategies for the sector, and we note this KPI provides limited insights into the Department's performance against its regulatory and support strategies.

The third KPI (Efficiency Measure 1.1) assesses the efficiency of the Department's resources. It is calculated by dividing the total cost allocation to regulatory and other services for LG by the total number of WA LG entities.⁵ In 2019-20, the cost was \$9,666 (11%) higher than the target. The Department has attributed this to its continued focus to support and build the capacity of the sector, however the efficiency and effectiveness of delivery of specific actions for the LG sector, and any improvements over time, remains undemonstrated by the Department.

⁵ 137 – the number of WA LG entities used to calculate the cost. It excludes the 2 Indian Ocean Territory LGs and 9 regional LGs.

Appendix 1: The Department's responsibilities to regulate and support LG entities

During our audit, the Department provided us with the following description of its roles and responsibilities to regulate and support LG entities. It is included in this report to help inform the LG sector and other stakeholders.

Area of responsibility	Function	Roles and responsibilities
Administration and management of LG system	Legislative interpretation and advice	<p>Departmental interpretation only (not legal advice) on legislation within the LG portfolio, provided to the Minister, sector stakeholders and the general public, in the form of:</p> <ul style="list-style-type: none"> • responses to telephone, email and written enquiries or complaints • Ministerial briefing notes and draft correspondence • guidelines and other advisory publications • information bulletins and circulars • website content on portfolio legislation • in person seminars and workshops with sector stakeholders • presentations including live and recorded online seminars (webinars). <p>Special support is also provided to the Indian Ocean Territory Shires of Christmas Island and Cocos (Keeling) Islands under a Service Delivery Agreement between the State and Commonwealth Governments.</p>
	Legislative development	<p>Ongoing review and amendment of Acts (and associated regulations) in the LG portfolio, including the following:</p> <ul style="list-style-type: none"> • <i>Local Government Act 1995</i> and <i>Local Government (Miscellaneous Provisions) Act 1960</i> • <i>Local Government Grants Act 1978</i> • <i>City of Perth Act 2016</i> • <i>Caravan Parks and Camping Grounds Act 1995</i> • <i>Cat Act 2011</i> • <i>Cemeteries Act 1986</i> • <i>Control of Vehicles (Off-road Areas) Act 1978</i> • <i>Dog Act 1976</i> (and <i>Dog Amendment Act 2013</i>). <p>The Department is currently in Phase 2 of the review to develop a new LG Act.</p>
	Legislative assistance to LG entities	Assessment of draft local laws, providing advice and assistance on correct drafting, and statutory processes for consultation and gazettal.
	Policy advice	Policy advice provided to the Minister on all portfolio legislation, and proactive engagement with the LG sector to achieve the Act's intent and objectives.
	Data collection and performance reporting	Collation of data from strategic plans for the future prepared under the Act and Local Government (Administration) Regulations 1996, as well as annual budgets, budget reviews and annual financial reports prepared under the Act and Local Government (Financial Management) Regulations 1996.

(Appendix AAR: 8.3C)

Area of responsibility	Function	Roles and responsibilities
		The Department collates this data from its online Smart Hub portal and assesses it for the purposes of advising the Minister on issues of interest or concern. It also uses the information to provide comparative data for LG entities on the MyCouncil website.
	Active role in local government elections	<p>Provision only of a support role in elections, as Part 4 of the Act gives each LG entity direct authority to conduct its own council elections or to engage the Western Australian Electoral Commission to conduct them. Departmental support has traditionally included:</p> <ul style="list-style-type: none"> • telephone, email and written advice on compliance with legislative requirements for the electoral process • presentations at LG entity induction sessions for prospective candidates and newly elected councillors • elections fact sheets and timetables, including information for prospective candidates • promotional publications and website content • CEO support materials, including bulletins and a regularly revised manual for returning officers • Ministerial reports and briefing notes on vacancies, nominations, voter participation and final results.
Investigation and compliance	Compliance audits	<p>Assessment of compliance audit returns lodged on the online Smart Hub portal in accordance with the Local Government (Audit) Regulations 1996, to assess general legislative compliance in the sector.</p> <p>The Department periodically conducts probity audits into individual LG entities. These are not mandated by legislation but are sometimes prompted by ongoing Departmental monitoring of the sector in areas such as legislative compliance and financial management. They can sometimes be requested by the Minister for a particular LG entity, or by the council of a LG entity itself, to assist in achieving good governance.</p>
	Investigation of councils	<p>Under Parts 8 and 9 of the Act, the Minister and Department have authority to inquire into the affairs and performance of LG entities, suspend or dismiss council members, and hold employees accountable for misapplication of LG funds or property. The Minister and Department have power to:</p> <ul style="list-style-type: none"> • order a LG entity, council member, CEO or employee to provide any information concerning the LG entity or its operations or affairs • inquire into any aspect of a LG or its operations or affairs • prosecute for any offence under the Act.
	Support of other (external) review mechanisms	The Department liaises as necessary with, and monitors the findings of, a number of other government agencies including:

(Appendix AAR: 8.3C)

Area of responsibility	Function	Roles and responsibilities
	Advice and implementation on findings from external bodies	<ul style="list-style-type: none"> Western Australian Ombudsman (for complaints regarding LG administrative processes and customer service) Public Sector Commission (for complaints regarding minor misconduct by LG employees) Corruption and Crime Commission (for investigation of serious misconduct by LG elected members or employees) Office of the Auditor General (for issues arising from LG audits and legislative compliance). <p>Findings by these agencies inform the Department in planning sector wide education and, where warranted, Departmental or Ministerial intervention.</p>
	Investigation of council members (including code of conduct complaints)	<p>Departmental jurisdiction over the general conduct of council members derives from the Local Government (Model Code of Conduct) Regulations 2021. Departmental investigative functions include:</p> <ul style="list-style-type: none"> investigation of minor breaches of the Act and enforceable provisions of the Local Government (Model Code of Conduct) Regulations 2021 investigation of recurrent and serious breaches of the Act administrative support for the Minister's Local Government Standards Panel.
	Training and education (sector wide)	<p>Part of the Department's role in assisting with the administration of the Act is to build capacity in the sector. The Department generally facilitates training rather than providing it directly, engaging external providers to provide training sessions and programs on both a metropolitan and regional basis. In the case of elected members, some training is a regulatory requirement, and must be undertaken with approved providers.</p>
	Training and education (individual councils)	<p>Departmental training for individual LG entities tends to target those with identified issues or problems. Depending on the content, external parties may be engaged to provide the service because of relevant expertise in problem areas. The Department also facilitates mentors for LG CEOs as part of the CEO Support Program.</p>
	Direct involvement in council management (e.g. placement of an officer in a council)	<p>The Department does not become directly involved in LG administration, but Departmental officers may work closely with a particular LG entity's elected members and employees when conducting targeted probity audits or better practice reviews.</p>
Grants management	State Local Government Grants Commission	<p>The Department provides administrative support to the Western Australian Grants Commission under the <i>Local Government Grants Act 1978</i> and is also responsible for review or amendment of that legislation.</p>
	Grants to councils	<p>Grants are allocated to LG entities by the Western Australian Grants Commission.</p>

(Appendix AAR: 8.3C)

Area of responsibility	Function	Roles and responsibilities
Functional responsibilities	Administration of other legislation	<p>In addition to statutory approvals (see below), the Department performs administrative functions under other legislation in the LG portfolio including:</p> <ul style="list-style-type: none"> • administrative support when required to the Minister's Caravan Parks and Camping Grounds Advisory Committee - <i>Caravan Parks and Camping Grounds Act 1995</i> • administrative support to the Minister on the constitution and appointment of members to cemetery boards - <i>Cemeteries Act 1986</i> • establishment and closure of off-road vehicle permitted and prohibited areas - <i>Control of Vehicles (Off-road Areas) Act 1978</i> • administrative support when required to the Minister's Off-road Vehicle Advisory Committee - <i>Control of Vehicles (Off-road Areas) Act</i>.
	Statutory approvals	<p>Processing of statutory approvals includes:</p> <ul style="list-style-type: none"> • approvals to reduce requirements for quorums and majority votes at council and committee meetings in particular cases, to allow participation by someone declaring an interest, or to exempt someone from declaring an interest • approvals for LGs to change land valuation methods for rates, or impose certain differential rates or minimum payments • granting of exemptions from rates • revestment of land in the Crown • granting of exemptions from requirements of the Caravan Parks and Camping Grounds Regulations • approvals for burials outside proclaimed cemeteries and orders for exhumations • variations to off-road vehicle registration requirements and approvals for off-road vehicle use outside permitted areas • appointment of authorised officers for off-road vehicle enforcement • approvals for assistance dogs, and appointment of public access test assessors.
Other	Management of council boundaries and representation	<p>The Department provides administrative support to the LG Advisory Board which monitors and makes recommendations to the Minister on LG boundaries, ward structures and representation numbers.</p> <p>It also processes applications for Ministerial approvals for regional LG entities and regional subsidiaries, and amendments to their establishment agreements or charters.</p>
	Management of council information website	<p>The Department maintains the MyCouncil website, which collates data from sources including LG budgets, budget reviews, annual reports and annual financial reports, to provide comparative data for all LG entities in WA.</p>

Source: Department and OAG

Appendix 2: Status of the Department's 2018 internal audit recommendations

The table below provides a status update for the recommendations from the Department's 2018 internal audit of processes and practices for managing LG enforcement, investigations and authorised inquiries. The status was provided by the Department and represents the position in late 2020. The Department has advised us that all outstanding recommendations will be completed by 30 June 2021.

Recommendations	Risk rating	Implementation status
<p>The Department should finalise its draft capacity building and compliance framework, should establish strategic priorities for the compliance function and should use this to establish resourcing requirements and structure. This should include allocating appropriate resources to ensure the Department:</p> <ul style="list-style-type: none"> • has an effective, responsive LG education function that ensures common areas of risk are identified and supported, advice and education is provided to LG entities in those key areas • has an effective sector monitoring and compliance function that proactively monitors CARs (compliance audit returns) and LG financial reporting to identify and report risks of non-compliance • has an effective investigations functions that ensures all investigations and inquiries commence and conclude in a timely manner • should ensure staff members in the Department's compliance function have appropriate training to ensure they have contemporary skills and knowledge to ensure best practice in investigation, monitoring and education. 	Extreme	Open
<p>The Department should review and update existing policies and procedures and should consolidate these into a comprehensive manual for LG legislative compliance, covering all aspects of the compliance framework providing a full policy and procedure guide. This should include the process involved in issuing show-cause notices, including the roles and responsibilities of the Department in pre-assessment prior to decisions being made, collecting evidence to support the case, processes involved during the show-cause notice period, and processes to be followed after the show-cause-notice is issued.</p>	High	Open
<p>The end-to-end policy and procedures should also capture the process for authorised inquiries, including timelines, key stakeholders, escalation processes, evidence gathering, reporting and follow up and enforcement.</p>	High	Closed
<p>The Department should develop a mechanism for rating compliance risks based on data derived from the CAR. This should include allocating a compliance risk rating of high, medium or low which could be used as an input to the LG entity's overall risk assessment. This could be included as a function of the SMART Hub portal used by LG entities to report CAR data.</p>	High	Open
<p>The Department should issue a non-compliance risk rating report or letter to the CEO of the respective LG entities where high or medium</p>	High	Open

(Appendix AAR: 8.3C)

Recommendations	Risk rating	Implementation status
overall risk ratings are established. The Department should also make recommendations to LGs to manage compliance risks.		
The Department should use the risk ratings derived from CARs to escalate compliance risks to complete probity audits, integrity audits and investigations.	High	Open
The Department should monitor CAR data trends to determine the improvements in LG compliance and identify key risk areas.	High	Open
The Department should establish a process for random audits of LG entities to validate CAR data reported by LG entities.	High	Open
The Department should ensure decisions taken whether to investigate complaints are reviewed and endorsed by a second officer before the investigation commences.	High	Open
The Department should promote the need for a formal, agreed information sharing framework with other regulatory bodies including the CCC, WA Police and the OAG.	High	Open
A formal and documented conflict of interest process should be performed for each investigation. This could be incorporated in the investigation database, as part of a mandatory checklist prior to commencement of investigations by the respective investigations officer.	Moderate	Open
The Department should establish achievable target driven KPIs that are aligned to the objectives of the LG compliance function. KPI based performance reporting should be established and this should be regularly reported and reviewed.	Moderate	Open
The Department should ensure investigations are allocated in a timely manner to ensure there are no undue delays in the investigation process. Any investigations that are not allocated in a timely manner should be reported to management.	Moderate	Closed
The Department should also establish a more stringent screening process for complaints made by members of the public. This should include developing criteria for the escalation of complaints to the Manager Sector Governance and the initiation of an investigation.	Moderate	Open
The Department should introduce a mechanism for complainant feedback, including a short survey containing questions asking the complainant to rate the Department's service on a scale of 1-10.	Low	Open
A target timeframe for completion of each investigation should be established within the CRM. Investigations that remain open past that target time frame should be highlighted to management to reassess resourcing requirements for the investigation. Statistics on average hours taken for investigations should be used to inform broader resourcing requirements for the LG compliance function.	Low	Open
The Department should promote a mediation process between the complainant and the LG entities prior to complaint lodgement with the Department. At the end of the mediation process, the complainant would have the option to decide whether to lodge their complaint with the Department.	Low	Closed
Risk rating (defined by the internal audit report) Extreme – immediate management action required. Moderate – management action required. High – urgent management action required. Low – some management action required.		

Source: Department and OAG

Auditor General's 2021-22 reports

Number	Title	Date tabled
20	Opinions on Ministerial Notifications – Policing Information	28 April 2021
19	Opinion on Ministerial Notification – Bennett Brook Disability Justice Centre	8 April 2021
18	Regulation of Consumer Food Safety by the Department of Health	1 April 2021
17	Department of Communities' Administration of Family and Domestic Violence Support Services	11 March 2021
16	Application Controls Audits 2021	8 March 2021
15	Opinions on Ministerial Notifications – Tax and Funding Information Relating to Racing and Wagering Western Australia	26 February 2021
14	Opinion on Ministerial Notification – Hotel Perth Campaign Reports	24 February 2021
13	Opinion on Ministerial Notification – Release of Schedule of Stumpage Rates	24 February 2021
12	Grants Administration	28 January 2021
11	COVID-19 Relief Fund	21 December 2020
10	COVID-19: Status of WA Public Testing Systems	9 December 2020
9	Western Australian Registry System – Application Controls Audit	26 November 2020
8	Regulating Minor Pollutants	26 November 2020
7	Audit Results Report – Annual 2019-20 Financial Audits of State Government Entities	11 November 2020
6	Transparency Report: Major Projects	29 October 2020
5	Transparency Report: Current Status of WA Health's COVID-19 Response Preparedness	24 September 2020
4	Managing the Impact of Plant and Animal Pests: Follow-up	31 August 2020
3	Waste Management – Service Delivery	20 August 2020
2	Opinion on Ministerial Notification – Agriculture Digital Connectivity Report	30 July 2020
1	Working with Children Checks – Managing Compliance	15 July 2020

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Office of the Auditor General for
Western Australia

Western Australian Auditor General's Report



Local Government General Computer Controls



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The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

**Local Government General Computer
Controls**



THE PRESIDENT
LEGISLATIVE COUNCIL

THE SPEAKER
LEGISLATIVE ASSEMBLY

LOCAL GOVERNMENT GENERAL COMPUTER CONTROLS

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

Information systems audits focus on the computer environments of entities to determine if these effectively support the confidentiality, integrity and availability of information they hold.

This is the second local government annual *Information Systems Audit Report* by my Office. The report summarises the results of our 2020 annual cycle of information systems audits across a selection of 50 local government entities.

I wish to acknowledge the entities' staff for their cooperation with this audit.

A handwritten signature in black ink, appearing to read 'C Spencer'.

CAROLINE SPENCER
AUDITOR GENERAL
12 May 2021

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Auditor General's overview

This is the second local government annual *Information Systems Audit Report* by my Office. The report summarises the results of our 2020 annual cycle of information systems audits across a selection of 50 local government (LG) entities.



Information systems underpin most aspects of LG entity operations and services. It is important that entities implement appropriate controls to maintain reliable, secure and resilient information systems. These controls are equally important in smaller LG entities who may not have dedicated IT staff but rely on contractors to provide the necessary support.

In the 11 LG entities where we performed capability maturity assessments, none met our benchmark in all areas, with information security remaining a significant area of concern where no audited entities achieved our minimum capability maturity.

Throughout the report, we have included a number of audit case studies to help highlight the risks associated with weak information system controls. Included in the case studies are real life examples of how extremely poor general computer controls can result in system breaches, loss of sensitive and confidential information and financial loss. They serve as important reminders of the need to remain ever vigilant against constant cyber threats.

While legacy systems can take some time to replace or upgrade, not all controls require expensive technology investments. Well implemented processes and fine-tuning existing practices can achieve a good baseline to build resilience to internal and external threats. Educating staff on cyber risks and periodically testing their responses to simulated threats will give valuable feedback to entity executive and council.

I have chosen to not identify the audited LG entities given the nature of the findings, a custom extended from my Office's similar audits in the State sector. Over time, this practice may change to identify entities so as to provide an incentive to public entities to more promptly address identified control shortcomings.

Introduction

Local government (LG) entities rely on information systems to prepare their financial statements and to deliver important services to the public. Our general computer controls (GCC) audits assess whether LG entities' system controls effectively support the confidentiality, integrity and availability of their information systems and financial reporting. They are performed as an integral part of, and inform, our financial audit program.

This report presents a summary of the findings reported to 50 local government entities in 2019-20. For 11 LG entities we performed capability maturity assessments. A GCC audit with a capability maturity assessment is the most comprehensive information systems audit we undertake. We use the findings to inform our audit risk assessment and work program for the sector.

For our capability maturity assessments, we asked the 11 LG entities to self-assess against the provided capability maturity model. We then compared their results to ours (which were based on the results of our GCC audits). These assessments are a way to see how well-developed and capable entities' established IT controls are.

For the remaining 39 LG entities, the GCCs were examined by contract audit firms or by our financial audit teams who did not undertake the capability maturity modelling. Information system findings identified during these audits are included in this report.

The methodology we have developed for our GCC audits is based on accepted industry good practice. Our assessment is also influenced by various factors including the:

- business objectives of the LG entity
- level of dependence on IT
- technological sophistication of computer systems
- value of information managed by the LG entity.

We focused on the following 6 categories (Figure 1) for both our GCCs and capability assessments.



Source: OAG

Figure 1: GCC categories

Throughout the report we have included real life case studies that illustrate the significant impact poor controls can have on LG entities. All case studies, except case study 7, are from metropolitan LG entities.

Conclusion

LG entities need to improve their general computer controls. We reported 328 control weaknesses to 50 LG entities, with 10% (33) of these rated as significant and 72% (236) as moderate. As these weaknesses could significantly compromise the confidentiality, integrity and availability of information systems, the LG entities should act promptly to resolve them.

Our capability assessment results show that none of the 11 audited LG entities met our expectations across 6 control categories, with 79% of the audit results below our minimum benchmark. We found weaknesses in controls for information security, business continuity, change management, physical security and IT operations. Entities also need to improve how they identify and treat information risks. Five of the entities were also included in last year's in-depth assessment and could have improved their capability by promptly addressing the previous year's audit findings but, overall, did not discernibly do so.

What we found: Capability assessments

We conducted in-depth capability assessments at 11 LG entities, 5 of which were also audited in 2018-19. We used a 0 to 5 rating scale¹ (Figure 2) to evaluate each entity's capability maturity level in each of the GCC categories. The model provides a reference for comparing entity results from year to year. We expect entities to achieve a level 3 (Defined) rating or better across all the categories.



Source: OAG

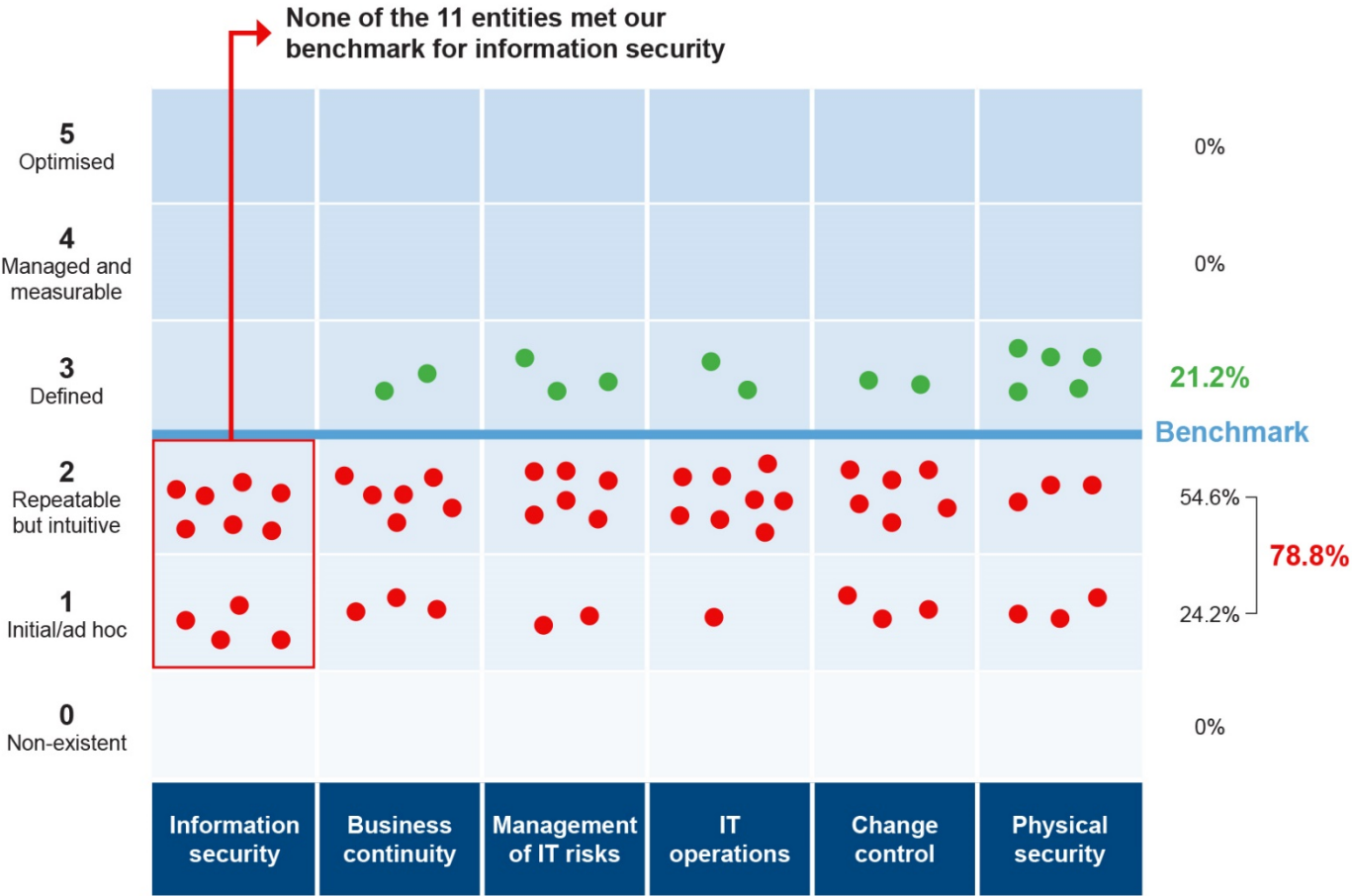
Figure 2: Rating scale and criteria

None of the 11 LG entities met our expectations across all control categories. In the area of information security, all 11 entities were below our benchmark.

Entities did not have adequate controls to effectively manage information security, change management, IT operations, physical security and business continuity. Poor controls in these areas left systems and information vulnerable to misuse and could impact critical services provided to the public. We have included specific case studies that provide more detail where we identified weaknesses in controls that could potentially compromise entities' systems.

Figure 3 shows the results of our capability assessments across all 6 control categories for the 11 entities we assessed in 2019-20.

¹ The information within this maturity model assessment is derived from the criteria defined within COBIT 4.1, released in 2007 by ISACA.



Source: OAG

Figure 3: 2019-20 capability maturity model assessment results

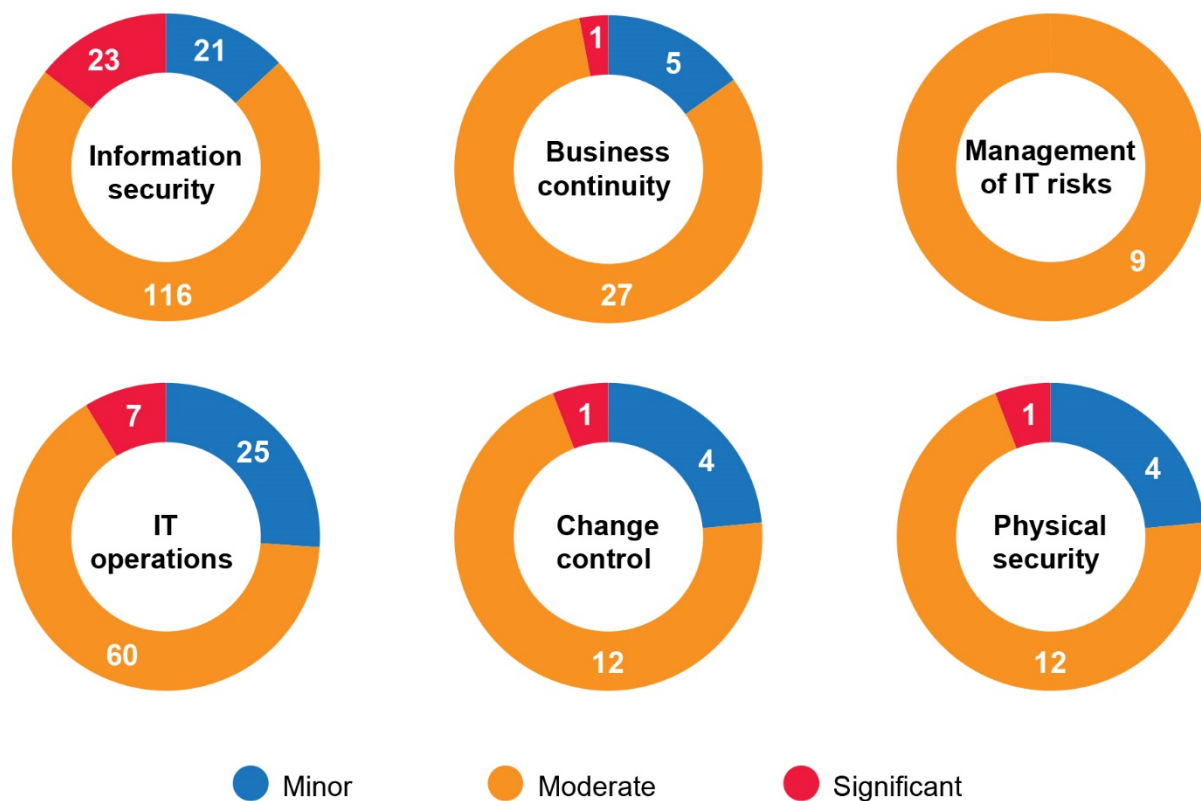
What we found: General computer controls

We reported 328 general control weaknesses to 50 LG entities, with 10% rated as significant requiring prompt action, 72% as moderate which should be addressed as soon as possible, and the remaining 18% as minor. Like last year, nearly half of all issues were about information security.

We reported these weaknesses to LG entities in a management letter. However, as management letters are often made public, we removed sensitive technical details which could increase the risk of cyber-attacks to entities. We reported these details separately through confidential letters to assist entities in addressing weaknesses. Entities generally agreed to implement our recommendations.

Figure 4 summarises the distribution of the significance of our findings across the 6 control categories.

While the majority of our findings are rated as moderate, a combination of these issues can leave entities with more serious exposure to risk.



Source: OAG

Figure 4: Distribution of ratings for GCC findings in each control category we reviewed

Information security

Good information security practices are critical to protect the information held in key financial and operational systems from accidental or deliberate threats and vulnerabilities.

Our GCC audits and capability maturity model include an assessment against better practice controls for information and cyber security. Figure 5 lists some of the important better practice controls for information security.



Source: OAG

Figure 5: Information security – Better practice controls included in our GCC audits

Many entities either lacked or had inadequate information security policies to inform staff of their responsibilities to protect entity information, which also includes the personal information of ratepayers. Staff and contractors were often not given sufficient training to understand the potential risks and threats to entity information. Case study 1 highlights the risks associated with a poor awareness of cyber threats.

Case study 1: Poor awareness and a lack of security controls results in a loss of confidential information

One entity we audited did not have an effective security awareness program to guide and educate staff on cyber and information security risks. A user's account details (username and password) were stolen because of a phishing attack which was not detected or prevented by the entity's security controls. The attack resulted in a fraudulent credit card transaction on the user's corporate credit card, which was immediately cancelled. Further investigation by the entity revealed the attacker downloaded 10GB of entity information in the form of sensitive emails.

If effective controls are not in place to detect and prevent attacks, this could result in loss of sensitive and confidential information. Along with technical controls, staff education and awareness are important to combat these threats. Without ongoing information security awareness training there is an increased risk that individuals will not understand the risks to the entity and their responsibilities to protect information. This may result in inappropriate actions which could compromise the confidentiality, integrity and availability of information.

Another common weakness was that entities did not have policies, procedures and processes to effectively manage technical vulnerabilities. Our vulnerability scans of key entity systems identified a range of critical and high severity vulnerabilities which had not been patched. These vulnerabilities can be exploited by malicious attackers to compromise entity systems.

Network segregation adds a layer of security to protect systems from cyber intrusions. It is most common to separate internal networks from external-facing systems. The network is divided into smaller zones with rules to restrict communication between areas and services. This strategy limits the impact of cyber intrusions by restricting attackers' ability to discover critical systems and gain access to sensitive information. We found many entities did not appropriately segregate their network, which makes it easier for an attacker to locate and access sensitive information once the network is compromised.

Case study 2 highlights the risks to information when networks aren't segregated.

Case study 2: Network security issues increase the risk of successful cyber attacks

One entity had not segregated its internet facing systems from the internal network. There was insufficient physical or logical segregation of its internal and external network. This meant that public facing and internal systems sat in the same network which is a serious situation.

Internet facing systems are under constant cyber threats, the current network design would allow a potential attacker or malicious software application (i.e. malware) full access to the network once the perimeter is breached. It would be difficult for the entity to contain any breach because communication between network segments was not controlled.

We also found that the entity did not have adequate controls in place to prevent or detect the use of unauthorised devices on the network. There is an increased risk that

unauthorised devices could be used to attack internal systems or could result in the spread of malware to the entity's network and systems.

Multi-factor authentication (MFA) adds a layer of security to protect systems from unauthorised access. We found many entities did not have MFA for remote access to their network and allowed access with a username and password only (Case study 3). This leaves entities at risk of attacks such as phishing and password spraying.²

Case study 3: Information at risk due to poor remote access controls

At 1 entity we found the following issues relating to remote access into the network:

- MFA was not used to access the network and systems remotely over the virtual private network (VPN) and remote desktop services (RDS). MFA adds a layer of security to protect systems from unauthorised access and brute force attacks.
- There were no audit trails to detect whether staff working remotely had copied entity information to personal devices increasing the risk of information loss.

When remote access is not appropriately managed, there is an increased risk of inappropriate or unauthorised access to the entity's IT systems and information. In addition, without controls to prevent or monitor information copied to personal devices, there is an increased risk of unintentional or inappropriate disclosure of critical information.

We found many entities were not managing privileged access to their networks and systems. There were many instances where large numbers of staff were given the highest level of access privilege, allowing them to make changes to system configuration and information.

At several entities the highly privileged default administrator account had not been renamed and the password not changed for many years, even after staff turnover. When such an account gets compromised it can give an authorised user or malicious attacker complete control of the network.

Case study 4: Privileged access rights are not appropriately restricted and controlled

At 1 entity the allocation and use of privileged access rights to the network (active directory) were not appropriately restricted and controlled.

The entity had not changed the password for the default network administrator account since 2002, even though a number of IT staff who knew the password had left. We found instances where this account was used out of office hours and the entity was unable to explain this use.

We also found individuals assigned with the highest level of privileges which, were not appropriate for their role and responsibilities.

Without appropriate management of privileged access there is an increased risk that unauthorised or unintentional modifications of IT systems will occur. This could impact the confidentiality, integrity and availability of the entity's systems and information.

² Password spraying is a technique where cybercriminals try common passwords on user accounts to gain unauthorised access to systems. Each password is used on multiple accounts before attempting the next password.

Cybercriminals frequently use email scams to compromise entity system and information. Therefore, it is vital for entities to secure their email systems by implementing controls to check the integrity and authenticity of the emails (Case study 5).

Case study 5: Inadequate controls to secure emails and business information

At 1 entity we found there were inadequate controls to check the integrity and authenticity of emails. This means malicious users could impersonate genuine individuals to gain unauthorised access to systems and information. Without appropriate controls to secure emails the entity is at increased risk of successful cyber-attacks

The entity also did not monitor the use of public cloud storage as staff were using many different cloud storage services to share entity's business information. This puts the entity's sensitive information at risk.

Business continuity

Good continuity planning helps ensure that key business functions and processes are restored promptly after a disruption. Business continuity and disaster recovery plans should be regularly tested. This minimises the risk of extended outages which could disrupt the delivery of important services.

Weaknesses we found included:

- entities did not have up-to-date business continuity and disaster recovery arrangements in place. While many had developed continuity plans in response to COVID-19, they only covered the pandemic
- entities that did have continuity plans did not regularly test them.

An up-to-date business continuity plan, disaster recovery plan and incident response plan play a crucial part in enabling the entity to operate during a disruption and restore business services timely.

Management of IT risks

Entities should be aware of the nature of risks associated with IT and have appropriate risk management policies and practices in place such as risk assessments, registers and treatment plans.

Weaknesses we found included:

- no policies and procedures to document, assess, review and report IT risks
- key risks were not documented. This meant entities were unaware if appropriate controls were in place to protect their information
- entities had not reviewed their risk registers within a reasonable time.

Without appropriate IT risk policies and practices, threats may not be identified and treated within reasonable timeframes. When risks are not identified and treated properly, entities may not meet their business objectives.

IT operations

IT operations include day-to-day tasks designed to keep services running, while maintaining data integrity and the resilience of IT infrastructure. We tested whether entities had formalised procedures and monitoring controls to ensure processes were working as intended.

Weaknesses we found included:

- a lack of user access reviews. Regular review of access ensures that only current authorised individuals have access to networks and key systems and the privileges assigned are appropriate for the tasks they perform
- no logging of user access and activity to key systems and sensitive information. This could result in malicious activity going undetected
- network logs not kept for adequate duration
- a lack of incident management procedures
- IT staff were not required to complete a background check (e.g. police clearance). These staff had highly privileged access to the entities IT systems and information.

Without appropriate plans and supporting procedures, IT operations may not be able to respond to business needs and recover from errors or failures.

The following case study highlights the risk to entities when user access is not appropriately controlled and monitored.

Case study 6: Shared generic accounts increase the risk of fraud

At 1 entity, staff could redirect payments for council rates, infringements, licence and application fees to another bank account by changing a file hosted on a shared server. Access to the server was not appropriately controlled because staff used a shared generic account to access and manage the server. This issue was further compounded because changes to the file and user activity were not logged and monitored. This meant that it would be difficult for the entity to identify and hold someone accountable, in the event of a fraudulent change.

Change control

We reviewed whether changes to IT systems were authorised, tested, implemented and recorded in line with management's intentions.

Weaknesses we found included:

- a lack of appropriate policies and procedures to implement changes
- change procedures were applied inconsistently
- a critical system was not covered by change procedures.

If changes are not controlled, they can compromise the integrity and availability of systems. As a result, systems will not process information as intended and entities' operations and services may be disrupted.

An overarching change control framework is essential to ensuring changes are made consistently, reliably and efficiently. When examining change control, we expect entities to be following their approved change management procedures.

The following case study highlights the risk to entities when changes are not controlled and monitored.

Case study 7: Poor monitoring of user activity and changes could result in incorrect rate statements

We discovered an instance where unauthorised changes were made to property valuations used to calculate rates. This resulted in the LG entity spending additional time and resources to identify the discrepancies and to ensure rate statements being issued for 2020-21 were correct. The entity had not implemented a process to regularly review audit logs to identify unauthorised changes made to rates, despite us raising this issue with them in 2 previous audits.

Without independent reviews of system and information changes, there is an increased risk of financial loss to the entity or incorrect fees being charged to customers because of erroneous or fraudulent data entry.

Physical security

We examined if IT systems were protected against environmental hazards and related damage. We also reviewed if entities had implemented and monitored physical access restrictions to ensure that only authorised individuals had the ability to access or use computer systems located at entity premises.

Weaknesses we found included:

- a lack of policies and appropriate environmental controls to protect IT infrastructure. This could result in system damage or malfunction due to heat or humidity and service outages
- no reviews of staff and contractors' access to server rooms. This increases the risk of unauthorised access to systems and information
- no backup power to maintain systems in case of power outage, increasing the risk of service outages.

Case study 8: Server rooms not well protected

One entity did not have an effective process to review who had access to the server room. We sampled 3 visitor access cards and found all allowed access to the building and server room. This had previously been identified by internal audit and entity management thought the issue had been resolved, but it had not been at the time of our audit. In addition, we found combustible materials such as non-essential equipment and cardboard boxes in the server room. Server rooms should be independent, restricted access rooms.

Recommendations

1. Information security

To ensure security strategies align with, and support, business objectives senior executives should implement appropriate frameworks and management structures.

Management should ensure good security policies and practices are implemented for all control areas identified in figure 5 and continuously monitored.

2. Business continuity

LG entities should have an appropriate business continuity plan, disaster recovery plan and incident response plan to protect critical services and systems from disruptive events. These plans should be tested on a periodic basis to ensure unexpected events do not affect business operations.

3. Management of IT risks

LG entities need to identify threats and risks to their operations arising from information technology. These should be assessed and treated within appropriate timeframes. These practices should become a core part of business activities and have executive oversight.

4. IT operations

LG entities should use good practice standards and frameworks as a reference to implement good controls for IT operations. Entities should have appropriate policies and procedures in place to manage incidents, IT risks, information security and business continuity.

Additionally, entities should ensure IT strategic plans and objectives support their overall business strategies and objectives.

5. Change control

Change control processes should be well developed and consistently followed when applying patches, updating or changing computer systems. All changes should be subject to thorough planning and impact assessment to minimise the occurrence of problems. Change control documentation should be current, and approved changes formally tracked.

6. Physical security

LG entities should develop and implement physical and environmental control mechanisms to prevent unauthorised access or accidental or environmental damage to computing infrastructure and systems.

Under section 7.12A of the *Local Government Act 1995*, the 50 audited entities are required to prepare an action plan addressing significant matters relevant to their entity for submission to the Minister for Local Government within 3 months of this report being tabled in Parliament and for publication on the entity's website. This action plan should address the points above, to the extent that they are relevant to their entity.

Auditor General's 2021-22 reports

Number	Title	Date tabled
22	Opinion on Ministerial Notification – Hospital Facilities Services	6 May 2021
21	Regulation and Support of the Local Government Sector	30 April 2021
20	Opinions on Ministerial Notifications – Policing Information	28 April 2021
19	Opinion on Ministerial Notification – Bennett Brook Disability Justice Centre	8 April 2021
18	Regulation of Consumer Food Safety by the Department of Health	1 April 2021
17	Department of Communities' Administration of Family and Domestic Violence Support Services	11 March 2021
16	Application Controls Audits 2021	8 March 2021
15	Opinions on Ministerial Notifications – Tax and Funding Information Relating to Racing and Wagering Western Australia	26 February 2021
14	Opinion on Ministerial Notification – Hotel Perth Campaign Reports	24 February 2021
13	Opinion on Ministerial Notification – Release of Schedule of Stumpage Rates	24 February 2021
12	Grants Administration	28 January 2021
11	COVID-19 Relief Fund	21 December 2020
10	COVID-19: Status of WA Public Testing Systems	9 December 2020
9	Western Australian Registry System – Application Controls Audit	26 November 2020
8	Regulating Minor Pollutants	26 November 2020
7	Audit Results Report – Annual 2019-20 Financial Audits of State Government Entities	11 November 2020
6	Transparency Report: Major Projects	29 October 2020
5	Transparency Report: Current Status of WA Health's COVID-19 Response Preparedness	24 September 2020
4	Managing the Impact of Plant and Animal Pests: Follow-up	31 August 2020
3	Waste Management – Service Delivery	20 August 2020
2	Opinion on Ministerial Notification – Agriculture Digital Connectivity Report	30 July 2020
1	Working with Children Checks – Managing Compliance	15 July 2020

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Office of the Auditor General for
Western Australia

(Appendix AAR: 8.3E)[Subscribe](#)[Past Issues](#)[Tr](#)[View this email in your browser](#)

Regulation and Support of the Local Government Sector report tabled.

Dear members,

LG Professionals WA welcomes the recently tabled [OAG audit report](#) which assessed whether the Department of Local Government, Sport and Cultural Industries effectively regulates and supports the local government sector. The report highlighted issues LG Professionals WA have observed and advocated for in recent years; particularly in relation to the need for the Department to have a more structured and proactive approach in its support to the sector as well as the timeframe and immediacy of interventions.

The report recommends the Department:

- review how it gathers, records and reports information to maintain an up to date LG sector risk assessment;
- target its regulation and support activities to areas of highest risk, with regard to the potential benefits to improved outcomes across the LG sector; and
- clearly define its LG regulation and support objectives, deliverables, and targets. This should include robust performance monitoring measures and reporting that are communicated to staff, LG entities and other key stakeholders.

Whilst LG Professionals WA support and agree with these high level recommendations, we consider the issues around the Department's resourcing as well as knowledge and insights of the sector remain to be key attributing factors to the findings identified in this report.

As supported by our [Advocacy and Policy Platform](#), LG Professionals WA will continue to work with the Department and the Minister for Local Government to address these concerns. Early indications in our liaison with Minister Carey and Executive Director of Local Government at the Department has been positive.

(Appendix AAR: 8.3E)

I encourage members to contact the LG Professionals WA's office to express any concerns and/or improvements they have experienced with the Department – your feedback is highly valuable in assisting LG Professionals WA to advocate for a better support system for the local government sector.

Jamie Parry FLGP
State President

View the OAG Report

View Our Advocacy Platform



Like us on Facebook



Visit our Website

Kind Regards

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RISK ASSESSMENT TOOL								
OVERALL RISK EVENT: Credit Card Fraudulent Activity RISK THEME PROFILE: 9 - External Theft and Fraud (including Cyber Crime) Choose an item. 15 - Supplier and Contract Management RISK ASSESSMENT CONTEXT: Operational								
CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATMENT OR CONTROL		
		CONSEQUENCE	LIKELIHOOD	INHERENT RISK RATING		CONSEQUENCE	LIKELIHOOD	RESIDUAL RISK RATING
HEALTH	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required	Not required.	Not required.	Not required.
FINANCIAL IMPACT	Potential for Council to incur additional fraudulent transactions on Council issued credit card/s.	Minor (2)	Almost Certain (5)	Moderate (5 - 11)	Not required.	Not required.	Not required.	Not required.
SERVICE INTERRUPTION	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
LEGAL AND COMPLIANCE	If undetected or not actioned, Council could be liable for incurring expenditure for fraudulent transactions and/or unbudgeted expenditure. Failure to act may also result in delay of refund by banking supplier.	Minor (2)	Almost Certain (5)	Moderate (5 - 11)	Not required.	Minor (2)	Unlikely (2)	Low (1 - 4)
REPUTATIONAL	Risk of Council's reputation being viewed negatively for being exposed to credit card fraudulent scams.	Minor (2)	Unlikely (2)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
ENVIRONMENT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.



Our Ref: 8658

Mr Andre Schonfeldt
Chief Executive Officer
Shire of Dardanup

By email: ceo@dardanup.wa.gov.au
Cc: Michael Bennett, email: michael.bennett@dardanup.wa.gov.au

(Appendix AAR: 8.5A)



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Dear Mr Schonfeldt

AUDIT FIRM APPROVED FOR AUDIT OF SHIRE OF DARDANUP ANNUAL FINANCIAL REPORT

Recently, my Office invited competitive proposals from accredited audit firms for the provision of professional services to conduct the annual financial audit of your local government on my behalf. I am pleased to advise that I have appointed Moore Australia (WA) to conduct your annual financial audit for a 3 year period, commencing with the audit for the year ended 30 June 2021.

All Auditors General across Australia outsource a certain percentage of their audits to private firms. My Office currently outsources approximately 85% of local government sector financial audits and 65% of State sector financial audits. This brings many benefits to my Office and auditees including access to specialist knowledge and surge capacity to complete and report on all public sector audits in a timely manner. As you would be aware, my Office retains an active role in quality control and engagement throughout the audit process, and reports at a whole-of-sector level to the Parliament, community and other stakeholders.

Please note that under the contract between the Auditor General and the contracted auditor, Moore Australia (WA) may not seek or undertake any other work for your local government during the term of the contract without my prior written consent. Any approval for other services would generally be limited to other assurance services commonly provided by an auditor, such as grant acquittal certification. Audit firms could not, for example, discharge or deliver financial management functions, as these services cause a self-review threat to the independence of the auditor.

My Office will write again shortly to advise you of your local government's indicative audit fee. This fee is calculated to cost-recover my Office's expenses in audit delivery, and includes OAG staff hours on the audit plus any directly related costs such as contract fees and travel expenses. Local government entities that we have audited in the first 3 years of transition have generally found our audit fees to be higher than they had paid previously. This is primarily because our financial audits are much broader in scope than was previously received by most local government entities, and we do not provide other services that may subsidise the audit fee. In addition to giving assurance on your local government's annual financial report, the audit will also provide greater transparency about financial controls, probity and governance matters, and enables our whole-of-sector parliamentary reporting and stakeholder liaison across the sector.

(Appendix AAR: 8.5A)

We look forward to working with you to promote accountability and transparency in the local government sector for the benefit of the community we jointly serve.

The contracted auditor will report to Suraj Karki. Please feel free to contact Suraj Karki on 6557 7551 or suraj.karki@audit.wa.gov.au should you wish to discuss any matter in relation to your audit.

Yours sincerely

A handwritten signature in black ink, appearing to read 'C Spencer', written in a cursive style.

CAROLINE SPENCER
AUDITOR GENERAL
19 April 2021

RISK ASSESSMENT TOOL

OVERALL RISK EVENT: Appointment of Auditors

RISK THEME PROFILE:

Choose an item.

3 - Failure to Fulfil Compliance Requirements (Statutory, Regulatory)

Choose an item.

Choose an item.

RISK ASSESSMENT CONTEXT: Operational

CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATMENT OR CONTROL		
		CONSEQUENCE	LIKELIHOOD	INHERENT RISK RATING		CONSEQUENCE	LIKELIHOOD	RESIDUAL RISK RATING
HEALTH	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
FINANCIAL IMPACT	Risk that the Appointment of Auditors is not endorsed by Council may result in the audit contract budget provision being under or over budget.	Minor (2)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
SERVICE INTERRUPTION	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
LEGAL AND COMPLIANCE	Risk of Council breaching the Local Government Act 1995 if no annual audit is undertaken. However the appointment of audit contract is now under the Office of the Auditor General control. <i>Council no longer awards a tender contract for Audit Services as changes in legislation mandates that audit services are no longer under Councils control; the Office of the Auditor General is to provide for the auditing</i>	Minor (2)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.

(Appendix AAR:8.5B)

CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATMENT OR CONTROL		
		CONSEQUENCE	LIKELIHOOD	INHERENT RISK RATING		CONSEQUENCE	LIKELIHOOD	RESIDUAL RISK RATING
	<i>of local governments in Western Australia.</i>							
REPUTATIONAL	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
ENVIRONMENT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required	Not required.	Not required.	Choose an item.

RISK ASSESSMENT TOOL								
OVERALL RISK EVENT: Audit Entrance Meeting RISK THEME PROFILE: 3 - Failure to Fulfil Compliance Requirements (Statutory, Regulatory) Choose an item. Choose an item. Choose an item. RISK ASSESSMENT CONTEXT: Operational								
CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATMENT OR CONTROL		
		CONSEQUENCE	LIKELIHOOD	INHERENT RISK RATING		CONSEQUENCE	LIKELIHOOD	RESIDUAL RISK RATING
HEALTH	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
FINANCIAL IMPACT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
SERVICE INTERRUPTION	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
LEGAL AND COMPLIANCE	Risk that Council is non-compliant in providing information as requested by the Office of the Auditor General, as detailed in the Responsibilities of the Audit.	Minor (2)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
REPUTATIONAL	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
ENVIRONMENT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required	Not required.	Not required.	Not required.

RISK ASSESSMENT TOOL								
OVERALL RISK EVENT: Title: Update on Cyber Check Me RISK THEME PROFILE: 11 - IT, Communication Systems and Infrastructure Choose an item. Choose an item. Choose an item. RISK ASSESSMENT CONTEXT: Operational								
CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATMENT OR CONTROL		
		CONSEQUENCE	LIKELIHOOD	INHERENT RISK RATING		CONSEQUENCE	LIKELIHOOD	RESIDUAL RISK RATING
HEALTH	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
FINANCIAL IMPACT	CyberCheck.me may require shire to fund the initiative.	Insignificant (1)	Unlikely (2)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
SERVICE INTERRUPTION	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
LEGAL AND COMPLIANCE	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
REPUTATIONAL	Cybersecurity is a growing risk and not embracing new initiatives may impact the reputation of the Shire.	Minor (2)	Unlikely (2)	N/A	Not required.	Not required.	Not required.	Not required.
ENVIRONMENT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.

RISK ASSESSMENT TOOL								
OVERALL RISK EVENT: Interim Audit Update RISK THEME PROFILE: 3 - Failure to Fulfil Compliance Requirements (Statutory, Regulatory) Choose an item. Choose an item. Choose an item. RISK ASSESSMENT CONTEXT: Operational								
CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATMENT OR CONTROL		
		CONSEQUENCE	LIKELIHOOD	INHERENT RISK RATING		CONSEQUENCE	LIKELIHOOD	RESIDUAL RISK RATING
HEALTH	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
FINANCIAL IMPACT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
SERVICE INTERRUPTION	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
LEGAL AND COMPLIANCE	Risk that Council is non-compliant in providing information as requested by the Office of the Auditor General, as detailed in the Responsibilities of the Audit.	Minor (2)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
REPUTATIONAL	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
ENVIRONMENT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required	Not required.	Not required.	Not required.

