



APPENDICES

AUDIT & RISK COMMITTEE MEETING

To Be Held

Wednesday, 18th September 2024
Commencing at 2.00pm

At

Shire of Dardanup
ADMINISTRATION CENTRE EATON
1 Council Drive - EATON

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RISK ASSESSMENT TOOL

OVERALL RISK EVENT: Update Report – 2023/2024 Regulation 17 Review

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 <i>Local Government (Audit) Regulations 1996</i> , 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.
PROPERTY	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

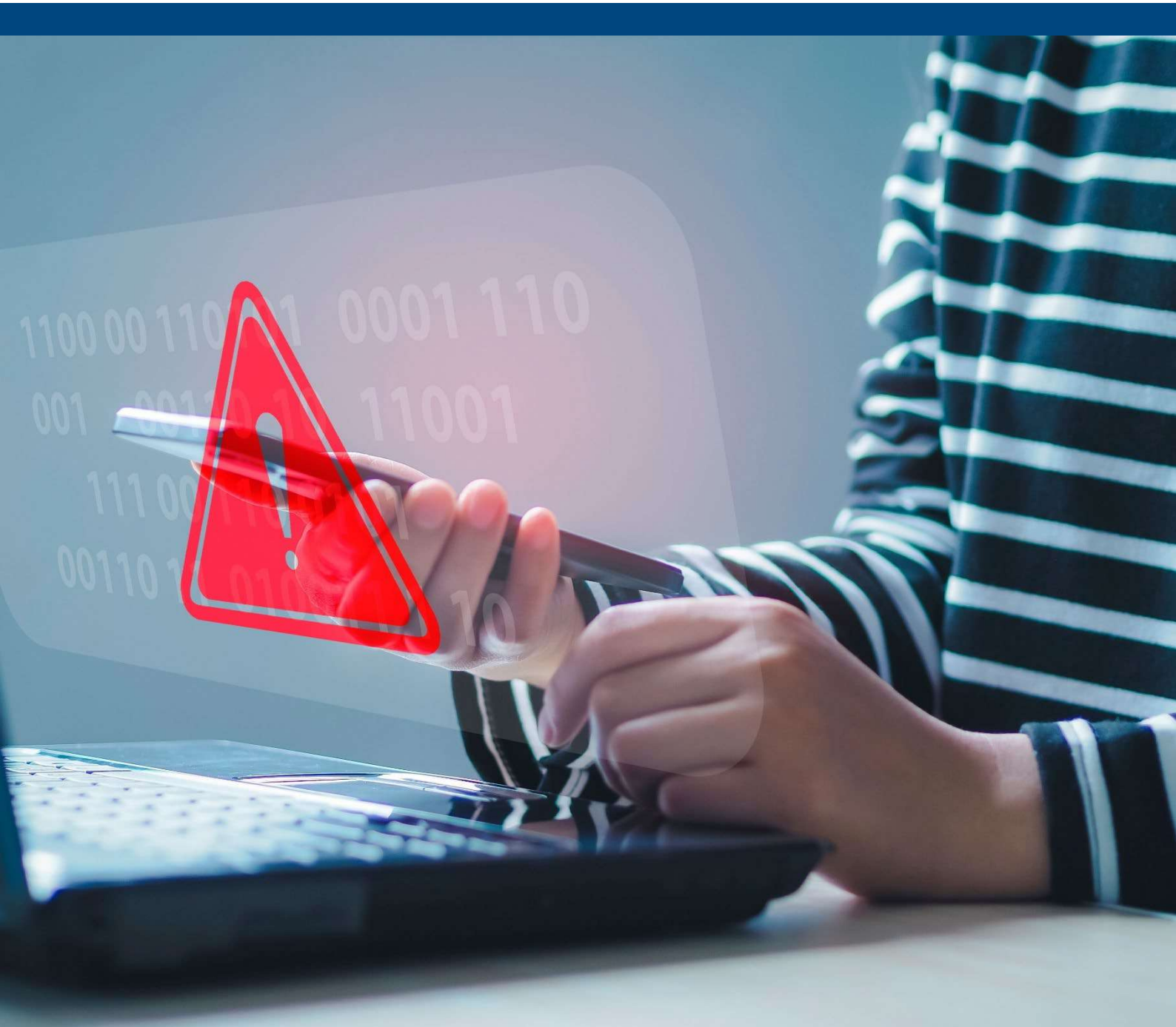
CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATMENT OR CONTROL		
		CONSEQUENCE	LIKELIHOOD	INHERENT RISK RATING		CONSEQUENCE	LIKELIHOOD	RESIDUAL RISK RATING
HEALTH	No risk event identified for this category.	Not Required - No 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.
PROPERTY	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.



Report 17: 2023-24 | 31 May 2024

PERFORMANCE AUDIT

Local Government IT Disaster Recovery Planning



**Office of the Auditor General
for Western Australia**

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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 IT Disaster Recovery
Planning**

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**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

LOCAL GOVERNMENT IT DISASTER RECOVERY PLANNING

This report has been prepared for submission to Parliament under the provisions of sections 24 and 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 six non-metropolitan local government entities of varying sizes effectively plan and test their ability to recover their information technology systems following a disaster.

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

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

Caroline Spencer
Auditor General
31 May 2024

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Auditor General's overview

Local government entities, like other public sector organisations, rely heavily on information technology (IT) systems to operate and deliver a vast range of services to their communities. This makes it increasingly important for all entities, regardless of their size, to have planned their response to disruptions such as cyber attacks and natural disasters.



My Office's previous information systems audits have consistently found issues with local government disaster recovery planning¹. This audit was an opportunity to delve a little deeper into entities' preparedness. Encouragingly, all the entities we audited were aware of the importance of disaster recovery planning to recover their IT systems and most had developed plans. However, none were fully prepared.

Further, as all the entities we audited relied on third party vendors to manage and recover their IT systems, it is important that vendor service agreements clearly define what is to be delivered.

I encourage entities to use the better practice principles we have included in this report to improve disaster recovery planning across the local government sector. Timely recovery of IT systems after a disaster can reduce financial and reputational losses, and minimise delays in delivering services to the public.

¹ Office of the Auditor General, [Local Government 2022-23 – Information Systems Audit Results](#), OAG, 27 May 2024, accessed 28 May 2024.

Executive summary

Introduction

This audit assessed whether six non-metropolitan local government entities of varying sizes effectively plan and test their ability to recover their information technology (IT) systems following a disaster.

We have anonymised findings throughout this report to not compromise the security and continuity of systems and information at the entities. Detailed findings were provided to each entity.

Background

There are 147 local government entities in WA who provide key services and facilities to their communities. This may include waste management, road repair or broader services such as administration of marinas, cemeteries, airports, medical centres and retirement homes. All entities depend to some degree on functioning IT systems. These systems can be disrupted by disasters such as damage to equipment, cyber attacks, fire or flood. Any such disruption may impact an entity's ability to provide its services.

Entities can best prepare themselves to deal with the impact of a disaster on their systems through the process of IT disaster recovery planning. Good planning should consider several elements, including how and when the plan should be activated, who is responsible, and a clear description of recovery procedures (Appendix 1). These steps are typically captured in a disaster recovery plan (DRP). DRPs generally focus on major disruptions and are not concerned with minor issues such as system glitches or brief losses of communications that occur as part of normal day-to-day operations.

Conclusion

None of the audited entities were ready to recover their IT systems following a disaster as they had not effectively planned or tested their DRPs. All acknowledged the importance of disaster recovery planning and most had developed DRPs. However, only one DRP was adequate and none had tested if their plans would work. Appropriate planning and testing help reduce the likelihood of prolonged system outages that can disrupt business operations, the delivery of services to the community, and be costly to fix.

All the audited entities used third party vendors to manage and recover their IT systems. However, none had adequate service agreements in place. The agreements did not clearly define entities' recovery expectations or vendors' obligations to prepare and test plans. In one case, the entity did not have a formal arrangement in place and relied on a verbal understanding. Clear and appropriate service agreements help ensure vendors understand an entity's needs and will prepare for and respond to a disaster as expected.

Findings

Entities did not appropriately document how they plan to recover their IT systems

Most entities did not fully document how they will respond to a disaster. Five entities developed DRPs, but only one of these included enough information to be effective. The others were missing key elements, such as:

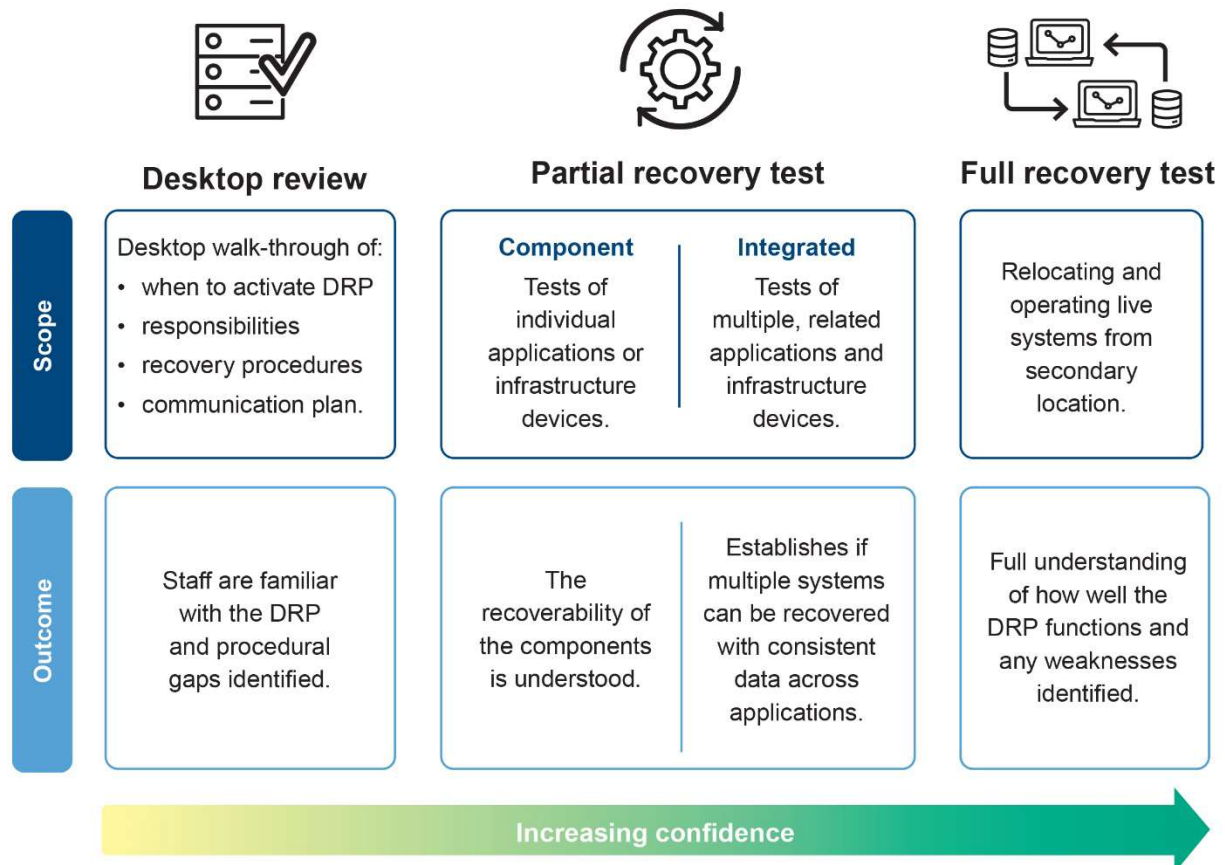
- roles and responsibilities
- when and how to activate the plan
- recovery objectives aligned to entity needs
- which business systems are most important, the associated IT systems and the order in which they need to be restored
- detailed recovery steps.

One entity did not document how it planned to recover its IT systems at all. Entities were aware of the need to recover their IT systems and all had developed high-level business continuity plans which included a requirement to recover IT systems. However, these plans did not have enough detailed information to help manage IT disasters and fully recover key systems. Disasters are inherently disruptive, stressful and unusual situations. If entities do not have a clear, documented plan, they may not be able to respond effectively and restore systems to provide needed services to the community.

Entities did not know if their plans would work as expected

The five entities with DRPs did not test if these plans would successfully recover IT systems and information to meet business needs. As part of day-to-day operations, all had restored individual data files from their backups. However, they had not tested if full IT systems recovery was possible or if recovered data was consistent across applications. Without periodic testing of system recovery, entities cannot be confident their recovery plans and the steps they contain are achievable, up-to-date and effective.

Entities did not determine the nature and frequency of the testing they needed. For example, testing can range from desktop exercises to the recovery of full systems and may include part or all of the DRP (Figure 1). As testing comes at a cost, can be disruptive to entity operations and can lead to accidental outages, entities need to determine the combination of levels of testing most appropriate for their business.

Source: OAG based on ISO/IEC 27031:2011²**Figure 1: Levels of disaster recovery testing**

Service agreements with IT vendors were not adequate

Entities' agreements with IT vendors were not detailed enough to deal with disasters. All the entities relied on IT vendors to participate in disaster recovery planning and testing and to respond in case of disasters. Five had service agreements in place but these were missing all or some of the following:

- a clear description of the disaster recovery service required
- where the disaster recovery services are to be provided
- a description of the hardware required and delivery timeframes
- a clear requirement for the vendor to participate in disaster recovery planning
- how vendors are involved in testing (nature and frequency)
- timeframes for recovering from a disaster
- processes for monitoring, tracking and evaluating vendor performance
- recourse if expectations are not met.

² International Organization for Standardization and the International Electrotechnical Commission, [ISO/IEC 27031:2011 Information technology — Security techniques — Guidelines for information and communication technology readiness for business continuity](#), ISO, 2011.

One entity only had a verbal understanding with its IT vendor. In response to the audit, the entity started developing a written agreement. If entities do not have clear and detailed agreements with their vendors, there may be misunderstandings about the service to be supplied. This could impact entities' ability to prepare for a disaster and prolong the restoration of IT systems after an event.

Case study 1: Inadequate service agreement could delay recovery

One entity had a single physical server running its IT systems. If a disaster damages this server, the entity's DRP requires the IT vendor to provide a replacement within 48 hours. However, the agreement with the vendor did not include the 48-hour timeframe nor outline hardware specifications for the replacement.

If the hardware requirements are not clearly stated, the vendor may not be able to deliver appropriate equipment in the required timeframe. This may prolong the entity's reliance on manual processes and increase the time needed to enter the backlog of information after restoration.

Recommendations

The six audited local government entities should:

1. assess their recovery requirements and appropriately document detailed disaster recovery plans. Consideration should be given to key elements as outlined in Appendix 1
2. periodically test their recovery plans, to verify that key IT systems and information can be restored in line with entity expectations
3. review and update their IT vendor service agreements to include obligations for disaster recovery planning, testing and response. Any recourse if services are not met should also be documented.

In accordance with section 7.12A of the *Local Government Act 1995*, the six audited local government entities should prepare a report on any matters identified as significant to them for submission to the Minister for Local Government within three months of this report being tabled in Parliament, and within 14 days of submission publish it on their website.

Response from the audited local government entities

Audited entities generally accepted the recommendations and confirmed that where relevant, they have amended plans and procedures or will improve practices for effective disaster recovery planning.

Audit focus and scope

This audit assessed whether six non-metropolitan local government entities of varying sizes across WA had effective plans to manage IT disruptions.

Our criteria were:

- Are plans aligned to current business needs?
- Are plans tested to verify effectiveness and continuous improvements?

We visited each entity and:

- reviewed their policies and procedures for disaster recovery planning and testing
- examined other relevant documents and records
- conducted interviews with key staff.

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 including compliance with legislative and other requirements of entity programs and activities. The approximate cost of undertaking the audit and reporting was \$230,000.

Appendix 1: Better practice principles – key elements of IT disaster recovery plans

The table below shows key elements of a disaster recovery plan to help guide an effective plan. These elements are not exhaustive and entities should assess their own needs as part of their preparation.

Key elements	Description
Purpose and scope	The purpose and scope of the plan should be defined and agreed with senior management. It should include: • details and location of the main technology supporting the business • an overview of the organisation and people that manage the technology • the security classification of systems • the relationship of this plan to other business continuity, incident response and cyber security response plans.
Roles and responsibilities	Clearly define the positions, teams and IT vendors with responsibilities for governance, incident escalation and IT disaster recovery. These should have the appropriate skills and knowledge, or contractual arrangements in place. Decision-making and spending authorities should also be clearly documented.
Contact details	Contact details for all key external and internal stakeholders.
Plan activation	Clearly document the circumstances and timeframes that cause the plan to be invoked.
Recovery objectives	Entities should assess the risks and effects a disaster will have to key IT systems. Plans should reflect the current business needs of the entity and outline: • critical business functions and their supporting IT systems. These should be listed in order of importance • recovery time objectives (RTO) - the timeframes in which the IT systems are to be recovered • recovery point objectives (RPO) - the amount of data which can be lost, measured in time.
Recovery procedures	A description of, or direction to, recovery procedures for: • networks, servers, applications and databases • security systems • data synchronisation within and between applications, including potential procedures to handle a backlog of information • data restoration • handover of services to users.
Communication plan	Plans should outline the method and frequency of communication to key stakeholders such as the public, enforcement authorities and other government departments.
Document control and storage	Plans should include clear approvals, version control and where the plan will be stored.
Testing	Plans need to be tested to ensure they can recover IT systems and will work as expected. They should detail the intended frequency, nature and scope of testing.

Source: OAG based on ISO/IEC 27031:2011³

³ International Organization for Standardization and the International Electrotechnical Commission, [ISO/IEC 27031:2011 Information technology — Security techniques — Guidelines for information and communication technology readiness for business continuity](#), ISO, 2011.

Auditor General's 2023-24 reports

Number	Title	Date tabled
17	Local Government IT Disaster Recovery Planning	31 May 2024
16	Local Government 2022-23 – Information Systems Audit Results	27 May 2024
15	Government Campaign Advertising	15 May 2024
14	State Government 2022-23 – Information Systems Audit	12 April 2024
13	Provision of Supplementary Information to the Standing Committee on Estimates and Financial Operations – Opinions on Ministerial Notifications	5 April 2024
12	Digital Identity and Access Management – Better Practice Guide	28 March 2024
11	Funding for Community Sport and Recreation	21 March 2024
10	State Government 2022-23 – Financial Audit Results	20 December 2023
9	Implementation of the Essential Eight Cyber Security Controls	6 December 2023
8	Electricity Generation and Retail Corporation (Synergy)	8 November 2023
7	Management of the Road Trauma Trust Account	17 October 2023
6	2023 Transparency Report: Major Projects	2 October 2023
5	Triple Zero	22 September 2023
4	Staff Exit Controls for Government Trading Enterprises	13 September 2023
3	Local Government 2021-22 – Financial Audit Results	23 August 2023
2	Electricity Generation and Retail Corporation (Synergy)	9 August 2023
1	Requisitioning of COVID-19 Hotels	9 August 2023

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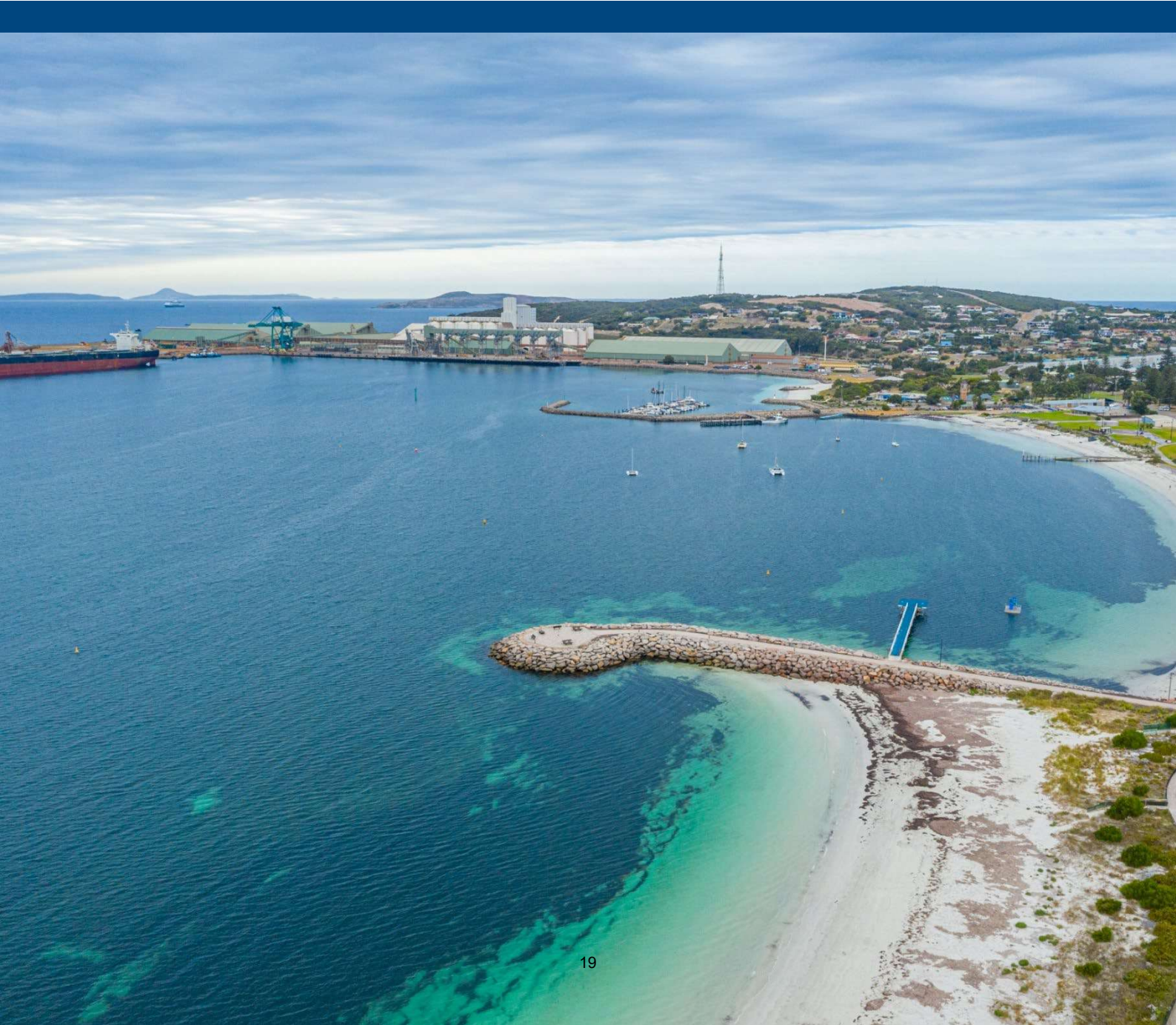
Office of the Auditor General
for Western Australia



Report 18: 2023-24 | 6 June 2024

FINANCIAL AUDIT RESULTS

Local Government 2022-23



**Office of the Auditor General
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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

**Local Government 2022-23 –
Financial Audit Results**

Report 18: 2023-24
6 June 2024

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**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

LOCAL GOVERNMENT 2022-23 – FINANCIAL AUDIT RESULTS

This report has been prepared for submission to Parliament under the provisions of section 24 of the *Auditor General Act 2006*.

The report summarises the final results of our annual audits of 137 of 147 local government entities for the year ended 30 June 2023 and the one remaining audit from 2021-22.

I wish to acknowledge the assistance provided by the councils, chief executive officers, finance officers and others, including my staff and contract audit firms, throughout the financial audit program and in finalising this report.

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

Caroline Spencer
Auditor General
6 June 2024

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Auditor General's overview

This report summarises the results of 137 of 147 local government entities' annual audits for the year ended 30 June 2023, as well as one audit remaining from 2021-22. There are 10 entities' audits which were outstanding at 31 March 2024 and not included in this report. These entities have encountered various challenges in providing us with information to enable their audits to be finalised.



As I reflect on the 2022-23 audit season – our second year auditing the entire local government sector – we are starting to see the impact of the hard work put in by the sector and our stricter timing initiative. Previously, we have provided greater assistance to entities but at financial cost and later publication of financial reports. This year nearly 90% of audit opinions were signed by 31 December 2023 (compared to just 61% by the same time last year), without any significant change in audit outcomes. We are now in a better place to get a holistic and truer picture of the sector earlier than we did last year.

Pleasingly, we have seen an overall reduction in the number and significance of financial management control issues reported to entities. However, financial reporting, asset and procurement issues remain at relatively high levels. In addition, completeness and accuracy of asset registers and valuations continue to cause significant difficulties for entities.

In particular, valuations are too often accepted without review or question by entity management. We see huge movements in values that entities often cannot explain, suggesting that they have not engaged in any meaningful way with the valuation process and the judgements made for accounting purposes. This increases the risk of errors and generally requires additional audit work and cost. Significant changes in asset values should be adequately explained and supported by logic and evidence. Entities continue to request more guidance with the valuation process. The Department of Local Government, Sport and Cultural Industries (DLGSC) is undertaking a body of work to prepare a valuation guide for the sector. We are hoping the guide will help entities address the issues we continue to see around valuations, including seeking valuations that appropriately recognise restrictions on land use.

Unfortunately, information systems control issues continue to grow and remain unresolved from previous years. A full analysis of these results is contained within my *Local Government 2022-23 – Information Systems Audit Results* report¹.

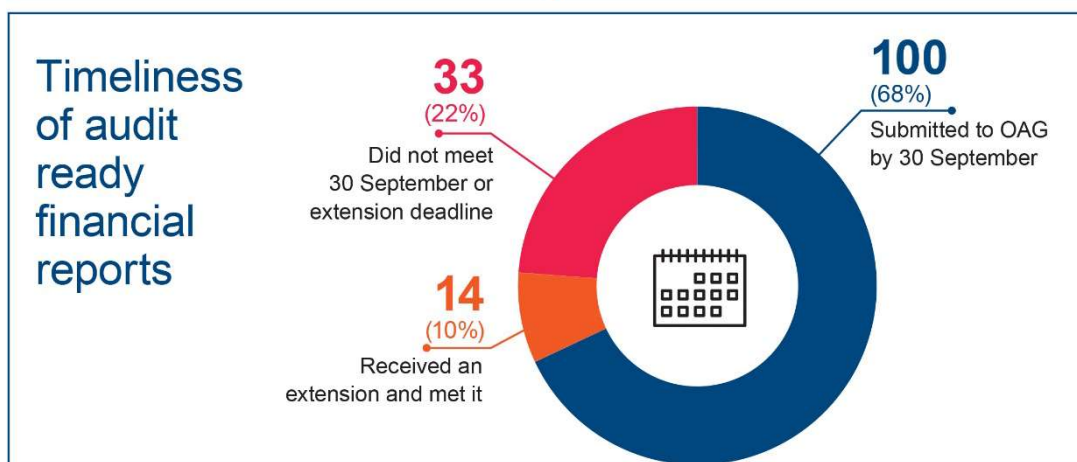
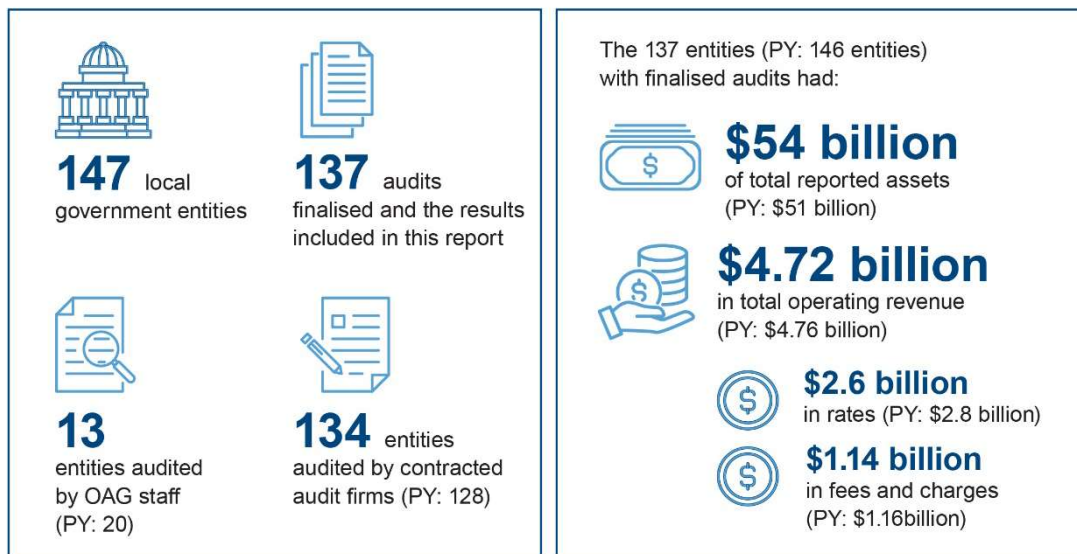
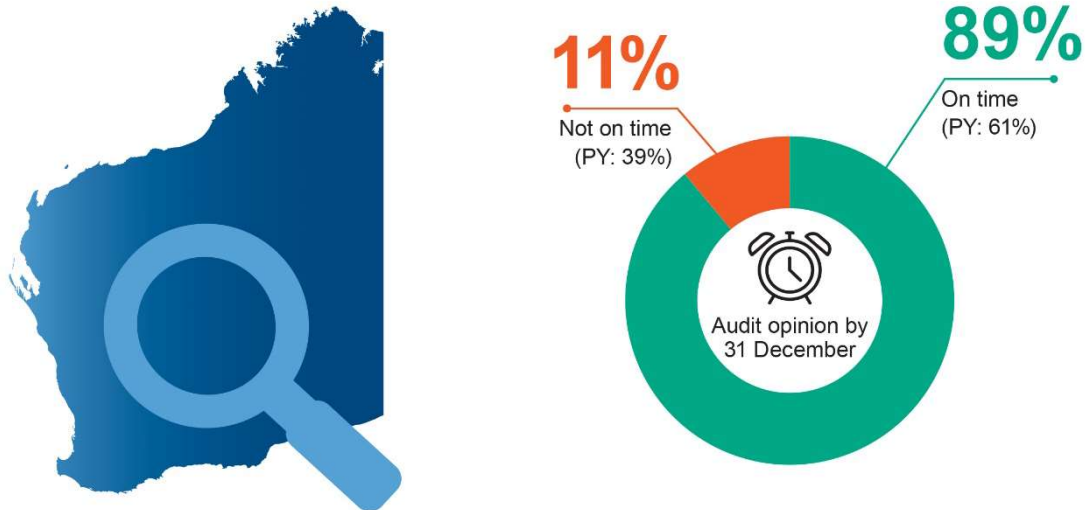
Entities can improve the cost and timeliness of their audits by focussing on fixing issues, particularly those from prior years. Issues which continue year after year present a real financial management risk to entities. Assessing and following up on these issues also requires extra audit work, resulting in increased costs to entities.

I welcome DLGSC's support of the sector via initiatives such as the valuation guide and will continue to offer my Office's support and input where appropriate. I also encourage DLGSC and entities to consider the recommendations included in this report, and draw on our better practice guides, to improve timeliness and efficiency of financial reporting and auditing processes. I commend entities on their contribution to the significant progress made this year and I hope to keep up this momentum for the 2023-24 season.

¹ Office of the Auditor General, [Local Government 2022-23 – Information Systems Audit Results](#), OAG, 27 May 2024, accessed 31 May 2024.

2022-23 at a glance

This report contains our findings from the annual financial audits of local government entities with a reporting date ending 30 June 2023. It includes the results for the 137 of 147 entities' audits that we completed by 31 March 2024 (Appendix 1), with the remaining 10 entities' results to be tabled in Parliament once their audits are completed.



(Prior year shown in brackets)

Audit results

1

disclaimer of opinion

9

qualified opinions

10

opinions outstanding

635

financial management issues (PY: 800)

473

information system control issues (PY: 360)

16

emphasis of matter paragraphs (15 entities) (PY: 17)

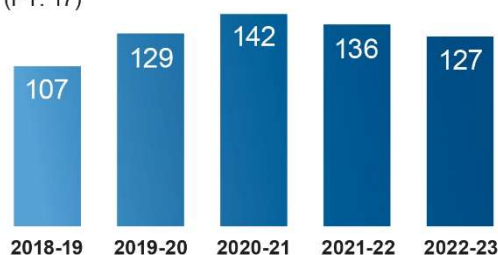
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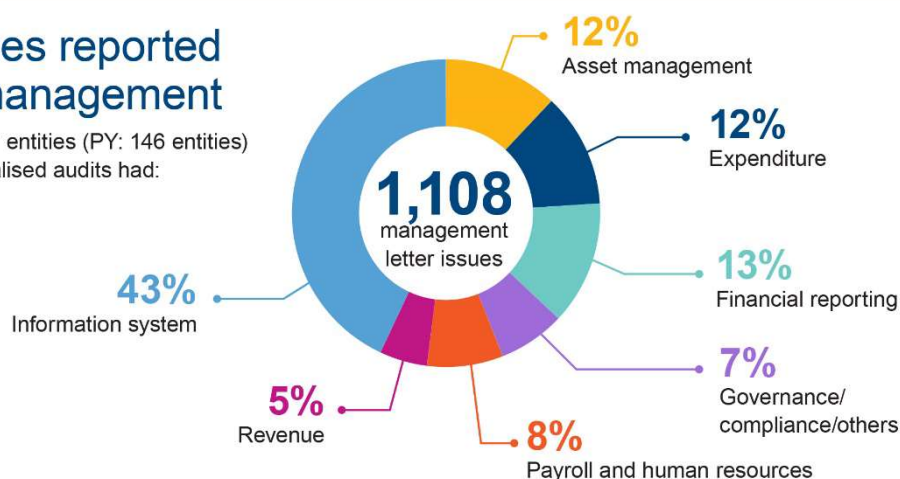
127

clear opinions



Issues reported to management

The 137 entities (PY: 146 entities) with finalised audits had:



Entity reporting impacts

Hard line initiative



Transparency

Results are a true reflection of the local government sector.



Timeliness

More entities' opinions were issued by the legislated date 31 December.

Valuations



Qualified audit opinions

Most qualified opinions relate to valuations.



Sense checks

Don't accept valuation at face value without applying some scrutiny.

Recommendations

To further improve financial reporting timeliness and reduce costs:

1. Entities should:
 - a. submit good quality, reviewed and CEO-signed financial reports for audit no later than 30 September. Supporting work papers and reconciliations should also be available by this date
 - b. communicate delays to financial report submission early to minimise disruptions and facilitate resource allocation. Flexibility may be required from entities when rescheduling their audit
 - c. engage early with valuers to develop a scope and plan for valuation. This is essential to ensure timely, compliant and sensible valuations. Entity information provided to valuers should be complete and accurate
 - d. alert OAG audit engagement leaders to new processes or systems, any issues encountered during the year, or any area of concern or technical accounting determinations
 - e. evaluate the significance of errors and decide if they need to be adjusted. Analyse the root cause for the errors.
2. DLGSC should:
 - a. provide entities with guidance on valuations. We understand DLGSC plan to have this available before 30 June 2024
 - b. help entities resolve the issues preventing them from submitting their financial report to audit by 30 September. It is critical that support is provided early before issues escalate
 - c. consider further opportunities to reduce financial report disclosure requirements, to provide further relief to entities, without compromising the needs of users of the financial report
 - d. provide guidance to entities on how to account for crossovers, turf, garden/trees and rehabilitation provisions. This will ensure a consistent approach.

DLGSC response:

- a. The DLGSC continues to actively develop a comprehensive guide to assist entities in revaluing assets in collaboration with sector bodies. This guide aims to enhance the consistency and reliability of asset valuations. It will encompass key topics such as valuation methodologies, scope of works and assumptions used in the valuation process as outlined and is scheduled for completion by 30 June 2024.
- b. The *Local Government Act 1995* (the Act) requires that by 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its auditor the annual financial report and the accounts of the local government balanced up to the last day of the preceding financial year.

The Act allows extensions to be granted to local governments under section 6.4(3). However, any local governments seeking an extension must apply for it prior to the statutory deadline of 30 September.

While each of the 27 applications was subsequently approved, the DLGSC met in some instances with local governments, who had sought multiple extensions over several years. The primary purpose of these meetings was to discuss the reasons for the multiple extensions, identify what actions that had been taken to resolve these reasons, and inquire whether there was any support that DLGSC could provide.

Support will continue to be provided to local governments when requested to guide them through the application process and legislative requirements.

The DLGSC also intends to work collaboratively with local government entities to document experiences from the migration of systems to identify best practices and potential pitfalls. These learnings will be shared to assist local governments forward plan and develop robust strategies for mitigating risks associated with unanticipated system errors. Proactively addressing potential issues can significantly reduce the likelihood of disruptions and strengthen overall data management capabilities, which enable local governments to present reliable financial information for audits.

- c. The DLGSC recognises the importance of this consideration and is committed to continuous review and monitoring for opportunities to streamline and simplify reporting processes. This approach ensures that the necessary information is captured efficiently, while minimising the effort required from entities and the auditor. By regularly evaluating and refining our reporting requirements, DLGSC aims to maintain a balance between thoroughness and ease of use.
- d. The DLGSC will look at adding guidance on accounting for crossovers, turf, garden/trees in the Guidelines for the Valuation of Non-Financial Assets currently under development. DLGSC will also review the current guidance material on rehabilitation and remediation provisions that are contained in the Model Financial Statements Guidance Material.

Review of the 2022-23 financial year

Introduction

Our annual financial audits focus on ensuring the accuracy of an entity's financial report. This report summarises the results of our audits.

The report also covers one disclaimer of opinion from 2021-22 (Appendix 10) and local government certifications (Appendix 8).

Summary of audit opinions

For the financial year ending 30 June 2023, we issued clear opinions for 122 entities by 31 December 2023 and an additional five by 31 March 2024, one audit opinion was disclaimed and nine audit opinions were qualified. We included 16 emphasis of matter paragraphs in the auditor's reports of 15 entities. The numbers and types of opinions issued were similar to the 2021-22 financial year in which there were 136 clear opinions, 1 disclaimed opinion, 10 qualifications and 17 matters emphasised in the auditor's reports.

Care should be taken if comparing qualifications issued between local government entities and State government entities. For local government entities, we issue an opinion on the financial report only whereas in State government entities, we issue an opinion on the financial report, controls and key performance indicators.

One disclaimed opinion for 2022-23

Issuing a disclaimer of opinion is the most serious audit outcome. Of this year's finalised audits, we issued only one disclaimer of opinion (Appendix 4). A disclaimer of opinion is issued when there is insufficient evidence to form an opinion and the effect is pervasive through the financial report.

The entity changed finance systems during the year. A change in finance system is a big undertaking but a reasonably common occurrence. It can have many benefits in the form of improved automation and streamlining of accounting transactions and financial reporting. Due to a mix of resourcing challenges, this entity's changeover and go live was problematic. As a result, we encountered the following challenges:

- We were unable to get underlying information or reconciliations that agreed to the trial balance. Evidence for samples selected for testing were generally unable to be provided, and for all general journals posted, no description or purpose was specified. This is a major fraud risk.
- A fixed asset register was not maintained during the year. This meant various processes and control activities (reconciliations, additions etc.) had not been occurring during the year. A separate process was undertaken post year-end to incorporate all fixed asset movements.

In addition to the finance system items above, we also noted errors in the infrastructure valuation report around missing assets and the valuer's unit rates. Ultimately, we were unable to get enough information to be able to confidently close out these matters.

Nine qualified opinions

In 2022-23, nine entities received qualified opinions (Appendix 5). This is largely consistent with 2021-22 where we qualified the audit opinions of 10 entities.

All nine qualifications related to fixed assets and infrastructure, and their associated balances. Largely, entities had not revalued these assets with sufficient regularity (some had not been revalued since 2017-18) as required by regulations². As a result, we were unable to ascertain their value with confidence.

Additional work is required in the year following a qualification to determine if the qualification needs to remain or if it can be removed. In the majority of instances, the qualification could be resolved by simply revaluing the items.

Emphasis of matter paragraphs

In 2022-23, 16 emphasis of matter (EoM) paragraphs have been included in 15 entity auditor's reports which is reasonably consistent with the 17 EoM paragraphs included in 17 reports in 2021-22. We anticipate this number to increase as the outstanding audits are finalised. This year EoM paragraphs directed the reader's attention to:

- restatements of comparative figures or balances largely related to property and infrastructure assets (2022-23: 11 entities) (2021-22: 14 entities)
- events occurring after balance date (2022-23: 3 entities)
- the basis of accounting used by the entity (2022-23: 1 entity) (2021-22: 3 entities)
- State Administrative Appeal determination pending (2022-23: 1 entity).

A full description of these matters is in Appendix 7.

Significant improvement in timely reporting

We aim to finalise all audits early enough for entities to meet their legislated timeframes for adopting their annual reports. Appendix 1 outlines the date we issued each entity's 2022-23 auditor's report and our assessment of the status of their audit readiness.

The hard line initiative and the way it was supported by the sector were major factors in issuing nearly 90% of entities' audit opinions prior to 31 December 2023 (61% in 2021-22). Entities have worked hard to prepare for their audits and provide information promptly. We have seen more timely reporting by the majority of entities and will continue to build on this momentum next year.

For some audits, our teams did not set clear enough deadlines or waited too long for entities to provide information. This was a missed opportunity for timely reporting and something for our Office to work on with those entities for next year.

The two case studies below illustrate the different outcomes achieved this reporting cycle depending on whether the approach was adopted.

² Section 17A(4)(b) of the Local Government (Financial Management) Regulations 1996.

Case study 1: Entity early application of the hard line initiative



An entity failed to get a complete valuation for assets due for revaluation in 2022-23. The entity was confident a valuation had been undertaken (though never reported in the financial report) sometime during the five preceding years. The entity was not able to locate any historical valuation records other than the 2017-18 valuation.

Rather than continuing to search for the valuation we worked with the entity to close the matter out as is and report the shortcoming in the auditor report. This did result in a qualification of the entity's audit opinion around these assets; however, they were able to finalise their financial report and receive their audit opinion in a timely manner.

It also allowed the entity to move on with the year and focus on the future to rectify this aspect. The annual electors meeting was held early in the 2024 calendar year.

Case study 2: Entities failure to apply hard line initiative early



Several entities were unable to locate sufficient records to resolve audit queries. These entities did not close out the matter with the information at hand and took an extended period of time to try find the information. For some entities, they are still lacking the required information.

Audit costs accumulate while entities try to resurrect workings, search for missing information and back date revaluations. This approach is risky as missing information and back dated valuations may not materialise. Elected members and ratepayers are left wondering when they will get to see the financial report and whether they should be concerned about the state of financial management and reporting in the entity.

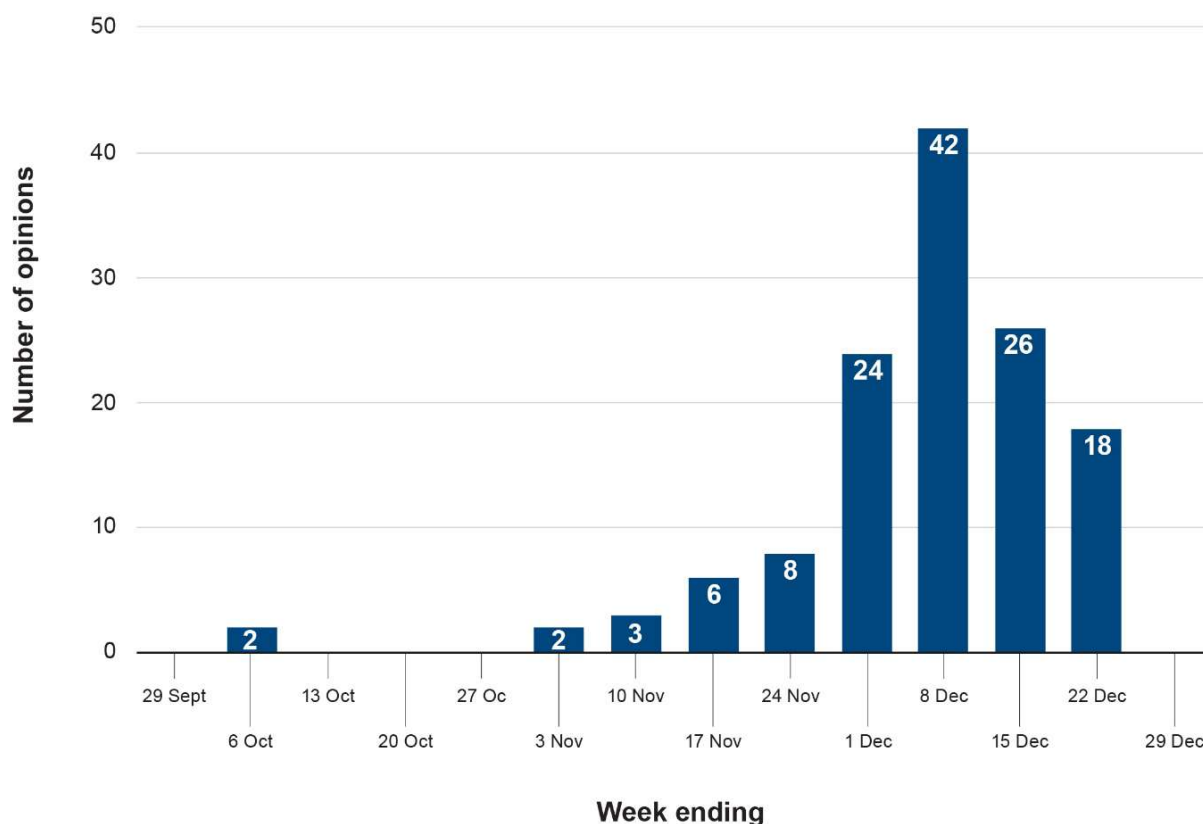
Our hard line initiative is focused on improving the quality and timeliness of financial reports and associated workings provided for audit. It facilitates transparent and timely financial reporting from entities to ratepayers and other users. The Auditor General wrote to entities in early September 2023 outlining the details. As part of the approach, we will no longer wait until the entity is ready if key information and people are not reasonably available within the agreed schedule. Instead, we will issue our audit opinion on the information available, even if this results in a qualified audit opinion.

Qualified audit opinions relate to a discrete area of the financial report, meaning all other information is clear and available for users to rely on. If, due to the state of the financial records, the legislated reporting timeframe (six months after the year-end) cannot be met, then it's appropriate to convey that status in our audit report rather than waiting for further information and causing unreasonable delays to finalising our audit report.

Entities are able to apply to DLGSC prior to the submission deadline of 30 September to seek an extension. DLGSC granted 27 extensions in 2023 (Appendix 2) compared with 13 in 2022. Extensions impact the timeliness of reporting. There can be legitimate reasons for one-off extensions, however, repeat requests are generally symptomatic of other underlying problems where early intervention is critical to prevent these from escalating.

Delays in submitting financial reports creates a bottleneck of audit work and opinion issuing in December and delays our other audit work. Entities need to ensure they advise us early if they are seeking extensions so we can work with them to minimise any adverse impact on scheduling their year-end audit.

Figure 1 illustrates the time pressure point for finalising audits and how critical it is to meet agreed timelines. We need to work with the sector to bring work forward, wherever possible, to reduce the peak in workload.



Source: OAG

Figure 1: Opinions issued per week 2023

Early feedback from entities shows a marked improvement in satisfaction with our work in 2023 compared with prior years. This reflects the effectiveness of our hard line initiative and a commitment from entities and audit teams to communicate and work together to achieve better outcomes for the sector. Survey results are reported in our annual report.

Audits finalised after 31 December 2023 and those that are still in progress

Audits that were not finalised prior to 31 December 2023 encountered numerous challenges. Some entities and audit teams were able to persevere through the difficulties, including issuing one disclaimer opinion, and were able to finalise their audits prior to 31 March 2024. The audits of 10 entities remain incomplete at 31 March 2024 (Appendix 3).

Generally, audits in progress share some of the following themes:

- **Data integrity:** information to support the trial balance and financial report disclosures was not readily available. We encourage entities to review our better practice guides³ to better understand audit information requirements.
- **Key staff availability:** positions were vacated during the audit or have been vacant for some time. When key staff resign prior to or during the audit process, often no one is left at the entity who can assist with audit queries or provide the necessary information.

³ Office of the Auditor General, [Audit Readiness – Better Practice Guide](#), OAG, 30 June 2023 and Office of the Auditor General, [Western Australian Public Sector Financial Statements – Better Practice Guide](#), OAG, 14 June 2021.

- **Difficulty closing out technical reporting matters:** some entities lacked the expertise required to adequately manage complex financial reporting. Technical matters surrounding assets and other topics were left to the audit teams to try to resolve.
- **Incomplete valuations:** valuations are not readily available or we have concerns with their accuracy and/or completeness.

For those audits still in progress, we expect to issue further disclaimed or qualified opinions, or opinions that include an EoM paragraph. We also expect the number of financial control findings to increase.

Best practice entities

This is the second year we have rated entities on their financial reporting practices. The quality of financial reporting is measured against the following criteria:

- timeliness of CEO-certified financial report
- quality of financial report (financial statements and notes)
- quality of working papers that support the financial report
- management resolution of accounting matters
- key staff availability during the audit
- number and significance of management letter findings
- clear opinion.

We congratulate the entities we rated as the top 20 achievers for 2022-23.

Best practice top 20 entities	
• City of Albany • Shire of Beverley • Shire of Boddington • Shire of Brookton • Shire of Cocos (Keeling) Islands • Shire of Cue • Shire of Dardanup • Shire of Denmark • Shire of Dumbleyung • Eastern Metropolitan Regional Council	• Shire of Esperance • Shire of Irwin • Shire of Jerramungup • Shire of Merredin • Shire of Mingenew • Shire of Perenjori • City of Rockingham • Shire of Serpentine-Jarrahdale • Shire of Three Springs • Shire of Waroona

Source: OAG

Table 1: Best practice entities for 2022-23

Certifications

During 2023, we worked with the relevant Australian Government department⁴ to clarify the requirements to provide opinions on Roads to Recovery and Local Roads and Community Infrastructure Program certifications. As a result, we have been able to contain our certification workload to 55 this year. A full listing of certifications we have issued is in Appendix 8.

⁴ Department of Infrastructure, Transport, Regional Development, Communications and Arts.

Control weaknesses

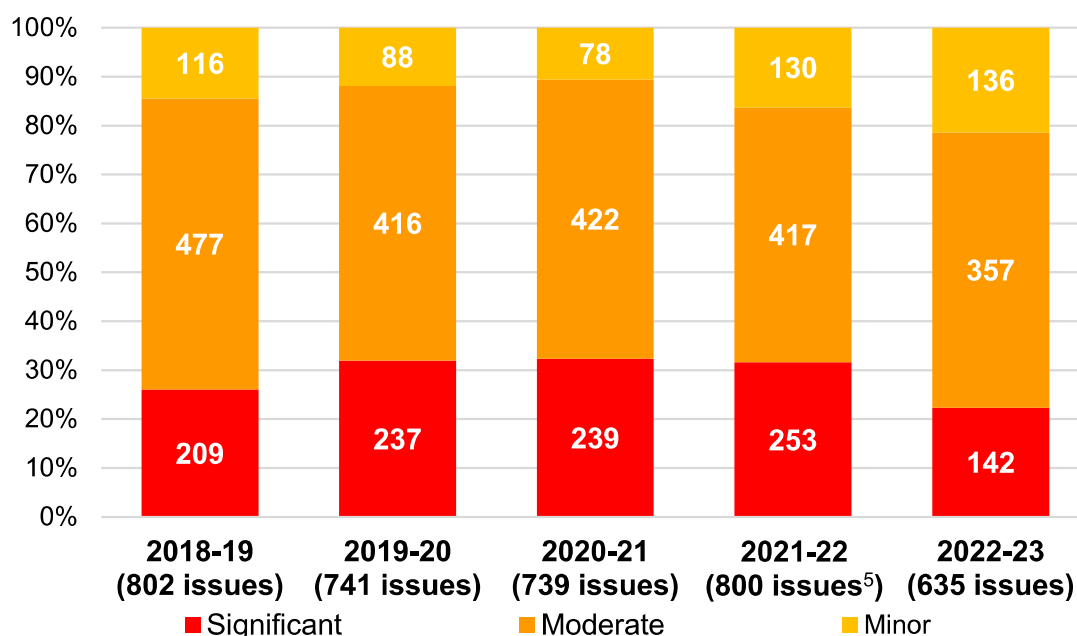
Control environment

We reported a total of 1,108 control findings in 2022-23 which is largely consistent with the prior year (1,160 control findings). These are made up of 635 financial management issues (2021-22: 800⁵) and 473 information system (IS) control issues (2021-22: 360).

An entity's control environment includes the governance and management functions and the attitudes, awareness and day-to-day actions that contribute to sound internal control practices of importance to the entity. A control environment with adequate systems, processes and people reduces the risk of error and fraud, and provides assurance to management, those charged with governance and auditors that financial reports are materially correct. We assess each entity's control environment during our risk assessment procedures. We report details of weaknesses in the environment to entities. The main themes of these weaknesses are discussed in further detail below. We expanded on the IS control findings in a separate report to Parliament⁶.

Financial management controls

We alerted 123 entities to 635 financial management control weaknesses across our three risk categories (Figure 2) compared with 800 weakness reported to 137 entities in 2022. The total number of findings is tracking significantly lower than in recent years. These numbers will increase once the 10 outstanding entities are finalised, however we don't expect the increase to be greater than that reported in 2021-22. Most pleasing, however, is the substantial reduction in the number of significant findings which reflects the focus by entities on resolving these high priority issues, although more work remains to address unresolved issues. Definitions of our finding risk ratings can be found at Appendix 11.



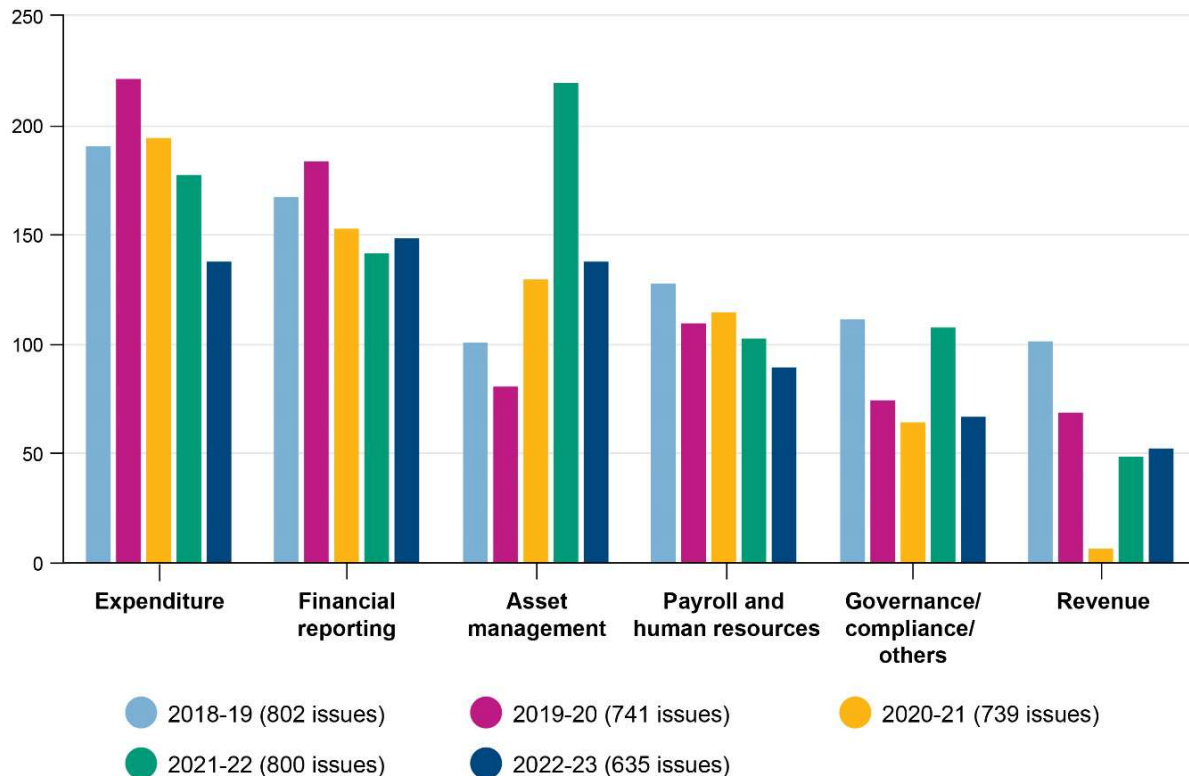
Source: OAG

Figure 2: Proportion of control weaknesses reported to management in each risk category and comparative ratings of the control weaknesses

⁵ 2021-22 numbers have been restated from our Local Government 2021-22 – Financial Audit Results report. Total issues reported was 880, it should have been 800.

⁶ Office of the Auditor General, [Local Government 2022-23 – Information Systems Audit Results](#), OAG, 27 May 2024, accessed 31 May 2024.

As can be seen in Figure 3, expenditure remains a key area of concern, along with financial reporting. In the last two years, asset management issues have increased significantly which coincides with a period where many entities were required to revalue their assets.



Source: OAG

Note: 2021-22 numbers have been restated from our Local Government 2021-22 - Financial Audit Results report. Total issues reported was 880, it should have been 800.

Figure 3: Financial management control issues reported to entities

Expenditure

We reported 138 expenditure weaknesses to 71 entities in 2022-23, compared with 178 issues to 96 entities in 2022. Thirty-six were unresolved from the prior year and 21 of these were rated as significant.

As was the case in the previous year we found instances of purchase orders raised after the invoice date and entities not seeking enough quotes. Seeking an appropriate number of quotes is an important control in ensuring value for money. Purchases made without authorised purchase orders increase the risk of unauthorised spending.

Management of the supplier master file also remained an area of weakness. Entities continue to make changes to the supplier master file without being able to evidence that they were appropriately approved. Unverified changes to the supplier master file may result in errors and there is also an increased risk of fictitious suppliers being established and funds being inappropriately disbursed.

Poor procurement practices increase the risk of fraud. It also increases the risk that entities may not be obtaining the best value for money. Entities need fit for purpose controls and processes that operate effectively to help mitigate against procurement risks.

Financial reporting

We raised 149 issues at entities relating to their financial reporting procedures, while in 2022 this number was 142. We found numerous issues with the financial report compilation process. Entities often provided poor working papers, did not prepare reconciliations and/or adequately consider technical accounting matters. There were often gaps in staff availability or the experience needed to carry out the financial reporting role. Management need to resolve these issues as a priority as they cause delays to the audit, increase audit costs and place undue pressure on entity staff and audit teams.

The financial report submitted to audit should be of a high quality with limited, if any, adjustments required. It should be supported by reconciliations and working papers of an equally high quality. Entities should document the procedures for producing the financial report to ensure business continuity in the event of staff changes. The financial report should be reviewed by the CEO and audit committee to ensure its quality. Following this, the CEO should sign the financial report and submit it for audit. Further guidance for entities is available in our better practice guides accessible on our website⁷.

Asset management

We identified 138 findings at 77 entities compared with 220 findings at 140 entities in 2022. Thirty-three findings were prior year findings which have not been resolved. Most findings related to entities not revaluing their assets with sufficient regularity. Without regular revaluation of land, building and infrastructure assets, there is a risk that the fair value of these assets may not have been adequately determined. This is not compliant with AASB 13 *Fair Value Measurement*, as well as regulation 17(A) of the Local Government (Financial Management) Regulations 1996 and could lead to asset values in financial reports being inaccurately stated.

Entities reasons for not revaluing assets include:

- incomplete data to provide to valuers
- omissions or oversights of assets requiring valuations
- left it too late to engage a valuation consultant
- staff changes at the entity.

Robust asset management processes ensure asset data is complete and accurate, and that valuations are conducted with sufficient regularity in accordance with legislative requirements.

Findings unresolved from prior year

For 2022-23, 214 financial management control findings raised across 82 entities remain unresolved. This represents 34% of all current year findings. Of concern is that 31% (67) of these issues are significant, requiring urgent action.

The carry over findings mainly relate to assets, expenditure and financial reporting. Common themes were:

- outstanding asset and infrastructure valuations
- reconciliations were not performed regularly for assets, bank and other balance sheet items. We found reconciliations were not prepared or reviewed in a timely manner. Specifically, bank reconciliations had long outstanding items. Reconciliations, when completed appropriately, enhance the completeness and accuracy of financial data within the general ledger from which financial reports are derived. Without regular

⁷ Office of the Auditor General, [Audit Readiness – Better Practice Guide](#), OAG, 30 June 2023 and Office of the Auditor General, [Western Australian Public Sector Financial Statements – Better Practice Guide](#), OAG, 14 June 2021.

reconciliation there is an increased risk for fraud or errors going undetected and diminishes the value of reconciliations as regular in-year monitoring controls. This could result in significant variances at year end and adversely impact on the audit opinion

- poor procurement practices. We observed an inadequate number of quotes obtained, raising of purchase orders after invoice date and unverified changes to supplier information.

It's unfortunate that these issues remain outstanding. Issues add to audit time and costs. Entities need to prioritise fixing these issues.

Information system controls

We reported 473 information system control weaknesses to 76 entities. Compared with 360 issues at 61 entities in 2021-22. Disappointingly, almost half of these issues were raised last year and remain unresolved. Information system controls is an area of low maturity for the sector, although engagement with us on this issue is generally high. Many entities are working hard to address exposure risks we have identified.

Computer controls included in information systems form part of the entity's control environment. The auditing standards require us to assess each entity's control environment inclusive of computer controls as part of risk assessment procedures. Local government entities are reliant on information systems to deliver a wide range of services. These are essential to processing and storing data and producing financial reports. We assess the general computer controls to determine if entities' computer controls effectively support preparation of financial reports, delivery of key services, and the confidentiality, integrity and availability of information systems.

Further details on this work are included in the *Local Government 2022-23 - Information Systems Audit Results* report⁸.

Continuous improvement opportunities

Reducing the information included in the financial report will help improve audit costs and timeliness. Entities also need guidance to ensure sector consistency and to help with areas where they are consistently making errors. Usually, these areas are technically challenging or require significant judgement. DLGSC has provided some valuation relief and plan to provide guidance on valuations. DLGSC should consider further guidance on accounting for crossovers and rehabilitation provisions. The major areas for improvement are discussed in further detail below.

Valuation of assets

To reduce costs to entities without unduly compromising the quality of financial reporting, DLGSC made a number of significant changes in reporting requirements. For instance, it reduced the fair value requirements for assets. From 2023-24, entities are only required to revalue land, buildings and infrastructure assets every five years instead of every year that indicators suggest values have changed significantly. Non-valuation years no longer require a fair value assessment. An entity can, however, elect to revalue earlier than five years.

Pleasingly, DLGSC is in the process of developing a guide to assist entities when revaluing assets and improve consistency and reliability of valuations across the sector. We understand the guide will cover topics such as valuation methodologies, scope of works and assumptions used in the valuation process. The valuation guide is expected to be finalised before 30 June 2024.

⁸ Office of the Auditor General, [Local Government 2022-23 – Information Systems Audit Results](#), OAG, 27 May 2024, accessed 31 May 2024.

We expect the guide will help entities address the issues we continue to see around valuations, including seeking valuations that appropriately recognise restrictions on land use. There are perennial issues with the completeness and accuracy of fixed asset registers, incomplete or inappropriate valuations, and poor records generally. Too often valuations are accepted without review or question by entity management. We see huge movements in values that entities often cannot explain, suggesting that they have not engaged in any meaningful way with the valuation process and the judgements made for accounting purposes. This increases the risk for errors and generally requires additional audit work. Entities need to conduct a sense check of valuation results. Significant changes in values should be adequately explained and supported by evidence and logic. For some entities, we requested additional financial report disclosures to highlight factors driving significant revaluation movements.

Entities need to prepare early for their valuations as it is a lengthy exercise and there is a limited pool of qualified independent valuers. Some entities have struggled to find valuers in time for valuations to be included in their financial reports. Valuers need complete and accurate entity data to do their job. Entities need to provide adequate scoping and instructions to their valuers as not all valuations are the same. For example, using the cost approach will garner different results to a valuation performed in accordance with the market approach outlined in AASB 13 *Fair Value Measurement*. Importantly, DLGSC's advice is that land should be valued using the market approach and if the land has any public sector restrictions (including current use for community purposes), the restrictions must be considered when valuing the land.

Recognition of assets

Entities are not consistent in how they account for crossovers. Crossovers are the section of a driveway which starts at the property line and extends to the road. Some entities recognise crossovers as an asset and others do not. Where they are recognised as assets, they are included as an infrastructure asset and revalued every five years.

The reason some entities haven't recognised crossovers as assets is because costs to maintain the crossovers are generally borne by the various property owners, which indicates the property owners benefit from the asset and bear the costs of maintenance. The counter argument to this is that entities can pass the costs on to a property owner, which indicates entity control. Given the inconsistency among entities on accounting for crossovers, we believe this is an area that requires DLGSC guidance. In the meantime, we have continued to accept whatever the entities' current treatment in their financial reports.

Another area of divergent practice, where there is no clearly right or wrong accounting treatment, is in the recognition of turf and shrubbery. Where an entity has valued or revalued its turf, we have sought to understand the reasons for the valuation including the differing nature and purpose of the turf used by the entity. For example, a golf course or playing field turf is usually recognised as an asset. Turf within nature reserves, general shrubbery and garden items have generally been expensed. Where maintained turf and similar assets have been recognised as an asset, we inquire to see if they have been supported by maintenance expenditure in asset management plans.

There is a cost associated with measuring, recording and revaluing these assets, so entities must ensure that the accounting policy adopted is appropriate, with due regard to the cost and benefit in the circumstances of the accounting method adopted. Careful consideration should be given to the reliability of the value adopted and whether the asset could or would be replaced on a like-for-like basis if damaged or destroyed.

The sector could benefit from clear guidance from DLGSC on accounting for these items. Consultation with sector stakeholders to understand the key drivers of the variation in treatment and the implications of mandating or requiring a particular treatment would help buy in and ensure consistency and usefulness of financial reporting across the sector.

Rehabilitation provisions

Sometimes assets come with make good or remediation obligations. In the LG sector this generally relates to the financial responsibility to rehabilitate waste sites or landfills. Obligations can arise from a legal requirement or from what is known as a constructive obligation. These obligations can be confusing because not all landfills or waste sites have the same requirements for rehabilitation.

Entities need to review their landfill licences to determine if they have a legal obligation to restore or rehabilitate waste sites. A constructive obligation arises when an entity promises to make good the site and has by its actions indicated that it will follow through on that intent.

It's critical that entities understand the nature of their legal or constructive obligations associated with this type of work as this will drive the accounting and ongoing measurement. If an obligation is present, a provision should be recognised and the equivalent amount forms part of the cost of the asset, usually a waste management/landfill facility (infrastructure) which is required to be revalued.

Entities have found accounting for rehabilitation provisions confusing. Some entities also lack the technical accounting capability to calculate and account for their rehabilitation provisions. In the absence of guidance from DLGSC on the recognition and ongoing measurement of rehabilitation provisions, we are often required to provide significant guidance to entities who simply do not understand the technical accounting aspects.

Guidance from DLGSC would aid consistency and help entities who are finding this area challenging.

Differential reporting and reduced disclosure requirements

This year DLGSC simplified financial reporting requirements. This is consistent with what our Office has been advocating for and reporting on for some time. It is also consistent with the recommendations of the *Select Committee into Local Government Final Report - Inquiry into Local Government* tabled in September 2020.

Smaller entities are no longer required to comply with various disclosure requirements. DLGSC published two sets of model financial reports, one for larger and another for smaller entities. DLGSC updates its model financial reports annually for currency.

DLGSC also removed the requirements for all entities to report information in their financial reports on fees and charges, discounts and some other items. A list of amendments is available on the DLGSC website⁹. They also moved some financial report disclosure requirements to annual report only disclosures, so they do not need to be audited. All were important contributions to reduce the financial reporting burden which should result in reduced audit costs and more timely reporting.

Adjusted and unadjusted audit errors

We noted that there were no errors in the financial reports at 33 entities. This is generally consistent with the prior year where 34 entities noted no errors. For the other 104 entities, we identified 360 errors, 263 of which entities corrected (adjusted) in the final financial report and 97 which remained uncorrected (Table 2). We do expect the numbers of errors to increase once the remaining audits are finalised.

⁹ Department of Local Government, Sport and Cultural Industries, [Local Government Regulations Amendment Regulations 2023](#), DLGSC website, 13 July 2023.

Year	Number of entities with adjusted errors	Number of adjusted audit errors	Nominal value of errors adjusted during the audit	Number of entities with unadjusted errors	Number of unadjusted audit errors	Nominal value of unadjusted errors
2022-23	93	263	\$989,226,390	55	97	\$67,885,344
2021-22	91	335	\$1,613,529,048	58	132	\$50,668,884

Source: OAG

Table 2: Adjusted and unadjusted errors for entities

We identify errors based on evidence found during our audit. Material errors require correction to (in most cases) avoid qualification; for smaller errors entities can choose whether or not to adjust.

We inform management and those charged with governance, of all errors other than those that are clearly trivial. By hearing about them, the entity can identify potential risk areas or other matters impacting their financial reporting. Entities should consider carefully whether they make adjustments for errors that are not material. Smaller errors have no real impact on the financial but require time to process and validate. All errors, but particularly those which are adjusted by the entity increase the time and cost of financial reporting and of the audit. At one entity we noted 19 errors, it adjusted 17 of these, yet just 3 were material. Entities need to get the balance right in terms of the overall objective of the financial report.

The role of outsourcing in financial reporting

One hundred and one entities prepared their own financial report, the remainder outsourced the function to accounting firms. Outsourcing can be a good option, as it allows entities to tap into a specialist skill set and helps overcome their resource constraints.

However, some aspects of financial reporting cannot be outsourced. Communication and management judgements should not be outsourced. Our teams are often left to conduct the audit with the assistance of the outsourced financial report provider with minimal entity involvement. Financial reports are often not reviewed by management until the audit is almost concluded or a problem arises.

The key to a successful outsourcing arrangement is a strong management presence to connect the service providers, audit teams, operations and council. Early engagement, planning and close contract management are vital. Effective oversight ensures a smoother process with no surprises. It also contributes to lower audit costs and more timely reporting.

The role of outsourcing in delivering OAG audits

Similarly, we outsourced the financial audit work of 134 local government entities (91%), which is an increase on previous years. The ratio of audits outsourced will fluctuate depending on our internal resourcing capacity. In addition to competitive labour market conditions constraining our ability to recruit and retain sufficient staff at key levels, the recent increase in outsourcing is due in part to the scheduled implementation of our new audit tool and methodology, for which our staff are undertaking significant additional training. We plan to progressively increase the number of audits delivered in-house over coming years to our target level of 20%.

The outsourcing of public sector audits is a common practice across jurisdictions to meet periods of peak demand and provide access to specialist skills, and we value the opportunity to benchmark our own audit quality and efficiency. We maintain oversight of our contract audit firms' audit planning, finalisation and key audit judgements, and engage with entities throughout the process, including attending key meetings. We sign all audit opinions, prepare whole of sector reporting and also support capability development across the sector.

Appendix 1: Status and timeliness of audits

Type of audit opinion	
Clear (unmodified)	
Clear opinion with emphasis of matter or matter of significance paragraph	
Qualified or a disclaimer of opinion	

Financial report timeliness – audit ready submissions*	
Received financial report by statutory deadline of 30 September 2023 and assessed audit ready	
Received an extension from DLGSC to the statutory deadline and met this extension with audit ready financial report	
Extension or statutory deadline was not met with audit ready financial report	

* Financial report initially provided may not be of a quality that is audit ready. The icon in the table below reflects the date we assessed the financial report as audit ready. Many entities' first version of financial report provided to us was audit ready.

Entities listed in alphabetical order with opinion type, opinion date and audit ready financial report submission status.

	Entity	Type of opinion	Opinion issued	Audit ready submissions of FR*
1	Bunbury-Harvey Regional Council		24/11/2023	
2	City of Albany		06/12/2023	
3	City of Armadale		20/12/2023	
4	City of Bayswater		20/12/2023	
5	City of Belmont		28/11/2023	
6	City of Bunbury		29/11/2023	
7	City of Busselton		01/11/2023	
8	City of Canning		07/12/2023	
9	City of Cockburn		08/12/2023	
10	City of Fremantle		12/12/2023	
11	City of Gosnells		13/12/2023	
12	City of Greater Geraldton		15/12/2023	
13	City of Joondalup		01/12/2023	
14	City of Kalamunda		01/12/2023	

	Entity	Type of opinion	Opinion issued	Audit ready submissions of FR*
15	City of Kalgoorlie-Boulder		28/11/2023	
16	City of Kwinana		06/12/2023	
17	City of Mandurah		20/12/2023	
18	City of Melville		21/12/2023	
19	City of Nedlands		01/03/2024	
20	City of Perth		29/11/2023	
21	City of Rockingham		08/11/2023	
22	City of South Perth		28/11/2023	
23	City of Stirling		15/12/2023	
24	City of Subiaco		01/12/2023	
25	City of Swan		22/11/2023	
26	City of Vincent		08/12/2023	
27	City of Wanneroo		30/11/2023	
28	Eastern Metropolitan Regional Council		06/10/2023	
29	Mindarie Regional Council		15/11/2023	
30	Murchison Regional Vermin Council		21/12/2023	
31	Rivers Regional Council		07/12/2023	
32	Shire of Ashburton		21/12/2023	
33	Shire of Augusta-Margaret River		21/11/2023	
34	Shire of Beverley		01/11/2023	
35	Shire of Boddington		01/12/2023	
36	Shire of Bridgetown-Greenbushes		08/12/2023	
37	Shire of Brookton		20/12/2023	
38	Shire of Broome		15/12/2023	
39	Shire of Broomehill-Tambellup		14/12/2023	
40	Shire of Bruce Rock		07/12/2023	
41	Shire of Capel		15/12/2023	
42	Shire of Carnamah		08/12/2023	

	Entity	Type of opinion	Opinion issued	Audit ready submissions of FR*
43	Shire of Carnarvon		19/12/2023	
44	Shire of Chapman Valley		19/02/2024	
45	Shire of Chittering		07/12/2023	
46	Shire of Christmas Island		07/12/2023	
47	Shire of Cocos (Keeling) Islands		08/12/2023	
48	Shire of Collie		08/12/2023	
49	Shire of Coolgardie		05/12/2023	
50	Shire of Coorow		07/12/2023	
51	Shire of Corrigin		08/12/2023	
52	Shire of Cranbrook		06/12/2023	
53	Shire of Cuballing		08/12/2023	
54	Shire of Cue		28/11/2023	
55	Shire of Cunderdin		24/11/2023	
56	Shire of Dalwallinu		04/12/2023	
57	Shire of Dandaragan		15/12/2023	
58	Shire of Dardanup		22/11/2023	
59	Shire of Denmark		28/11/2023	
60	Shire of Derby-West Kimberley		18/12/2023	
61	Shire of Donnybrook-Balingup		11/12/2023	
62	Shire of Dowerin		29/11/2023	
63	Shire of Dumbleyung		09/11/2023	
64	Shire of Dundas		19/12/2023	
65	Shire of East Pilbara		11/03/2024	
66	Shire of Esperance		15/11/2023	
67	Shire of Exmouth		06/12/2023	
68	Shire of Gingin		05/12/2023	
69	Shire of Gnowangerup		19/12/2023	
70	Shire of Goomalling		07/12/2023	
71	Shire of Harvey		08/12/2023	

	Entity	Type of opinion	Opinion issued	Audit ready submissions of FR*
72	Shire of Irwin		30/11/2023	
73	Shire of Jerramungup		05/12/2023	
74	Shire of Katanning		13/12/2023	
75	Shire of Kellerberrin		02/12/2023	
76	Shire of Kent		20/12/2023	
77	Shire of Kojonup		17/01/2024	
78	Shire of Kondinin		18/12/2023	
79	Shire of Koorda		13/12/2023	
80	Shire of Kulin		30/11/2023	
81	Shire of Lake Grace		05/12/2023	
82	Shire of Laverton		15/12/2023	
83	Shire of Leonora		05/12/2023	
84	Shire of Manjimup		29/11/2023	
85	Shire of Meekatharra		05/12/2023	
86	Shire of Menzies		11/12/2023	
87	Shire of Merredin		16/11/2023	
88	Shire of Mingenew		01/12/2023	
89	Shire of Moora		27/02/2024	
90	Shire of Morawa		05/12/2023	
91	Shire of Mount Magnet		12/12/2023	
92	Shire of Mount Marshall		06/12/2023	
93	Shire of Mukinbudin		18/12/2023	
94	Shire of Mundaring		12/12/2023	
95	Shire of Murchison		05/12/2023	
96	Shire of Murray		27/11/2023	
97	Shire of Nannup		12/12/2023	
98	Shire of Narembeen		05/12/2023	
99	Shire of Narrogin		08/12/2023	
100	Shire of Northam		14/12/2023	

	Entity	Type of opinion	Opinion issued	Audit ready submissions of FR*
101	Shire of Northampton		08/12/2023	
102	Shire of Nungarin		12/12/2023	
103	Shire of Peppermint Grove		06/12/2023	
104	Shire of Perenjori		08/12/2023	
105	Shire of Pingelly		01/12/2023	
106	Shire of Quairading		13/12/2023	
107	Shire of Ravensthorpe		07/12/2023	
108	Shire of Sandstone		16/11/2023	
109	Shire of Serpentine-Jarrahdale		22/11/2023	
110	Shire of Shark Bay		15/12/2023	
111	Shire of Tammin		20/11/2023	
112	Shire of Three Springs		21/11/2023	
113	Shire of Trayning		07/12/2023	
114	Shire of Upper Gascoyne		08/11/2023	
115	Shire of Victoria Plains		27/11/2023	
116	Shire of Wagin		29/11/2023	
117	Shire of Wandering		04/12/2023	
118	Shire of Waroona		17/11/2023	
119	Shire of West Arthur		07/12/2023	
120	Shire of Westonia		18/12/2023	
121	Shire of Wickpin		08/12/2023	
122	Shire of Williams		06/12/2023	
123	Shire of Wiluna		21/12/2023	
124	Shire of Wongan-Ballidu		13/12/2023	
125	Shire of Woodanilling		20/12/2023	
126	Shire of Wyalkatchem		30/11/2023	
127	Shire of Wyndham-East Kimberley		13/12/2023	
128	Shire of Yilgarn		01/12/2023	
129	Shire of York		15/03/2024	

(Appendix AAR: 11.2C)

	Entity	Type of opinion	Opinion issued	Audit ready submissions of FR*
130	Tamala Park Regional Council		05/10/2023	
131	Town of Bassendean		11/12/2023	
132	Town of Cambridge		15/12/2023	
133	Town of Claremont		05/12/2023	
134	Town of Cottesloe		06/12/2023	
135	Town of East Fremantle		11/12/2023	
136	Town of Mosman Park		18/12/2023	
137	Western Metropolitan Regional Council		15/11/2023	

Source: OAG

Appendix 2: Entities who received an extension from DLGSC to submit their financial report after the 30 September legislated deadline

Entity	Extension date
City of Armadale	31 October 2023
City of Karratha	30 November 2023
City of Melville	31 December 2023
City of Nedlands	16 October 2023
Shire of Boyup Brook	16 October 2023
Shire of Bridgetown-Greenbushes	13 October 2023
Shire of Chapman Valley	30 November 2023
Shire of Dandaragan	31 October 2023
Shire of Derby-West Kimberley	30 November 2023
Shire of Halls Creek	31 October 2023 30 November 2023
Shire of Katanning	31 October 2023
Shire of Kojonup	30 October 2023
Shire of Kulin	31 October 2023
Shire of Moora	30 November 2023 15 December 2023
Shire of Mukinbudin	31 October 2023
Shire of Murchison	9 October 2023
Shire of Ngaanyatjaraku	31 October 2023
Shire of Plantagenet	31 October 2023
Shire of Shark Bay	20 October 2023
Shire of Toodyay	31 October 2023
Shire of Wiluna	31 October 2023
Shire of Wyndham-East Kimberley	31 October 2023
Shire of Yalgoo	30 November 2023
Shire of York	13 October 2023
Town of Bassendean	31 October 2023
Town of Cambridge	3 November 2023
Town of Victoria Park	16 October 2023

Source: DLGSC

Appendix 3: Outstanding audits at 31 March 2024¹⁰

Entity	Balance date	Reason for delay
City of Karratha	30 June 2023	Key entity staff turnover delayed the start of the audit until October 2023. This was further delayed until January 2024, with audit finalisation to occur by the end of February 2024. By mid-February 2024 the City was still not able to provide all the required information to conduct the audit. Resolution of some prior year matters also contributed to delays. The audit recommenced in mid-March 2024 and should be finalised no later than May 2024.
Resource Recovery Group	30 June 2023	In November 2023, Member Council resolutions impacted the going concern assessment for the Resource Recovery Group. This was completed in February 2024, and we finalised our review of this assessment in April 2024. Our assessment did not start in February as our auditor's had other scheduled work. We prioritised other work as it was on schedule and pre-booked. We anticipate the audit to be finalised no later than May 2024.
Shire of Boyup Brook	30 June 2023	The independent valuation was delayed due to the availability of consultants which held up the finalisation of the financial statements and the completion of the audit. Complete documents were provided to the audit team in March 2024, and we expect to have the audit finalised no later than May 2024.
Shire of Halls Creek	30 June 2023	The Shire requested two extensions from DLGSC. In January 2024, they sought to pause the audit to complete their financial statements and other inquiries following the departure of their Chief Executive Officer (CEO). In March 2024 it was mutually agreed to conclude the audit based on available information and we expect this to be finalised no later than May 2024.
Shire of Ngaanyatjaraku	30 June 2023	The independent valuation was delayed which held up the finalisation of the financial statements and the completion of the audit. These reports have now been received and we expect the audit to be finalised no later than May 2024.
Shire of Plantagenet	30 June 2023	The resignation of the Shire's Deputy Chief Executive Officer (DCEO) and accountant prior to the commencement of the scheduled audit fieldwork in November 2023 led to considerable delays. The Shire's revaluation report was not concluded until the end of February 2024. We now expect this audit to be finalised no later than May 2024.
Shire of Toodyay	30 June 2023	The financial report was not available to audit until December 2023. The audit commenced in late February 2024, however not all the information required for audit purposes was ready at this time. The resignation of the Shire's CEO caused more delays during fieldwork and there were further delays in responding to audit queries. The audit had to be paused and then recommenced in March 2024 and we expect it to be finalised no later than May 2024.

¹⁰ Date of report cut-off.

Entity	Balance date	Reason for delay
Shire of Yalgoo	30 June 2022 and 30 June 2023	The 2021-22 audit remains outstanding. The audit team did not receive information in a timely manner. This delayed the audit process significantly. Also, there were errors in the valuation of buildings and infrastructure which required additional time for the Shire to resolve. We expect the 2021-22 audit to be finalised no later than May 2024. The 2022-23 audit cannot commence until the 2021-22 is complete. We are negotiating a timeframe for this audit.
Town of Port Hedland	30 June 2023	The Town transitioned its accounting system on 1 November 2022. Some processes and control activities, including key reconciliations, did not occur due to configuration issues until November 2023. Subsequently in November 2023 it was mutually agreed to conclude the audit based on the available information. Following on from this the Town has been resolving valuation issues and there has not been a robust assessment of the fair value of its investment property as at 30 June 2023. We expect this audit to be finalised no later than May 2024.
Town of Victoria Park	30 June 2023	There were issues with the valuation of assets which the Town needed additional time to resolve. The Town and our team had to work through a prior period error which also delayed the audit. The Town finalised these issues in February 2024, regrettably we were unable to resolve them in a timely manner. This audit opinion was issued on 15 April 2024.

Source: OAG

Appendix 4: 2022-23 Disclaimers of opinion

Entity and opinion	Opinion issued
City of Nedlands – Disclaimer of opinion Financial report not supported with complete and accurate underlying records We were unable to obtain sufficient appropriate audit evidence regarding the financial report as a whole as the financial report was submitted for audit purposes without complete and accurate underlying records. We were unable to audit the financial report by alternative means. Consequently, we are unable to determine whether any adjustments were necessary to the financial report as a whole for the year ended 30 June 2023.	1/03/2024

Source: OAG

Appendix 5: 2022-23 Qualified opinions

Entity	Details of qualification
Shire of Goomalling	Infrastructure Roads, drainage and footpaths infrastructure assets reported at the carrying values of \$40,811,937 (2022: \$38,834,816), \$2,153,484 (2022: \$2,194,288) and \$770,060 (2022: \$732,466) respectively in Note 8 (a) of the financial report as at 30 June 2023 were not revalued as required by Regulation 17A(4)(b) of the Local Government (Financial Management) Regulations 1996 since 30 June 2015. Consequently, we were unable to determine the extent to which the carrying amounts of these classes of assets are misstated, as it was impracticable to do so. Additionally, we were unable to determine whether there may be any consequential impact on Revaluation surplus as at 30 June 2023 and 30 June 2022, as well as Depreciation, Net Result for the Period and Retained surplus as at 30 June 2023.
Shire of Katanning	Infrastructure Infrastructure amounting to \$159,205,524 in the statement of financial position as at 30 June 2023 has not been revalued with sufficient regularity, as required by Regulation 17A(4)(b) of the Local Government (Financial Management) Regulations 1996 since 2017-18. Consequently, we were unable to determine the extent to which the carrying amount of Infrastructure is misstated, as it was impracticable to do so. Additionally, I am unable to determine whether there may be any consequential impact on the Revaluation Surplus as at 30 June 2023. Buildings The buildings depreciation expense of \$1,016,090 reported in Note 7(a) of the financial report for year ended 30 June 2023 did not reflect the expected pattern of the future economic benefits of these assets. The Shire did not update rates of depreciation for the year ended 30 June 2023. If the Shire had updated the rates, buildings depreciation would have increased by \$1,259,134. Buildings and Retained Surplus at 30 June 2023 would have decreased by \$1,259,134 and the Net result for the period would have decreased by \$1,259,134.
Shire of Kent	Infrastructure Other Infrastructure reported at the carrying value of \$4,867,091 in Note 9(a) of the financial report as at 30 June 2023 has not been revalued as required by Regulation 17A(4)(b) of the Local Government (Financial Management) Regulations 1996 since 2017-18. Consequently, we were unable to determine the extent to which the carrying amount of Other Infrastructure is misstated, as it was impracticable to do so. Additionally, we were unable to determine whether there may be any consequential impact on Revaluation Surplus as at 30 June 2023.
Shire of Mount Magnet	Infrastructure Other infrastructure asset classes of parks & gardens, aerodromes and other reported in Note 9(a) of the financial report at the carrying values of \$862,215, \$2,787,963 and \$4,584,744 respectively, as at 30 June 2023, have not been revalued with sufficient regularity, as required by Regulation 17A(4A)(b) of the Local Government (Financial Management) Regulations 1996, since 2017-18. Consequently, we were unable to determine the extent to which the carrying amounts of Other Infrastructure asset classes of parks & gardens, aerodromes and other are misstated, as it was impracticable to do so. Additionally, we are unable to determine whether there may be any consequential impact on Revaluation Surplus as at 30 June 2023.

Entity	Details of qualification
Shire of Nannup	Infrastructure Infrastructure reported at the carrying values of \$100,957,611 and \$100,707,176 in the financial report as at 30 June 2023 and 30 June 2022 respectively have not been revalued with sufficient regularity, as required by Regulation 17A(4)(b) of the Local Government (Financial Management) Regulations 1996, since 2016-17. Consequently, We were unable to determine the extent to which the carrying amounts of Infrastructure are misstated, as it was impracticable to do so. Additionally, we were unable to determine whether there may be any consequential impact on Revaluation Surplus as at 30 June 2023 and 30 June 2022, as well as Depreciation, Net Result for the Period and Retained Surplus as at 30 June 2023. Land and Buildings Land and Buildings reported at the carrying values of \$1,615,000 and \$8,737,435 respectively in Note 8(a) of the financial report as at 30 June 2023 have not been revalued with sufficient regularity, as required by Regulation 17A(4)(b) of the Local Government (Financial Management) Regulations 1996, since 2017-18. Consequently, I was unable to determine the extent to which the carrying amounts of Land and Buildings are misstated, as it was impracticable to do so. Additionally, we were unable to determine whether there may be any consequential impact on Revaluation Surplus as at 30 June 2023.
Shire of Westonia	Infrastructure Infrastructure reported at the carrying value of \$43,562,879 in the financial report as at 30 June 2023 has not been revalued as required by Regulation 17A(4)(b) of the Local Government (Financial Management) Regulations 1996 since 2017-18. Consequently, we were unable to determine the extent to which the carrying amount of Infrastructure is misstated, as it was impracticable to do so. Additionally, we were unable to determine whether there may be any consequential impact on Revaluation Surplus as at 30 June 2023.
Shire of Wickepin	Infrastructure Infrastructure reported at the carrying value of \$92,213,435 in Note 7(a) of the financial report as at 30 June 2023 has not been revalued with sufficient regularity as required by Regulation 17A(4)(b) of the Local Government (Financial Management) Regulations 1996 since 2017-18. Consequently, we were unable to determine the extent to which the carrying amount of Infrastructure is misstated, as it was impracticable to do so. Additionally, we were unable to determine whether there may be any consequential impact on the revaluation surplus as at 30 June 2023.
Shire of Wiluna	Airport and Other Infrastructure Assets We qualified the revaluations of the Shire's Airport and Other Infrastructure assets stated at \$5,353,146 and \$2,284,337 respectively in the prior year because they were not supported with appropriate and complete accounting records. The Shire has not made the appropriate corrections for these prior year figures in the current year. Consequently, the opinion on the current year financial report is modified because of the possible effect of this matter on the comparability of the current period's airport and Infrastructure figures in Note 9 (a) and the corresponding figures of the financial report.
Shire of Woodanilling	Building assets We qualified building assets stated at \$4,942,954 in the prior year because the Shire had not revalued its building assets with sufficient regularity or in accordance with Regulation 17A(4)(b) of the Local Government (Financial Management) Regulations 1996. The Shire has not made the appropriate corrections for this prior year figure in the current year. Consequently, the opinion on the current year financial report is modified because of the possible effect of this matter on the comparability of the current period's building asset figure in Note 9 and the corresponding figure of the financial report.

Source: OAG

Appendix 6: Prior year qualifications removed in 2022-23

Entity	Details of prior year qualification
City of Kalamunda	Infrastructure Assets The City has not recognised 969 assets under Infrastructure assets (Drains) in the financial report at 30 June 2022. These assets have been included in the City's Asset Management System at nil values however, they were never recorded in the Fixed Assets Register and revalued to their fair value. As these assets have not been recognised in the financial report at fair value in accordance with Regulation 17A(2)(a) of the Local Government (Financial Management) Regulations 1996, we are unable to determine the extent to which Infrastructure - Drains balance reported in Note 9 of the financial report at \$123,730,140 as at 30 June 2022 (2021: \$124,550,736) is misstated, as it is impracticable to do so. Additionally, there is a consequential impact on Depreciation, Infrastructure, Revaluation Surplus and Retained Earnings.
City of Mandurah	Property, Plant and equipment and Infrastructure Assets As detailed in Notes 8 and 9 to the financial report, at 30 June 2022 the total carrying value of the City's property plant and equipment assets was \$272.2 million and infrastructure assets was \$761.9 million. For property, plant and equipment and infrastructure recorded at fair value, any movements are recognised in revaluation surplus, the balance of which was \$808.7 million at 30 June 2022. For the year ended 30 June 2022, the City recognised a depreciation expense of \$32.4 million and changes in the asset revaluation surplus of \$97.0 million in relation to these assets in the Statement of Comprehensive Income by Nature or Type. Management have indicated that that there are gaps in their control processes and they are not confident with the overall completeness of their fixed asset register at 30 June 2022. Consequently, we were unable to obtain sufficient appropriate audit evidence that all property, plant and equipment and infrastructure had been recorded and valued nor could we confirm this by alternative means. We are therefore unable to determine whether any adjustments to property, plant and equipment, infrastructure, revaluation surplus, depreciation expense and changes in asset revaluation surplus were necessary.
Shire of Boyup Brook	Biological assets During 2020-21, we were unable to obtain sufficient appropriate audit evidence to verify the opening balance of biological assets nor were we able to confirm it by alternative means. Since the opening balance of biological assets for the year ended 30 June 2021 affects the determination of operations, we were unable to determine whether any adjustments to the Net result for the year ended 30 June 2021 was necessary. The opinion on the financial report for the period ended 30 June 2021 was modified accordingly. The opinion on the current year financial report is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.
Shire of Mount Magnet	The Shire's operating grants, subsidies and contributions of \$2,650,673, Capital grants, subsidies and contributions of \$521,726 reported in Note 2 (a) and Contract Liabilities of \$110,545 reported within Note 12 of the financial report as at 30 June 2022 were not assessed in accordance with the requirements of <i>AASB 15 Revenue from Contracts with Customers</i> or <i>AASB 1058 Income of Not-for-Profit Entities</i>. We are unable to determine the extent to which these amounts are misstated. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Entity	Details of prior year qualification
Shire of Sandstone	Road and footpaths infrastructure assets The opinion was qualified in the prior period because the Shire had not revalued its roads and footpaths infrastructure assets stated at \$37,755,629 and \$71,845 respectively with sufficient regularity or in accordance with <i>Regulation 17A(4)(b) of the Local Government (Financial Management) Regulations 1996</i>. The Shire was unable to make the appropriate corrections for these prior year figures in the current year. Consequently, the opinion on the current year financial report is modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures in Note 8 of the financial report.

Source: OAG

Appendix 7: Emphasis of matter paragraphs included in auditor reports

Entity	Description of emphasis of matter paragraphs	Brief explanation
City of Busselton	Restatement of Comparative Balances We draw attention to Note 27 to the financial report which states that the amounts reported in the previously issued 30 June 2022 financial report have been restated and disclosed as comparatives in this financial report. The opinion is not modified in respect of this matter.	The restatement relates to two material adjustments to the prior year figures due to an error in recording of land and buildings.
City of Fremantle	Events Occurring After the End of the Reporting Period We draw attention to Note 24 to the financial report, which states that, following the end of the financial year ended 30 June 2023, the two remaining member council participants including the City have resolved to withdraw from Resource Recovery Group effective from 1 July 2025. The opinion is not modified in respect of this matter.	On 22 November 2023 the City resolved to withdraw from the Resource Recovery Group and all associated projects, effective 1 July 2025.
City of Kalamunda	Restatement of comparative balances We draw attention to Note 32 to the financial report, which states that the amounts reported in the previously issued 30 June 2022 financial report have been restated and disclosed as comparatives in the financial report. The opinion is not modified in respect of this matter.	A number of Infrastructure assets (Drains) were not recognised in the 2021-22 financial report. The City sought a valuation in 2023 and corrected and restated the prior year balances.
City of Kwinana	Restatement of comparative figures We draw attention to Note 31 to the financial report which states that the amounts reported in the previously issued 30 June 2022 financial report have been restated and disclosed as comparatives in this financial report. The opinion is not modified in respect of this matter.	The restatement relates to two material adjustments to the prior year figures due to an error in the recognition of intangible assets and previously unrecognised developer contributions.
City of Mandurah	Restatement of comparative balances We draw attention to Note 27 to the financial report, which states that amounts reported in the previously issued 30 June 2022 financial report have been restated and disclosed as comparatives. The opinion is not modified in respect to this matter.	Property, plant and equipment and infrastructure assets not previously recognised in the financial report have now been recognised.
City of Melville	Events Occurring After the End of the Reporting Period We draw attention to Note 21 to the financial report, which states that, following the end of the financial year ended 30 June 2023, the two remaining member council participants including the City have resolved to withdraw from Resource Recovery Group effective from 1 July 2025. The opinion is not modified in respect of this matter.	On 21 November 2023 the City resolved to withdraw from the Resource Recovery Group and all associated projects, effective 1 July 2025.

Entity	Description of emphasis of matter paragraphs	Brief explanation
	Restatement of comparative balances We draw attention to Note 17 to the financial report which states that the amounts reported in the previously issued 30 June 2022 financial report have been restated and disclosed as comparatives in this financial report. The opinion is not modified in respect of this matter.	An error was corrected for the infrastructure roads valuation.
City of Subiaco	Restatement of comparative balance We draw attention to Note 31 to the financial report which states that the amounts reported in the previously issued 30 June 2022 financial report have been restated and disclosed as comparatives in this financial report. The opinion is not modified in respect of this matter.	Two prior period errors were corrected. One was in relation to depreciation errors and the other related to an undervaluation of the Lords Recreation Centre.
Rivers Regional Council	Basis of accounting We draw attention to Note 1 of the financial report, which discloses that the Council has decided to wind up Rivers Regional Council. Consequently, the financial report has been prepared on a liquidation basis. The opinion is not modified in respect of this matter	The Council has decided to wind up Rivers Regional Council. Consequently, the financial report has been prepared on a liquidation basis as required under Accounting Standards. Accordingly, all assets and liabilities in the 2022-23 financial statements have been classified as current.
Shire of Ashburton	Restatement of Comparative balances We draw attention to Note 32 of the financial report which states that the amounts reported in the previously issued 30 June 2022 financial report have been restated and disclosed as comparatives in this financial report. The opinion is not modified in respect of this matter.	Roads that were not Shire assets were incorrectly recognised in the financial report.
Shire of Coolgardie	Restatement of Comparative balances We draw attention to Note 30 of the financial statements which states that the amounts reported in the previously issued 30 June 2022 financial report have been restated and disclosed as comparatives in this financial report. The opinion is not modified in respect of this matter.	Two prior period errors were corrected. One correction related to an error in the 2018 valuation of unsealed road infrastructure and the other related to incorrect accounting for a revaluation decrement for other infrastructure.
Shire of Dardanup	Restatement of comparative balances We draw attention to Note 31 to the financial report which states that the amounts reported in the previously issued 30 June 2022 financial report have been restated and disclosed as comparatives in this financial report. The opinion is not modified in respect of this matter.	An error was corrected for the prior year's infrastructure valuation.

Entity	Description of emphasis of matter paragraphs	Brief explanation
Shire of Kent	Restatement of comparative balances We draw attention to Note 28 of the financial report which states that the amounts reported in the previously issued 30 June 2022 financial report have been restated and disclosed as comparatives in this financial report. The opinion is not modified in respect of this matter.	An error in the 2018 unsealed road valuation was corrected.
Shire of Mount Magnet	Trade and Other Receivables We draw attention to Note 5 to the financial report which describes an amount of \$765,599 in the Shire's rates revenue and rates and statutory receivables that is subject to an upcoming State Administrative Tribunal determination. The opinion is not modified in respect of this matter.	Some of the Shire's reported rate revenue and receivables are subject to a State Administrative Tribunal Determination. The Shire recognised these amounts as they were confident at the time that the determination when made, would be made in the Shire's favour.
Shire of Nannup	Restatement of comparative balances We draw attention to Note 28 to the financial report which states that the amounts reported in the previously issued 30 June 2022 financial report have been restated and disclosed as comparatives in this financial report. The opinion is not modified in respect of this matter.	A grant was incorrectly recognised as income rather than a capital grant liability. This error was corrected.
Town of East Fremantle	Investment in associates We draw attention to Note 23 to the financial report, which states that, following the end of the financial year ended 30 June 2023, the two remaining member council participants have resolved to withdraw from Resource Recovery Group effective from 1 July 2025. The opinion is not modified in respect of this matter.	On 20 June 2023 the Town resolved to withdraw from the Resource Recovery Group (RRG) effective 1 July 2024 and subsequent to year end the remaining member council participants also resolved to withdraw from the RRG effective 1 July 2025.

Source: OAG

Appendix 8: Local government certifications issued

Certifications issued for 2022-23

Entity and opinion	Opinion issued
City of Busselton Local Roads and Community Infrastructure Program Roads to Recovery Funding Pensioner Deferments	31 October 2023 31 October 2023 31 October 2023
City of Gosnells Local Roads and Community Infrastructure Program Roads to Recovery Funding Pensioner Deferments	20 November 2023 31 October 2023 10 November 2023
City of Joondalup Pensioner Deferments	31 October 2023
City of Kalamunda Road to Recovery Funding Pensioner Deferments	27 October 2023 12 December 2023
City of South Perth Local Roads and Community Infrastructure Program Roads to Recovery Funding Pensioner Deferments	3 November 2023 31 October 2023 6 November 2023
City of Vincent Pensioner Deferments	16 November 2023
Shire of Upper Gascoyne Local Roads and Community Infrastructure Program Roads to Recovery Funding	31 October 2023 31 October 2023
Shire of York Pensioner Deferments	19 December 2023

Source: OAG

Outstanding certifications issued from 2021-22

Entity and opinion	Opinion issued
City of Karratha Local Roads and Community Infrastructure Program	14 August 2023
City of Nedlands Local Roads and Community Infrastructure Program Roads to Recovery Funding	8 August 2023 30 October 2023
Shire of Christmas Island Local Roads and Community Infrastructure Program Roads to Recovery Funding	4 July 2023 15 July 2023
Shire of Collie Local Roads and Community Infrastructure Program	19 September 2023
Shire of Coorow Local Roads and Community Infrastructure Program	15 December 2023
Shire of Cuballing Local Roads and Community Infrastructure Program	28 February 2024

Entity and opinion	Opinion issued
Roads to Recovery Funding	5 July 2023
Shire of Cue Local Roads and Community Infrastructure Program	3 August 2023
Shire of Dundas Local Roads and Community Infrastructure Program	31 July 2023
Shire of East Pilbara Local Roads and Community Infrastructure Program Roads to Recovery Funding	30 October 2023 31 October 2023
Shire of Goomalling Local Roads and Community Infrastructure Program	18 December 2023
Shire of Halls Creek Local Roads and Community Infrastructure Program	22 March 2024
Shire of Katanning Local Roads and Community Infrastructure Program	1 March 2024
Shire of Kojonup Local Roads and Community Infrastructure Program	30 January 2024
Shire of Kondinin Local Roads and Community Infrastructure Program	10 November 2023
Shire of Manjimup Local Roads and Community Infrastructure Program Roads to Recovery Funding	2 November 2023 31 October 2023
Shire of Moora Roads to Recovery Funding	30 January 2024
Shire of Mount Magnet Roads to Recovery Funding	13 November 2023
Shire of Murchison Local Roads and Community Infrastructure Program	17 July 2023
Shire of Nungarin Local Roads and Community Infrastructure Program	29 January 2024
Shire of Peppermint Grove Local Roads and Community Infrastructure Program Roads to Recovery Funding	21 December 2023 21 December 2023
Shire of Quairading Roads to Recovery Funding	27 September 2023
Shire of Sandstone Local Roads and Community Infrastructure Program	15 March 2024
Shire of Three Springs Local Roads and Community Infrastructure Program	4 August 2023
Shire of Trayning Local Roads and Community Infrastructure Program	9 August 2023
Shire of Wandering Local Roads and Community Infrastructure Program Roads to Recovery Funding	21 September 2023 31 July 2023

Entity and opinion	Opinion issued
Shire of Wickpin Local Roads and Community Infrastructure Program	18 July 2023
Shire of Wiluna Local Roads and Community Infrastructure Program Roads to Recovery Funding	15 January 2024 15 January 2024
Shire of Wyndham East Kimberley - Local Roads and Community Infrastructure Program Roads to Recovery Funding	31 July 2023 9 October 2023
Shire of York Pensioner Deferments	30 October 2023
Town of Cottesloe Local Roads and Community Infrastructure Program	22 December 2023

Source: OAG

Appendix 9: Other opinions and certifications issued since 10 November 2023

Entity	Opinion issued
Albany Cemetery Board	20 December 2023
Animal Resources Authority	21 December 2023
Australian Pathway Education Group Pty Ltd	20 November 2023
Bunbury Cemetery Board	21 December 2023
Busselton Water Corporation	16 November 2023
ECU Holdings Pty Ltd	21 December 2023
Edith Cowan Accommodation Holdings Pty Ltd	13 December 2023
Electricity Networks Corporation – Report of Factual Findings	11 December 2023
Goldmaster Enterprises Pty Ltd	5 December 2023
Professional Standards Council	13 November 2023
Public Trustee	8 December 2023

Source: OAG

Certification name	Certification issued
Indian Ocean Territories – Service Delivery Agreement	18 December 2023
Local Government Financial Assistance Act – DLG	17 November 2023

Source: OAG

Entity	Royalties for Regions approved projects	Certification issued
Department of Premier and Cabinet	Remote Aboriginal Communities COVID-19 Emergency Relief Fund	18 January 2024
Department of Justice	Enhanced Driver Training and Education for Regional and Remote Communities	19 March 2024
Mental Health Commission	Mental Health Step Up/Step Down Facilities – Kalgoorlie/Goldfields	15 February 2024
WA Country Health	Kimberley Dialysis Unit Residential Aged and Dementia Care Investment Program Royal Flying Doctor Service – Asset Replacement	12 March 2024

Source: OAG

Appendix 10: Completion of 2021-22 local government entities

Entity and opinion	Opinion issued
Shire of Toodyay – Disclaimer of opinion Financial report not supported with complete and accurate underlying records We were unable to obtain sufficient appropriate audit evidence regarding the financial report as a whole, as the financial report was submitted for audit purposes without complete and accurate underlying records. We were unable to audit the financial report by alternative means. Consequently, we are unable to determine whether any adjustments were necessary to the financial report as a whole for the year ended 30 June 2022. The audit opinion on the annual financial report for the year ended 30 June 2021 was disclaimed for the same reasons.	27 October 2023

Source: OAG

Appendix 11: Opinion and management letter definitions

In the auditor's report we include the audit opinion on the annual financial report and any other matters that, in our judgement, need to be highlighted. This year the Auditor General has issued the following types of opinions:

1. **clear opinion:** indicates satisfactory financial controls. The financial report is based on proper accounts, complies with relevant legislation and accounting standards, and fairly represents performance and financial position
2. **clear opinion with an emphasis of matter:** draws attention to a matter disclosed in the financial report to aid the readers understanding but does not result in a qualified opinion
3. **qualified opinion:** given when the audit identifies materially misleading information, inadequate controls or conflicts with the financial reporting frameworks.
4. **disclaimer of opinion:** the most serious audit outcome, issued when the auditor is unable to form an opinion due to insufficient evidence to form an opinion after all reasonable efforts.

We report weaknesses in the control environment to the CEO, mayor, president or chairperson and the Minister for Local Government. Findings will be rated as significant, moderate or minor. We also indicate if the finding has the potential to impact the audit opinion and if it relates to the prior year and remains unresolved. Both quantitative and qualitative aspects guide our ratings.

Risk category	Audit impact	Management action required
Significant	Findings where there is potentially a significant risk to the entity should it not be addressed by the entity promptly. A significant rating could indicate the need for a modified audit opinion in the current year or in a subsequent reporting period if not addressed. However even if the issue is not likely to impact the audit opinion, it should be addressed promptly.	Priority or urgent action by management to correct the material misstatement in the financial report to avoid a qualified opinion or for control risks, implement a detailed action plan as soon as possible, within one to two months.
Moderate	Findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.	Control weaknesses of sufficient concern to warrant action being taken as soon as practicable, within three to six months. If not addressed promptly, they may escalate to significant or high risk.
Minor	Those findings that are not of primary concern but still warrant action being taken.	Management to implement an action plan within six to 12 months to improve existing process or internal control.

Source: OAG

We give management the opportunity to review our audit findings and provide comments prior to completion of the audit. Each control finding is documented in a management letter which identifies weakness, implications for the entity, risk category and a recommended improvement action.

Auditor General's 2023-24 reports

Number	Title	Date tabled
18	Local Government 2022-23 – Financial Audit Results	6 June 2024
17	Local Government IT Disaster Recovery Planning	31 May 2024
16	Local Government 2022-23 – Information Systems Audit Results	27 May 2024
15	Government Campaign Advertising	15 May 2024
14	State Government 2022-23 – Information Systems Audit	12 April 2024
13	Provision of Supplementary Information to the Standing Committee on Estimates and Financial Operations – Opinions on Ministerial Notifications	5 April 2024
12	Digital Identity and Access Management – Better Practice Guide	28 March 2024
11	Funding for Community Sport and Recreation	21 March 2024
10	State Government 2022-23 – Financial Audit Results	20 December 2023
9	Implementation of the Essential Eight Cyber Security Controls	6 December 2023
8	Electricity Generation and Retail Corporation (Synergy)	8 November 2023
7	Management of the Road Trauma Trust Account	17 October 2023
6	2023 Transparency Report: Major Projects	2 October 2023
5	Triple Zero	22 September 2023
4	Staff Exit Controls for Government Trading Enterprises	13 September 2023
3	Local Government 2021-22 – Financial Audit Results	23 August 2023
2	Electricity Generation and Retail Corporation (Synergy)	9 August 2023
1	Requisitioning of COVID-19 Hotels	9 August 2023

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Office of the Auditor General
for Western Australia



Report 19: 2023-24 | 12 June 2024

PERFORMANCE AUDIT

Local Government Management of Purchasing Cards



**Office of the Auditor General
Western Australia**

Audit team:

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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.

Image credit: shutterstock.com/Suradech Prapairat

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

**Local Government Management of
Purchasing Cards**

Report 19: 2023-24
12 June 2024

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**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

LOCAL GOVERNMENT MANAGEMENT OF PURCHASING CARDS

This report has been prepared for submission to Parliament under the provisions of sections 24 and 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 three regional local government entities effectively managed the issue, use and cancellation of purchasing cards.

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

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

Caroline Spencer
Auditor General
12 June 2024

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Auditor General's overview

Purchasing cards offer benefits for local government entities by streamlining purchasing activities. However, these benefits come with the risk of misuse and loss of public money if the purchasing cards are not effectively managed.

In this audit, we looked at the management of purchasing cards at three regional entities. While we found poor management of some important controls, we did not find clear evidence that cardholders misused public money, in part because the entities did not have policy guidance to underpin allowable and reasonable use.

This audit follows on from our 2018 audit of local government entities' use of credit cards¹, which found generally satisfactory controls but noted shortcomings of varying significance in policies and procedures. In addition, our *Local Government 2021-22 - Financial Audit Results*² report found 20 entities with credit card anomalies.

For a more comprehensive review of purchasing cards, this audit looked beyond the use of credit cards and included other cards such as store cards. In reviewing each entity's controls, we did not apply a 'one size fits all' approach as the diversity of the sector means some very small entities, with few cardholders, may not need the same controls as larger entities with more cardholders.

I encourage the sector to use our better practice guidance in Appendix 1 - it contains considerations to help mitigate the risks associated with the use of purchasing cards and for creating an effective control environment.

I thank the staff at each audited entity for their cooperation and assistance in completing this work, and strongly encourage all local government entities to assess their own policies and management of purchasing cards against the focus areas of this audit.



¹ Office of the Auditor General, [Controls Over Corporate Credit Cards](#), OAG website, 9 May 2018.

² Office of the Auditor General, [Local Government 2021-22 Financial Audit Results](#), OAG website, 23 August 2023.

Executive summary

Introduction

The audit assessed whether three regional local government entities (City of Albany, City of Kalgoorlie-Boulder and Shire of Murchison) effectively managed the issue, use and cancellation of purchasing cards. We last audited this topic in the local government sector in 2018³.

In conducting the audit, we considered the requirements of the *Local Government Act 1995* (LG Act) and associated regulations, guidelines issued by the Department of Local Government, Sport and Cultural Industries (DLGSC) and our better practice guidance in Appendix 1.

Background

Purchasing cards represent an approved line of credit and are a well-established part of modern purchasing systems. They include corporate credit cards, store cards⁴, fuel cards and taxi cards. These cards provide entities with a cost effective, convenient and timely way to pay for goods and services of low value.

Local government entities need to have effective controls, appropriate to their size and risk, to prevent and detect inadvertent or deliberate misuse of their purchasing cards and meet their legislated responsibilities around the allocation of finances. This includes being able to demonstrate that purchases meet a business need and meet the expectations of ratepayers in the responsible use of public money. Improper, wasteful or unauthorised purchases that are not identified and resolved can result in financial loss to the entity.

The *Local Government Act 1995* (LG Act) and associated regulations require:

- entities to develop procedures for the payment of accounts to ensure there is effective security for, and properly authorised use of purchasing cards⁵.
- the CEO to keep proper accounts and records in accordance with regulations⁶
- the council to oversee allocation of the local government's finances and resources and determine policies⁷
- entities to provide information about each purchasing card transaction in a payment listing to council and in council minutes to increase transparency, accountability and council oversight of incidental spending⁸.

An effective control environment for purchasing cards should include:

- controls to prevent misuse and errors. These controls establish requirements up-front, and before a purchase is made. Examples include clear policies and procedures,

³ Office of the Auditor General, [Controls Over Corporate Credit Cards](#), OAG website, 9 May 2018.

⁴ Australian Securities and Investments Commission, [store card](#), Moneysmart.gov.au, n.d., accessed 29 April 2024.

⁵ Local Governments (Financial Management) Regulations 1996, regulation 11(1)a.

⁶ *Local Government Act 1995* section 6.5(a).

⁷ *Local Government Act 1995* sections 2.7(2)(a) and (b).

⁸ Local Government (Financial Management) Regulations 1996, regulation 13A took effect from 1 September 2023.

delegations to purchase, preset card limits and appropriate card authorisation and destruction processes.

- controls to detect errors and misuse after a purchase is made. These include processes to review and approve purchases, and the monitoring, reporting and oversight of card use.

Figure 1 provides an overview of the key components of purchasing card management, highlighting the controls we assessed during the audit and our better practice guidance (Appendix 1).



Source: OAG

Figure 1: Overview of the key components in purchasing card management and controls

The DLGSC provides the sector with broad guidance on the management of purchasing cards and changes in legislation through accounting and operational guidelines, circulars, alert bulletins and monthly webinars.

Conclusion

The three audited entities had varying controls in place to manage the issue, use and cancellation of their purchasing cards, but weak implementation and control gaps meant their controls were only partly effective.

Appropriately, the entities only issued cards to staff who had delegations to purchase and cardholders generally provided receipts to support their purchases. These controls help entities to meet their legislated responsibilities and ratepayers' expectations around the responsible use of public money.

However, we found gaps and weaknesses in all areas of purchasing card management that increase the likelihood of cards being inadvertently or deliberately misused, which can cause loss of public money:

- There was inadequate policy guidance on what each entity considered was allowable and reasonable expenditure on such things as travel, accommodation, food and drink. In addition, purchases were not always adequately reviewed and approved in a timely manner.
- The operational need for a purchasing card was not always established, cardholder obligations and responsibilities were not made clear, and cards were not promptly returned and destroyed when no longer needed.
- A lack of oversight and monitoring of control effectiveness meant entities were missing opportunities to identify and promptly address the risks of card misuse and financial loss.

Although our audit found poor management of some important controls relating to purchasing cards, our transaction sample testing did not find clear evidence that cardholders misused public money, in part because the audited entities had no policy guidance on what is allowable and reasonable card use and expenditure.

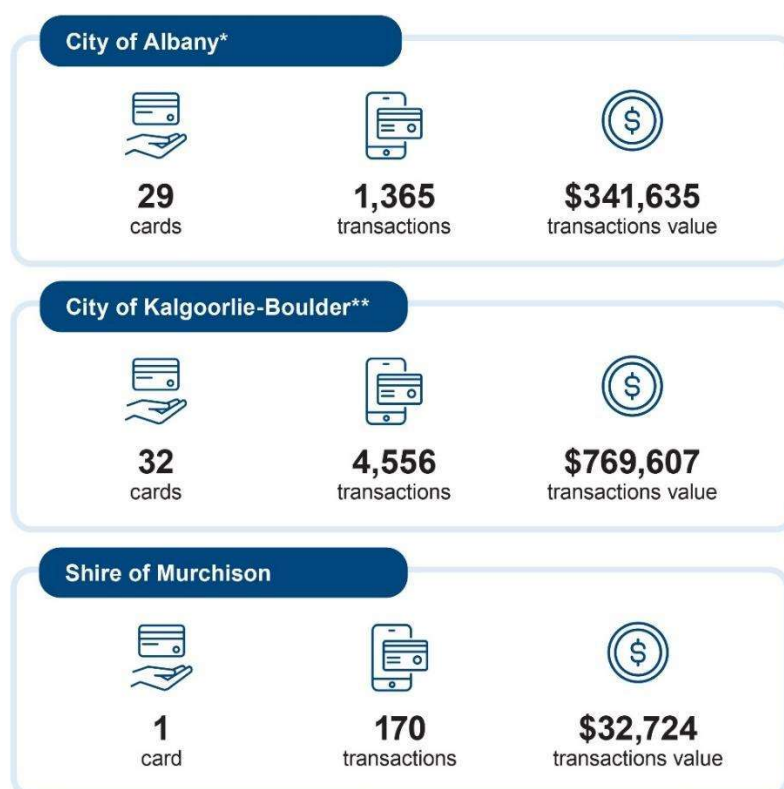
Findings

Controls over the use of purchasing cards were partly effective

We found cardholders generally provided receipts for their purchases and had appropriate delegations to purchase. However, we identified control weaknesses of varying significance across the three audited entities which increased the likelihood of unreasonable or unauthorised purchases. Detailed findings were provided to each of the audited entities.

Entities need to develop clear policy guidance on what is allowable and reasonable business expenditure, regardless of the payment mechanism, and improve card expenditure review and approval processes to prevent and detect inadvertent or deliberate misuse.

The three entities varied in the number of cards issued and the number of purchases over the audit period (Figure 2). All were using their purchasing cards to make low value purchases with most transactions being for items less than \$500.



Source: OAG based on information provided by each entity

* City of Albany: 5 credit cards (1,018 transactions and \$318,543) and 24 store cards (347 transactions and \$23,092).

** City of Kalgoorlie-Boulder: 30 credit cards (4,434 transactions and \$759,181) and 2 store cards (122 transactions and \$10,426).

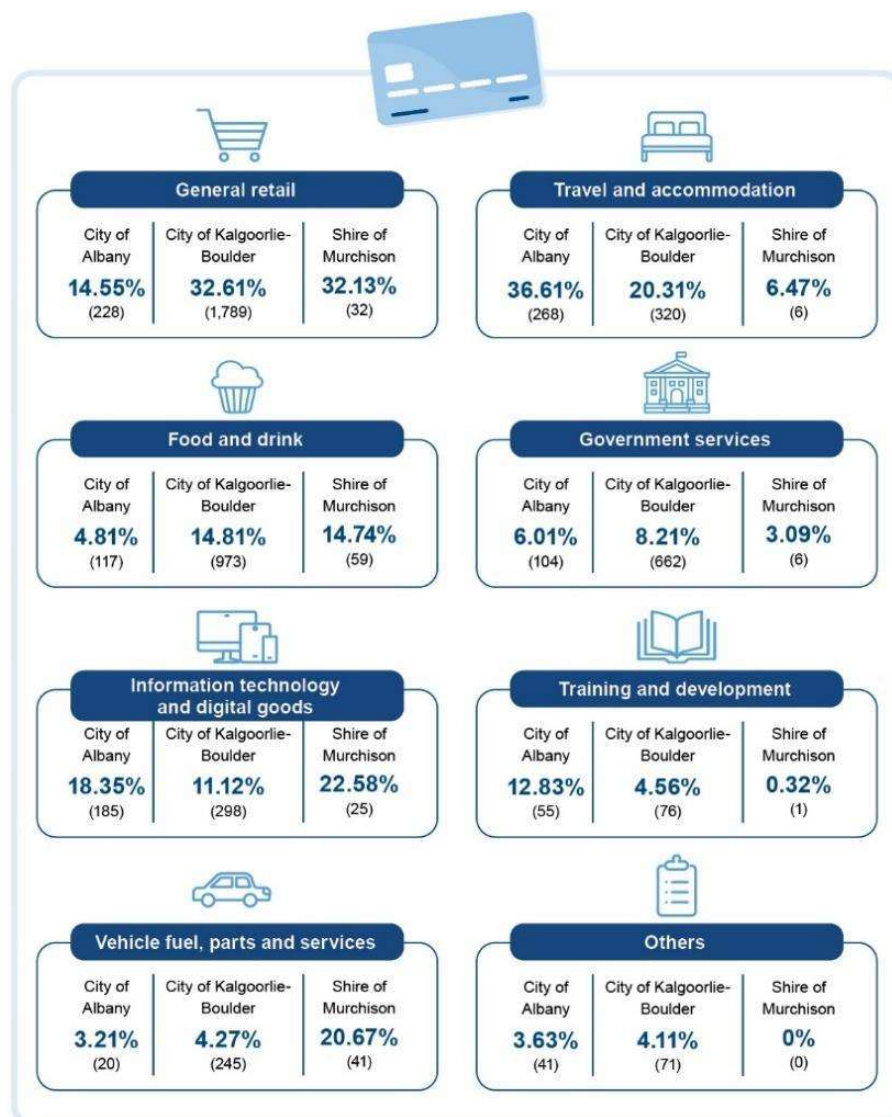
Figure 2: Key purchasing card statistics for 1 November 2022 to 31 December 2023

Our analysis found card purchases generally fell into the following categories:

- general retail (e.g. industrial and construction supplies, hardware and equipment, and office supplies and printing)

- travel and accommodation
- food and drink purchases
- government services (e.g. postal services, licenses, registrations and permits)
- information technology and digital goods
- training and development
- vehicle fuel, parts and services
- others.

We further analysed credit card purchases, which made up most of the purchases over the audit period.⁹ Figure 3 shows the percentage spend and the number of purchases in each category by entity.



Source: OAG based on credit card information provided by each entity

Figure 3: Purchase categories for 1 November 2022 to 31 December 2023

⁹ Credit card purchases were allocated using standard merchant information. Store card purchases were not analysed as merchant categories were not readily available.

Inadequate policy guidance on allowable and reasonable business use

None of the three audited entities had adequate policy guidance for staff on what they considered was allowable and reasonable business expenditure. The entities regularly purchased air fares, accommodation and food and drink¹⁰ (including alcohol) in the absence of any guidance around what was allowable and reasonable.

Policies are an important preventive control designed to assist staff in their decisions prior to them making a purchase and reduce instances of unreasonable and excessive spending. The community has a right to expect that public money will be spent carefully and only for legitimate business purposes. The following case study provides examples of purchases we identified where, in the absence of clear policy guidance, we queried if the spending was reasonable.

Case study 1: Reasonableness of business use

Air travel

- One entity spent \$6,302 for its CEO to fly business class interstate. The entity's current policy only allows business class air fares for elected members and there is no policy to guide allowable and reasonable expenditure on staff air travel.

Food and drink

- An entity purchased alcohol including 24 bottles of wine, 12 bottles of champagne and 15 cartons of beer and cider (\$1,290) and dessert (\$900) for a 'staff celebration'.
- An entity spent \$726 on 'reward and recognition catering' that included \$394 for alcohol and beverages (including five bottles of wine) and \$332 for food.
- An entity paid \$260 for food for a workshop. The approved receipt detailed the purchase of 'raw oysters'.

Supporting documentation did not show who and how many people attended, or the business purpose of the events, so the necessity and reasonableness of expenditure could not be clearly demonstrated.

We also found that none of the entities had documented processes or timeframes to recover money when cards were used to pay for personal items. Corporate purchasing cards should not be used to purchase personal items under any circumstances, even when the cardholder plans to reimburse the entity. If purchases cannot be clearly split into personal and business components at the time of purchase, a better approach is to pay with a personal account and then seek a reimbursement from the entity for the business component.

Entities need to have processes in place to promptly recover the cost of personal purchases to prevent loss of public money.

Case study 2 highlights examples where a purchasing card was used for personal use and an entity failed to promptly recover the money:

¹⁰ DLGSC Operational Guideline, *Use of Corporate Credit Cards*, requires local government entities to establish strict guidelines for expenditure on entertainment.

Case study 2: Personal use

An entity used a purchasing card to pay for the air travel of a staff member's partner who was not travelling in a business capacity. There was a considerable lapse of time (118 days after the transaction) before repayment of the partner's travel costs.

Inadequate review and approval of purchases

The audited entities did not always adequately review and approve purchasing card transactions. We identified:

- none of the entities complied with their own policy and procedures on the review and approval of purchases. For example, staff who were not authorised were approving purchases and purchases were not reviewed within specified timeframes
- CEO purchases approved by a Mayor despite Mayors' having no established administrative authority (City of Albany)
- purchases were approved by a subordinate of the cardholder (City of Kalgoorlie-Boulder).

To ensure expenditure represents allowable and reasonable business use, a direct manager¹¹ who is aware of the cardholder's role and purchasing requirements should conduct a timely review and approval of the purchases. This reduces the likelihood of unreasonable, inappropriate or unauthorised transactions going undetected.

We also found:

- card sharing while the cardholder was absent from the office (Shire of Murchison). This increases the likelihood of unauthorised or fraudulent purchases and makes it difficult to identify the purchaser
- collection of personal reward scheme points on business purchases that were not identified nor reported as part of the approval process (City of Albany and City of Kalgoorlie-Boulder). A risk exists with reward schemes that cardholders may make purchases through a particular supplier to gain a personal advantage.

The following case study is an example of approval timeframes set in the entity's policy and procedures that were not met.

Case study 3: Management approval exceeded timeframes

One entity's corporate policy and procedures require all purchases to be approved by a supervisor/manager within specified timeframes.

We found significant delays in the approval of card purchases during our audit.

- 63% were approved outside of the policy timeframes and included:
 - A significant number of purchases that were only approved in December 2023, after we initiated our audit, through three bulk approval actions. Some of these were for purchases spanning back 10 months to March 2023. The bulk approvals suggest very little actual scrutiny of necessity and reasonableness of expenditure.

¹¹ In the case of the CEO, the chief finance officer (or equivalent) or a suitably senior staff member.

- Significant delays in approval with delays of up to 218 days.

Entities need to promptly review and approve purchases to ensure the expenditure represents allowable and reasonable business use and to detect inadvertent and deliberate misuse.

Controls over the issue and cancellation of cards were partly effective and require improvement

The three audited entities' management of the issue and cancellation of purchasing cards were only partly effective. New cardholders had the necessary financial delegations to purchase, and purchasing card policies were made available to cardholders. However, we identified the following control weaknesses:

- policies and procedures were missing key elements including an application process to approve eligibility and need for a card, and a cardholder agreement form outlining cardholder legal obligations and responsibilities (Shire of Murchison and City of Kalgoorlie-Boulder)
- no management approval of applications to ensure cards are issued to approved staff and spending limits are based on operational need (City of Albany)
- delays of around one and two months in cancelling cards when staff exit the entity (City of Kalgoorlie-Boulder and City of Albany) which can lead to continued card use and unnecessary card administration fees
- purchasing card registers were missing key information such as an acknowledgement of card return and date of card destruction (City of Albany and City of Kalgoorlie-Boulder).

There is an increased likelihood of inadvertent or deliberate misuse and financial loss to entities when cards are not appropriately issued and cancelled.

Lack of appropriate oversight of purchasing card controls

Payment listings provided by the three audited entities to their councils generally met legislated requirements. However, we identified instances where the included descriptions were vague or inaccurate and could have better identified the expenditure to facilitate proper scrutiny.

None of the audited entities had appropriate management oversight of purchasing card control effectiveness. The entities informed us card administrators and line managers did not monitor controls to issue, use and cancel cards or report on shortcomings to management. Regular monitoring would assist entities to identify control gaps and address weaknesses in a timely manner. We noted during the audit that the City of Kalgoorlie-Boulder does have some insight into control effectiveness, but this is limited as it only reviews one month's card use by one randomly selected cardholder as part of its monthly executive meetings.

Case study 4 provides examples that illustrate the need for management oversight over control effectiveness. Our better practice guidance in Appendix 1 provides entities with a range of oversight activities to consider.

Case study 4: Lack of management oversight

We found the following examples where a lack of management oversight limited entities' ability to identify and improve controls:

- Several 'top-up' payments were made in the monthly card statement period as cardholders exceeded their monthly limits. Regular monitoring and reporting may have identified a need to reassess card limits based on operational need. Transactions may be declined and service delivery disrupted when credit limits are exceeded.
- A staff member had stored their entity's card information in a personal online accommodation account, resulting in personal use. The entity recovered the money but did not consider if control improvements were needed to prevent further occurrences.

We found the audited entities had reviewed their financial management systems and procedures at least every three years as required by legislation¹². While these included a limited review of purchasing card procedures, they did not provide ongoing confirmation that purchasing card controls are appropriate or effective. Oversight should be enhanced by other regular monitoring and reporting activities.

¹² Local Government (Financial Management) Regulations 1996, regulation 5(2)c.

Recommendations

The three audited entities, as relevant, should:

1. develop and implement clear policy guidance for staff on what is allowable and reasonable business use expenditure on items such as travel and food and drink
2. have suitable controls in place to manage the issue and timely cancellation of purchasing cards
3. review and approve purchasing card transactions in a timely manner
4. keep proper records of the review and approvals of purchasing card transactions and card cancellations
5. include sufficient accurate detail in council papers to allow purchasing card expenditure to be appropriately scrutinised
6. regularly monitor and report on purchasing card controls to allow management to oversee usage and control effectiveness. The results of reviews should be documented and retained.

In accordance with section 7.12A of the *Local Government Act 1995*, the three audited local government entities should prepare a report on any matters identified as significant to them for submission to the Minister for Local Government within three months of this report being tabled in Parliament, and within 14 days of submission publish it on their website.

Response from the City of Albany

The City of Albany accepts the recommendations and learnings contained in the performance audit. While the audit did not find clear evidence that cardholders misused public money, the City recognises the importance of continuous improvement in the management of its purchasing cards. The City has begun addressing the audit's findings.

Response from the City of Kalgoorlie-Boulder

The City of Kalgoorlie-Boulder has already begun reviewing and updating internal control processes and updated staff training in the use of cards within the City to ensure that processes and systems for the management cards are in line with best practice.

Response from the Shire of Murchison

The audit review of credit card use and overall recommendations for administrative improvements is welcome and as indicated in the Murchison Shire's responses will be actioned as a matter of course.

In context the Shire is very small and has only one credit card which has historically been assigned to the Chief Executive Officer when he or she commences employment. Whilst there has been no documentation on the actual purpose and operational use, the card has always been predominately used as a corporate card, which the CEO is responsible for, rather than for the CEO's work-related use. This form of usage is essential operationally as from time to time some organisations will only accept credit card payments rather than through the formal purchasing order / account payable system.

Whilst on the surface allowing others to use the credit card increases the risk of unauthorised or fraudulent transactions, the smallness of the organisation with only three in the administrative area other than the CEO, and normal checks and posting of transactions means that there is minimal risk of this actually occurring. Future improved documented policy and procedures will assist in demonstrating this situation.

Council's current policy and operational practices also requires credit card transactions to be authorised by the Chief Executive Officer as card holder and checked by an independent Financial Accountant. Details of credit card transactions are included in the list of payments presented to Council for each Council Meeting and as required included the resolution whereby Council have accepted the payment listing. Councillors are well experienced and familiar with the operations of the Shire, which by and large are relatively straight forward, and regularly ask questions and seek clarification.

Audit focus and scope

The focus of this audit was to assess whether three regional local government entities effectively manage the issue, use and cancellation of purchasing cards.

Our criteria were:

- Are there effective controls over the issue and cancellation of purchasing cards?
- Are there effective controls over the use of purchasing cards?

The City of Albany, City of Kalgoorlie-Boulder and Shire of Murchison were included in the audit.

The audit reviewed the issue, use and cancellation practices of each entity over the period of 1 November 2022 to 31 December 2023.

We visited each entity and assessed their policies and procedures against legislative requirements, DLGSC operational guidelines and our better practice guidance in Appendix 1. At each entity, we also assessed a sample of CEO purchasing card transactions and whether there was adequate independent review of CEO use.

This was an independent 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 of entity programs and activities including compliance with legislative and other requirements. The approximate cost of undertaking the audit and reporting was \$300,000.

Appendix 1: Better practice guidance

Local government entities need to have purchasing card policies and procedures that are up to date and accessible to staff. These policies and procedures should include key controls for the issue, use and cancellation of purchasing cards and be regularly reviewed.

The table lists requirements for effective purchasing card management, which guided our audit. It is not intended to be an exhaustive list.

Purchasing card management	Outcome	What we expect to see
 Issue	Cardholder eligibility and operational need is established, an application is appropriately approved and the cardholder is made aware of their legal obligations and responsibilities	- cardholder has appropriate financial delegation to incur expenditure. Delegations should also be set for certain types of expenditure - an application form is appropriately approved - card limits are based on cardholders need - cardholder and their manager signs agreement that clearly sets out legal obligations and responsibilities and the purposes for which a card may or may not be used - cardholder acknowledges that they understand and will comply with purchasing card policy and procedures - cardholder receives training on procedures and requirements - card administrator updates the purchasing card register with key cardholder information
 Use	Purchases are for business use, and are properly reviewed and approved in accordance with the purchasing card policies and procedures	- purchases should be within the transaction and card limits. They should not be split to circumvent these limits - entity sets out appropriate delegations for approval of expenditure - timely review and approval of transactions: <u>cardholder</u>: reviews statements to ensure accuracy of reported purchases, attaches adequate supporting documentation, codes purchases and provides sufficient details to identify the purchase <u>cardholder's direct manager</u>¹³: reviews and approves purchases to ensure appropriate business use, consistency with cardholder's role and responsibilities, and compliance with policies and guidelines - review and approval processes have adequate documentation - processes to repay any personal purchases - guidance for purchases where cards are not physically present such as online telephone and internet purchases

¹³ In the case of the CEO, the chief finance officer (or equivalent) or a suitably senior staff member.

Purchasing card management	Outcome	What we expect to see
		- treatment of reward schemes and loyalty programs as purchasing cards should not be used to gain a personal benefit - procedures for when a cardholder is on leave to ensure card security
 Cancellation	Timely cancellation of purchasing cards to prevent unauthorised purchases and unnecessary card fees	- immediate cancellation once a cardholder exits or has a change in employment requirements - cardholder returns card to the administrator - cards should be destroyed, and evidence of destruction recorded - administrator enters cancellation and destruction information in cardholder register
 Oversight	Regular monitoring and reporting to provide management with insights into use and the effectiveness of controls and to address shortcomings in a timely manner Evidence of reviews should be retained	Examples of monitoring and reporting include: - Continuously: - disclose information about each purchasing card transaction in a payments listing to council and in council minutes - record instances of personal use, inappropriate use, and disputed and fraudulent transactions. Take corrective action when required - assess the timeliness of reviews and approvals by cardholders and managers, and act when timeframes are not met - provide reports to managers on usage within their areas to assess operational need - reinforce requirements to cardholders and approvers - Annually: - identify inactive or under-used cards that may require cancellation - review appropriateness of transaction and card limits - audit and update purchasing card registers - review relevance and effectiveness of policies and procedures as part of an annual risk assessment - Periodically: - sample test transactions for appropriate business use and compliance with policies and procedures - analyse usage and supplier patterns to inform procurement practices - review purchasing card policy against operational guidelines and better practice principles

Purchasing card management	Outcome	What we expect to see
		○ review the appropriateness and effectiveness of financial management systems and procedures as required by legislation

Source: OAG

Auditor General's 2023-24 reports

Number	Title	Date tabled
19	Local Government Management of Purchasing Cards	12 June 2024
18	Local Government 2022-23 – Financial Audit Results	6 June 2024
17	Local Government IT Disaster Recovery Planning	31 May 2024
16	Local Government 2022-23 – Information Systems Audit Results	27 May 2024
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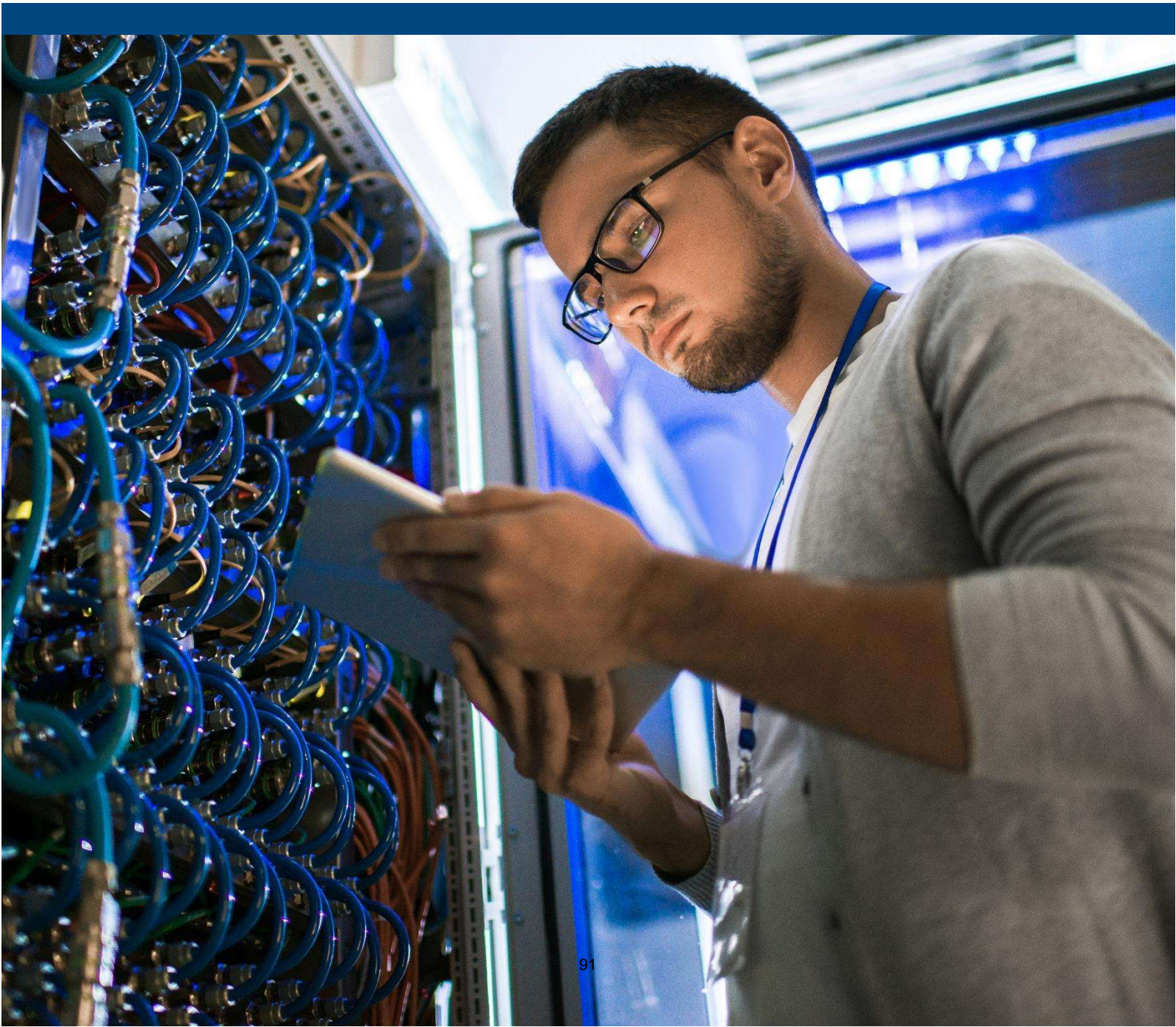
Office of the Auditor General
for Western Australia



Report 20: 2023-24 | 24 June 2024

PERFORMANCE AUDIT

Local Government Physical Security of Server Assets



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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.

Image credit: shutterstock.com/SeventyFour

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

**Local Government Physical Security
of Server Assets**

Report 20: 2023-24
24 June 2024

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**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

LOCAL GOVERNMENT PHYSICAL SECURITY OF SERVER ASSETS

This report has been prepared for submission to Parliament under the provisions of sections 24 and 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 16 non-metropolitan local government entities of varying sizes effectively manage access to server assets and protect them from environmental hazards.

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

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

Caroline Spencer
Auditor General
24 June 2024

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Auditor General's overview

Many local government entities rely on server assets to run their information technology (IT) systems and applications that are integral to their operations. These server assets need to be protected against physical and environmental hazards that can disrupt continuous IT service and the delivery of services to the community.



All 16 local government entities in this audit had physical server assets located onsite, but each had their own unique IT needs, risks and resources. It was encouraging to find that all the audited local government entities had some protections in place to restrict physical access to their server assets and reduce the risk of accidental or malicious damage. They had also taken steps to reduce the impact of environmental hazards such as high temperatures and humidity on these assets. However, we found many audited local government entities could better use and maintain the protections they have and improve their monitoring of hazards.

We have raised similar issues in our previous information systems audits of local government entities. Most recently, our 2022-23 information systems audits found 45% of the local government entities we tested needed to improve the physical security of their server assets.¹

This report includes recommendations and better practice principles that local government entities of all sizes can use to protect their server assets against damage.

¹ Office of the Auditor General, [Local Government 2022-23 – Information Systems Audit Results](#), OAG, 27 May 2024.

Executive summary

Introduction

This audit assessed whether 16 non-metropolitan local government entities (entities) of varying sizes effectively manage access to server assets and protect them from environmental hazards. The entities were from the Gascoyne, Goldfields, Great Southern, Kimberley, Pilbara and Wheatbelt regions.

Detailed findings were provided to each entity. However, we have anonymised findings throughout this report to not compromise the security and continuity of their systems and information.

Background

Entities rely on server assets to run key IT systems and applications. Our 2022-23 local government information systems audits found a substantial proportion (45%) of the entities we tested needed to improve the physical security of these assets.² Inadequate protections can lead to accidental or malicious damage; compromising the security of an entity's information and its ability to maintain continuous IT service.

Server assets include the entities' servers, as well as storage devices and network equipment. These assets provide shared access to applications, such as web pages, email and back office systems that are integral to the delivery of services to the community. In this report we have used the term server room to describe where the server assets are housed, whether this is in a dedicated server room or a shared space.

There are several actions entities can take to protect their server assets (Appendix 1). Server assets should be mounted in specialised enclosures called a rack. These racks protect the assets, channel airflow, and include cable management systems. Some racks can also include power distribution and protection, cooling fans and sensors for monitoring temperature and humidity.

It is good practice to house racks in a dedicated server room. However, when this is not possible, and server assets are housed in shared spaces, they require additional controls such as cages to prevent unauthorised access.

To protect server assets, the rooms and racks should have the following:

- access controls to prevent malicious or accidental damage
- fire detection and suppression to limit fire damage
- power filtering and redundancy through uninterruptible power supplies (UPS³). This may be augmented with a generator
- room or rack-based cooling to remove heat generated by the server assets
- environmental sensors throughout the room to measure temperature and humidity and issue alerts when these vary beyond acceptable limits
- cable management systems to improve access, workplace safety, fault detection and airflow within a rack.

² Office of the Auditor General, [Local Government 2022-23 – Information Systems Audit Results](#), OAG, 27 May 2024.

³ A UPS is a device containing batteries that provides backup power and protection to server assets when the mains power fails or fluctuates.

Conclusion

All 16 audited entities had controls to partly protect their server assets from unauthorised access and environmental hazards. Despite the audited entities' different IT requirements and facilities, most need to better protect their server assets.

Half the audited entities need to improve their storage and tracking of the keys that give access to server assets. While all entities used racks, only four made appropriate use of them. Twelve entities had racks that were missing panels or had unlocked doors unnecessarily exposing the server assets to damage from anyone passing through the server room.

All audited entities had some environmental controls in place to cool their server assets, extinguish a fire and manage power interruptions. However, most did not service or test all their controls to ensure they worked as expected. Concerningly, nine did not have adequate systems to alert them of a fire in the server room, or in some cases, anywhere in the building. Only three entities appropriately monitored their server room environment for high temperature and humidity.

Key findings

The entities we visited had varying approaches to storing and securing their server assets, reflecting the different IT needs and the available facilities. Five entities had dedicated server rooms, only accessible by selected staff. Eight entities kept their server assets in multipurpose rooms accessible to all staff with no public access. The other three entities stored their server assets in areas that were accessible by the public.

Entities can better control access to their server assets

While most entities had taken steps to protect server assets, more can be done to tighten access and reduce the risk of both accidental and malicious damage.

Keys are not always well managed

Half of the audited entities need to improve how they store and track the keys that grant access to server rooms and racks. While all had installed locks to help secure their server assets, including some with electronic systems (Case study 1), common issues we found included:

- Physical keys kept in easily accessed areas such as office drawers, in the rack door lock, or on pegs next to the server rack.
- A record of who used physical keys to access server assets was not maintained. Without this kind of record, entities cannot easily track when physical keys are used and returned.
- A lack of policy or procedure to help guide staff on key allocation and usage.

Locks on server rooms and racks are effective ways to control access, but their success depends on proper key management.

Case study 1: Electronic locks

Electronic access locks offer advantages over traditional, physical keys. As they grant access using a code or swipe card instead of a physical key, entities can quickly and easily allocate and revoke access. Further, as these systems keep an entry log, entities can easily track who has unlocked the room.

Four of the entities had installed these systems.



Source: OAG

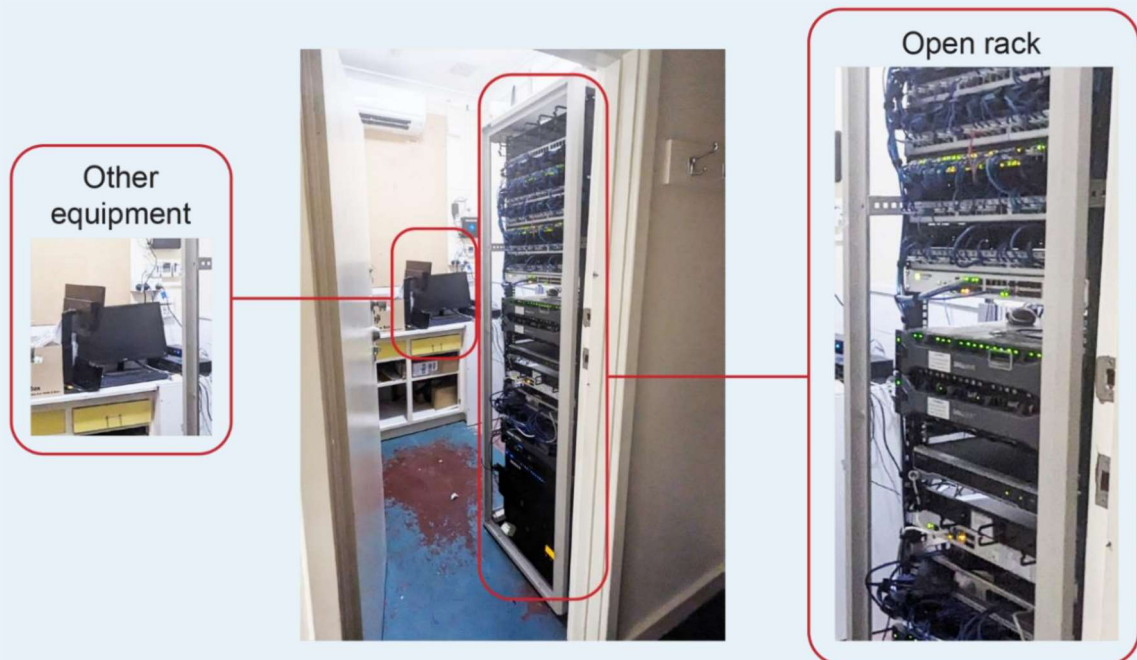
Figure 1: Photo of electronic lock

Servers, network devices and cabling were exposed

All entities used server racks, but only four made appropriate use of them. Twelve entities had racks with missing panels or unlocked doors (Case study 2). One of these entities had installed a rack that was too small for their server and as the asset extended beyond the frame, the door could not be attached. In some cases, we observed the missing panels being stored nearby. If the server assets are not enclosed, they are exposed to unauthorised

access that can lead to accidental or malicious damage from anyone passing through the area.

Case study 2: Open rack risks damage



Source: OAG

Figure 2: Photo of rack with no panels

One entity had not enclosed its server assets at all.

While the rack was kept in a locked room, the room was also used to store other equipment. This meant staff accessed the room for various reasons, exposing the server to increased traffic and risk of accidental damage.

Server assets could be better protected against heat, moisture, fire and other environmental hazards

All entities' server rooms had some environmental controls in place to cool their server assets, extinguish a fire and manage power interruptions. More can be done to monitor emerging hazards and service environmental controls.

Detection of environmental hazards could be improved

Nine entities did not have adequate fire alert systems. This included not having smoke detectors in their server room or anywhere in the building, and smoke detectors that were not monitored externally. A lack of warning systems delays response and places server assets and office staff at increased risk.

Only three entities monitored the temperature and humidity of their server rooms. Monitoring room conditions is important as inappropriate temperatures or excessive humidity can lead to poor performance and damage to server assets. We note that 10 entities did monitor the internal temperature of their server assets.

While all the entities had a UPS, four were not monitoring the unit to be warned of power irregularities. Failure to monitor may not give the entity enough time to gracefully shut down

its server assets prior to losing power which may result in information loss or equipment damage.

Environmental controls were not regularly serviced

Entities did not adequately service and test their environmental controls to ensure they would work when needed (Case study 3). We found:

- only one entity regularly serviced their UPS. At three other entities the UPS or its batteries had reached the end of useful life and needed replacing
- three entities had not regularly serviced the air conditioners that kept their server assets cool
- fire extinguishers at four entities were not inspected every six months, as recommended by the Australian Standards⁴.

Case study 3: Failure of power backups

During a recent power outage an entity's backup power systems failed. This damaged a critical storage device and required data and systems to be restored from backups. It took the entity three weeks to fully recover its IT systems.

While this entity had both a UPS and a generator in place to protect its server assets, these had not been adequately tested.

When the mains failed, the UPS operated as expected and supplied emergency power for a short period of time. However, the generator failed to start and once the UPS battery ran flat the server assets stopped operating.

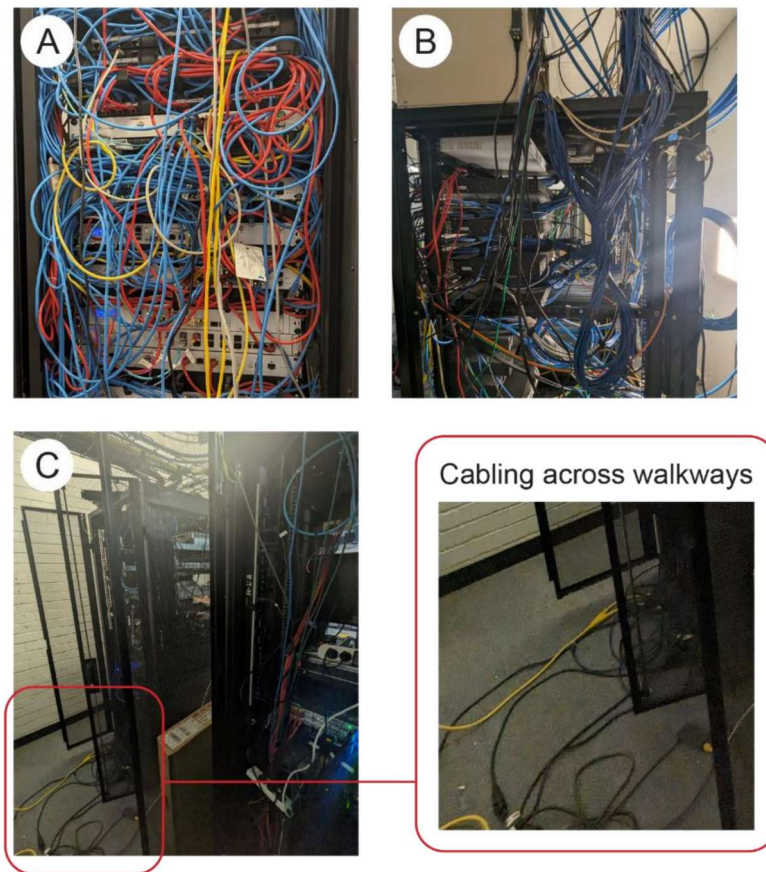
Network and power cabling could be improved

Fourteen entities did not have structured cable management or had not used this effectively. Structured cabling is a system of cable ties and supports that minimise the risk of hazards posed by uncontrolled cables. We observed:

- excessive cabling within the racks, which may restrict airflow to cool the server assets and increase time to diagnose issues (Figure 3, A)
- unsupported cables which may wear electrical connectors and cause failures (Figure 3, B)
- cabling across walkways which create tripping hazards and may result in outages (Figure 3, C).

Disorganised cabling can cause accidents, outages or additional wear and tear on the server assets.

⁴ AS1851-2012 Routine service of fire protection systems and equipment.



Source: OAG

Figure 3: Photos of poor cabling

Server rooms are not kept clear of other hazards

Seven entities have not appropriately managed risks when storing other items in their server rooms or near their server assets when these are housed in a multipurpose room (Case study 4). We observed:

- flammable or explosive items, such as cardboard and pressurised containers, stored close to and between racks
- boxes blocking the air conditioner
- dust building up on server assets which can cause overheating, static electricity and damage the assets.

Other items should be kept to a minimum and stored appropriately, and the room kept clean to reduce the likelihood of damage from fire, pests, overheating and electrical issues.

Case study 4: Excess items stored in the room could increase the risk and extent of a fire



Source: OAG

Figure 4: Photo of high risks items stored in the server room

One entity stored an excessive amount of non-server related items including wood and cardboard in the server room. Better practice would be to minimise storage in the server room to reduce the likelihood and extent of a fire.

Recommendations

The 16 audited entities should consider the key elements outlined in Appendix 1 to manage access and protect the physical security of their server assets. In particular:

1. Improve their physical security access controls to prevent accidental and malicious damage to their server assets. Consideration should be given to:
 - a. management of keys to ensure only approved staff can access the server assets and access is logged and monitored
 - b. use of racks to fully enclose server assets
 - c. additional physical controls where racks are accessible to the public.
2. Improve their environmental controls to protect server assets by:
 - a. implementing and monitoring environmental changes such as fire, temperature and humidity
 - b. regularly servicing all environmental controls
 - c. implementing structured cable management
 - d. minimising or better managing the storage of other items around or near their server assets.

In accordance with section 7.12A of the *Local Government Act 1995*, the 16 audited local government entities should prepare a report on any matters identified as significant to them for submission to the Minister for Local Government within three months of this report being tabled in Parliament, and within 14 days of submission publish it on their website.

Response from the audited entities

Audited entities generally accepted the recommendations and confirmed that where relevant, they will improve their controls to better protect their server assets against unauthorised access and environmental hazards.

Audit focus and scope

This audit assessed whether 16 non-metropolitan local government entities effectively manage access to server room assets and protect them from environmental hazards. The entities were from the Gascoyne, Goldfields, Great Southern, Kimberley, Pilbara and Wheatbelt regions.

Our criteria were:

- Are server room assets protected from unauthorised access?
- Are appropriate environmental controls in place to protect server rooms?

We visited each entity and:

- reviewed policies and procedures
- conducted interviews with key staff
- carried out physical inspection of server rooms and environmental controls
- examined relevant documents and records.

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 \$288,500.

Appendix 1: Better practice principles – key elements of physical security of server assets

The table below shows key elements to help manage access and protect the physical security of server assets. These elements are not exhaustive and entities should assess their own physical security needs.

Key elements	Description
Policies and procedures	Policies and procedures identify the server assets that need protection and how the risk of damage, compromise or loss will be minimised. Areas to consider include: • access to server rooms and racks • environmental controls including their servicing and monitoring • server room upkeep. Policies should be easily accessible by staff, clearly outline roles and responsibilities and detail appropriate record keeping.
Access controls	Only authorised staff should have access to server assets. Access controls restrict and manage who can access server assets and include: • physical barriers to entry to the server racks and room. Server assets should be suitably secured and enclosed • user access management. Allocated keys, cards and fobs should be stored securely and tracked. Access should be removed when an individual's employment or engagement ends or they have a change in role • routinely checking access to identify instances of unauthorised entry.
Environmental controls	Environmental controls protect server assets from environmental hazards and can include: • UPS and backup generators to provide emergency power in the event of a power failure • rack based cooling (fans) or room air conditioning to prevent overheating • fire detection and suppression to limit fire damage ○ fire detection can include smoke detectors and very early smoke detection apparatus (VESDA) ○ fire suppression can include fire extinguishers, dry pipe sprinkler systems and gas suppression systems • room sensors to detect water and measure if temperature and humidity vary beyond acceptable limits. Environmental controls should be regularly serviced and tested to ensure they will work when needed.
Server racks	Server racks provide a framework to protect and organise server assets. Entities should install racks that meet their individual needs including the type of facility, available space and the size, power, cooling and cabling requirements of server assets. Server racks should be kept locked to prevent unauthorised access. Racks can come preconfigured with power protection and distribution, cooling, cable management and environmental monitoring.
Cable management	Cable management systems improve access to server assets and fault detection and airflow within a rack. Cables should be appropriately labelled, colour coded and secured using structured cabling.

Source: OAG

Auditor General's 2023-24 reports

Number	Title	Date tabled
20	Local Government Physical Security of Server Room Assets	24 June 2024
19	Local Government Management of Purchasing Cards	12 June 2024
18	Local Government 2022-23 Financial Audit Results	6 June 2024
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Office of the Auditor General
for Western Australia



Report 25: 2023-24 | 28 June 2024

PERFORMANCE AUDIT

Staff Exit Controls at Large Local Government Entities



**Office of the Auditor General
for Western Australia**

Audit team:

This audit was conducted by Paxon Group engaged under section 29 of the *Auditor General Act 2006*.

The audit was conducted under the direction of Nayna Raniga and Andrew Harris.

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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

**Staff Exit Controls at Large Local Government
Entities**

Report 25: 2023-24
28 June 2024

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**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

STAFF EXIT CONTROLS AT LARGE LOCAL GOVERNMENT ENTITIES

This report has been prepared for submission to Parliament under the provisions of sections 24 and 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 eight large metropolitan local government entities effectively and efficiently manage the exit of staff to minimise security, asset and financial risks.

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

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

Caroline Spencer
Auditor General
28 June 2024

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Auditor General's overview

This audit assessed the effectiveness of staff exit controls at eight large metropolitan local government entities. It follows similar audits in both State government entities and government trading enterprises (GTE). The eight entities employ a large number of staff, often across multiple locations, many of whom are casual and temporary employees. In our audit period they also incurred significant staff turnover.



Overall we found that payroll and finance controls were largely effective, but physical security and information technology risks were not always minimised and there were gaps in the documentation of the return of assets. Although this exposes the entities to increased risk, I am pleased that we did not find any instances where information systems had been accessed inappropriately or where assets had been lost or stolen.

All the entities had processes in place for staff exits but their maturity and design varied. Similar to State government entities and GTEs we found that they did not effectively document the assessment of risk and adjust controls to take account of staff leaving high integrity positions.

The risks and challenges identified in my report are not confined to the eight entities we audited. I encourage all public sector entities to look at the findings and recommendations in this report, and draw on the better practice guidance provided in Appendix 1. These should be applied by entities to meet their operational requirements to ensure they have effective staff exit controls in place.

Executive summary

Introduction

Our Office regularly conducts audits to ensure that controls are effective and working as intended. Our recent audits of staff exit controls in State government entities and government trading enterprises (GTE) found access to work premises and information technology (IT) were not consistently cancelled immediately, and exit controls were not assessed for risk and were not adjusted for high integrity positions.

This audit assessed whether eight large metropolitan local government entities (entities) effectively and efficiently manage the exit of staff to minimise security, asset and financial risks. We considered if these entities have appropriate policies and procedures, and whether these are complied with to effectively manage staff exits. This report names local government entities in highlighting good practice and areas to improve. These learnings can be applied more broadly across local government entities and the public sector. Entities have not been named where financial controls are applicable.

Background

The risks relating to staff exits are common to all public sector entities. The local government sector is no exception. It employs a large number of staff, often across multiple locations, many of whom are casual and temporary employees. Entities often see large movements in staff. Our audit covered staff exits during the period 1 January 2023 to 31 December 2023 (Table 1).

City	Headcount	Total staff exits	Casual and temporary staff exits	Permanent staff exits
Armadale	701	213	100	113
Canning	813	270	125	145
Gosnells	671	112	47	65
Joondalup	1,014	207	134	73
Rockingham	725	194	88	106
Stirling	1,490	289	169	120
Swan	1,118	235	67	168
Wanneroo	957	187	43	144
Total	7,489	1,707	773	934

Source: OAG using audited entity information

Table 1: Headcount and the number of staff exits at the eight local government entities in 2023

Entities need to ensure when a staff member leaves that premises and information are protected, and all public assets recovered. Ineffective controls increase the risk of security breaches and the loss of information, physical assets and public money.

When staff leave by resignation, retirement, end of contract or through dismissal the entity should:

- immediately cancel access to information systems, premises and confidential information

- revoke all physical controls such as identity cards, security access passes (fobs or cards) and keys
- collect all entity owned property
- offer exit interviews
- issue a reminder of the individual's ongoing obligations not to disclose entity information.

Entities should also consider and assess risks presented by staff leaving high integrity positions, or are terminated for misconduct or other adverse reasons. Risk assessments help entities to identify and understand security implications and reduce risks to information, assets and finances. Information to assist entities to manage these risks is included in Appendix 1.

Risk assessments are better managed by adopting a systematic approach that is documented in exit procedures and checklists used by entities. This includes considering post-employment integrity risks and making clear the ongoing requirement for staff to maintain security of information and return all IT assets when the person's employment ends.¹

To manage staff exits effectively entities require policies and procedures that coordinate activities across multiple business units (these can include human resources, payroll, finance, security, IT and fleet). Entities also need to monitor staff exits to ensure compliance with their policies and procedures, and reduce risk.



Source: OAG using audited entity process maps and information

Note: The business unit names and configurations may vary at different entities.

Figure 1: Five key business units generally involved in the staff exit management process

¹ Office of the Auditor General, [Local Government 2022-23 – Information Systems Audit Results](#), OAG, 27 May 2024.

Conclusion

The entities we audited were partly effective in managing staff exits to minimise security, asset and financial risks. Payroll and finance controls in all eight entities were largely effective, but physical security and IT risks were not always minimised and there were gaps in the documentation of the return of assets. Although this exposes the entities to increased risk, we did not find any instances where information systems had been accessed inappropriately or where assets had been lost or stolen.

All the entities had processes in place for staff exits but their maturity and design varied. Entities' monitoring and oversight of the completion and effectiveness of exit controls was limited. Documentation of end-to-end processes varied across the eight entities, and only two entities had processes in place which enabled them to monitor that all exit activities have been completed. Data to check whether IT and security access had been cancelled was inadequate in most entities, mainly because the ageing systems in use at these entities lacked effective reporting functionality.

Similar to State government entities and GTEs, local government entities are not yet mature in assessing risk and adjusting staff exit controls to take account of high integrity positions. Factors such as access to confidential information and/or critical systems are not subject to risk assessment and exit controls are not adjusted accordingly. Although exit interviews or surveys were offered, completion rates were low restricting analysis of results. We did find some entities do not review outcomes of exit interviews and surveys. This reduces opportunities to improve business processes and staff retention, which is a key challenge for many entities.

Findings

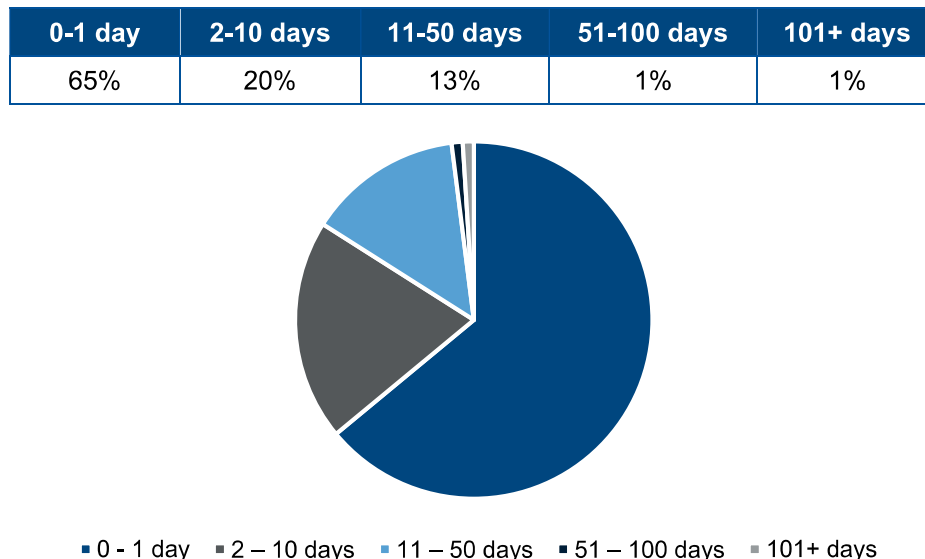
Access to buildings and IT was not consistently removed on a timely basis when staff left

Cancelling access to buildings often took more than a day risking unauthorised access to premises

Physical access cancellation at all eight entities was not always performed on a timely basis, specifically within a day of the employee exit. This exposes the entities to increased risk in terms of unauthorised access to buildings, misappropriation of assets and possible damage to premises.

Almost one third of the staff exits we examined showed access was not cancelled within a day after the employee's last day of employment. We tested 15 exits at each entity.

Across the three entities where data analysis could be performed for the population of exits (Table 2), access was cancelled on a timely basis in 65% of cases, with 35% between two and 101 plus days (Figure 2).



Source: OAG based on exit data provided by three local government entities

Figure 2: Days taken to remove physical access

We were able to determine from our sample exits that security cards had been disabled. Processes were also in place for the return of security access cards but we were unable to evidence the return or destruction of these at all eight entities.

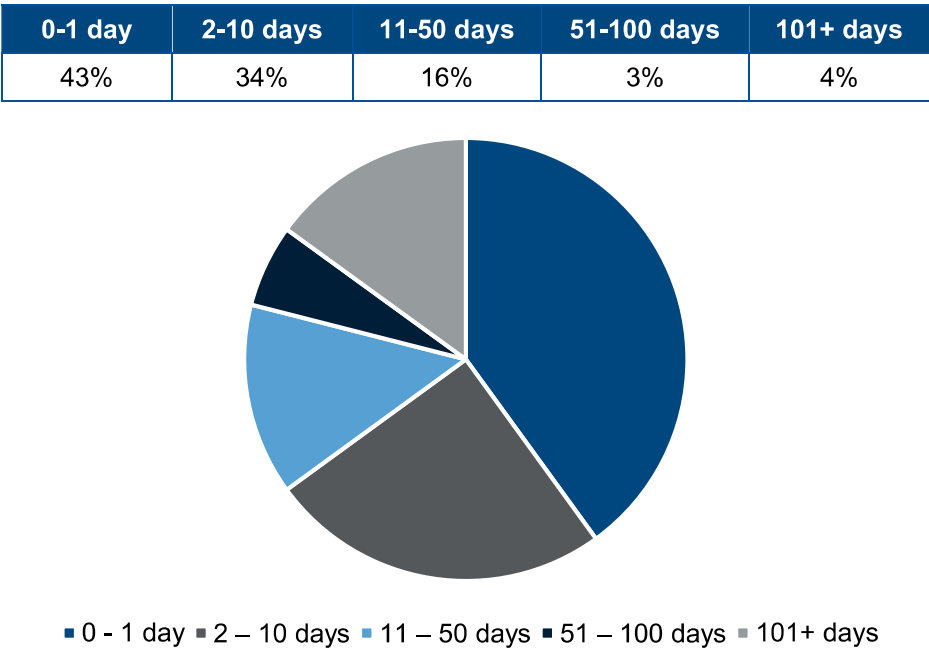
In addition to building access cards, some employees also received staff identify cards. At most entities, it was not possible to determine the date of return of identity cards as the cards are destroyed and no documentation is kept. Identity cards allow the holder to exercise powers, such as performing inspections and if they have not been returned and destroyed it increases the risk of them being used inappropriately after someone leaves. This risk is relatively low as there are processes in place to prompt the return of identity cards on staff exit.

Access to IT was not always cancelled within 24 hours

IT access cancellation was not performed on a timely basis at seven of the eight entities, with 38% of the samples tested not cancelled within 24 hours of staff exit. This increases the risk of inappropriate or unauthorised access being obtained to the entity’s information and data. The City of Wanneroo was the only entity where all the exits we tested showed timely cancellation of less than one day.

There were no instances of unauthorised access by an employee after their exit date. We found a very low number of instances of activity on user accounts after exits, but this was approved IT department activity, rather than inappropriate user activity.

Across the six entities where the data allowed us to perform analysis (Table 2), 43% of the total number of exits were timely cancellations but 57% were not, with 4% over 101 days (Figure 3).



Source: OAG based on exit data provided by six local government entities

Figure 3: Days taken to remove IT access

Of the eight entities only the City of Rockingham had defined target timeframes for the cancellation of access to IT and security access cards. It also performed significantly better than the other entities where we were able to analyse the data across the entire population of staff exits.

The return of assets was not always actioned or documented effectively

The return of assets was not always effectively documented

While we did not find any instances where assets had been lost or stolen, it was not possible to confirm that assets allocated to exiting staff were returned at the point of exit.

Although all eight entities have processes to administer the return of assets we found that forms were not always in place or completed to identify which assets had been allocated to which staff, and when they were returned.

IT assets issued to staff are generally not physically returned to IT centrally but provided directly to the replacing employee or to the line manager. IT asset registers were either in place or in development at all eight entities, but there is no clear audit trail of the details of assets being allocated, transferred and returned at most entities leaving uncertainty as to who has the asset at any point in time.

There were instances where exited employees were still included as the custodians of assets within the registers. Where this did occur, entities were able to demonstrate assets had been returned and were still being used within the respective entity.

Although fleet assets could be evidenced as returned at six entities, fleet asset documentation was not always completed for the return of vehicles and related assets such as fuel cards. Limited documentation was available at the cities of Gosnells and Armadale, as vehicle return forms are not used by these entities. The return of vehicles and the related fuel card was identified through the allocation of the vehicle to a different employee, but due to the absence or lack of completed forms we could not always determine the timeliness of their return.

Controls over final payments need to be consistently implemented at two entities

Although most entities had effective controls over financial payments, we found:

- at one entity the final payment for 10 exits, considered to be standard exits, was calculated by the system with no further checks occurring
- one person within our sample owed money to an entity, but the value was not established until after they had exited and the final salary payment had been made. This exposes the entity to an increased risk of non-payment, though in this instance the value was not considered high.

Entities need to ensure that their controls over final payments to exiting employees are consistently implemented. Making errors in final payments risks either underpaying exiting employees which is not acceptable or overpaying and then having to recover funds from staff who have left the entity.

Processes for monitoring the timely completion of exit activities vary in their effectiveness

There are gaps in entities' monitoring of whether exit processes have been completed

Exit controls work across multiple business units that don't always interact on a regular basis. Because of this, entities need to have processes in place to make sure these controls are performed. We found limited monitoring had been performed by the entities to confirm all exit activities had been completed contributing to the findings within this report.

At six entities processes were in place to initiate the required exit activities and notify the relevant business unit of the exit of an employee, but there was no reporting of completed actions by the relevant business unit:

- at the cities of Swan and Canning there were no exit checklists to confirm the completion of exit activities by the line manager
- at four other entities checklists were used and completed by the line manager of the exiting member of staff but testing identified that they were not always fully completed. At the City of Armadale use of the checklist was noted as being optional. The City of

Rockingham was the only entity able to demonstrate completion of exit checklists for all exiting staff tested

- only two entities, the cities of Joondalup and Gosnells, had the capability to monitor the completion of all exit activities (Case study 1). However, this is limited to statements of completion that could not always be evidenced.

Case study 1: Effectively designed exit processes

On notification and acceptance of a staff exit, an entry is created in a database containing the employee's details, last day of employment and through a workflow system, tasks are assigned to the different business units involved in performing exit activities. The process to this point is common for all eight entities.

At the cities of Joondalup and Gosnells, these tasks remain open until they are noted in the database as completed, along with a comment to identify the action taken. Human resources can monitor these responses. Any actions that have not yet been performed can be clearly identified to help assess the timeliness and completeness of exit activity. The other entities do not have this degree of confirmation and accountability.

There is also a step related to post-exit confidentiality with the departing employee informed or required to formally acknowledge these requirements.

These entities with better designed processes may require less effort to ensure that their controls are operating effectively due to the effort already expended on their design.

Entities' data for monitoring exit controls was limited

As part of the audit we compared the date of exit to the IT and physical security access cancellation data for all exits in our audit period. However, limitations in entities systems and reporting capabilities meant that we could not do this for all the entities (Table 2). The lack of data and reporting, often due to a lack of functionality in the systems used, limits the entities' ability to effectively monitor the operation of exit processes.

The lack of timely cancellation of IT and security access increases the risk of unauthorised access to premises and information post-employment or provides a loophole for others to exploit.

City	Security access data analysis	IT access data analysis
Armadale	Data not available	Performed
Canning	Data not available	Data not available
Gosnells	Data not available	Performed
Joondalup	Data not available	Performed
Rockingham	Performed	Performed
Stirling	Performed	Performed
Swan	Performed	Performed
Wanneroo	Data not available	Data not available

Source: OAG based on entity data

Table 2: Summary of data analysis performed

Security access cancellation dates were not available for the total number of exits as information is administered in basic systems with limited reporting functionality. Only three entities could provide this information.

Information relating to security cancellation for individuals was available, however at the City of Canning it was not possible to obtain complete information on individual exit security cancellation dates as they were manually recorded on spreadsheets or information was missing.

At two entities IT access cancellation dates were only available by individual and not for all exits due to system reporting limitations. Improvements in the availability of this data would enable entities' to implement more effective oversight of these areas and perform comparison of the cancellation dates to assess their completeness and timeliness.

Exit controls are not responsive to the risks with exits from high integrity positions and are not effectively documented

Exit controls are not adjusted to reflect high integrity positions and are not effectively documented

None of the entities had a documented process for assessing risk when someone is leaving a high integrity position or could demonstrate additional measures that might be required to manage their exit. For example, controls may need to be adjusted to manage risks or security concerns of staff who are in high integrity positions where they have access to things like confidential information or payroll systems or bank accounts. Measures were in place for higher risk exits where there were performance or disciplinary issues.

Risks are most effectively identified and managed with a systematic approach to assessing them. Risk assessments assist entities to identify security implications and tailor approaches to minimise risks to information, assets and finances. An understanding of the risks and having documented procedures to mitigate them allows adjustments of controls to be made in the staff exit process to match the circumstances. High integrity positions are not always senior positions and risk assessments need to take account of access to information, systems and resources.

At one entity an employee who left was not removed from the bank authorised signatory listing until 105 days after exiting, which increases the risk of unauthorised transactions or access occurring. This may have been mitigated if the increased risk had been considered. In this instance there were mitigating controls with dual signatories required for all administrative changes to bank accounts and the employee did not have access to the banks online system to make transactions. However, this type of delay greatly increases the risk to the entity if the exiting staff member had greater banking access.

Exiting staff were not consistently reminded of their post-employment confidentiality obligations

There was no confidentiality obligation acknowledgement for employees post-exit at six entities. Processes on entry and during employment through the Code of Conduct were in place, but there was no reminder or agreement signed on exit except for the cities of Joondalup and Gosnells.

Entities should ensure that all exiting staff especially those with access to sensitive or classified information are advised and acknowledge their obligation not to disclose entity information even after they leave. This helps safeguard entity resources and limit potential for the integrity, availability and confidentiality of sensitive information to be compromised.

There were gaps in the documentation of exit processes at all the entities

Exit controls are distributed across multiple business units who need to work together to be effective. However, none of the entities had end-to-end documented processes to facilitate

the consistency, completeness and timeliness of the operation of exit controls and processes.

High level process documents or team specific documents were in place across the entities, but none of these were comprehensive. The key gaps include:

- exit checklists and completion of process confirmation were not in place at the cities of Swan and Canning
- no specific guidance on the timeliness for performance of activities such as disablement of IT and security access at seven of the eight entities
- lack of information or records for the return or transfer of IT and other assets to evidence what is being transferred, when and to whom, at seven of the eight entities
- no confirmation to exiting employees of resignation acceptance, departure timing and terms at the cities of Swan and Gosnells.

Policy and procedure documents help guide and direct entity staff. They provide a structure for consistency and ensure compliance with regulations and standards. Having incomplete policy and procedure documents makes it hard for entities to align practice with their strategic values and comply with regulations and standards.

Exit surveys and interviews are not frequently completed and there is limited analysis of feedback

Processes for exit interviews and surveys were in place at all entities and were generally offered to all exiting employees, with feedback mechanisms including online surveys and internal forms sent out by email. Only 14 of the 120 exits tested completed the survey and provided feedback, which is a low response rate, although we acknowledge that this is in part because it is a voluntary process. The forms viewed varied in length from 14 to 79 questions, but there was no correlation between length and response.

At seven entities, there were limited or no documented processes to show systematic analysis of results from exit interviews and surveys completed by staff and reported to management to identify improvements. Information from exit interviews and surveys can help entities to assess strengths and vulnerabilities, and focus workforce management strategies to drive talent attraction and retention.

Recommendations

These recommendations are based on the eight entities we audited but are relevant for all local government entities and should be read in conjunction with the staff exit better practice guide at Appendix 1.

1. All entities should:
 - a. review and where required document end-to-end policies and procedures for employee terminations
 - b. regularly review staff exit information allowing effective oversight and monitoring of end-to-end processes and ensure compliance with policies and procedures.

Implementation timeframe: December 2024

Entity response: Supported by local government entities.

2. All entities should evaluate risk posed by different positions and termination types, develop and document procedures to manage the risks effectively and efficiently.

Implementation timeframe: Ongoing

Entity response: Supported by local government entities.

3. To minimise the risk of property and information loss all entities should:
 - a. ensure access to IT systems, buildings and banking delegations are removed or disabled within 24 hours of the exit date
 - b. ensure all assets are returned on or prior to the day of exit
 - c. put in place and complete a documented process for the allocation, return and transfer of identifiable assets between custodians to maintain a clear audit trail in asset registers
 - d. amounts payable to entities by exiting employees should be settled during final payment or repayment plans should be put in place prior to employees exiting
 - e. final payment calculations should be performed and reviewed in a timely manner, with evidence retained.

Implementation timeframe: Ongoing

Entity response: Supported by local government entities.

4. All entities should:
 - a. offer interviews to and/or survey all exiting staff
 - b. assess exit survey feedback processes in an attempt to increase feedback received and perform analysis of feedback received to identify improvement opportunities
 - c. develop post-employment confidentiality requirement confirmation processes in-line with better practice.

Implementation timeframe: December 2024

Entity response: Supported by local government entities.

Appendix 2 outlines individual local government entity responses to the recommendations above.

In accordance with section 7.12A of the *Local Government Act 1995*, the eight audited local government entities should prepare a report on any matters identified as significant to them for submission to the Minister for Local Government within three months of this report being tabled in Parliament, and within 14 days of submission publish it on their website.

Summary of recommendations applicable to audited entity

■ Not effective process in place
 ■ Partly effective process in place
 ■ Effective process in place

Recommendation	Armadale	Canning	Gosnells	Joondalup	Rockingham	Stirling	Swan	Wanneroo
1a. Review and where required document end-to-end policies and procedures for employee terminations								
1b. Regularly review staff exit information allowing effective oversight and monitoring of end-to-end processes and ensure compliance with policies and procedures								
2. Evaluate risk posed by different positions and termination types, develop and document procedures to manage the risks effectively and efficiently								
3a. Ensure access to IT systems, buildings and banking delegations are removed or disabled within 24 hours of the exit date								
3b. Ensure all assets are returned on or prior to the day of exit								
3c. Put in place and complete a documented process for the allocation, return and transfer of identifiable assets between custodians to maintain a clear audit trail in asset registers								
3d. Amounts payable to entities by exiting employees should be settled during final payment or repayment plans should be put in place prior to employees exiting								
3e. Final payment calculations should be performed and reviewed in a timely manner, with evidence retained								
4a. Offer interviews to and/or survey all exiting staff								
4b. Assess exit survey feedback processes in an attempt to increase feedback received and perform analysis of feedback received to identify improvement opportunities								
4c. Develop post-employment confidentiality requirement confirmation processes in-line with better practice								

Source: OAG

Response from local governments entities

City of Armadale

Thank you for the opportunity to review and comment.

Recommendation 1:

The City agrees and supports the findings of the Audit. Whilst the City has procedures documented and some processes mapped, there is a gap in the mapping of the end-to-end process. The mapping will assist the City identify opportunities for seamlessly integrating the process and optimising the City's corporate business system.

Recommendation 2:

The City agrees with this finding and will facilitate a risk review with the relevant business units, reporting to the Audit Committee.

Recommendation 3:

- a. The findings are agreed and the City will implement an automated workflow to disable access, programmed ahead of time, where notice is provided.
- b & c. The findings are agreed and the City will review its process controls to confirm receipt, custody and allocation of assets. The process, which exists presently is manual paper based will be systemised through the IT ServiceDesk application software. It is also intended to utilise the City's new integrated Enterprise Resource Planning (ERP) system once functionality for transitioning staff is implemented.
- d. The City's business systems cater for final pay processing, including any payables. The City generally does not incur reimbursable costs attributable to employees.
- e. The City's integrated Enterprise Resource Planning (ERP) system calculates final payments and there is a check completed outside the system to confirm.

Recommendation 4:

The City agrees with the findings and has a process in place for exit interviews. The requirement for post-employment confidentiality requirement confirmation processes will be built in the system for certain staff. The City does not agree with the implementation timeframe and the due date proposed to be set by the City is March 2025 to align with the implementation of the City's new ERP and the introduction of additional functionality for transitioning staff.

City of Canning

The City of Canning accepts the findings and welcomes the recommendations contained in the Summary of Findings report. It is pleasing that there was no evidence of loss or misuse and the City values the opportunity to focus on systemising practices to ensure risk is controlled.

City of Gosnells

It is very pleasing to note the audit found no instances where information systems were accessed inappropriately or where assets were lost or stolen. This would indicate that the controls in place are broadly effective and, consequently, the risk is low.

It is acknowledged that further work can be undertaken to tighten controls, and this will be done in areas where risk can be mitigated cost effectively. However, the City is always mindful about investing monies in internal processes where the risks are low as this detracts from the City's ability to provide much needed services and facilities to the community.

Recommendation 1:

Agreed. The City will consolidate its processes into a single corporate document.

Recommendation 2:

The City currently evaluates risk for different termination types and for staff in higher risk positions based on the circumstance at the time of termination. These circumstances will be formally documented.

Recommendation 3:

The City acknowledges the need to improve record keeping around the timely revocation of building access and the return of identifiable assets.

The City is satisfied that IT access is revoked in a timely manner, however due to limitations in the system this is difficult to evidence. It is noted that there were no specific findings for the City in relation to amounts payable to exiting employees and final payment calculations.

Recommendation 4:

The City is satisfied with its current process for exit interviews. Exit interviews are offered to all staff who resign and are given the choice of a face to face or online interview. Adequate review of feedback is undertaken from a City perspective. It is noted that the City already issues a post-employment confidentiality reminder.

City of Joondalup

The City of Joondalup appreciates the opportunity to participate in the Office of the Auditor General performance audit on staff exit controls within local government entities.

The City has a strong focus on strengthening integrity and conduct controls to assist in mitigating risk exposures including financial loss, breaches of legislation and law and significant reputational damage. The City takes both proactive and reactive measures as required to ensure systems of control are subject to regular review, with corrective action being taken, and control improvements made in a timely manner. Improvements relating to the area under audit have been implemented over the past 12 months.

The City accepts all the recommendations made and will prioritise their implementation, to ensure they are completed by the timeframes included in the report.

City of Rockingham

The City does not agree with the significant finding that there are no effective processes in place to "regularly review staff exit information allowing effective oversight and monitoring of end to end processes and ensure compliance with policies and procedures" (recommendation 1B). The City is of the view that the Office of the Auditor General (OAG) has not taken into consideration that the City undertakes a periodic review of our staff exit information via our internal audit team, against better practice. The City's 2023 staff exit internal audit report and findings were provided to the OAG as evidence of this control. Similarly, the OAG appear not to have considered that the City's Customer Relationship

Management System is effectively able to track completed requests to cease building and IT access (as a monitoring control) for staff who are ceasing employment.

The City does however agree that the overall Summary of Findings recommendations made for the local government sector are reflective of good practice.

OAG note:

We note the City of Rockingham's response. We have considered all the evidence that was provided to us both during and after the audit conduct and procedural fairness processes. The findings of this report and the specific findings reported to the entity reflect our final assessment against the audit criteria and relative to other entities in this audit, and our previous audits in other public sector segments.

City of Stirling

The City of Stirling thanks the OAG for the review and welcomes the findings contained in the report. The City recognises the importance of an effective staff exit process and is fully committed to implementing the OAG recommendations to strengthen controls over the exit process to minimise security, asset and financial risks.

The City agrees with the summary of recommendations of the report.

City of Swan

The City welcomes the findings and recommendations detailed in the report and acknowledges its staff exit controls were rated to be partly effective. All recommended improvements will be implemented as a priority to ensure the City's staff exit processes are effective and in line with industry best practice. This includes the implementation of an overriding checklist of the end-to-end staff exit process to ensure all actions are appropriately documented and signed off.

Recommendation 1:

End-to-end policies and procedures for employee terminations will be compiled and annual reviews will be conducted by management to monitor compliance and timing of action.

Recommendation 2:

A process for identifying positions that may pose a higher risk at time of separation is being considered to ensure appropriate actions are taken to mitigate the risk exposure associated with that position. The different risk profiles of these positions does not facilitate a standard approach. Each separation involving a position identified as high risk will be addressed according to the specific risk exposure (IT access / \$ authority / Access to confidential data / Asset allocation etc.).

Recommendation 3:

Processes to address 3.(d) and (e) will be reviewed and adjusted to meet the recommendation.

Recommendation 4:

Adjustment to existing processes to address the recommendation will be considered for implementation where applicable.

The City thanks the OAG for this review.

City of Wanneroo

The City of Wanneroo thanks the OAG for their review and welcomes the findings and recommendations. The City is fully committed to implementing recommendations that will support and strengthen the existing exit process, and appreciates that some processes were found to be effective. The City considers that implementation will further reduce the risks associated with staff that leave the organisation, particularly where they hold roles of additional authority. The recommendations will be progressed within the committed timeframes.

The City supports the summary of recommendations of the report.

Audit focus and scope

The audit assessed whether eight large metropolitan local government entities effectively and efficiently manage the exit of staff to minimise security, asset and financial risks.

The criteria assessed were:

- Do large local government entities have appropriate policies and procedures to effectively manage staff exits?
- Do large local government entities comply with staff exit policies and procedures?

The audit included the following entities:

- City of Armadale
- City of Canning
- City of Gosnells
- City of Joondalup
- City of Rockingham
- City of Stirling
- City of Swan
- City of Wanneroo.

The audit covered the period 1 January 2023 to 31 December 2023.

In conducting the audit we performed the following:

- held entrance meetings with the entities
- met with the Department of Local Government, Sport and Cultural Industries and local government sector bodies (Western Australian Local Government Association and Local Government Professionals WA)
- reviewed policy and procedure documents and supporting templates
- held meetings with key staff from human resources, payroll, finance, IT and security to gain an understanding of processes and perform walkthroughs
- tested a sample of 15 exits at each entity that covered positions of high level of responsibility or data access, field operatives and casual staff. This included 101, or 10% of, permanent staff and 19 casual staff
- sought evidence of exit processes:
 - termination checklists had been completed before or on the staff exit date and signed by the relevant authority
 - building access cards had been de-activated and/or keys had been collected prior to staff leaving
 - assets issued to staff (computers, tablets, mobile phones, vehicles) were returned
 - credit cards were returned and cancelled
 - access to the entity's IT systems was revoked within 24 hours of their departure

- an exit interview was offered or conducted
- final payments reviewed and money owed to the entity was identified and paid at the time of leaving
- risks posed by departing staff and circumstances of their exit were assessed
- sought data on all exits to perform data analysis to assess the timeliness of the cancellation of IT and physical security access.

We did not assess termination decisions and whether they complied with the relevant legislation.

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 \$285,000.

Appendix 1: Staff exit better practice guide

Key requirements	
Assess and mitigate risks posed by exiting staff	Entities should assess the security implication and other risks posed by the exiting staff member. Exiting staff can include those leaving voluntarily or terminated for misconduct or other adverse reasons. Below is a checklist of actions to be considered in a risk assessment: • assigning a risk level by considering the reason for leaving (resignation, retirement, termination for corruption or misconduct) • reducing level of access to IT systems • limiting access to entity premises • monitoring accrued leave balance to reduce overpayments • identifying assigned assets (vehicles, mobile phones, laptops etc.) and assess need for immediate collection • removing access to confidential or secret information • consider position within the entity and level of delegated authority over staff • existing financial delegations and purchasing card limit • existing conflicts with staff.
Collect all entity owned property	Entities should maintain an updated register of all assets issued to staff when they start and during their employment. Using information on the register ensures that all entity owned property is returned when staff leave. These include but not limited to: • identification badges and name tags • office, cabinet and safe keys • access security passes and swipe cards • computer and other IT equipment - laptops, tablets, storage devices, headsets, mouse and keyboards • mobile phone and charger • vehicle keys, fuel cards and logbooks. Where access security passes and keys are not returned entities should take immediate action to cancel access cards, reprogram or change locks.

Key requirements	
Cancel all access to premises and IT systems	Entities should ensure that exiting staff have their access to entity premises and information systems withdrawn or cancelled immediately when staff leave. These include but are not limited to: • building (including carpark) access • computer login and network access • changing passwords or access to shared or high privileged accounts • email address • voicemail • remote access • corporate memberships • customer accounts with external organisations. Where physical exit date and formal termination date differ, risks should be mitigated by removing access on the physical exit date.
Issue reminder of ongoing obligations	Entities should ensure that all exiting staff especially those with access to sensitive or classified information are advised and acknowledge their obligation not to disclose entity information. This helps safeguard entity assets and limit potential for the integrity, availability and confidentiality of sensitive information to be compromised.
Offer exit interview	Entities should offer staff exiting the option of an exit interview. This can be a structured discussion or survey to gauge their perception of working in the entity. Entities should also collate the data, report internally and where relevant act on the findings. Information from exit interviews can help entities assess organisational strengths and vulnerabilities, and target workforce management strategies to drive attraction, retention and performance.
Prevent overpayments and recover debt owed	Entities should ensure that they meet their responsibility to recover overpayments and rectify underpayments, while considering the needs and special circumstances of employees. Timely review of payroll information will reduce the likelihood of errors. Overpayments can also be prevented by checking employee leave balances before approving leave and avoiding late changes to booked leave or working arrangements where possible. Where overpayments occur entities need to make timely payment arrangements in-line with section 17D of the <i>Minimum Conditions of Employment Act 1993</i>.
Regularly monitor and review staff exit processes	Entities should periodically review staff exits to ensure that they comply with: • entity policies and procedures • better practice.

Source: OAG, using policies from the Australian Government Protective Security Policy Framework

Auditor General's 2023-24 reports

Number	Title	Date tabled
25	Staff Exit Controls at Large Local Government Entities	28 June 2024
24	Implementation of the Earlier Intervention and Family Support Strategy	27 June 2024
23	Legal Services Provided to the State Solicitor's Office - Opinions on Ministerial Notifications	27 June 2024
22	Fraud Risks in the Management of Client Funds by the Public Trustee	26 June 2024
21	Electricity Generation and Retail Corporation (Synergy)	24 June 2024
20	Local Government Physical Security of Server Room Assets	24 June 2024
19	Local Government Management of Purchasing Cards	12 June 2024
18	Local Government 2022-23 – Financial Audit Results	6 June 2024
17	Local Government IT Disaster Recovery Planning	31 May 2024
16	Local Government 2022-23 – Information Systems Audit Results	27 May 2024
15	Government Campaign Advertising	15 May 2024
14	State Government 2022-23 – Information Systems Audit	12 April 2024
13	Provision of Supplementary Information to the Standing Committee on Estimates and Financial Operations – Opinions on Ministerial Notifications	5 April 2024
12	Digital Identity and Access Management – Better Practice Guide	28 March 2024
11	Funding for Community Sport and Recreation	21 March 2024
10	State Government 2022-23 – Financial Audit Results	20 December 2023
9	Implementation of the Essential Eight Cyber Security Controls	6 December 2023
8	Electricity Generation and Retail Corporation (Synergy)	8 November 2023
7	Management of the Road Trauma Trust Account	17 October 2023
6	2023 Transparency Report: Major Projects	2 October 2023
5	Triple Zero	22 September 2023

Number	Title	Date tabled
4	Staff Exit Controls for Government Trading Enterprises	13 September 2023
3	Local Government 2021-22 – Financial Audit Results	23 August 2023
2	Electricity Generation and Retail Corporation (Synergy)	9 August 2023
1	Requisitioning of COVID-19 Hotels	9 August 2023

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Office of the Auditor General
for Western Australia



Report 1: 2024-25 | 1 August 2024

BETTER PRACTICE GUIDE

Supplier Master Files



**Office of the Auditor General
for 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.

Image credit: shutterstock.com/Olivier Le Moal

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Supplier Master Files – Better Practice Guide

Report 1: 2024-25
1 August 2024

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**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

SUPPLIER MASTER FILES – BETTER PRACTICE GUIDE

This report has been prepared for submission to Parliament under the provisions of sections 23 and 24 of the *Auditor General Act 2006*.

This better practice guide aims to help Western Australian (WA) public sector entities improve their management of supplier data. The guide focuses on better practices to reduce the risk of fraud and error in managing supplier data. It has been informed by my Office's examinations of supplier data management and input from WA public sector entities.

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

Caroline Spencer
Auditor General
1 August 2024

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Auditor General's overview

From the smallest regional council to the largest state department, procurement of goods and services occurs daily in the Western Australian public sector. Vulnerabilities in poorly controlled and managed procurement systems and processes are prime targets for exploitation given the significant volume and value of financial transactions involved. It is therefore essential that these processes are designed and operated in ways that minimise the risks of fraud and corruption involving public money, as well as error.



Our financial and forensic audits across State and local government entities continue to identify shortfalls in the management of information about suppliers, including inadequate record keeping practices, and ineffective controls and weaknesses in data security. These shortfalls not only increase the risk of fraud and corruption occurring they also limit the ability to detect it.

Information about suppliers is a key part of the procurement process where problems can occur, and should be proactively managed rather than considered a static 'set and forget'. We encourage entities to examine systems, processes and controls relating to information about their suppliers to ensure accuracy and completeness as well as to prevent and even identify potential fraud. This guide aims to provide public sector entities with areas of focus to better create, manage and interrogate information about their suppliers to enhance their procurement process.

We acknowledge that each entity has its own level of maturity and capacity to implement the recommendations in this guide, whether due to system limitations or resource constraints. Nevertheless, we encourage entities to use this guide, along with additional resources to enhance their management of supplier information.

I thank the individuals from various public sector entities and professional firms who provided invaluable feedback to this guide.

Part 1: Introduction

1.1 About this guide

This better practice guide aims to help Western Australian (WA) public sector entities to better structure, manage and interrogate supplier master files to support efficient and transparent procurement processes and reduce the risk of fraud and corruption, as well as error.

Our financial and forensic audits across State and local government entities continue to identify shortfalls in the management of supplier master data. Expanding on the findings and recommendations in our previous audit work¹, our Forensic Audit team recently completed a desktop analytics examination of supplier records from 10 WA public sector entities, each with between 416 and 211,129 individual supplier records.

The observations arising from our supplier data management examination and the feedback received from the participating entities have helped inform this better practice guide.

Part 2 of this guide sets out better practice for the management of supplier master data across three themes (Figure 1). The practical management of supplier master files needs to be underpinned by good governance and administration. These themes can be applied by entities in managing their supplier master data to reduce the risk of fraud or error.



Source: OAG

Figure 1: Overview of better practice themes

While this guide is not intended to provide exhaustive guidance on broader procurement and supplier management practices and principles, we have included other matters to consider that may have a connection with how your supplier master data is managed.

Further guidance² is available through sources including:

- Public Sector Commission
- Department of Finance
- Department of Treasury
- Corruption and Crime Commission.

The term 'supplier' in this better practice guide is used to refer to both suppliers and vendors.

¹ Including Office of the Auditor General, *Management of Supplier Master Files*, OAG website, 7 March 2019.

² We have included a list of additional useful resources which have been prepared by these entities which may assist implementing or improving current supplier master data management practices (Appendix 3).

1.2 Who should use this guide

We encourage all public sector entities to consider the focus areas in this guide and how they may be best applied to managing supplier data as part of their entity's strong financial management.

In particular, this guide can benefit finance and accounting functions, including those who are owners of system design and implementation, within each entity.

Other business areas of the entity that may also have an interest include:

- procurement
- contract management
- risk and internal audit
- integrity and governance
- information and technology management.

1.3 Background

Procurement processes can be highly susceptible to several forms of fraud and corruption due to the involvement of various internal and external parties, and the significant volume and value of financial transactions involved.

Once supplier information is recorded in an entity's system, it is used for all future transactions and treated as correct. If this information is falsified, it can lead to fraudulent payments.

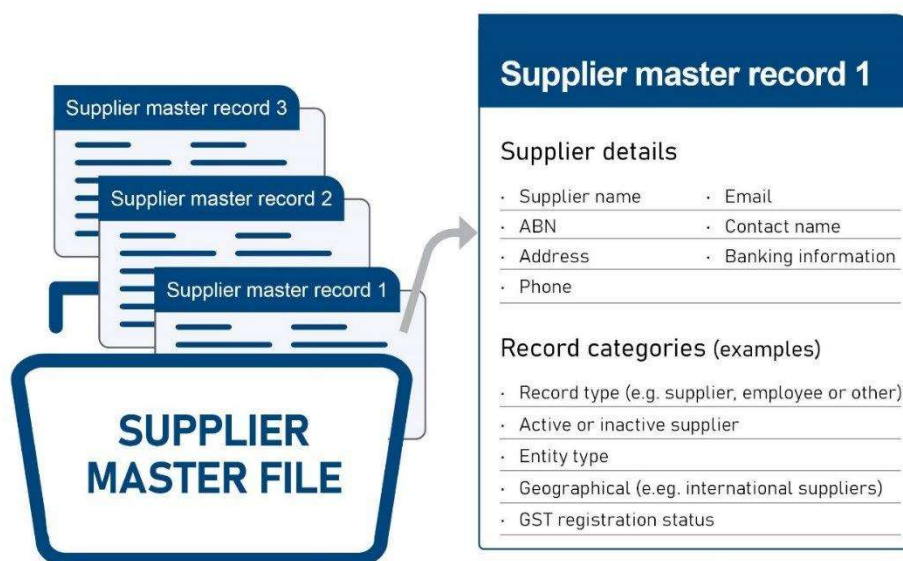
To mitigate this risk, entities should implement robust controls and procedures, conduct regular checks, and use technology and data analytics to detect errors, anomalies and suspicious patterns within procurement processes. External integrity or accountability bodies (including external audit) should not be seen as a replacement for robust internal controls and management oversight.

To support the principles in this guide and deter fraudulent activities, entities should foster a culture of integrity and ethical behaviour, promote reporting pathways including whistle-blower mechanisms, and provide training to employees on the requirements within procurement processes.

Supplier master information

A supplier master file is a centralised repository that contains important information about all suppliers to the entity, usually captured when onboarding a supplier as part of the procurement process.

Supplier master records are individual records within the supplier master file which relate to each specific supplier to the entity. Supplier master data refers to the actual data that has been collected in respect to each supplier that collectively comprises the supplier master record. Figure 2 details what a supplier master file contains.

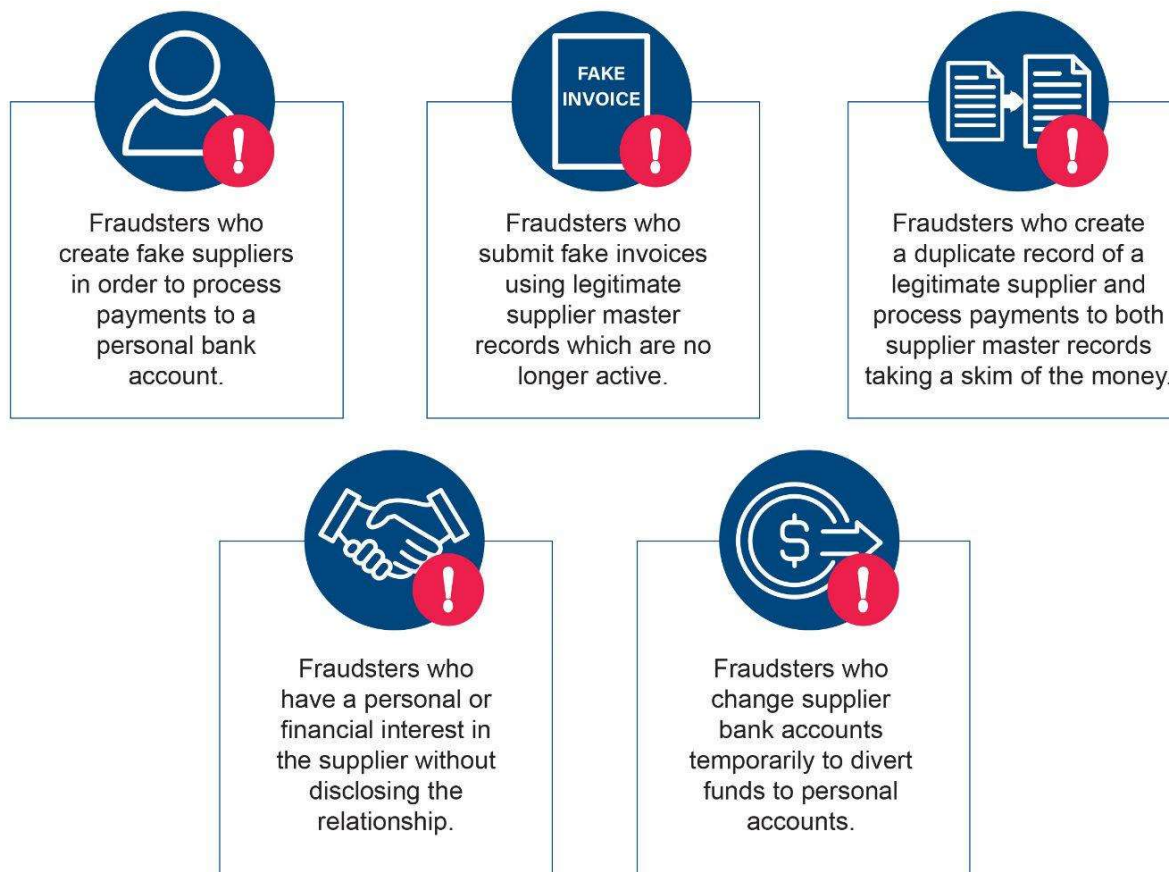


Source: OAG

Figure 2: Supplier master file and supplier master records

The supplier master file should serve as the single authoritative source for all supplier information and be subject to rigorous controls over the creation, amendment and use of the information recorded within it.

Supplier master data that is poorly managed may be exploited for fraudulent purposes, including:



Source: OAG

Figure 3: Common fraud scenarios in supplier data management

Part 2: Supplier data management better practice focus areas

The effective management of supplier master data is critical in protecting entities from the risk of error and fraud by ensuring the accuracy, completeness and legitimacy of information the entity holds about its suppliers.

This guide covers the key focus areas outlined in Figure 4 to help improve the WA public sector's practices in governing and managing supplier data.

We have included case studies to illustrate the risks and emphasise the importance of the better practice focus areas. These case studies are based on observations which arose during our supplier data management examination and other forensic audits conducted by our office.



Data management and record keeping

- creation of supplier master records
- amendment of supplier master records
- managing active and inactive supplier master records



Monitoring and detection

- using technology and analytics to detect anomalies



Governance and administration

- policies and procedures
- data management system
- data governance
- segregation of duties
- employee training and awareness

Source: OAG

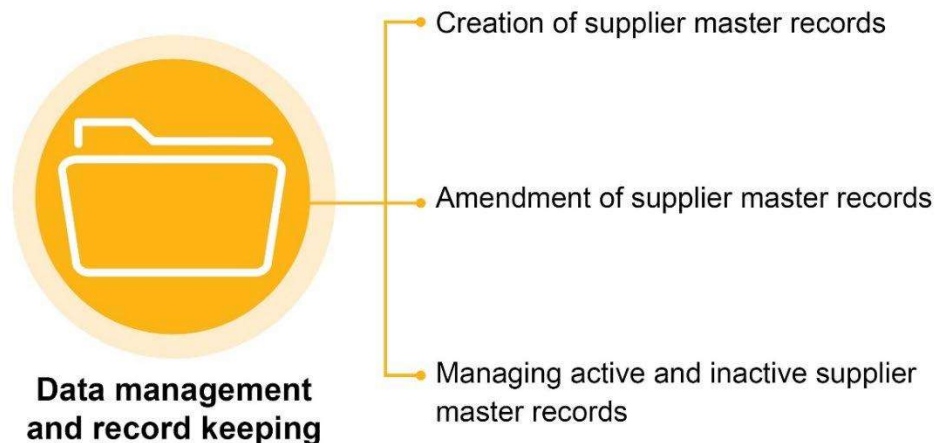
Figure 4: Overview of supplier data management focus areas

2.1 Data management and record keeping

When creating and amending supplier master records, entities should ensure that all supplier master data is accurate, complete, consistent and secure.

Entities should establish clear procedures which set out the process to be followed as well as templates which set out the detailed information required and relevant approvals for the creation and amendment of records.

Where possible, we encourage entities to automate these processes into its data management systems rather than relying on manual processes.



Source: OAG

Figure 5: Better practice themes in supplier data management and record keeping

2.1.1 Creation of supplier master records

When creating a new supplier master record, there are several steps which should be taken to ensure accuracy, completeness and consistency.

Gather information

Entities should gather all required information from each supplier to enable the accurate identification of the supplier and to conduct thorough due diligence enquiries (see 2.1.4) prior to creating a new supplier master record.

Supplier information that may be collected during onboarding to create a new supplier master record may include:

- business registration documents / details (and company details if relevant)
- contact information
- details of the goods and/or services that will be provided by the supplier
- banking and payment information
- the relevant terms and conditions that will apply to the engagement of that supplier.

Check that the supplier does not already exist in the system

Entities should establish procedures for verifying that a supplier has not already been recorded in the supplier master file prior to creating a new supplier master record to:

- avoid duplication, as this could result in data integrity issues, inefficiencies or the potential for exploitation and fraudulent activities

- ensure that payments are made to the correct entity and are able to be traced to a unique supplier master record
- improve visibility of spending and financial reporting across the entity's suppliers
- enable consistent and appropriate supplier relationship and communication
- provide clear audit trails of supplier transactions, interactions and compliance with internal policies and procedures.

Case study 1: Duplicate data identified in multiple supplier master records

Our supplier data management examination identified instances of supplier master records with duplicated information including:

- supplier name
- Australian Business Number (ABN)
- bank details
- contact information such as phone numbers or email addresses.

While there may be operational reasons for supplier master records to have duplicate data (for example, franchised entities which are separately operated), duplicate information may indicate:

- records which have been created in error or for fraudulent purposes. For example, fake supplier master records may be created to submit fraudulent invoices or divert payments to unauthorised accounts
- connections of interest between suppliers which may indicate potential collusion
- creation of additional supplier master records in order to subvert delegations of authority and split payment transactions.

We encourage entities to apply data flags to those supplier master records that have known and expected duplicate information (e.g. franchised entities). Entities should also conduct data matching analytics across the supplier master file to identify, investigate and resolve any supplier master records with duplicate information.

Classify record

Entities should identify relevant supplier classifications to be applied to each supplier master record. These classifications should be comprehensive enough to support the broader procurement process as well as aiding in conducting effective data analytics across supplier master data.

These classifications may include:

- clear identification of the record type: by classifying whether the record is a supplier, employee or other type of payee
- supplier activity status: this sets whether the record is active and able to be used for procurement purposes or is inactive
- geographical classification: this may include clearly identifying international suppliers to demonstrate why the data for these records is either not able to be obtained (e.g. Australian Business Number) or why the data is expected to be recorded in a different format (e.g. contact phone numbers)

- entity type: this may include applying a code to distinguish the type of supplier entity. For example, government, trusts, partnerships, private or public companies
- GST registration status: this identifies whether the supplier is registered for GST purposes.

Case study 2: Limited classification of supplier master records

Our supplier data management examination identified that many supplier master records were not classified in a manner that would enable clear identification of the record type or enable efficient and effective data driven detection analytics.

For example, many entities did not clearly identify and classify international suppliers. This presents challenges in being able to identify and separate those records which have legitimate incomplete data fields, such as an ABN.

This can result in an increased likelihood for false exceptions during data monitoring and detection procedures, and subsequent inefficiencies in identifying actual data integrity issues.

We encourage entities to apply relevant classifications to supplier master records which will enhance operational efficiency, improve data integrity and increase detection capabilities.

Test record creation process has worked

The supplier master record should be tested to ensure it functions correctly, captures all required information and follows the established policies and procedures.

The accuracy and completeness of the data entry should be checked for:

- typographical errors
- missing information
- inconsistencies that may affect data integrity, and which are not in line with the established data formats set by the entity.

All new records should be reviewed by an independent user (i.e. administrator) to ensure accuracy and legitimacy.

Activate the supplier master record

Supplier master records should only be activated in the supplier master file once all the required steps in the supplier onboarding, due diligence and data entry process have been completed and the supplier master record has been independently reviewed and approved.

These records may be referred to as needed during internal and external audits, compliance reviews or investigations.

2.1.2 Amendment of supplier master records

Requests to amend supplier master records may be received from a variety of sources. It is critical that any amendments made to supplier master records are independently validated and approved before being updated in the supplier master file.

When amending an existing supplier master record, there are several steps which should be taken to ensure that all amendments are handled securely, accurately and in compliance with relevant regulations and policies.

Review current record and validate request

The original supplier master record should be reviewed to identify the specific information already on file. The legitimacy of the request and the accuracy of the new information should be assessed and verified, including the reason for the amendment.

To ensure that the request is legitimate, suppliers should be contacted directly using previously established communication channels, such as a known and validated phone number or email address to confirm the request. Contact information that is included within an amendment request or in a recently received invoice should not be used as this could be illegitimate contact information provided by fraudsters.

Case study 3: Changes to supplier bank details

Requests for changes to bank details should always be managed with extra caution and additional controls.

During a forensic audit, we identified that the entity's employees would use the email address printed on recently received invoices to confirm a change in bank details that was included on that invoice.

Fraudsters may use legitimate supplier names to submit false invoices with alternative bank details to illicitly divert funds.

The entity therefore did not have the appropriate controls in place for the amendment of supplier master records and was subsequently exposed to a greater risk for potential fraud.

We encourage entities to implement controls that require any changes to a supplier's bank details to be independently validated and approved by a separate employee before updating the supplier master record.

Document the request to change details

Details of the request should be clearly documented, including:

- the name and position of the person making the request
- the date of the request
- the specific data fields which are required to be amended
- the reason for the amendment
- any further details and supporting evidence to demonstrate the activities that have been conducted to authenticate the request.

Records of all correspondence with the supplier related to the request should be maintained and filed.

Authorise the change

Appropriate authorisation should be obtained and recorded for the proposed amendments according to the entity's policies and procedures. Depending on the supplier or the type of change requested, this may include approvals from senior officers or other relevant departments including procurement, legal or finance.

Make the change

The supplier master record that is to be amended should be accessed and updated only by an authorised employee, carefully entered and checked to ensure the information is accurate and cross-referenced to supporting documents provided by the supplier.

We recommend that a second person review the changes to ensure that the information is accurate and complete. This will help to ensure data integrity and prevent errors.

All required approvals for the amendment should be processed, and if possible, executed within the data management system according to the relevant delegations.

Notify stakeholders

Relevant stakeholders should be informed of any amendments to a supplier master record, including formally notifying the supplier in writing and advising any relevant internal departments such as finance or procurement.

Requesting a written response from the supplier acknowledging the amendment can serve as an additional layer of verification.

2.1.3 Managing active and inactive supplier master records

Supplier master records should be clearly marked as inactive when the supplier is no longer used by the entity. Suppliers may be de-activated for a variety of reasons including:

- performance, compliance or legal issues
- financial instability of the supplier creating a risk that the supplier may not be able to deliver on the required goods and/or services
- value for money considerations
- completion of a fixed term contract
- general data management and housekeeping activities conducted by the entity across the supplier master file.

De-activating relevant supplier master records is a critical control measure to ensure that procurement activities (such as contracts and purchase orders) and payments are not able to be processed against those suppliers.

Entities should ensure that they:

- define clear criteria for distinguishing between active and inactive suppliers which may be based on criteria such as transaction frequency, contract status or compliance and performance issues related to the supplier
- implement a process to periodically evaluate and determine whether a supplier master record should be de-activated. Some data management systems may have capabilities which automate or support this process
- document the reasons for marking a supplier master record as active or inactive and maintain a record of the reason for any changes made to a supplier's activity status
- notify suppliers of any changes to their activity status in a timely manner and provide clear instructions on any actions that are required from suppliers based on an activity status change
- clearly mark and segregate active and inactive records in the supplier master file and implement controls to restrict access to inactive records only to authorised employees
- develop a retention policy for inactive supplier master records that outlines the duration that records will be retained as an inactive supplier prior to archiving. Entities should ensure records are archived in a secure and accessible manner to ensure compliance with record keeping obligations

- establish a process for reactivating inactive suppliers when needed and clearly define the criteria and procedures that are required for reactivating suppliers including all documentary support or verification requirements.

Case study 4: Active suppliers with no payment transactions

Our supplier data management examination tested for supplier master records which were not linked to a payment transaction in a three-year period.

These dormant active suppliers may indicate errors, potential fraud, outdated information or duplicate records which require correction.

We encourage entities to conduct regular reviews to identify any active supplier master records which have not been engaged in a transaction for a period of time (selected at the discretion of the entity based on operational requirements) and should be marked as inactive. This can reduce the risk of fraudulent or erroneous payments against those supplier master records.

2.1.4 Other considerations

Request and review conflict of interest declarations

When onboarding new suppliers, entities should obtain a declaration from the supplier of any known actual, potential or perceived conflicts of interest. Additionally, entities should regularly obtain conflict of interest declarations from its employees and cross check them against supplier information.

Conduct due diligence procedures

Thorough due diligence procedures should be conducted and documented in order to gain a comprehensive understanding of the supplier, understand potential risks, and assess the suitability of the supplier.

There is a range of due diligence enquiries that may be undertaken including understanding the ownership and management structure, independently validating financial information, ensuring compliance with regulatory requirements, and identifying any potential risks associated with engaging the supplier.

Due diligence procedures should include conducting independent validation checks with third-party sources such as the Australian Business Register (ABR) or the Australian Securities and Investment Commission (ASIC). This will ensure that accurate and validated information is able to be recorded in the supplier master record.

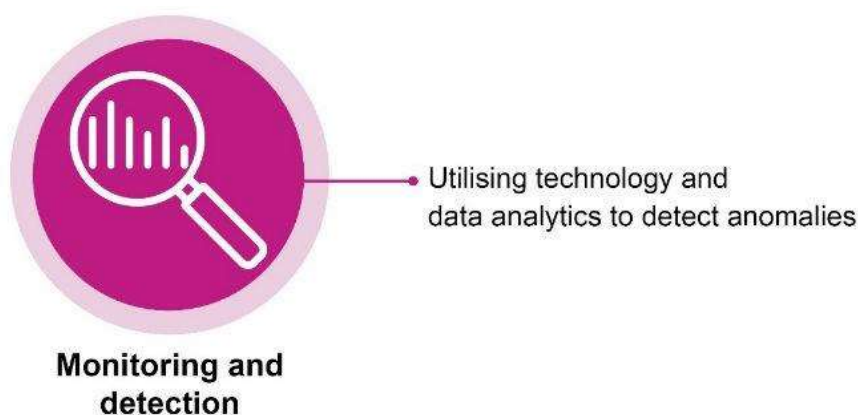
2.2 Monitoring and detection

As part of fraud detection activities, entities should establish routine processes to monitor controls and detect potential anomalies in supplier master files through the use of data analytics.

Regular examination of supplier master data should be conducted to ensure:

- activities that are being conducted by employees are in compliance with relevant policies, procedures and controls
- new records or amendments are appropriately supported and approved
- supplier master data is accurate, complete and consistent
- anomalies are identified and examined in a timely manner.

Employees who perform monitoring and detection activities should not be the same employees who are responsible for managing supplier master data. Segregating these duties will provide for independence in the review process.



Source: OAG

Figure 6: Better practice in monitoring and detection

2.2.1 Utilising technology and data analytics to detect anomalies

Data driven detection analytics involves collecting and analysing a variety of relevant internal and external data sources to produce information in a format that allows for a timely response or investigation and can be regularly repeated to check for unexpected changes and patterns.

Entities should explore the use of various technology options for analysing supplier master data including data analytics, artificial intelligence, and automated detection tools.

When conducting data driven detection analytics in supplier data management, there are several steps which should be taken to ensure that the source data can be relied on and effectively used for analysis.

Identify relevant data sources

Entities should identify the various data sources that are relevant and available to conduct data driven detection analytics in respect of supplier activity. Internally, this may include:

- supplier master file data
- supplier payments data
- employee data

- audit logs
- user access lists and delegations of authority.

Externally, this may include third party sources such as the ABR which may provide additional data to government agencies (federal, state and local) that is not available to the general public.

Entities should ensure that any users of these data sources:

- have the authority to access the data
- are accessing and storing the data securely and in accordance with relevant policies and procedures
- have been trained in data security and know the requirements of working with various data types which may include the appropriate handling and storage of personal and sensitive data.

Case study 5: Connections of interest between suppliers and employees

Our supplier data management examination used a variety of data sources from within the entities as well as external data sources to conduct data analytics to identify potential connections of interest.

A connection of interest may include similar information that is recorded in an employee and supplier record. These matches may indicate potentially undisclosed conflicts of interest between suppliers and the entity's employees. They may also be contractors onboarded as employees or partners working in the same office.

We identified a number of connections between supplier and employee records that required further examination by the entity to confirm those connections were appropriate and not potential indicators of fraud.

We encourage entities to perform regular connections of interest tests by cross checking the supplier master file with other data sources such as employee master data. This can assist in preventing fraud and corruption by identifying potentially undisclosed conflicts and enhancing transparency.

Confirm your understanding of all data sources

Understanding data before it is used for testing is fundamental to ensure the reliability, accuracy and validity of the testing process. This includes ensuring that:

- data is accurate and complete. Users should ensure that all relevant fields are included, and the data can be reconciled to another source to check for completeness
- data being used is appropriate and relevant to the tests being conducted. Using irrelevant data may result in misleading results
- data being collected is not impacted by potential bias of the user which may skew the results
- data being used has been examined to identify whether it contains any confidential, sensitive or prohibited information which must be managed in accordance with the entity's data security and confidentiality policies.

We encourage entities to identify whether its data management system includes options to conduct monitoring and detection activities from within the system rather than extracting data for external analysis and testing. Where data is required to be extracted and analysed

external to the system, entities should ensure that this is conducted in a secure data environment and is only accessible by authorised employees.

Prepare data for analysis

Data should be prepared, cleansed and structured before analysis to ensure the accuracy, reliability, and effectiveness of the analysis process.

Data preparation procedures may include:

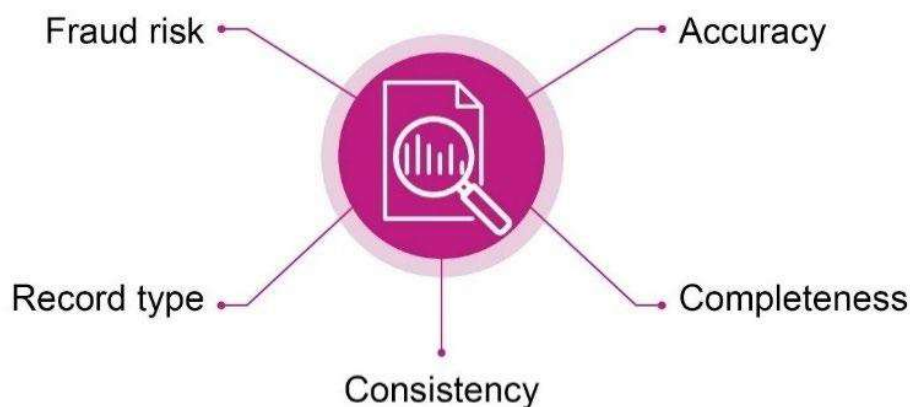
- identifying missing data
- managing duplicate data
- standardising data to ensure consistent formats across data fields
- correcting errors
- identifying and managing outliers which could skew analysis results
- removing irrelevant data
- performing checks to ensure data integrity and conducting quality review.

Conducting data analytics tests for monitoring and detection

To ensure the accuracy, completeness and consistency of supplier master data, and to check for potential fraud or error, there are various tests which can be conducted by entities using a data driven analytics approach.

Any anomalies that arise from data analytics tests or analysis should be examined first to understand the reason why – for example is there an operational reason, data entry error or potential fraud requiring further investigation.

We provide at Appendix 2 a list of example data analytics tests that can be conducted by entities.



Source: OAG

Figure 7: Data analytics testing themes

2.2.2 Other considerations

Post detection and reporting activities

Control weaknesses or supplier master data anomalies that have been identified from monitoring and detection activities should be explored to understand what further steps need to be taken. This may include applying corrective actions to mitigate risks, conducting detailed investigation or initiating formal reporting.

Additional information should be obtained about the weaknesses or anomalies that have been identified including:

- understanding the potential impact of the issue
- identifying the potential risks that may arise from the issue and conducting a risk assessment
- identifying the types of activities or transactions which may have been compromised or impacted
- the extent of the current and potential impact of the issue
- individuals that are involved in or connected to the issue
- the potential cause which may include human error, fraud or system vulnerabilities
- other data or information which is available and may be relevant to examining the matter.

Investigate and report

If further investigation is required, entities should seek to understand whether they have the appropriate internal capacity, capabilities and independence to investigate. Alternatively, entities may seek to engage a third party to conduct detailed investigations.

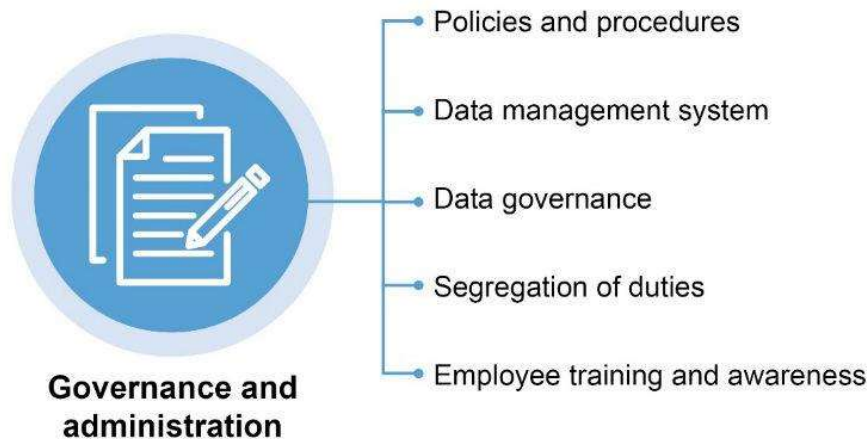
Findings which arise from internal audits or monitoring and detection activities should be reported to the entity's audit and risk committee, and clearly set out the areas of concern, recommendations and action plan.

Where there is a reasonable suspicion of misconduct, public sector entities are required to report minor misconduct matters to the Public Sector Commission (PSC) and serious misconduct matters to the Corruption and Crime Commission (CCC).

2.3 Governance and administration

The practical management of supplier master files needs to be underpinned by good governance and administration. Governance frameworks outline the policies, procedures, roles and responsibilities that are required to effectively manage an entity's operations in a transparent, accountable and efficient manner.

It is crucial that appropriate guidance for the effective management of supplier master files is incorporated into the entity's broader governance framework to ensure that supplier master data is managed appropriately.



Source: OAG

Figure 8: Better practice focus areas for supplier master file governance and administration

2.3.1 Policies and procedures

In ensuring there is clear governance and administration in place to structure, manage and interrogate supplier master files, key processes should be formalised within policies and procedures, such as:

- Supplier onboarding:
 - defines the criteria and procedures for onboarding new suppliers
 - specifies the documentation that is required to be collected from suppliers to support the data entered into the supplier master record
 - establishes a guide for managing relationships with suppliers including approved communication methods.
- Supplier data management:
 - defines the purpose and scope of the supplier master file, including the type of records that are approved to be included
 - outlines the role of the supplier master file in the broader procurement process
 - establishes the procedures required for creating, amending and maintaining supplier master records to ensure accuracy, completeness and consistency in the data entry process
 - outlines the roles, responsibilities, authorisation and access for employees who create, amend, approve and manage supplier master records

- specifies data quality standards for supplier information, including clear guidelines for consistent and complete data entry across all required data fields
- specifies how supplier master data is able to be used within the entity.

Entities should ensure that policies and procedures are regularly reviewed and updated, and effectively communicated and available to all employees.

2.3.2 Data management system

Data management systems are software applications or databases that are used to create, maintain and process data. Entities may use a variety of systems to manage the records of its suppliers including enterprise resource planning systems, supplier relationship management systems or finance systems.

Entities should implement a data management system which has the essential capabilities to deliver on the requirements of its governance framework and effectively support the management of supplier master data including:

- **Centralised data storage:** The data management system should provide a centralised repository for all supplier master data. This centralised data should be the single source of truth for all supplier information.
- **Streamlined process:** The data management system should enable the supplier master file to be integrated with broader procurement and finance systems. This will enable a more streamlined and efficient procurement process and reduce the risk for potential errors.
- **Data validation and verification:** Different data management systems have different levels of data validation capabilities which may vary from basic to extensive. Some systems have features which are able to provide alerts for missing data fields, duplicate records or data that has been entered in an incorrect format.
- **Auditing and monitoring capabilities:** Data management systems should include robust audit and monitoring capabilities which allow entities to track the changes that have been made to supplier master data through access logs and user activity reports. These audit reports can help to identify suspicious activities in real-time, facilitate timely intervention and support investigation activities.
- **Data encryption and protection:** Data encryption should be used to secure key information against insider threats and data breaches.
- **Access controls:** Access controls should ensure that only authorised employees can view or amend supplier master data.
- **Approvals:** The data management system should provide for automated approval flows within the system in accordance with the entity's delegation and approval register. This will ensure that all record creation and amendments are appropriately reviewed and approved, and these duties are appropriately segregated.

2.3.3 Data governance

Limit supplier master file to suppliers

The primary purpose of a supplier master file is to maintain records which relate to suppliers. However, some entities include other types of records within the supplier master file including employees, estate beneficiaries and grant recipients.

We encourage entities to restrict the supplier master file to suppliers only and explore alternative options for managing other types of records and associated payments. For

example, process employment related payments through the payroll system or a dedicated employee reimbursement system.

Entities should implement controls to manage the types of records that are able to be included in the supplier master file. If other types of records are approved to be added to the supplier master file, entities should assess the risks associated with each type of record, including the potential for fraud and corruption, and clearly distinguish those records.

Case study 6: Employee records identified in the supplier master file

Our supplier data management examination identified that the supplier master file for most entities contained records which were not restricted to suppliers only.

We identified that entities often included employee records to process employee payments such as travel allowances or expense reimbursements, however most entities applied an identifying marker to distinguish them from supplier master records. We did identify a number of instances of additional employee records in the supplier master file which had not been identified and marked by the entity.

The ability to add employee records to the supplier master file, particularly without the requirement to clearly identify the record as being an employee, can increase the risk for employees to generate fraudulent transactions and receive illicit payments against those records.

We encourage entities to restrict the supplier master file to supplier records only. However, if the entity has operational reasons which require other types of records to be included in the supplier master file, including employees, these records should be well controlled and clearly classified at the time of creation.

Consistent and mandatory data

Entities should establish a standardised list of all mandatory data fields which are required to be captured at the time of creating a new supplier master record, as well as a defined format for each data field. Mandatory data fields and standard formats will ensure that each record is complete, accurate and consistent, and is able to be efficiently analysed for potential anomalies.

Where possible, entities should ensure that the data management system is set up so records cannot be completed without input of all mandatory fields in the appropriate format.

Case study 7: Blank or erroneous data in supplier master records

Our supplier data management examination identified blank data fields across a variety of key supplier data fields, including:

- ABN
- payment details
- supplier contact information including phone numbers and email address.

We also identified erroneous information being recorded in some data fields including:

- Australian Company Numbers (ACN) recorded in ABN fields
- numbers recorded in ABN fields which did not meet the required criteria to be an ABN (e.g. 11 111 111 111). Although the field technically contained data, it was clear that accurate information had not been captured

- numbers recorded in phone number fields which did not meet the criteria for being a phone number (e.g. 000000).

Blank or erroneous data fields may indicate a potential fraudulent supplier master record. We encourage entities to conduct an analysis of its supplier master files to detect both incomplete and inaccurate information and collect the required information to update and correct the supplier master record.

Ensuring that each Australian based supplier has a valid ABN is important in managing potential fraud and corruption risks for several reasons including:

- ensuring the legitimacy and existence of the supplier. An ABN is a unique identifier for businesses operating in Australia and verifying that the supplier has an ABN can prevent fictitious entities from engaging in fraudulent activities
- suppliers with an ABN have undergone the necessary registration processes and are more likely to have a record of legitimate operations. This reduces the likelihood of engaging with unreliable or fraudulent suppliers
- having an ABN indicates that the supplier is operating within the regulatory framework. Suppliers without an ABN may be operating in the informal market which increases the risk of potential fraud or corruption.

Conducting thorough and appropriate due diligence enquiries will assist entities in determining whether a supplier is legitimate, independent of the entity and its employees, and reduce the risk for potential fraud and corruption.

Case study 8: Incomplete and erroneous ABN information

While we expect 100% of supplier master records to have an ABN that matches a legitimate business number in the ABR, our supplier data management examination did identify instances of the following incomplete or erroneous information recorded in the ABN data field:

- an 11-digit number that met the criteria for being an ABN, however the number was not able to be identified and connected to a legitimate business in the ABR
- a nine-digit number that met the criteria for being an ACN, but was recorded in the ABN data field
- a number was recorded in the ABN field, however the number did not meet the criteria for being an ABN (e.g. 11 111 111 111)
- the ABN field was blank and did not contain any data.

Without complete and accurate ABN information, appropriate due diligence enquiries may not be undertaken to determine if a supplier is legitimate.

We encourage entities to implement controls which require validation of each supplier's ABN and entity name with the ABR during the onboarding process, prior to creating the new supplier record. Entities should also periodically conduct analytics on ABN data recorded in the supplier master file to ensure the information is complete and meets the criteria for being a valid ABN.

We have included at Appendix 1 a minimum checklist of the supplier master data fields that should be collected when creating a new supplier master record together with considerations for the format of those data fields.

2.3.4 Segregation of duties

Segregation of duties within the supplier data management process is essential to ensure integrity and transparency and reduce the risk for potential errors and fraud.

Entities should implement effective internal controls to ensure that there is an appropriate segregation of duties which may include:

- the creation of new supplier master records or amendments to existing records, requiring independent validation and approval by a second employee
- employees who create or amend supplier master records are not authorised to process an invoice or approve payment for that supplier.

When it is not possible to segregate duties (for example, within small entities that have a limited number of employees), entities should report the limitations to the entity's audit and risk committee and implement other compensating controls to mitigate key areas of risk.

Where possible, entities should ensure that data management systems are set up to apply any relevant internal controls and the required segregation of duties.

2.3.5 Employee training and awareness

All employees should be provided with training relevant to their role. Employees with responsibilities relating to supplier master files should understand the important role this information plays in the procurement process and the potential consequences of non-compliance with policy and process.

Key training themes should encompass data accuracy and integrity, compliance with governance requirements, proficiency in relevant systems and data security. Additionally, employees should be educated on potential fraud risks in supplier data management and the available mechanisms for reporting such issues.

2.3.6 Other considerations

In addition to the above governance and administrations processes, we have set out related areas that entities may consider in their supplier data management process.

Policies and procedures

- Procurement – supplier master data is treated as being 'true' when purchasing, receipting and paying for goods and services, therefore all procurement processes should consider how they interact and cross reference where appropriate. It is also essential that all employees with responsibilities relating to supplier master data are aware of their obligations around data security and common types of fraud and corruption that may arise in supplier data management.
- Security and confidentiality of records – requirements and procedures for handling of sensitive, restricted or prohibited information, encryption requirements for data storage and transfer, and measures to prevent data breaches and cyber attacks.
- Conflicts of interest – employees with responsibilities relating to supplier master data should be aware of their obligations to declare actual, potential or perceived conflicts of interest as they arise and abstain from the management of supplier master records where they have declared a conflict of interest. Employees should also appreciate how incomplete or inaccurate data management prevents the identification of undisclosed relationships.

- Data retention and disposal – each entity will have a record keeping plan, which will incorporate how records³ are managed for retention and destruction.
- Audit and compliance – the entity outlines procedures for conducting internal audits, and compliance and risk assessments relating to supplier master records and measures for addressing non-compliance.
- Whistleblower or public interest disclosure – the entity documents the process to be taken in reporting suspected unethical behaviour or conflicts of interest.

Risk identification and assessment

Entities should appropriately analyse, evaluate and mitigate risks.

Risks connected to supplier data management may be identified across the following areas:

- data integrity and accuracy
- compliance with regulations
- accountability and transparency
- confidentiality and security of data
- fraud and corruption
- operational efficiencies
- conflicts of interest.

Training

Training should be delivered regularly to ensure that employees remain informed about the entity's policies and procedures, best practice and any emerging risks. Training schedules may include:

- Initial training: New employees should be provided training as part of the onboarding process. This will ensure they understand the entity's policies and procedures, data management system and the importance of effective supplier data management from the beginning.
- Annual refresher: Employees should complete annual refresher training to reinforce key concepts and update them on any changes to policies and procedures.
- Periodic updates: Training should be conducted at any time there is substantial changes to policies, procedures or regulatory requirements.
- Reactive: Training should be provided following any incidents or audit findings to prevent similar events happening in the future, and to ensure continuous improvement and risk mitigation.

Training can be delivered to employees through a variety of methods including workshops, online courses or through the use of guidance documents and manuals. In larger entities, the content and frequency of training may need to be tailored for the various cohorts of employees with different roles and responsibilities in supplier data management.

³ section 3(1) of the *State Records Act 2000* (WA)

Compliance and audit

Entities should ensure that an audit trail is maintained and recorded to provide comprehensive details of all financial activities. These records may be referred to as needed during internal and external audits, compliance reviews or investigations.

Audit logs are detailed system-generated records that capture information about actions taken by staff. This may include:

- identification of the user who made changes
- the date and time the activity was conducted
- the description of the action that was taken by the user (creation, amendment or deletion of a record)
- a record of the original and updated data
- the reason for the change
- details of any approvals that were applied to the action.

We encourage entities to ensure that its data management systems are configured to automatically generate and store audit logs for all changes made to its supplier master file. The security of data logs is paramount, as they could be deleted or tampered with to conceal inappropriate actions.

Case study 9: Audit log capabilities not activated

During various audits conducted by our office, we identified that some entities have data management or financial systems with comprehensive audit log capabilities, however these had not been activated. This resulted in key information not being captured about the activities and transactions which were conducted in those systems.

The absence of audit log information can impact an entity's ability to identify and manage risks, ensure accountability, support data integrity, and conduct audits and investigations.

We encourage all entities to explore the audit log capabilities within its various systems and ensure that all audit logs are activated and capturing comprehensive details about the activities being conducted.

Internal audit programs should include regular audits related to supplier data management. Entities may elect to conduct these audits as a focused examination of supplier data management or otherwise incorporate this into its broader procurement audits.

Internal audits which focus on supplier data management should evaluate the policies, procedures, controls and systems in place to manage supplier master files and its data effectively and focus on assessing the accuracy, completeness and security of supplier master data.



Appendix 1: Supplier master data fields

General supplier information	
Unique supplier identifier	This is a unique identifier which is applied to each supplier within the data management system.
Legal name	The supplier's name should be entered in full and match the name that is recorded in company or business registration documents. This includes ensuring that any abbreviations are entered correctly and consistently (e.g. Pty Ltd, Proprietary Ltd, Pty Limited).
Business name	The business name may be different to the legal name and may include trading names.
Entity type	Entities should establish a set reference list of entity types including for example, companies, trusts, partnerships and public sector entities.
Australian Business Number (ABN)	Businesses can be owned by partnerships, trusts, companies and individuals. This is a unique number to identify a business and should be an 11 digit number that meets the criteria for being an ABN and can be identified in the ABR.
Australian Company Number (ACN)	This is a 9 digit number which is issued to every company in Australia when it is registered. The last 9 digits of the ABN usually comprises the ACN.
Goods and Services Tax (GST) status	This identifies whether the supplier is registered for GST purposes.
Contact information	
Physical address	This is the physical address of the supplier's business location. The data management systems should be set up to ensure that address information is able to be entered in a consistent manner (e.g. state should always be entered as either Western Australia or WA for each supplier master record).
Postal address	This is the address where documents such as invoices are required to be sent (if different to the physical address).
Contact name	This should be the primary contact name for the supplier.
Phone numbers	This is the primary contact telephone number for the supplier. Phone numbers should be entered consistently across all supplier master records considering the format of area codes and spacing that is applied.
Email addresses	This is the primary email address for the supplier.

Financial information	
Bank name	This sets out the supplier's bank name. Entities should establish a consistent format for entering bank names which may include using bank code references. For example: • CBA: Commonwealth Bank of Australia • NAB: National Australia Bank
Bank account details	This includes: • bank account name • BSB (Bank-State-Branch) • account number. Entities should ensure that bank account details are required to be entered consistently across all supplier master records. For example, the BSB is required to be entered as 'XXXXXX' rather than 'XXX-XXX'.
Payment method	This sets out the method used to pay the supplier, which may include, for example, electronic funds transfer or cheque. Suppliers which are paid by cheque would not be expected to have a bank name or bank account details recorded in the supplier data.
Payment terms	This sets out the agreed payment terms with the supplier and is usually recorded as the number of days from the invoice date that payment is required to be made (e.g. 14 days, 30 days).

Source: OAG



Appendix 2: Data analytic tests for monitoring and detection

Entities can develop and implement a monitoring and detection program to identify incomplete, inaccurate or inconsistent data and detect activities which deviate from those that are normal or expected.

Set out in the table below are examples of data driven analytic tests which can be applied by entities to enhance monitoring and detection activities over supplier master data. Tests that were conducted as part of our desktop analytics have been marked with an *;

Theme	Test	Objective	Analysis	Next steps
Record type	Review the nature of records in the supplier master file for compliance with entity requirements*.	To ensure that records in the supplier master file are consistent with entity supplier master file policies and procedures.	Obtain the supplier master file and conduct an analysis to identify any different categories of records (for example, suppliers, employees and contractors). This may include: • cross referencing to the employee master data to identify employee records • cross referencing to a list of contractors to identify short term personnel • identifying records which do not have usual data fields completed that would be expected for a supplier (e.g. ABN).	Entities which do not authorise various types of records to be added to the supplier master file should investigate all records which are not approved suppliers. Entities which do authorise various types of records to be added to the supplier master file should ensure that clear identifiers have been applied to each record to facilitate appropriate management and review.
Accuracy and consistency	Data field format.	To ensure that the data entered into specific fields meets the required format for supplier master records.	Verify that the data entered in each data field meets the required format set by the entity. For example: • ABN's are required to be 11 digit numbers which meet the algorithmic requirement for being an ABN	Data that has been entered which does not meet the required format should be further examined to identify: • reason for discrepancy (e.g. data entry error or factually incorrect information)

Theme	Test	Objective	Analysis	Next steps
			- phone and email information has been entered in the required format including area codes and spacing - bank details have been entered in the correct format.	corrective action which is required to be taken which may include further enquiries with the supplier or an internal data format cleansing exercise. Entities should provide additional training to employees if it is identified that there is a high level of data entry errors.
Accuracy	Supplier validation*.	To ensure that supplier information has been entered correctly and can be validated to third party sources.	Compare the supplier master data to third party sources such as the ABR to ensure that relevant data fields match the business registration information including: - supplier name - ABN - contact details including name, address, phone and email.	Conduct further enquiries of any supplier master records which have details that do not match third party sources to identify: - reason for discrepancy (e.g. data entry error or factually incorrect information) - corrective action which is required to be taken which may include further enquiries with the supplier or an internal review - consider suspending the supplier contract pending the outcome of the internal review.
Accuracy	Duplicate supplier master records*.	To identify whether the same supplier has been added to the supplier master file more than once. Duplicate supplier master records may result from poor record keeping practices or indicate that a record has been created for fraudulent	Analyse the supplier master file to identify any supplier master records which appear to have been entered more than once. This analysis should be focused on identifying records which share the same: - unique supplier identifier - supplier name	Identify the cause and impact of the duplicate supplier master records. This may include: - confirming any operational reasons for the record to be entered more than once (e.g. the same supplier which operates from multiple locations) - identify whether the duplicate record(s) was created in error, as a

Theme	Test	Objective	Analysis	Next steps
		purposes (e.g. a duplicated legitimate supplier master record with bank account details changed to a personal account).	ABN.	result of systemic poor record keeping processes or appears to be a fraudulent supplier master record identify whether there has been any financial impact as a result of the duplicate record (e.g. erroneous processing of invoices or payments or diverted funds).
Accuracy	Duplicate data fields across more than one supplier master record*.	To identify any supplier master records which share duplicate information. Duplicate information across more than one supplier master record may indicate: - connections of interest between suppliers (e.g. suppliers which have the same owners or address may indicate potential collusion) - fraudulent supplier master records.	Analyse the supplier master file to identify any data fields which are the same across one or more suppliers. This may include checking for duplicate data fields: - ABN - bank information - contact information including names, phone numbers, address or email.	Conduct further enquiries and examination of information to understand the cause and impact. This may include: - examining additional information such as third party sources to identify links between suppliers - reviewing transactions that have been processed to connected suppliers to identify potential collusion or subversion of delegated authorities.
Accuracy	Pattern analysis.	To identify supplier master records which may contain inaccurate information.	Run pattern analysis to identify inconsistent information. This may include ensuring that: all suppliers which are flagged as being a company have an ACN recorded	Data which does not fit within the expected patterns should be further examined to determine the required corrective action.

Theme	Test	Objective	Analysis	Next steps
			- all suppliers from each region have the correct postcode or telephone area code - bank names align with a relevant BSB.	
Accuracy	Dormant suppliers*.	Identify supplier master records which are not actively used in procurement processes.	Conduct an analysis of the supplier master file as compared to supplier payment data to identify any active suppliers which have not been engaged in a payment transaction for a period of time determined by the entity based on its operations (e.g. 18 months).	Conduct further enquiries to determine if the identified suppliers should be marked as inactive in the supplier master file. Further enquiries may include consulting with other business areas including procurement and finance to identify whether there are legitimate reasons the supplier should remain active (e.g. an existing contract). Supplier master records that are confirmed as inactive should be marked accordingly in the supplier master file to ensure that they cannot be used inappropriately.
Completeness	Mandatory data field completeness test.	To identify any supplier master records which have missing information in mandatory data fields. Incomplete supplier data may indicate that due diligence procedures were not complete or the supplier master record may be fictitious.	Analyse the supplier master data to identify any 'blank' or 'null' data fields in mandatory data fields. Refer to Appendix 1 for a list of suggested baseline mandatory data fields.	Missing data should be flagged for further examination and completion. Data entry controls, procedures and approvals should be examined to identify whether these are implemented and working appropriately. Entities should provide additional training to employees if it is identified that there is a high level of data entry errors.
Fraud risk	Employee information recorded in the supplier master file*.	To identify whether there are any connections of interest between suppliers and employees which may include:	Conduct an analysis of the supplier master file as compared to the employee master file to identify any matching data fields which may indicate a connection between employees and suppliers.	The conflict of interest register should be reviewed to identify whether any identified connections have been previously disclosed and are appropriately mitigated.

Theme	Test	Objective	Analysis	Next steps
		- employees who have a personal or financial interest in a supplier - employees who are using shell companies to channel business for personal gain.	This may include: - suppliers and employees which have the same bank details or contact information - suppliers and employee emergency contacts which have the same contact information - suppliers which have shareholders or directors that match employee records.	Other connections of interest that are identified that have not been disclosed should be further investigated.
Fraud risk	Segregation of duties.	To identify whether there has been a weakness in controls to segregate duties.	Conduct an analysis of audit log reports to ensure that all required activities have been conducted by different employees. For example, the approval to create a new supplier master record has been performed by an authorised employee who is not the same as the employee who created the record.	Where it has been identified that required activities have not been appropriately segregated, the entity should: - review the current controls to understand what has caused the weakness and apply corrective action - further investigate concerning activities (e.g. multiple suppliers which have been created and approved by the same person).
Fraud risk	Unauthorised access or amendments.	To identify whether the supplier master data has been accessed or amended by an unauthorised person.	Analyse audit log reports and compare to the delegations register to identify if supplier master data has been accessed or changed by: - unauthorised persons - employees who do not have responsibilities that relate to the management of supplier master data.	Prioritise corrective action to ensure that any unauthorised access is cut off. Conduct further enquiries to understand the persons involved, the information that was accessed, and identify all risks and impact from the unauthorised access.

Theme	Test	Objective	Analysis	Next steps
Fraud risk	Audit log analysis.	To identify activities which may be considered suspicious or out of the ordinary.	Examine audit log reports to identify unusual activity including: - bank details for supplier master records frequently changed and changed back - changes made to supplier master records at times which would be considered out of the ordinary (e.g. public holidays, weekends, outside of ordinary work hours, during periods an employee is on leave) - employees accessing or modifying large volumes of data in a short period of time - deletion of large amounts of data - patterns of amendment to supplier master files which is outside that ordinarily expected.	Entities' audit log systems should be regularly monitored and reviewed to proactively identify potential anomalies and unusual activity which could be suspicious.

Source: OAG

Appendix 3: Additional resources

The additional resources listed may be useful to entities in implementing or improving their current supplier data management practices.

Entity	Description	Link
Office of the Auditor General Western Australia	Report 20 – Fraud Risk Management – Better Practice Guide June 2022	https://audit.wa.gov.au/reports-and-publications/reports/fraud-risk-management-better-practice-guide/
Office of the Auditor General Western Australia	Report 12 – Digital Identity and Access Management – Better Practice Guide March 2024	https://audit.wa.gov.au/reports-and-publications/reports/digital-identity-and-access-management-better-practice-guide/
Office of the Auditor General Western Australia	Report 25 – Staff Exit Controls at Large Local Government Entities	https://audit.wa.gov.au/reports-and-publications/reports/staff-exit-controls-at-large-local-government-entities/
Office of the Auditor General Western Australia	Report 3 – Staff Exit Controls August 2021	https://audit.wa.gov.au/reports-and-publications/reports/staff-exit-controls/
Office of the Auditor General Western Australia	Report 16 – Management of Supplier Master Files March 2019	https://audit.wa.gov.au/reports-and-publications/reports/management-of-supplier-master-files/appendix-1/
Department of Treasury	Treasurer's Instructions including: • TI 4 Risk Management & Internal Control Requirement 2: Risk Management • TI 5 Expenditure and Payments Requirement 1: Authorisation of Payments (segregation of duties) • TI 8 Financial Accounting and Reporting Requirement 1: Requirements of Accounting Systems • TI 10 Internal Audit Requirement 1: Internal Audit	https://www.wa.gov.au/government/publications/financial-administration-bookcase
Department of Finance	Western Australian Procurement Rules	https://www.wa.gov.au/government/publications/general-procurement-direction-202401-western-australian-procurement-rules
Department of Finance	Preventing procurement fraud	https://www.wa.gov.au/service/government-financial-management/procurement/preventing-procurement-fraud
Public Sector Commission	Integrity Framework resources	https://www.wa.gov.au/organisation/public-sector-commission/integrity-framework-resources
Public Sector Commission	Developing Detection Systems	https://www.wa.gov.au/government/multi-step-guides/developing-detection-systems

Entity	Description	Link
Public Sector Commission	Conflicts of Interest Guide	https://www.wa.gov.au/government/multi-step-guides/conflicts-of-interest-guide
Public Sector Commission	A guide to public interest disclosures in WA public authorities	https://www.wa.gov.au/organisation/public-sector-commission/guide-public-interest-disclosures-wa-public-authorities
Public Sector Commission	Strengthening integrity in financial management	https://www.wa.gov.au/organisation/public-sector-commission/strengthening-integrity-financial-management
Public Sector Commission	Integrity in financial management: Self assessment checklist	https://www.wa.gov.au/government/publications/integrity-financial-management-self-assessment-checklist
Public Sector Commission and Corruption and Crime Commission	Notifying misconduct – A guide for Principal Officers of notifying authorities August 2018	https://www.ccc.wa.gov.au/media/resources
Australian Government: Australian Business Register	Format of the ABN	https://abr.business.gov.au/Help/AbnFormat
Australian Government: Australian Business Register	Type of entity: Entity mapping file	https://www.abr.gov.au/government-agencies/accessing-abr-data/abr-data-dictionary/entity-mapping-file
Office of Digital Government	2024 WA Government Cyber Security Policy	https://www.wa.gov.au/government/publications/2024-wa-government-cyber-security-policy

Source: OAG

Auditor General's 2024-25 reports

Number	Title	Date tabled
1	Supplier Master Files – Better Practice Guide	1 August 2024

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Office of the Auditor General
for Western Australia

(Appendix AAR: 11.3A)



JLT Public Sector Risk Report

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

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

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

Acknowledgement of Country

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



“

The events of the past four years are still front of mind as councils continue to rebuild their communities.

GARY OKELY
Head of Public Sector

NOTE FROM GARY OKELY



GARY OKELY

Head of JLT Public Sector, Pacific

The JLT Public Sector Risk Report highlights that the experiences of the past four years are still at the forefront of CEOs' and GMs' minds. Many councils are still in the process of recovering and rebuilding their communities.

WELCOME

The 2023 JLT Public Sector Risk Survey results place a lens on the accumulative effect of key risks that local government encounters, such as assets and infrastructure, climate adaptation, cybersecurity, and human resources. Among these, financial sustainability ranks as the most critical concern.

The responses from councils demonstrate their advanced understanding of risks and the underlying factors associated with them.

There is growing recognition of the elevated importance of cyber risk within local government. As reliance on information technology, sophisticated communication platforms and compliance increases, local government face greater challenges in delivering essential services to the community through virtual platforms and/or advanced technology.

In 2023, communities faced financial challenges as high interest rates and inflationary pressures contributed to the increase in the cost of living. At the same time, councils experienced cost pressures due to ongoing disaster recovery efforts and the need to build “resilience.”

The rapidly maturing risk profile of local government has led to a shift in understanding. Instead of addressing individual risks in isolation, councils are adopting a more comprehensive approach. This involves considering systemic risk, risk profiles and the interconnected nature of risks. Additionally, councils are managing the combined attributes of risks, including exposure, vulnerability and impact.

The survey findings indicate that the emergence of People & Culture is a broader “community” risk. This recognition underscores the importance of fostering a local workforce that can actively contribute to community enrichment, prosperity and overall well-being. These factors collectively shape a council’s reputation and culture.

The 2023 survey results reinforce the importance of local government building collaborative partnerships with stakeholders, engaging in public/private arrangements, and fostering strong relationships between all levels of government.

Financial sustainability remains the key risk that defines the risk profile of local government. The report offers crucial data and information that can add to conversations within the sector regarding the challenges and opportunities for increased investment in local government sustainability. This information is an essential piece for supporting resilient communities, a healthy economy and workforce, and effectively managing infrastructure and natural environments.

We extend our gratitude to all the CEOs and General Managers who participated in the JLT Public Sector Risk Survey. Your valuable contributions are essential to the creation of the JLT Public Sector Risk Report.

It is with great pleasure that I present to you the JLT Public Sector Risk Report.



AUSTRALIAN LOCAL GOVERNMENT **(Appendix AAR: 11.3A)**

RISK RANKINGS FROM THE 2023 JLT RISK SURVEY

FINANCIAL SUSTAINABILITY



The significant impact of past events, as well as the interconnectedness of risks, collectively contribute to financial pressure for councils. This, in turn, affects their bottom line and financial sustainability, ultimately impacting their ability to effectively serve their communities.

1

CLIMATE CHANGE



4

Climate change is increasingly causing physical and transitional risks to councils. These risks result in significant impacts on business and function, and the insufficient disaster recovery costs undermine the ability for Councils and their communities to recover quickly. This in turn leads to councils being unable to satisfy the needs of the community and meet their expectations.

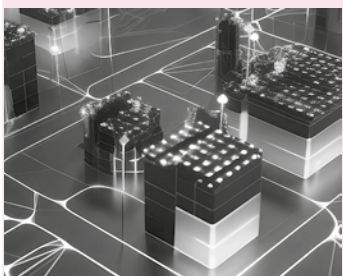
DISASTER & CATASTROPHE



5

The increase and continual impact of disasters such as floods, bushfires and cyclones significantly impact councils. This is being compounded by the effects of climate change. With limited funds provided to Local Government to mitigate the effects of events on their assets & infrastructure, councils remain wary.

CYBER SECURITY



2

The risk of a cyber incident is pervasive across all sectors, including local government. Recognising the potential impact an ICT outage, cyber-attack or ransomware can have on a council and its constituents showcases a growing emphasis on enhancing the protection of systems and data.

PEOPLE & CULTURE



Councils continue to struggle with attracting and maintaining professional staff. This is made more challenging as they compete with market costs that their funding from the State and Federal Governments and rates do not provide for. Unsafe workplaces from bullying and harassment from frustrated community members is a rising concern.

ASSETS & INFRASTRUCTURE



3

The breadth, diversity and scale of the Assets & Infrastructure portfolios managed by local government is immense and varied. The capacity to finance building or maintaining Assets & Infrastructure is a significant issue for councils, along with the cost of upgrading or repairing. Over the past two years, inflation has been a considerable impact to maintain or upgrade/replace assets.

6



BUSINESS CONTINUITY



Local governments have been significantly affected by business interruptions caused by a range of events, including the many and too-frequent natural disasters of unprecedented severity, the increasing incidents or threats of Cyber-attacks and the continued ripples of the COVID-19 pandemic. These disruptions have had a significant impact on the operations and finances of local government.

7



WASTE MANAGEMENT



10

Increased expectations to reimagine the waste management process creating better practices and sustainability pose substantial challenges for the public sector, encompassing issues of financial capacity, environmental sustainability, resource allocation and public health as well as high-risk activity with challenges around all aspects of risk, from liability, property, workers and environment.



REPUTATION RISKS



11

Being in touch with community needs and understanding the most effective way to meet these, councils have the challenge of managing community expectations when it comes to the provision of essential services. Further, reputation is closely linked to other key risks which drive community expectations.



INEFFECTIVE GOVERNANCE

Operating in an environment of increasing change, councils are being affected by new vulnerabilities and risks. Supply chain issues, inflationary pressures, election cycles, and workforce challenges have placed significant pressure on local governments' workplace culture, internal control environment, and capacity, which if not held together by a strong governance framework, potentially lead to performance and accountability issues.

8



LIABILITY CLAIMS



Understanding councils' risk profile and applying the risk management policy and processes underpin the management of liability claims.

12



STATUTORY/REGULATION



Councils face the challenge of managing the multitude of statutory and regulatory requirements placed upon them by State and Federal legislation. They are also a regulator in their own right via local laws, as well as any State and Territory legislative powers that have been delegated to them.

9

TOP **FIVE** RISKS BY STATE

(Appendix AAR: 11.3A)

NORTHERN TERRITORY

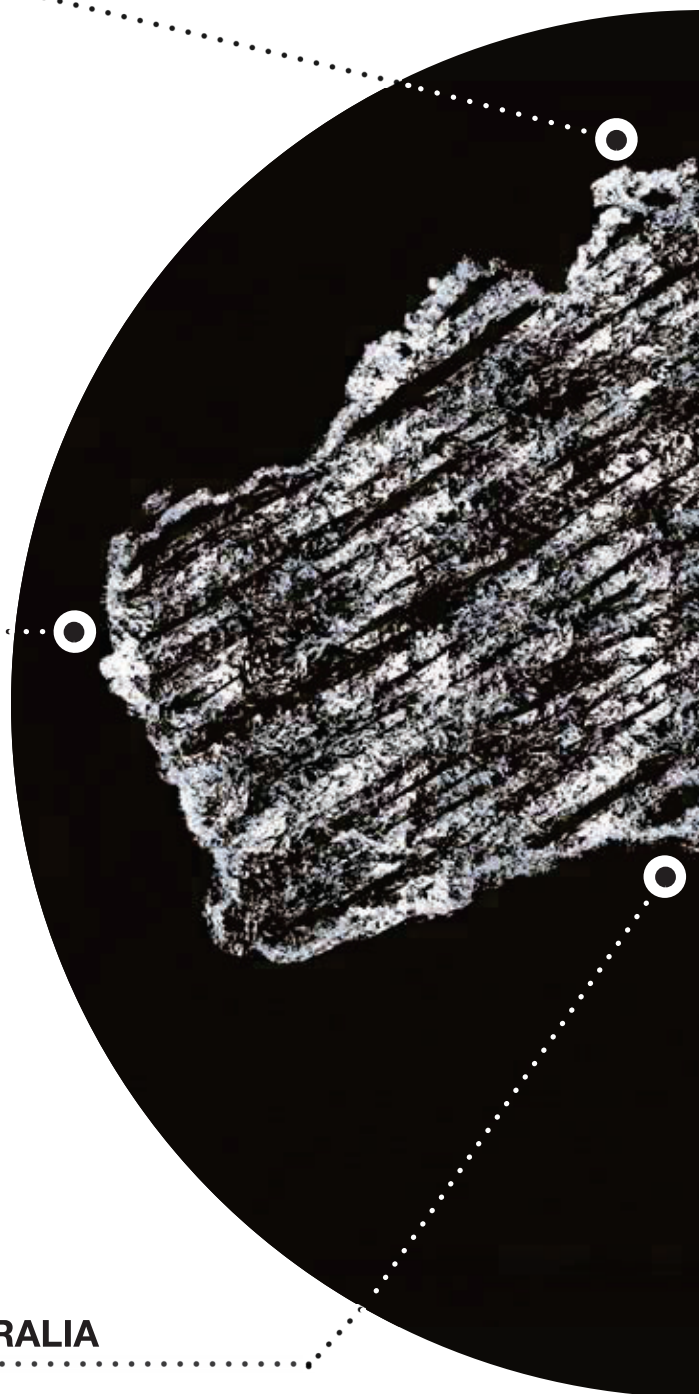
- 1 FINANCIAL SUSTAINABILITY
- 2 BUSINESS CONTINUITY
- 3 INEFFECTIVE GOVERNANCE
- 4 ASSET & INFRASTRUCTURE
- 5 PEOPLE & CULTURE

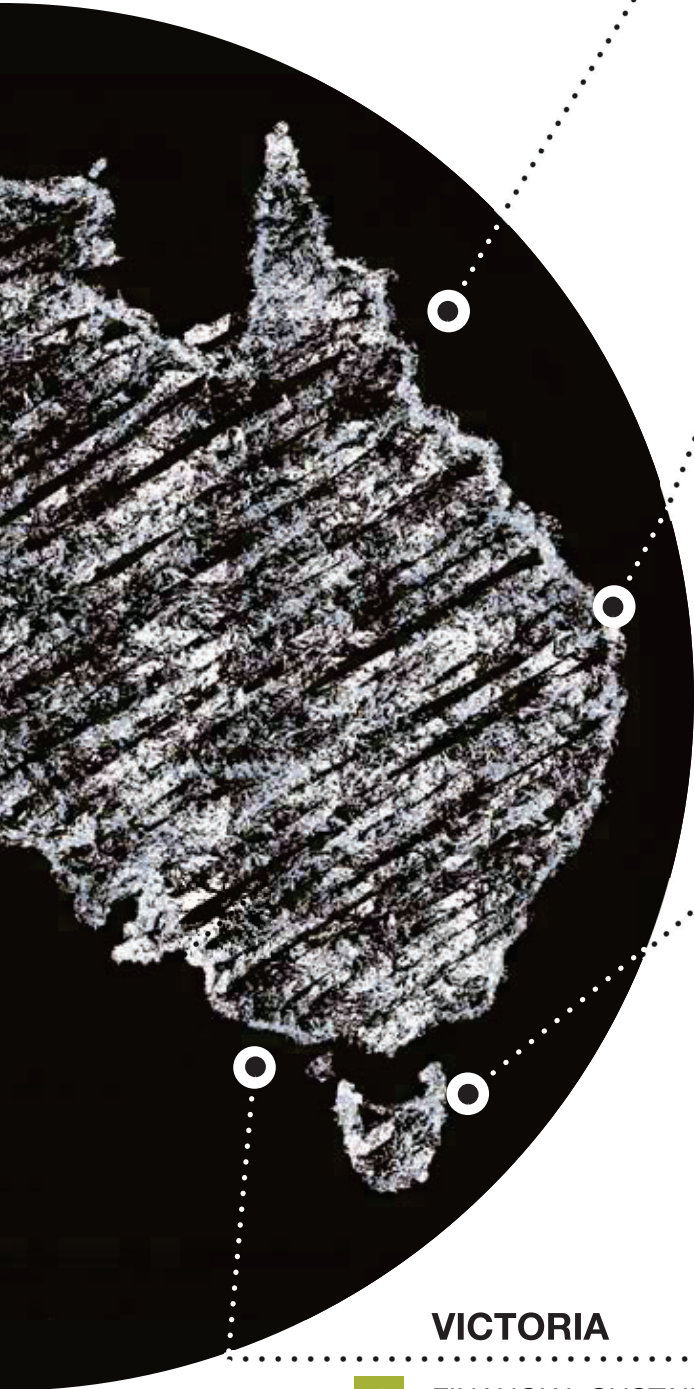
WESTERN AUSTRALIA

- 1 ASSET & INFRASTRUCTURE
- 2 CYBER SECURITY
- 3 FINANCIAL SUSTAINABILITY
- 4 CLIMATE CHANGE
- 5 DISASTER OR CATASTROPHIC EVENTS

SOUTH AUSTRALIA

- 1 FINANCIAL SUSTAINABILITY
- 2 CYBER SECURITY
- 3 ASSET & INFRASTRUCTURE
- 4 PEOPLE & CULTURE
- 5 INEFFECTIVE GOVERNANCE





QUEENSLAND

- 1 FINANCIAL SUSTAINABILITY
- 2 CYBER SECURITY
- 3 ASSET & INFRASTRUCTURE
- 4 DISASTER OR CATASTROPHIC EVENTS
- 5 BUSINESS CONTINUITY

NEW SOUTH WALES

- 1 FINANCIAL SUSTAINABILITY
- 2 CYBER SECURITY
- 3 ASSET & INFRASTRUCTURE
- 4 DISASTER OR CATASTROPHIC EVENTS
- 5 CLIMATE CHANGE

TASMANIA

- 1 CYBER SECURITY
- 2 BUSINESS CONTINUITY PLANNING
- 3 DISASTER OR CATASTROPHIC EVENTS
- 4 CLIMATE CHANGE
- 5 FINANCIAL SUSTAINABILITY

VICTORIA

- 1 FINANCIAL SUSTAINABILITY
- 2 CYBER SECURITY
- 3 ASSET & INFRASTRUCTURE
- 4 CLIMATE CHANGE
- 5 DISASTER OR CATASTROPHIC EVENTS

RISKS BY **REGION** (Appendix AAR: 11.3A)

CAPITAL CITY



1. Financial Sustainability
2. Cyber Security
3. Climate Change
4. Reputation
5. Ineffective Governance
6. People & Culture
7. Business Continuity Planning
8. Disaster & Catastrophic Events
9. Civil Liability Claims
10. Assets & Infrastructure
11. Statutory & Regulatory Requirements
12. Waste Management

METROPOLITAN



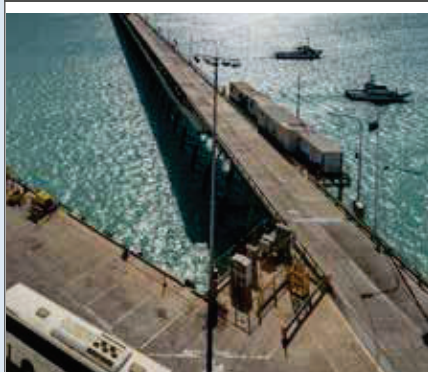
1. Cyber Security
2. Financial Sustainability
3. Assets & Infrastructure
4. Climate Change
5. Ineffective Governance
6. People & Culture
7. Disaster & Catastrophic Events
8. Business Continuity Planning
9. Waste Management
10. Reputation
11. Statutory & Regulatory Requirements
12. Civil Liability Claims

REGIONAL CITY



1. Financial Sustainability
2. Climate Change
3. Assets & Infrastructure
4. Cyber Security
5. Business Continuity Planning
6. People & Culture
7. Disaster & Catastrophic Events
8. Statutory & Regulatory Requirements
9. Ineffective Governance
10. Waste Management
11. Civil Liability Claims
12. Reputation

REGIONAL



1. Financial Sustainability
2. Cyber Security
3. Assets & Infrastructure
4. Disaster & Catastrophic Events
5. People & Culture
6. Business Continuity Planning
7. Climate Change
8. Ineffective Governance
9. Statutory & Regulatory Requirements
10. Waste Management
11. Reputation
12. Civil Liability Claims

RURAL/REMOTE



1. Financial Sustainability
2. Cyber Security
3. Assets & Infrastructure
4. Disaster & Catastrophic Events
5. People & Culture
6. Business Continuity Planning
7. Climate Change
8. Statutory & Regulatory Requirements
9. Ineffective Governance
10. Waste Management
11. Civil Liability Claims
12. Reputation

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EXECUTIVE SUMMARY

Insights from the 2023 JLT Public Sector Risk Survey shed light on the risks that local government face. The survey examined twelve key risks such as Financial Sustainability, the Management of Damaged and Aging Assets and Infrastructure, Climate Change/Adaptation, Cybersecurity and People & Culture. According to the survey results, councils have become increasingly conscious of the collective impact of these risks and the implications for their communities. As a result, Financial Sustainability retains its position as the top-ranked risk, reflecting the heightened awareness of its potential consequences on other risks.

Local governments increasingly rely on information technology and advanced communication platforms to deliver essential services to the community. Due to this, the escalating threat of virtual and social media-related risk remains a significant concern. Recognising the importance of protecting sensitive data and mitigating potential cyber threats reflects the evolving landscape of technology and the need for robust security measures in local government.

The lasting effects of disaster risks and the complicated pathway to recovery continue to shape the risk profile of local government. The domino effect of climate-related risk introduces social/community issues relevant to well-being, health services, chain of supply, cost of living, housing shortage, and financial impost on consumers. These factors collectively influence the financial sustainability of councils, highlighting the complex pathway to recovery and the need for comprehensive risk management strategies.

The growing impact of different risk factors has not only deepened the sector's comprehension of risk but has also prompted a shift in how risk is perceived. Unlike previous years, where the Risk Report primarily focussed on identifying specific risks, this year's results have demonstrated a notable shift towards adopting a more holistic approach to assessing the risk profile. The findings of the survey indicate.

- **Risk versus Impact:** There is an increased focus on managing the combined attributes and domino effect of risk, taking into account exposure, vulnerability and impact, rather than identifying and considering each risk in isolation.
- **Systemic Effects:** there is increased recognition of the impacts of cascading, compounding and concurrent influences or events that create risk. This includes the consequences for funding, resourcing, coordinating and managing these effects.

In order to align with this evolving perspective, the existing strategic, budgetary and operational frameworks used to profile, plan for and manage risks will be adapted. These adjustments are necessary to effectively reflect the evolving risk profile of local government and to foster community trust and resilience.

To better capture the comprehensive nature of this risk, the definition of Human Resources was adjusted to People & Culture. The survey results from 2023 highlight the recognition that People & Culture is an emerging "community" risk emphasising the importance of supporting a local workforce that not only enriches the community but also shapes the culture of the council.

A significant observation regarding this risk is that all states continue to face significant challenges in attracting and retaining skilled staff, a major challenge. With low unemployment rates, the competition with the private sector for key personnel is particularly intense, which is further exacerbated in regional areas. Additionally, as an employer, fostering a strong culture and resilient workforce is essential for a council's operational efficiency and innovation. This approach ensures delivery of functions and services are as per regulatory and statutory requirements.

The survey results also highlight the importance of a council's ability to attract local businesses and employers that align with its social-economic environment. This extends to ensuring job security by attracting individuals who are the right fit for relevant roles.

While 2023 saw a decrease in national disasters compared to the previous years of 2019 to 2022, many areas of Australia continue to face significant challenges due to prolonged recovery efforts and insufficient financial support for rebuilding after floods, bushfires and extreme weather events.

Against the background of local government still managing and/or recovering from COVID-19, the floods that impacted NSW and south-east Queensland in February 2022 provided no reprieve and are noted as the fourth most expensive natural disaster globally that year, with the Insurance Council of Australia recording the floods as the "costliest insured event recorded in Australia".¹

While Financial Sustainability remains the key risk that defines local government's risk profile, the contribution from Chief Executive Officers/General Managers (CEO/GMs) to the 2023 Risk Survey provides essential and valuable data and information that will contribute to the sectors' conversations regarding the challenges and opportunities for local government sustainability. This information is essential for supporting resilient communities, a healthy economy and workforce, maintaining infrastructure and assets, enhanced investment in mitigating the impact of disaster events and ongoing provision of essential, regulatory and service delivery obligations.

The input from Local Government CEOs and GMs is essential for gaining a comprehensive understanding of the risks they face while supporting their communities. The findings of the 2023 JLT Risk Survey were similar to the previous year's results on a national and regional level.

This year's JLT Risk Report explores the rankings of these risks at the national and state/territory levels. Furthermore, the report provides an in-depth analysis of the rankings, providing valuable insights for the various regions including city, metropolitan, regional city, regional and rural/remote areas.

A new addition to the report is the examination of the outcomes of these risks on councils. As risks continue to evolve, it is important to understand the consequences associated with them. This year, the JLT Public Sector Risk Survey introduced questions about these outcomes, shedding light on how councils and communities are affected beyond the risks themselves.

OVERVIEW

2023

Top two risks - Financial Sustainability & Cyber Security

It is widely acknowledged that the primary reason for Financial Sustainability consistently ranking as the top risk year after year is the significant impact of other risks on the financial stability of councils. This, coupled with the delay in receiving funding support following an event, has a direct impact on the financial sustainability of councils.

Cyber Security and the Breach of Data continue to be a major concern for Local Government. The rapid pace of technological advancement and the ever-evolving tactics of hackers make it challenging for most organisations to keep up. With 83 cyber incidents in the 2022/23 financial year, councils are increasing their knowledge and understanding of this risk to mitigate potential events that could impact them or their community.

The other ten risks

This report highlights the understanding of councils regarding the interconnected nature of risks as well as the potential domino effect they can have on each other. While certain risks may shift in their ranking this year, councils know that any single risk can have a substantial impact on others during an event. The remaining risks are still recognised as significant concerns for councils. Although they are ranked, all of these risks are relevant and rankings reflect their importance at that specific moment in time.

THE MOVEMENT OF RISK (Appendix AAR: 11.3A)

2019-2023

This diagram illustrates the changes in the top five risks from 2019 to 2023, highlighting the shifting nature of these risks. More importantly, the top five risks have shown minimal movement over the past 12 months. Business Continuity dropped out of the top five, while climate change has entered the top five for the first time. This indicates that although there has been a reprieve in catastrophes and disasters over 2023, many councils are still impacted by prior events, and are still actively engaged in recovery and rebuilding efforts. As a result, these risks and vulnerabilities remain a significant concern for Local Government.

	2018	2019	2020	2021	2022	2023
1	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability
2		Cyber Security	Assets & Infrastructure	Cyber Security	Cyber Security	Cyber Security
3			Disaster or Catastrophic	Asset & Infrastructure	Asset & Infrastructure	Asset & Infrastructure
4		Natural Catastrophes	Cyber Security	Disaster or Catastrophe	Business Continuity	Climate Change
5		Climate Change			Disaster or Catastrophe	Disaster or Catastrophe
6	Asset & Infrastructure	Asset & Infrastructure	Business Continuity	Business Continuity	Climate Change	
7	Natural Catastrophes			Climate Change		
8	Cyber Security					
9			Climate Change			

RISK RANKINGS 2018-2023 (Appendix AAR: 11.3A)

	2018	2019	2020	2021	2022	2023
1	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability
2	Theft, fraud and/or crime	Cyber Security	Assets & Infrastructure	Cyber Security	Cyber Security	Cyber Security
3	Reputation	Reputation	Disaster or Catastrophic	Asset & Infrastructure	Asset & Infrastructure	Asset & Infrastructure
4	Statutory & regulatory Requirements	Natural Catastrophes	Cyber Security	Disaster or Catastrophe	Business Continuity	Climate Change/Adaptation
5	Environmental Management	Climate Change/Adaption	Reputation	Reputation	Disaster or Catastrophe	Disaster or Catastrophe
6	Asset & Infrastructure	Asset & Infrastructure	Business Continuity	Business Continuity	Climate Change/Adaptation	People & Culture
7	Natural Catastrophes	Statutory & Regulatory Requirements	Waste Management	Climate Change/Adaptation	Statutory & regulatory Requirements	Business Continuity
8	Cyber Security	Ineffective governance	Statutory & Regulatory Requirements	Impact of Pandemic in 2021 & 2022	HR Management	Ineffective governance
9	Business Continuity	Business Continuity	Climate Change/Adaptation	Statutory & Regulatory Requirements	Waste Management	Statutory & regulatory Requirements
10	Ineffective governance	HR/WHS Management	HR/WHS Management	Ineffective governance	Ineffective governance	Waste Management
11	HR/WHS Management	Environmental Management	Ineffective governance	Waste Management	Reputation	Reputation
12	Errors, omissions or civil liability exposure	Errors, omissions or civil liability exposure	Theft, fraud and crime threats (including social media)	HR/WHS Management	Impact of Pandemic in 2021 & 2022	Civil Liability Claims
13		Theft, fraud and crime	Errors, omissions or civil liability exposure	Civil Liability Claims		
14		Terrorism	Terrorism	Terrorism		

THE RANKING OF THE 12 RISKS

(Appendix AAR: 11.34)

The main reason for Financial Sustainability consistently being ranked as the top risk for councils is the significant impact of other risks on their financial stability.

Cyber security and the vulnerability of IT infrastructure remain major concerns for Local Government. The rapid advancement of technology and the ever-evolving tactics of hackers make it difficult for organisations to stay ahead.

Highest ranking by respondents

64.38%

Financial Sustainability

58.90%

Cyber security/IT infrastructure

42.47%

Managing ageing, property, assets and infrastructure

25.11%

Climate Change/Adaptation

24.20%

Natural Hazard, Disaster/ Catastrophic Events

21.92%

People & Culture

19.63%

Business Continuity

14.61%

Ineffective Governance

10.96%

Statutory and/or Regulatory requirements

8.68%

Waste Management

5.94%

Reputation Risks

The local government risk environment is continually evolving, presenting local government executives with significant challenges in developing operational and financial plans that can deliver on the council's strategic plan.

With much of the organisation's finances allocated to delivering core council services, it can be difficult for CEO/GMs to ensure that their elected body balances short-term needs and longer-term investments in assets and essential infrastructure.

Financial Sustainability is interconnected with most risks – an underlying factor impacting the mitigation of risks across the spectrum.

With councils managing close to 33% of Australia's public sector-owned assets and infrastructure, the cost and resources required to build and maintain puts much pressure on council balance sheets. Many assets were built post-World War II and are seriously affected by disasters and catastrophes. This means councils can face an uphill battle in managing infrastructure.

1

FINANCIAL SUSTAINABILITY

Since 1999, spending by local government has increased fourfold, with an annual growth rate of 6.7%. In 2018/19 total spending was estimated to be \$38.8 billion compared to \$8.2 billion in 1994/95. Furthermore, there have been significant changes in where local government expenditure has been directed with changes in environmental protection, recreation, culture and religion.

In the 21st century, the role of local governments has undergone significant changes in response to evolving community needs and the occurrence of cost shifting. Local governments are now responsible for delivering more than 150 services, despite minimal increases in funding to support these additional responsibilities.

Due to limited financial resources, local governments are facing challenges in maintaining their infrastructure. The Australian Local Government Association (ALGA) has highlighted that councils have little ability to upgrade their roads "to modern lane widths, safety standards or load-bearing capacities that cater for higher-productivity freight vehicles, higher traffic volumes, and congestion etc."²

In addition to infrastructure, community facilities are aging, and some local government areas are struggling to keep them properly maintained which places additional strain on the already limited resources available to councils.

Further, attaining and maintaining skilled professionals is a continual challenge when competing with the open market employees often move to the private sector. This is also affected by resource shortages such as lack of accommodation, and cost of living along with, the increase in bullying and harassment of staff by the public.

Cybersecurity and ensuring local government's IT infrastructure is safeguarded is paramount. The need to protect the organisation and community from sophisticated and malicious cyber-attacks continues to grow as the risks evolve. The reliance on digital and hybrid working models puts additional pressure on councils due to concerns about the impact on online services.

This report unpacks the underlying reasons why Financial Sustainability again ranks as the leading risk for local governments across Australia. This key element cuts across many other risks recognised in the survey and interconnects with risks, in particular Assets & Infrastructure, Reputation, councils' vulnerability to weather-related events and Human Resources.

Since 2018, Financial Sustainability has been the number one concern for council executives. While councils benefit from relatively stable annual council rates, in the current environment, facing scrutiny from the media and state governments, council rates are increasing at a much lower rate than inflation.

Further, councils face challenges in meeting community expectations in the delivery of not only essential services but also maintaining the attractiveness of community spaces. This is exacerbated by the often disproportionate spread of grant funding across states, as well as metropolitan and regional councils.



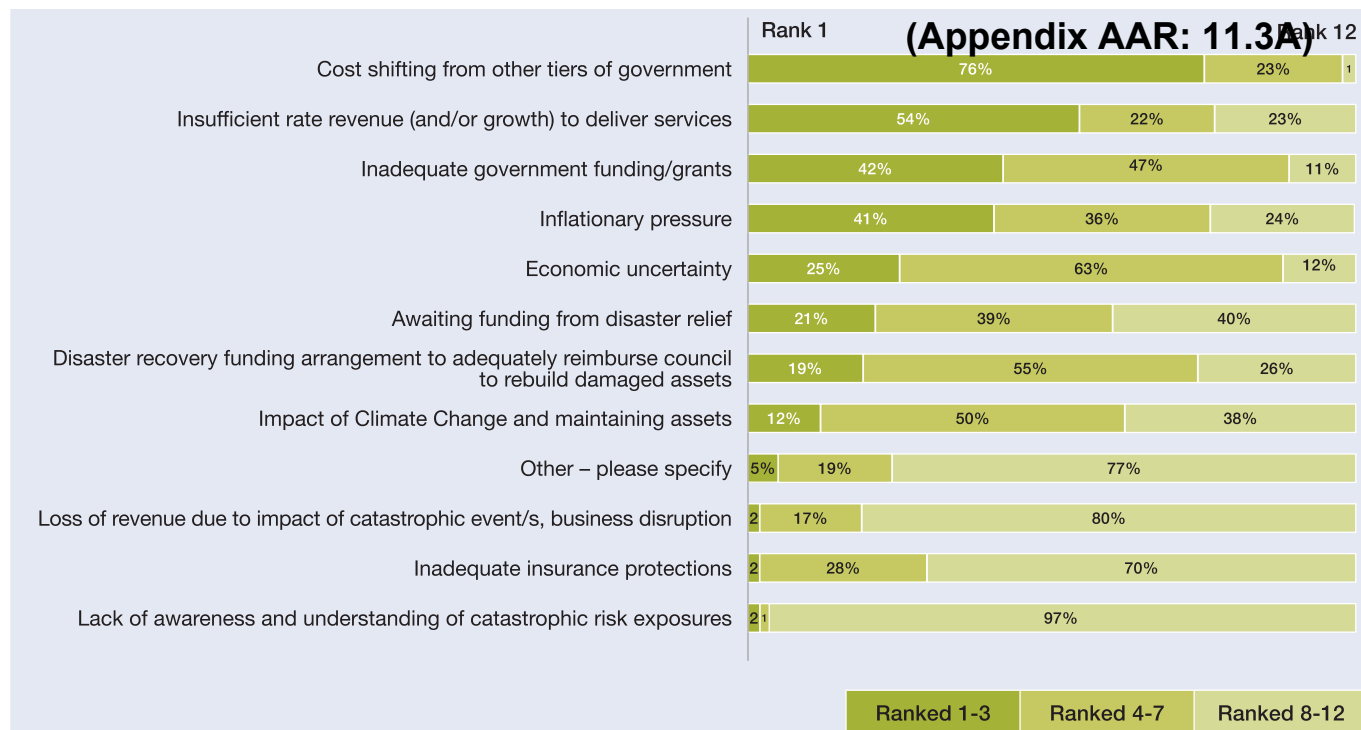


Figure 1: Financial Sustainability, national risk/heat map

64% of councils (nearly one-third of responses) ranked Financial Sustainability as their leading concern. Five of the seven states and territories ranked this risk as their highest risk. Conversely, for metropolitan councils who ranked this as their second highest risk, Cybersecurity was their leading risk at 42% (outweighing Financial Sustainability by 14%).

The management of critical infrastructure passed from state to local governments without adequate funding remains. This has a significant impact on local governments' bottom lines aligning with the leading underlying contributor to this risk. In fact, 75.8% of councils noted cost shifting from other tiers of government impacts their financial sustainability. This issue was ranked number one by metropolitan, regional and remote/rural councils.

Cost shifting from state to local government was again the highest-ranked underlying contributor to Financial Sustainability concerns. Cost shifting comes in many forms. One is the leasing of state-owned assets (like jetties, wharves, and sea walls) to councils that don't have the financial means to maintain or upgrade. The general belief in the community is that it is the council's responsibility to maintain these assets to acceptable levels. When this is not achieved, it creates reputational exposure. In some cases, liability risks arise if an asset fails, causing damage or injury.

Another prominent form of cost or risk shifting from state to local government is regulatory and legislation changes. Often, changes are driven by the state with relatively minor engagement with local government. A legislation change can impact the scope of services that councils might be required to deliver, creating a need for an increase in resources. It can also impact the scope of liability exposure in the event council's breadth of decision-making responsibility is increased without adequate funding.

Top three underlying factors for Financial Sustainability risk by region

CITY

1. Cost shifting from other tiers of government
2. Disaster recovery funding arrangements
3. Awaiting funding from disaster relief

REGIONAL

1. Inflationary Pressure
2. Insufficient rate revenue
3. Economic Uncertainty
4. Cost shifting from other tiers of government

REMOTE/RURAL

1. Cost shifting from other tiers of government
2. Insufficient rate revenue
3. Inadequate government funding/grants

Though council rates provide stable revenue, rising operations costs often mean services that need to be addressed are delivered with minimal budgets that cannot cover the actual costs. Over 54% of respondents noted insufficient rate increases as a serious risk. This is the second highest concern underpinning financial sustainability. However, it is the leading concern for 82.82% of regional city councils.

Many councils are still in the process of rebuilding from disasters that occurred between 2019-2023 and continue to wait for Federal Assistance Grants. As a result, many are forced to utilise their operational and investment funds to rebuild and assist their communities.

It is worth noting, prior to 2014, Financial Assistance Grants were indexed annually. However, the Federal Government discontinued this in 2014. ALGA noted this change has impacted communities estimating the cost to be more than \$600 million in services and infrastructure over three years.³

There's no doubt that councils are facing significant difficulties contending with the current economic environment. As inflation and interest rates increase, councils are unable to maintain rate increases with inflation. This, coupled with rising construction and material costs and delays due to contractor shortages meant 40% of councils ranked inflationary pressure as the fourth highest risk

Following on from previous years, councils continue to face limitations in how they receive revenue or with delay in funds for recovery. Councils primarily rely on three sources of revenue: taxation, charges/sales of goods and services and grants from federal and state/territory governments. Rural and remote councils will rely heavily on grants as revenue raising is limited.

In the event of a disaster, councils can access Natural Disaster Relief and Recovery arrangements. However, there is often a significant wait period for the funds to come through.

This, along with the significant inflation in issues, continues to place considerable pressure on delivering services and meeting their community's needs.

Many councils across the country have been impacted by fire and floods over the last five years. A common experience they share is the delay in receiving disaster response funding. This, coupled with the inability to progress projects, has an enormous impact on councils and their staff. Community expectations can boil over – and council executives and their elected body may find it difficult to contend with these pressures.

One emerging aspect of Financial Sustainability risk is the economic environment and the current low unemployment rates. Councils find themselves competing with private industry for talent in specialty roles, creating both recruitment and retainment challenges. Regional councils find this particularly difficult due to their limited resources and competition with large industrial and mining companies.

The nationwide housing shortage is another emerging concern. Many respondents noted that insufficient accommodation in regional areas posed a major challenge to securing talent.

Top ranking underlying factors for Financial Sustainability by State/Territory

NSW NT VIC	Insufficient rate revenue (and/or growth) to deliver functions, services
QLD SA WA	Cost shifting from other tiers of government
TAS	Disaster recovery funding arrangement to adequately reimburse council to rebuild damaged assets

Northern Territory

Financial Sustainability is the leading risk for 66% of senior executives in Northern Territory councils. This is 2% higher than the national response rate

Over the years, several costs have shifted from the Federal Government to local governments in the Northern Territory, yet the funding has not shifted. This has placed significant pressure on the territory, with 100% of all respondents noting this as their biggest issue.

New South Wales

The major factors driving council Financial Sustainability concerns are cost shifting from other tiers of government, insufficient rate revenue and inadequate government funding grants.

Inflationary pressure has exacerbated these over the last 12 months, which analysts forecast will continue in the first two quarters of 2024.

79% of respondents ranked cost-shifting from state and federal levels of government as the leading underlying concern, which is consistent with all states. This was primarily felt by metropolitan, regional and rural/remote councils. Managing ageing assets and infrastructure that has been passed to Councils to manage, along with many local government areas still recuperating after the 2020-2023 events is putting significant pressure on the purse strings.

All council regions identified insufficient rate revenue as a concern, complicating their ability to deliver functions. Constraints placed on local government’s ability to generate revenue through rates make it difficult for councils to run the organisations in a strong position, and little control over grants and funding places further pressure on councils in managing their funding.

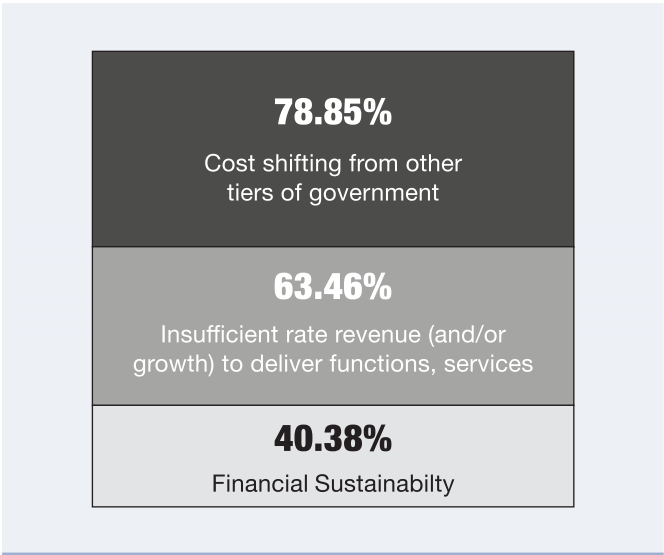


Figure 2: The top three underlying factors for this risk in New South Wales. This shows the percentage of councils that ranked each factor as high by CEO/GMs.

This segues well into the third highest concern for this risk in local government: the inadequate government funding from grants. This was strongly felt by metropolitan councils, where 40% of respondents ranked it in the top three places.

Top three underlying factors for Financial Sustainability risk by region

METROPOLITAN

1. Cost shifting from other tiers of government
2. Insufficient rate revenue Inflationary pressure
3. Inadequate government funding/grants

REGIONAL CITY

1. Insufficient rate revenue
2. Cost shifting from other tiers of government
3. Inflationary pressure

REGIONAL

1. Cost shifting from other tiers of government
2. Insufficient rate revenue
3. Inadequate government funding/grants

REMOTE/RURAL

1. Cost shifting from other tiers of government
2. Insufficient rate revenue
3. Inflationary pressure

Queensland

CEO/GMs in Queensland’s local government share similar concerns about financial sustainability as the national perspective.

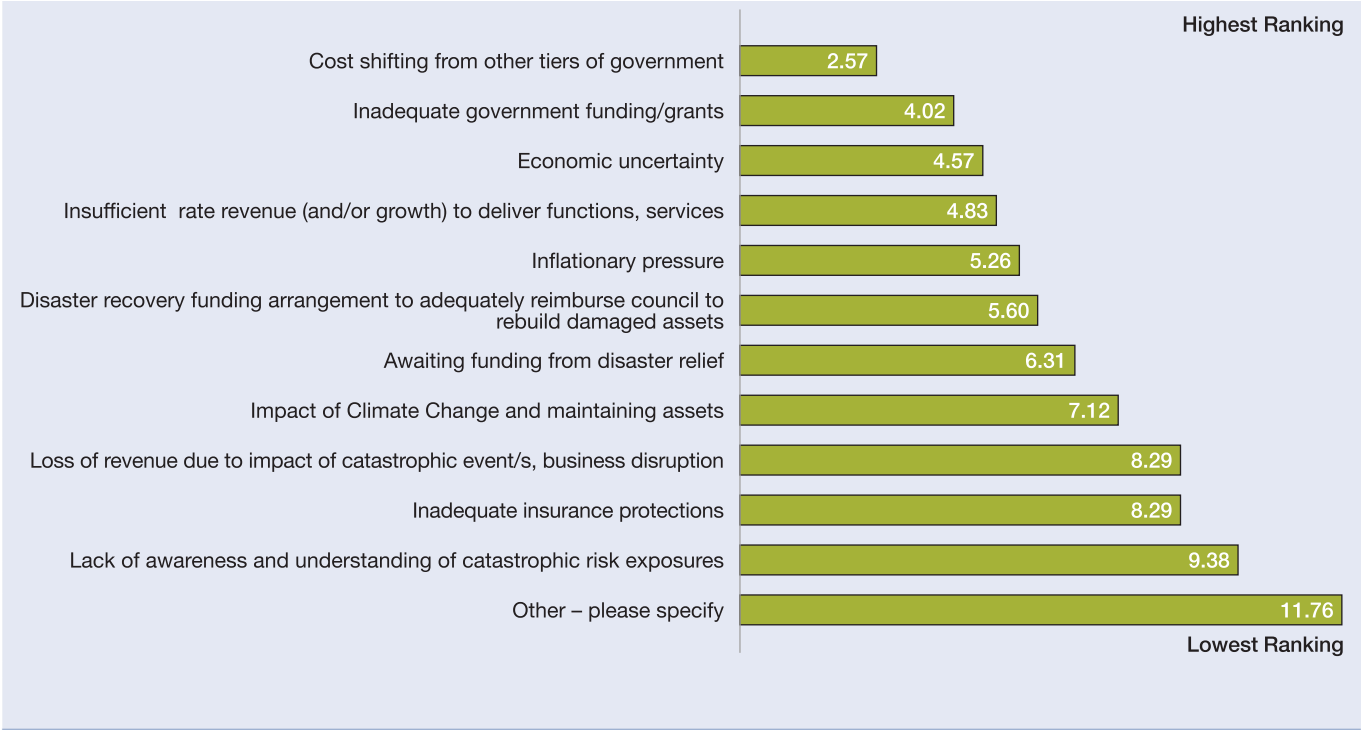


Figure 2: Financial Sustainability Average Queensland Ranking of underlying factors 1-12

Cost shifting from other levels of government clearly ranked highest. Insufficient financial grant assistance was ranked the second highest concern, with 48% of respondents identifying this as high risk. This contrasts to the national view, in which 54% of CEOs identified insufficient rate revenue as high risk.

This disparity could stem from Queensland not having any rate capping arrangements, as well as underscoring the need for access to financial assistance grants for Councils to maintain services across large distances, exposure to the frequency of natural hazards and disasters, and decentralised settlement patterns.

Top three underlying factors for Financial Sustainability risk by region

METROPOLITAN

1. Inflationary pressure
2. Economic uncertainty
3. Insufficient rate revenue

REGIONAL CITY

1. Cost shifting from other tiers of government
2. Insufficient rate revenue
3. Inadequate government funding/grants government

REGIONAL

1. Cost shifting from other tiers of government
2. Economic uncertainty
3. Inflationary pressure

REMOTE/RURAL

1. Cost shifting from other tiers of government
2. Inadequate government funding/grants
3. Insufficient rate revenue

Tasmania (Appendix AAR: 11.3A)

In Tasmania, Financial Sustainability is not the leading risk for local governments. In fact, it's fifth. Despite this, CEO and GMs were adamant about the underlying issues that affect their financial sustainability.

Out of the seven responding Tasmanian Councils, over 85% ranked cost-shifting from other tiers of government as the leading issue impacting their financial sustainability. Again, this exceeds the national ranking.

In Tasmania, management of building, land and community assets has moved from federal and state governments to local government, and the funding has not matched this shift.

Disaster recovery funding arrangements to be reimbursed for rebuilding/replacement of assets insufficient rate revenue and waiting for disaster relief ranked as equal second among respondents.

Top three underlying factors for Financial Sustainability risk by region

CITY

1. Cost shifting from other tiers of government
2. Disaster recovery funding arrangements
3. Awaiting funding from disaster relief

REGIONAL

1. Inflationary pressure
2. Insufficient rate revenue
3. Cost shifting from other tiers of government

RURAL/REMOTE

1. Cost shifting from other tiers of government
2. Insufficient rate revenue
3. Inadequate government funding/grants



Top three underlying factors for Financial Sustainability risk by region

METROPOLITAN

1. Cost shifting from other tiers of government
2. Inflationary pressure
3. Insufficient rate revenue

REGIONAL CITY

1. Inflationary pressure
2. Cost shifting from other tiers of government
3. Insufficient rate revenue

REGIONAL

1. Cost shifting from other tiers of government
2. Inflationary pressure
3. Insufficient rate revenue

REMOTE/RURAL

1. Cost shifting from other tiers of government
2. Disaster recovery funding arrangements
3. Inadequate Government funding/grants

Western Australia

Western Australian senior executives ranked Financial Sustainability as their third biggest risk overall. While lower than the national view, this is still considerable – especially as its affected by Assets & Infrastructure and Cybersecurity concerns. Similar to other states and territories, 74% of council executives ranked cost shifting from other tiers of government as their leading concern. Local governments bear the costs and liability associated with assets gifted from the State Government. Some examples in the past include contaminated former landfill sites and asbestos-laden buildings.

Inflationary pressure was the second highest-ranked issue for Western Australia, closely followed by insufficient rate revenue. Increasing costs of essential services, infrastructure and labour is leading to significant pressure on local government's financial stability.

With limited avenues of generating revenue, insufficient rate revenue can lead to budget shortfalls within local governments, which impacts the delivery of other essential services offered to ratepayers. Interestingly, many local government elections are won on the promise of no rate changes.

Victoria

74% of councils in Victoria view Financial Sustainability as their leading concern. As with most states, Victoria's largest concern underpinning this risk is cost shifting from other tiers of government.

Rate capping in Victoria makes maintaining financial sustainability a constant challenge, especially in a high-inflation environment. Unsurprisingly, Victorian GMs acknowledge the impact on financial sustainability when the ability to increase revenues has a 'handbrake' applied by rate capping.

While not unique to Victoria, the additional demands placed on councils' throughout COVID lockdowns – exacerbated by rate capping and inflation – have resulted in the deterioration of Victorian councils' financial sustainability.



Top three underlying factors for Financial Sustainability risk by region

CITY

1. Inflationary pressure
2. Insufficient rate revenue
3. Cost shifting from other tiers of government

METROPOLITAN

1. Insufficient rate revenue
2. Insufficient rate revenue
3. Inflationary pressure

REGIONAL CITY

1. Insufficient rate revenue
2. Inflationary pressure
3. Cost shifting from other tiers of government

REGIONAL

1. Cost shifting from other tiers of government
2. Insufficient rate revenue
3. Inadequate Government funding/grants

REMOTE/RURAL

1. Cost shifting from other tiers of government
2. Insufficient rate revenue
3. Inadequate government funding/grants

South Australia

(Appendix AAR: 11.3A)

Financial Sustainability continues to be the principal concern of South Australian CEO/GMs. The underlying factors are important to observe including inadequate rate revenue, insufficient government grants, cost and risk shifting from state to local government. This is consistent across all councils. Interestingly, metro and regional councils offer different perspectives on these concerns. Metropolitan councils were consistent with the national perspective – they view inflationary pressures as the principal influencing factor in driving financial sustainability as a risk. Cost shifting from other tiers of government also ranked very high, while insufficient rate revenue ranked third overall. Conversely, regional councils ranked insufficient rate revenue as number one.

Interestingly, inadequate government funding ranked significantly higher with regional councils than metropolitan councils. This is likely because these councils on Financial Assistance Grants (FAGs) are highly dependent to maintain their road networks. Regional councils have much smaller balance sheets despite maintaining enormous road networks. This presents challenges to meeting community expectations, particularly in regional councils with several satellite towns which have competing priorities.

Top three underlying factors for Financial Sustainability risk by region

CITY

1. Economic uncertainty
2. Impact of climate change and maintaining assets
3. Cost shifting from other tiers of government

METROPOLITAN

1. Inflationary pressure
2. Cost shifting from other tiers of government
3. Insufficient rate revenue

REGIONAL CITY

1. Insufficient rate revenue
2. Inadequate government funding /grants government
3. Inflationary pressure

REGIONAL

1. Cost shifting from other tiers of government
2. Inflationary pressure
3. Inadequate government funding/grants

REMOTE/RURAL

1. Cost shifting from other tiers of government
2. Insufficient rate revenue
3. Inadequate government funding/grants

CYBER SECURITY



Cybersecurity breaches frequently unfold in the public eye, attracting heavy public scrutiny. Over the last two years, Australia has witnessed notable cyber breaches involving major companies like Optus, Medibank and Latitude Financial.

The intense scrutiny from mainstream and social media platforms presents a complex situation for leaders, who find themselves in the spotlight to address issues, often with limited technical knowledge. They're expected to take responsibility, reassure customers and mitigate financial exposure. Given these pressures, it's understandable that cybersecurity is a critical concern for local government CEOs, ranking it second.

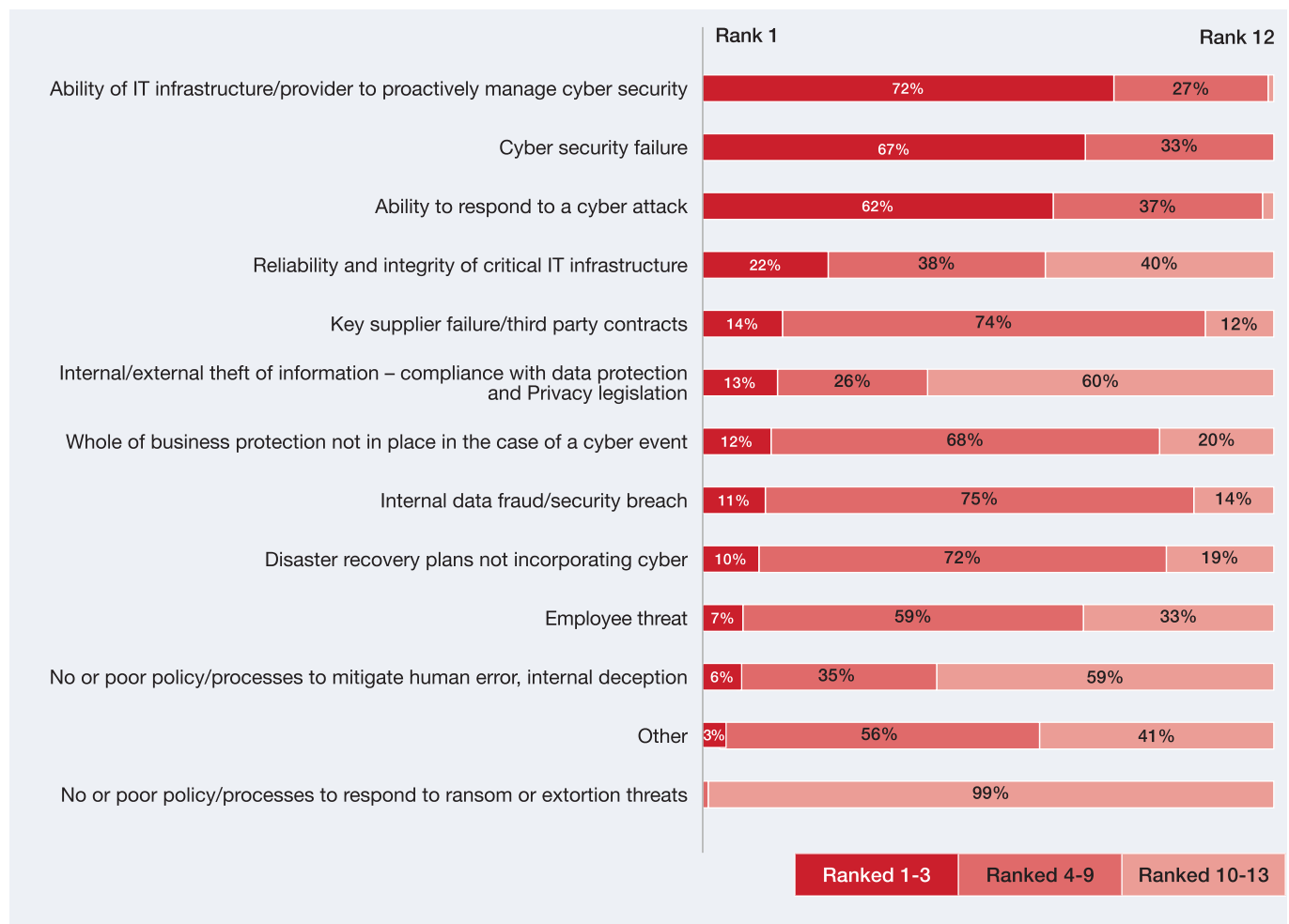


Figure 3: Cyber Security/IT Infrastructure National heat map.

Since 2019, cybersecurity has consistently ranked as the second highest concern for CEO/GMs, with only the unprecedented COVID-19 pandemic temporarily pushing it to fourth place in 2020.

This ranking is partly due to the ever-evolving cyber risk landscape and the difficulty local government CEO/GMs face in proactively mitigating the impact of a major cyber event. There is ongoing concern about potential reputational damage and managing community expectations in the event of a significant cyber incident that may compromise private information.

Fortunately, reportable cyber breaches are not as common or severe as one might assume. Between January and June 2023, the Office of the Australian Information Commissioner received 409 notifications, a 16% decrease from 2022.

Furthermore, 63% of data breaches affected 100 people or fewer. Notably, the public sector does not feature among the top five sectors for cyber breaches, which are:

1. Health service providers
2. Finance (including superannuation)
3. Recruitment agencies
4. Legal, accounting & management services
5. Insurance⁴

Cybersecurity concerns are prominent among local government CEOs/GMs. But the most important question is why? Our findings indicate that:

72%

of respondents cited the ability of IT infrastructure/provider to proactively manage cybersecurity as their foremost concern

67%

of respondents cited their council's ability to respond to a cyber-attack as high-risk

61%

of respondents cited cybersecurity failure as high-risk

This shows that the main concerns for managing cybersecurity are the potential failure of current security systems and the ability to respond to a cyber breach appropriately.

Top three underlying factors for Cyber Security/ Data breach risk by region

CITY

1. Ability to proactively manage cyber security
2. Ability to respond to a cyber attack
3. Key supplier failure/third party contracts

METROPOLITAN

1. Cyber security failure
2. Ability to proactively manage cyber security
3. Ability to respond to a cyber attack

REGIONAL CITY

1. Ability to proactively manage cyber security
2. Ability to respond to a cyber attack
3. Cyber security failure

REGIONAL

1. Ability to proactively manage cyber security
2. Ability to respond to a cyber attack
3. Cyber security failure

REMOTE/RURAL

1. Ability to proactively manage cyber security
2. Ability to respond to a cyber attack
3. Cyber security failure

Furthermore, 54% of respondents identify the lack of preparedness and the absence of proactive plans to handle a potential cybersecurity event as their top concern. These concerns include the following areas:

- Ability of IT infrastructure/provider to proactively manage cybersecurity
- Ability to respond to a cyber-attack
- Absence of whole-of-business protection in the case of a cyber event
- Failure to incorporate cybersecurity into disaster recovery plans

Despite the dynamic, global nature of cybersecurity, several strategies can be implemented to mitigate these concerns. For example, including cyber events into the Council's disaster-recovery plans allows for proactive management of potential cyber breaches. With detailed planning and pre-established response mechanisms, key staff members can be engaged from the outset, ensuring a clear strategy to navigate the cyber breach.

Additionally, a well-defined Cyber Incident Response Plan – that includes relevant expert contact details – can greatly improve councils' ability to respond to a cyber event.

Although risk transfer only constitutes a minor aspect of councils' broader cybersecurity concerns, the program includes an Emergency Incident Response line. This enables the council to access services from specialist IT forensic providers, public relations agencies, IT recovery experts, hardware suppliers and legal advisors, all equipped to help the council manage a cyber In 2023, the Federal Government announced further assistance in their 2023 – 2030 Australian Cybersecurity Strategy, backed by a \$587 million funding allocation for various initiatives centred on six key 'cyber shields'.

These initiatives are spread over several 'event horizons' spanning to 2030. The first four shields – and some of the initiatives they cover – are as follows:

- 1. **Strong businesses and citizens:** Establish no-fault ransomware reporting to share with the business community, establish a Cyber Incident Review Board and streamline reporting processes.

- 2. **Safe technology:** Streamline appropriate data retention requirements.
- 3. **World-class threat sharing and blocking:** Establish an Executive Cyber Council.
- 4. **Protected critical infrastructure:** Strengthen security obligations for managed service providers.

Cybersecurity remains an ongoing risk, increasingly so with advancements in Artificial Intelligence and other machine learning. Despite the burdens this places on local government CEOs/GMs, proactive risk management and support from the Federal Government will help manage this risk effectively within the sector.

Top ranking underlying factors for Cyber Security/ Data Breach by State/Territory

NSW NT SA TA	Ability of IT infrastructure/provider to proactively manage cyber security
QLD VIC	Ability to respond to a cyber attack
WA	Cyber security failure

New South Wales

In New South Wales, respondents ranked Cybersecurity as their second-highest risk, consistent with the national consensus. There were only slight differences in the medium and low rankings of this risk. Reflecting national views, NSW CEO/GMs identified the ability of their infrastructure/provider to proactively manage cybersecurity as the primary risk. 76% of councils identified it as the highest risk, surpassing the nationwide result of 72%. This is understandable, given the notable cyberattacks on high-profile organisations like Medibank and Optus. Additionally, ongoing global conflicts increase the risk of politically motivated cyberattacks on all government levels.

Following closely, the ability to respond to a cyberattack and cybersecurity failure were ranked as the next highest risk exposures respectively, consistent with the national perspective. Over 59% of respondents considered these two factors together formed the next significant reason for this cybersecurity being a concern.

As noted above, recent attacks on high-profile organisations and ongoing global conflicts have heightened cybersecurity awareness and its importance. This has led councils to scrutinise the effectiveness of their current cybersecurity protocols in protecting against cyberattacks.

Cybersecurity failure was ranked third, with 57% of respondents considering it a serious factor. Once again, Councils from all regions ranked this in either second or third position.

Top three underlying factors for Cyber Security/Data breach risk by region			
METROPOLITAN		REGIONAL	
1. Ability of IT infrastructure/provider to proactively manage cyber security		1. Ability of IT infrastructure/provider to proactively manage cyber security	
2. Ability to respond to a cyber attack		2. Cyber security failure	
3. Cyber security failure		3. Ability to respond to a cyber attack	
REGIONAL CITY		REMOTE/RURAL	
1. Ability of IT infrastructure/provider to proactively manage cyber security		1. Ability of IT infrastructure/provider to proactively manage cyber security	
2. Ability to respond to a cyber attack		2. Cyber security failure	
3. Cyber security failure		3. Ability to respond to a cyber attack	

In the Northern Territory, council CEO/GMs ranked Cybersecurity as their fifth-highest risk – compared to national ranking of second.

83% of respondents identified the ability of IT infrastructure/provider to proactively manage cybersecurity as their primary factor for cybersecurity risk. All councils ranked this in their top three concerns.

Meanwhile, respondents ranked no or poor policy/processes to mitigate human error or internal deception second.

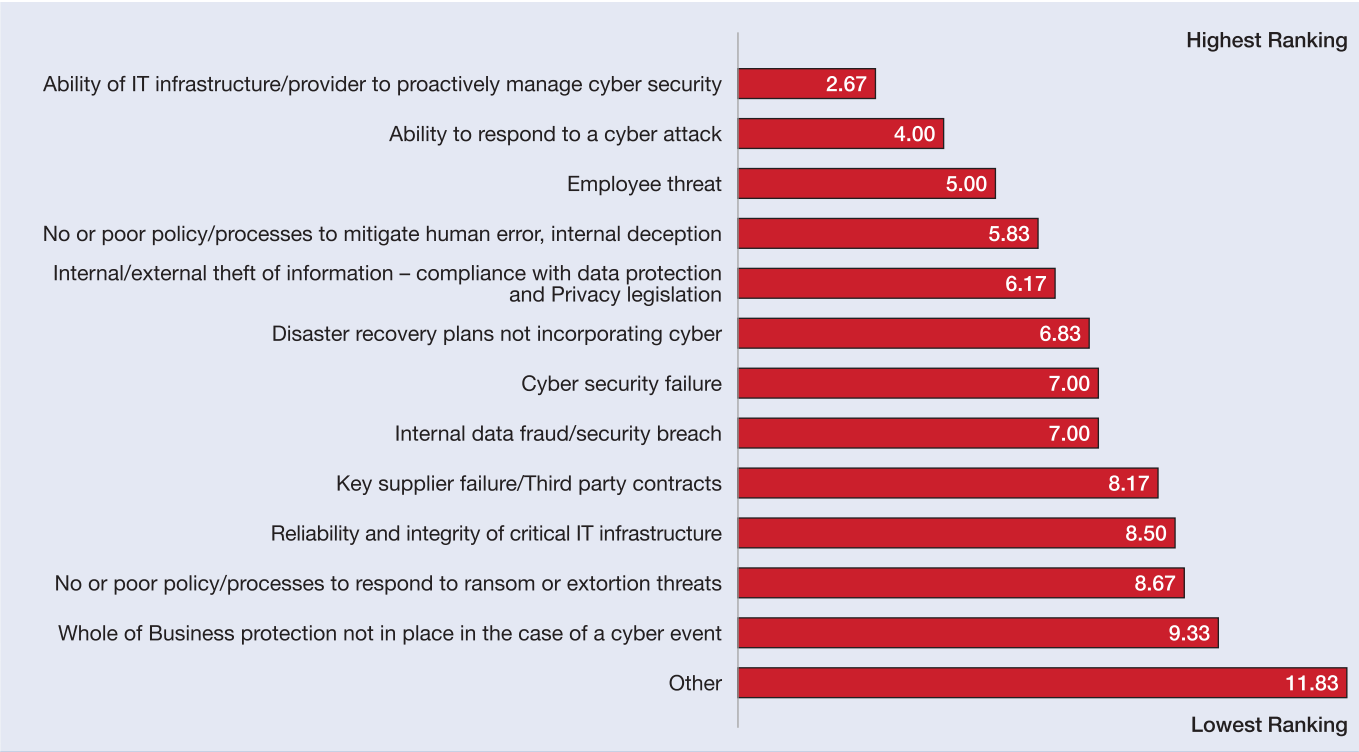


Figure 4: Cyber Security/IT Infrastructure, Northern Territory average ranking of underlying concerns 1-13

Tasmania

Tasmania, respondents ranked Cybersecurity risk first, above the national ranking. This is likely because of the state’s numerous remote communities that heavily rely on connectivity for delivering goods and services and maintaining supply chains. The relative ease with which cyber threat actors can infiltrate systems elevates the perceived risk within the Tasmanian local government sector.

Nearly 86% of respondents ranked the ability of IT infrastructure/provider to proactively manage cybersecurity as their primary contributing factor for this risk. Rural/remote councils ranked this as their top concern, while metropolitan and regional councils ranked this third.

In TAS, there is a range of cyber risk maturity and confidence among management teams in handling a cyber-incident response plan, as highlighted in the JLT Public Sector 12 Key Controls Report. A possible factor is the lack of scenario planning, which may contribute to the perceived inability to manage an attack. Nonetheless, all councils have access to Emergency Incident Response services within their cyber insurance policies, and increased preparedness for attacks may mitigate these concerns.

Cybersecurity failure and the ability to respond to a cyberattack were ranked as equal second underlying concerns by 71% of respondents. All metropolitan councils considered this as their primary issue, while rural/remote councils placed it fourth

Top three underlying factors for Cyber Security/ Data breach risk by region

METROPOLITAN

- 1. Cyber security failure
- 2. Ability to respond to a cyber attack
- 3. Ability of IT infrastructure/provider to proactively manage cyber security

REGIONAL CITY

- 1. Internal/external theft of information & compliance
- 2. Reliability and integrity of critical IT infrastructure
- 3. Ability of IT infrastructure/provider to proactively manage cyber security

REMOTE/RURAL

- 1. Ability of IT infrastructure/provider to proactively manage cyber security
- 2. Disaster recovery plans not incorporating cyber
- 3. Reliability and integrity of critical IT infrastructure

South Australia

South Australian CEO/GMs share similar concerns with other states regarding the high importance of proactively managing cyber risk, closely followed by the ability to respond effectively.

Recent years have seen SA local governments impacted by cyber events that disrupted services, though data remained uncompromised. Given that council systems store potentially sensitive data, the constant threat of an event impacting councils' reputation looms large.

SA local government entities that are Members of the LGA Asset Mutual Fund benefit from funded Cyber Risk programs, tailored to the organisation's cyber risk maturity. These programs, which have been available for several years, have evolved alongside the maturing cyber environment. Local government's proactive approach to managing cyber risk was recognised in a 2020 Auditor General inquiry into government cyber risk.

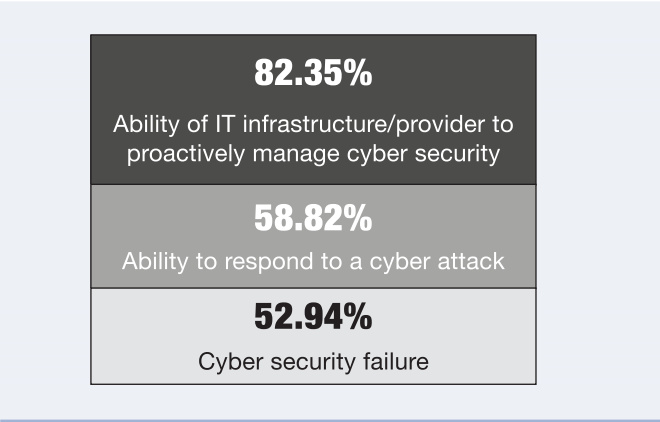


Figure 5: The top three underlying factors for this risk in South Australia. This shows the percentage of councils that ranked each factor as high by CEO/GMs.

Top three underlying factors for Cyber Security/Data breach risk by region

CITY

1. Ability of IT infrastructure/provider to proactively manage cyber security
2. Ability to respond to a cyber attack
3. Internal data fraud/security breach

METROPOLITAN

1. Cyber security failure
2. Ability of IT infrastructure/provider to proactively manage cyber security
3. Key Supplier failure/Third party contracts

REGIONAL CITY

1. Ability of IT infrastructure/provider to proactively manage cyber security
2. Cyber security failure
3. Ability to respond to a cyber attack

REGIONAL

1. Ability of IT infrastructure/provider to proactively manage cyber security
2. Ability to respond to a cyber attack
3. Cyber security failure

REMOTE/RURAL

1. Ability of IT infrastructure/provider to proactively manage cyber security
2. Reliability and integrity of critical IT infrastructure
3. Key Supplier failure/Third party contracts

Queensland

Queensland council CEO align with the national perspective on Cybersecurity risk, identifying the same three risks by a significant margin. However, nuances exist in their focus: Queensland CEOs emphasise their own capability to respond to cyberattacks or cybersecurity failures more than the national trend, which tilts towards risks linked to ICT service providers' failures.

Despite these ranking variations, the uniform concern across CEOs about these risks (in contrast to risks like legislative compliance, data theft or critical infrastructure service failures) indicates Queensland councils will prioritise cybersecurity risk controls similarly to other Australian local governments.

Top three underlying factors for Cyber Security/Data breach risk by region

METROPOLITAN

1. Cyber security failure
2. Ability to respond to a cyber attack
3. Whole of business protection not in place in the case of a cyber event

REGIONAL CITY

1. Ability of IT infrastructure/provider to proactively manage cyber security
2. Cyber security failure
3. Ability to respond to a cyber attack

REGIONAL

1. Ability to respond to a cyber attack
2. Cyber security failure
3. Ability of IT infrastructure/provider to proactively manage cyber security

REMOTE/RURAL

1. Ability of IT infrastructure/provider to proactively manage cyber security
2. Ability to respond to a cyber attack
3. Cyber security failure

Victoria

In Victoria, Cybersecurity was ranked as the second leading risk by 65% of respondents, consistent with the national perspective.

Despite Victorian councils experiencing few incidents in the past five years, these events have not been adequate to thoroughly test their incident response plans. 65% of respondents placed the ability of IT infrastructure/providers to manage cybersecurity as the second most significant underlying concern is the ability to respond to a cyber-attack, with 72% ranking it first. This stems from the perceived lack of preparedness of councils nationwide.

Developing a cyber emergency incident response plan – while daunting – is the next crucial step for Victorian councils in strengthening their first lines of defence and enhancing their overall cyber resilience.

Top three underlying factors for Cyber Security/ Data breach risk by region

CITY

1. Ability of IT infrastructure/provider to proactively manage cyber security
2. Key Supplier failure/Third party contracts
3. Ability to respond to a cyber attack

METROPOLITAN

1. Ability of IT infrastructure/provider to proactively manage cyber security
2. Cyber security failure
3. Ability to respond to a cyber attack

REGIONAL CITY

1. Ability to respond to a cyber attack
2. Cyber security failure
3. Ability of IT infrastructure/provider to proactively manage cyber security

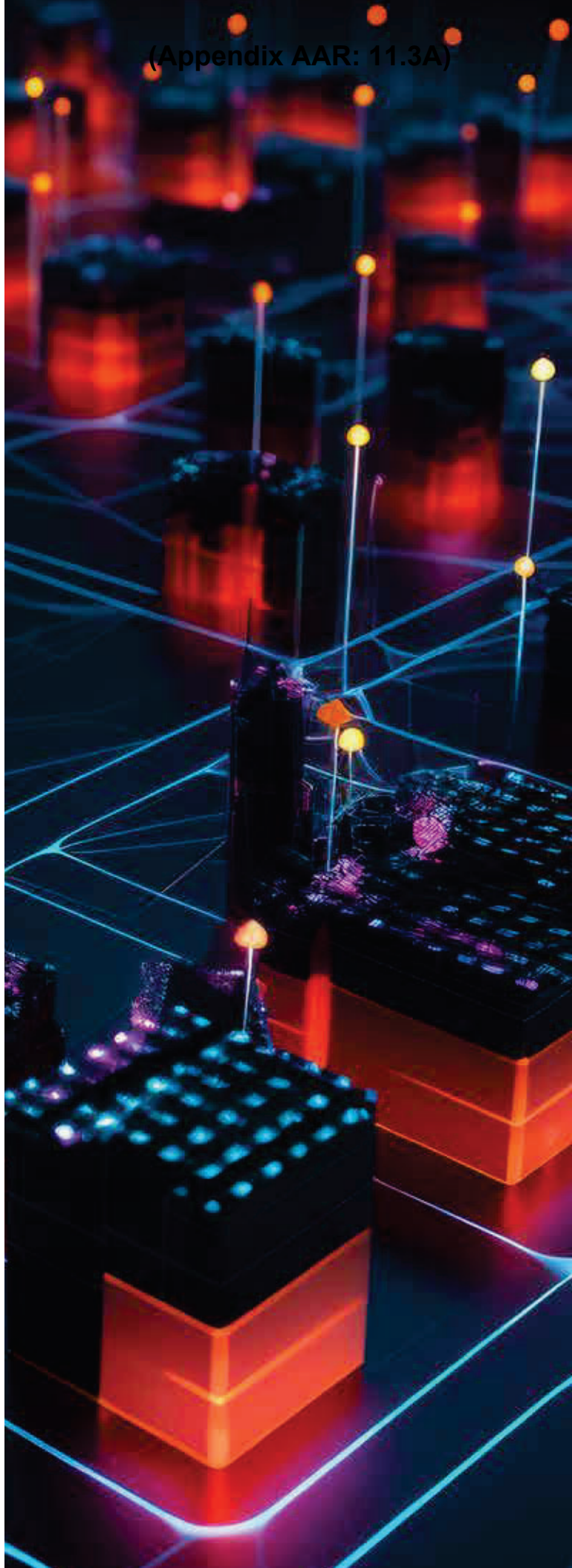
REGIONAL

1. Ability to respond to a cyber attack
2. Ability of IT infrastructure/provider to proactively manage cyber security
3. Cyber security failure

REMOTE/RURAL

1. Ability to respond to a cyber attack
2. Ability of IT infrastructure/provider to proactively manage cyber security
3. Cyber security failure

(Appendix AAR: 11.3A)



Nearly 43% of Western Australian respondents ranked Cybersecurity as their second highest risk, consistent with the national ranking.

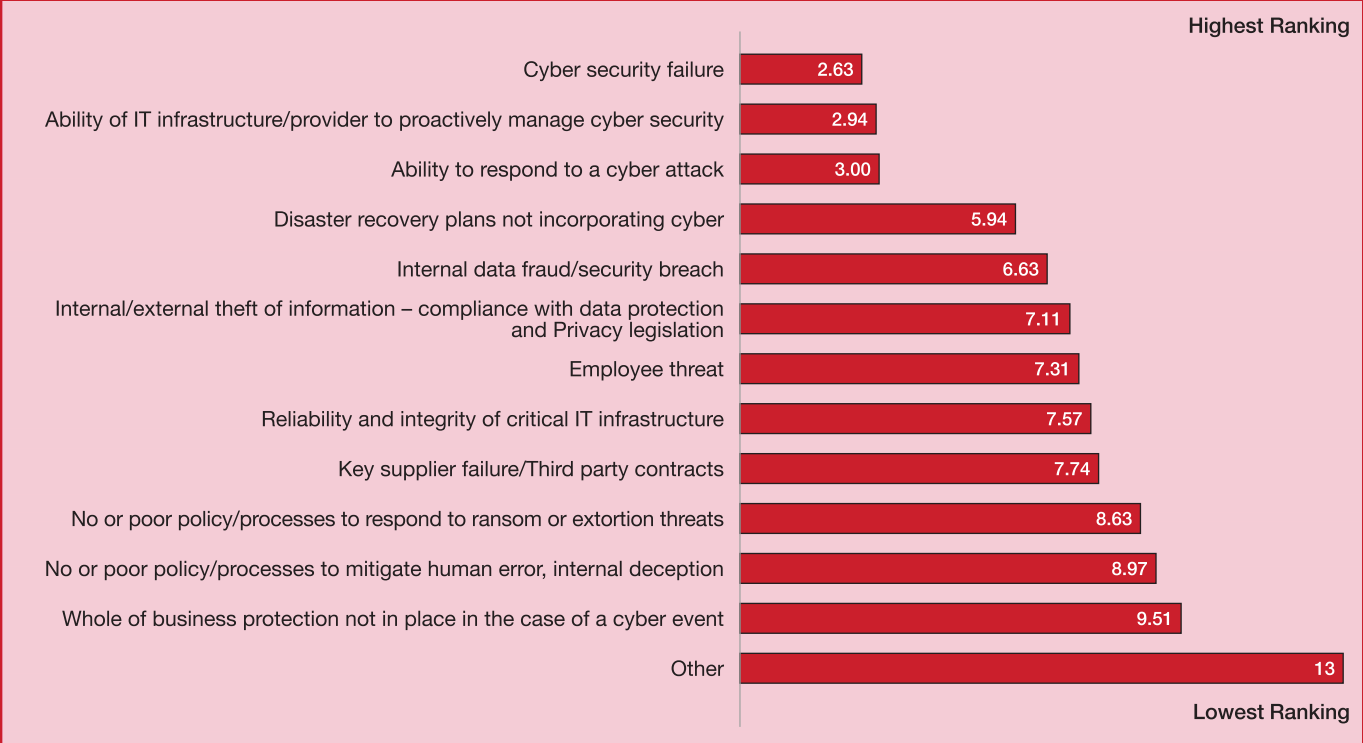


Figure 6: Cyber Security/IT Infrastructure, Western Australia average ranking of underlying factors 1-13

Cybersecurity failure is the leading underlying concern for this risk, with nearly 83% ranking it first. All responding regions ranked this concern in their top two positions.

The prominence of Cybersecurity as a critical risk for WA stems from the escalation of cyber threats, the potential economic impact of cyber-attacks, concerns about data breaches, and the imperative to safeguard critical infrastructure. The increased sophistication of cybercriminals affecting individuals, businesses and local governments alike shows that WA is equally at risk.

74% of respondents cited the ability to respond to cyber-attacks as their second most pressing concern. While most regions placed this issue in their top three concerns, regional city councils ranked it sixth

The ranking of the ability to respond to a cyber-attack as a leading concern underscores its importance in minimising impact and mitigating further damage. An effective response is crucial for containing and mitigating attacks involving breach identification, system restoration and preventative measures for future incidents.

For local governments in WA, a robust incident response capability with clear procedures, trained personnel, and appropriate technologies to detect, respond, and recover from cyber incidents is vital. The ability to respond effectively demonstrates a proactive approach to cybersecurity and enhances the state’s overall resilience.

The lower ranking of the ability to respond to a cyber-attack by regional city councils could stem from several factors, such as limited resources and awareness and education as well as challenges in collaborating and information sharing, particularly during cyber incidents.

The emphasis of Cybersecurity as a significant risk in WA reflects its increasing relevance in today’s digital landscape.

Top three underlying factors for Cyber Security/ Data breach risk by region

- METROPOLITAN**

 - 1. Cyber security failure
 - 2. Ability to respond to a cyber attack
 - 3. Whole of business protection not in place in the case of a cyber event
- REGIONAL CITY**

 - 1. Ability of IT infrastructure/provider to proactively manage cyber security
 - 2. Cyber security failure
 - 3. Ability to respond to a cyber attack
- REGIONAL**

 - 1. Ability to respond to a cyber attack
 - 2. Cyber security failure
 - 3. Ability of IT infrastructure/provider to proactively manage cyber security
- REMOTE/RURAL**

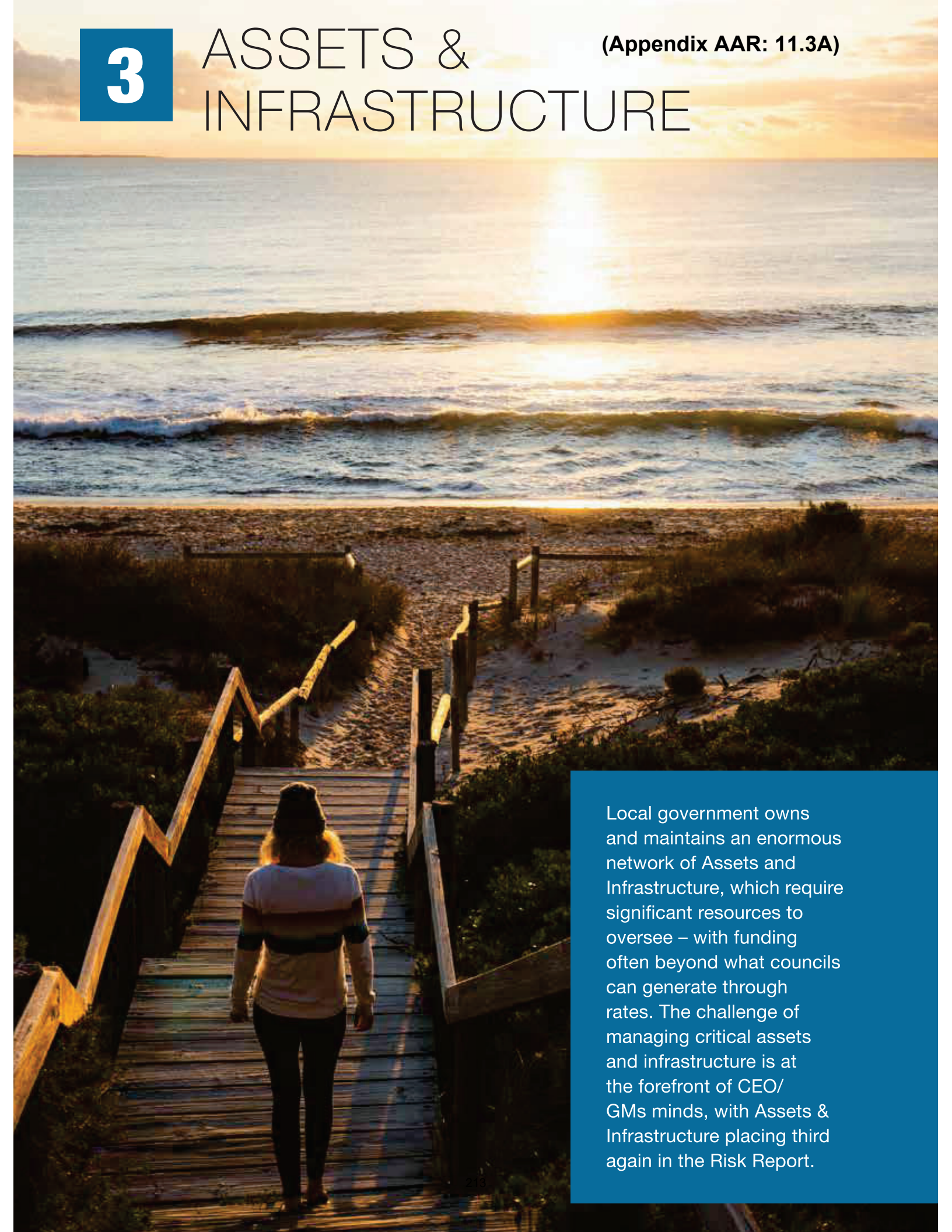
 - 1. Ability of IT infrastructure/provider to proactively manage cyber security
 - 2. Ability to respond to a cyber attack
 - 3. Cyber security failure

Effective response to cyber-attacks is key to mitigating damage and protecting critical infrastructure. The lower priority given by regional councils may be influenced by limited resources and gaps in cybersecurity awareness and education. For WA stakeholders, prioritising cybersecurity and fostering collaboration are essential steps to boost the state’s resilience against cyber threats.

3

ASSETS & INFRASTRUCTURE

(Appendix AAR: 11.3A)

A person with long hair, wearing a white and grey long-sleeved shirt and dark pants, is walking away from the camera on a wooden boardwalk. The boardwalk leads down a grassy dune towards a sandy beach and the ocean. The sun is low on the horizon, creating a warm, golden glow over the water and sky. Waves are visible breaking on the shore. The overall scene is peaceful and scenic.

Local government owns and maintains an enormous network of Assets and Infrastructure, which require significant resources to oversee – with funding often beyond what councils can generate through rates. The challenge of managing critical assets and infrastructure is at the forefront of CEO/ GMs minds, with Assets & Infrastructure placing third again in the Risk Report.

Local governments own and control an immense and diverse range of assets and infrastructure portfolios. The Australian Local Government Association (ALGA) estimates that councils collectively manage \$524 billion of assets and infrastructure⁵. As these estimates are being reviewed, it is anticipated that this value is considerably larger due to several factors. These influences include the significant population growth driven by international, interstate and regional migration, surging inflation and natural disaster repair and replacement programs across large areas of the country following widespread flooding during successive La Nina conditions over recent years.

The national portfolio's increase in size and value can be attributed to various factors. This includes the heightened focus by many Councils on asset identification and management planning due to a focus on data quality by state governments and insurers. These entities require accurate geolocation of assets in high-risk areas to be overlaid with fire and flood mapping. Additionally, state governments will build or provide key assets for councils, who commence contracts with the State agency and become responsible for maintaining the assets. Examples of such assets include jetties, wharves and seawalls.

In numerous instances, the grants provided by the State Government for ongoing maintenance are insufficient.

This is a critical issue in particular for small communities, who may be highly dependent on tourism and the jetty serves as a key feature.

Community expectations are crucial in managing council assets and infrastructure. They can influence the supply of new community facilities and infrastructure, maintaining and managing portfolios in an appropriate and fiscally responsible way, and planning for the renewal or decommission when assets reach the end of life. This issue is exacerbated in regional councils, which may result in multiple smaller council areas merging with smaller communities that expect strong maintenance of community assets. For example, small community hall even where they are infrequently used.

The primary concern for CEO/GMs is maintaining roads and its substantial associated costs. Road maintenance costs constitute a significant portion of councils' overall operational budget. Local government often faces media scrutiny about potentially dangerous roads, which influences community expectations. Councils depend on Commonwealth Government Financial Assistance Grants to fund this maintenance effectively, making it highly contentious between state and local government bodies who are all fighting for their fair share of the grant funding.

The Assets and Infrastructure Risk Heat Map (Figure 7) further illuminates the underlying risk profile for assets and infrastructure risks, highlighting the interconnections between assets and infrastructure risks and other significant risks that are faced by Councils.

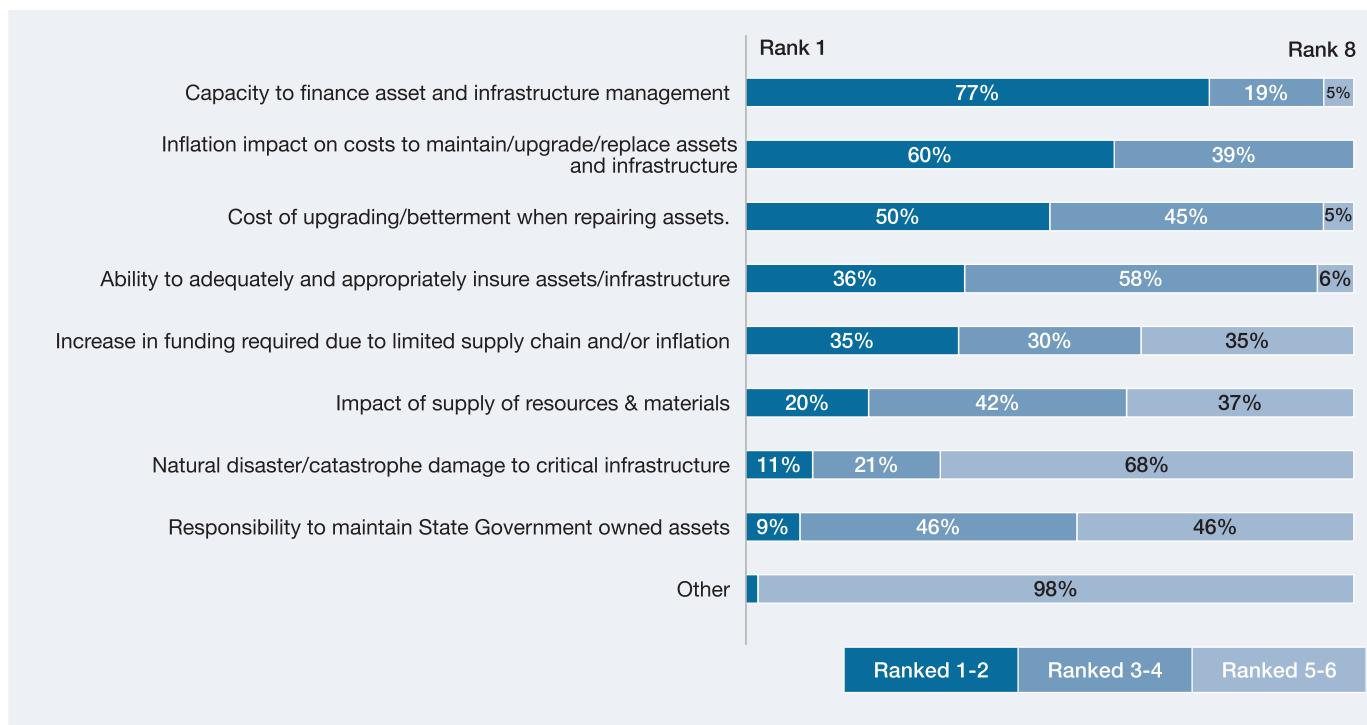


Figure 7: Management of and/or damage of property, Infrastructure and Asset risk national heat map

Perhaps the strongest interrelationship is with Financial Sustainability as over 75% of respondents identify the capacity to finance assets and infrastructure maintenance as a high-risk factor. Over half the respondents identified both funding for betterment and upgrades and the impact of inflation as key factors for this risk. Additionally, supply and supply-chain-related risk were also prominent concerns for most respondents; issues which have implications from a financial sustainability perspective. These responses were generally consistent across states, regions and local government areas.

These concerns likely reflect the shortfall in local government funding to manage existing, renewed or replaced assets and infrastructure that are nearing or at its end of life. This shortfall in funding is a key risk driver and amplifies the existing substantial vertical fiscal imbalance between the three levels of government. Despite local government receiving only 3.5% of revenue, councils retain responsibility for 30 to 40% of the total public asset base. This underlines the importance of enhanced collaboration among all levels of government to prioritise improved funding arrangements that will support asset and infrastructure management.

According to a recent report by The Grattan Institute⁵, requisite funding from the Commonwealth and State Governments has steadily declined. Since 1995, local governments have been left with the impossible task of maintaining and improving the quality of road infrastructure. The Institute's calculations indicate that local governments require an additional \$1 billion annually, consistently, through programs such as Roads to Recovery and Financial Assistance Grants. This funding is necessary to address the fundamental causes of this problem

(Appendix AAR- 11.3A)

It is imperative to prioritise access to funding for infrastructure repair and improvements after disaster events. The aim is to reduce vulnerability and enhance resilience in the face of an increasingly significant disaster risk profile and related impacts of climate change. Regardless, community expectations and the principles of good governance would expect assets are fit for purpose into the future and that all tiers of government collaborate to deliver resilient and long-term sustainability in assets and infrastructure management. Local governments possess invaluable experience, local knowledge and critical perspective enabling them to play their part.

Safe, efficient and reliable road infrastructure supports economic activity and fosters prosperity. It's critical that all levels of government work together to improve the quality of road networks as we pursue a strong and resilient national economy.

Top ranking underlying factors for Cyber Security/Data Breach by State/Territory

NSW QLD SA TAS VIC WA	Capacity to finance asset and infrastructure management	NT	Cost of upgrading/betterment when repairing assets
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Top three underlying factors for Management of Assets & Infrastructure by region	
CITY 1. Cost of upgrading/better of assets 2. Capacity to finance Assets & Infrastructure management 3. Impact of supply of resources & materials	2. Cost of upgrading/better of assets 3. Inflation impact on costs to maintain/ upgrade/replace
METROPOLITAN 1. Cyber Inflation impact on costs to maintain/upgrade/ replace 2. Capacity to finance Assets & Infrastructure management 3. Cost of upgrading/better of assets	REGIONAL 1. Capacity to finance Assets & Infrastructure management 2. Cost of upgrading/better of assets 3. Inflation impact on costs to maintain/ upgrade/replace
REGIONAL CITY 1. Capacity to finance Assets & Infrastructure management	REMOTE/RURAL 1. Capacity to finance Assets & Infrastructure management 2. Cost of upgrading/better of assets 3. Impact of supply of resources & materials

Northern Territory

In the Northern Territory, one-third of respondents ranked the management or damage of Assets & Infrastructure as the fourth highest risk, which is only one point below the national ranking.

The cost of upgrading or the betterment when replacing an asset – and the capacity to finance Assets & Infrastructure management – were equally ranked as the primary reason for this risk, with 83% considering this the leading concern. Like other states, factors such as inflation and supply constraints may contribute to these concerns’ high rankings. This connects to the impact of resources and materials supply, which was rated as the second underlying concern (50% of respondents regarded it as a significant issue). In the Northern Territory, as Northern Queensland and Western Australia may experience, the distance and, in some cases, the remoteness may exacerbate delays and further compound these challenges.

New South Wales

NSW CEO/GMs ranked the management of ageing assets & infrastructure third – aligning with the national ranking. Nearly 40% of respondents cited it as a high risk.

The leading reason for this risk, as identified by over 86% of respondents, is the capacity to finance Assets & Infrastructure management. Factors such as limited supply, resource constraints and funding challenges, including competing with other states for grants, contribute to this concern. Furthermore, the frequency of events that impact councils, sometimes occurring multiple times, further exacerbates the issue.

In NSW, the risk associated with managing Assets & Infrastructure is particularly pronounced, as it's ranked as the first or second highest concern across all regions. This risk is intensified by the disparity in financial resources available to regional, rural, and remote councils compared to metropolitan counterparts.

Additionally, funds must be allocated to repair the continued road damage in these areas, leaving limited resources for essential upgrades and business-as-usual projects. Furthermore, 67% of respondents ranked the cost of upgrading or betterment when replacing an asset as the second highest reason for this high-risk scenario. Factors such as ageing assets, heritage issues and the lack of support funding from higher levels of government contribute to these significant costs for councils.

In NSW, the cost of upgrades is a top concern for regional city, regional, rural and remote councils, while metropolitan councils ranked it fourth. This difference in ranking can be attributed to the limited funding options available to regional areas compared to their metropolitan counterparts. Furthermore, the extensive damage to roads in these regions leads to a diversion of funds towards repairs, leaving fewer resources for asset upgrades and maintenance.

(Appendix AAR: 11.3A)



Figure 8: The top three underlying factors for this risk in New South Wales. This shows the percentage of councils that ranked each factor as high by CEO/GMs.

Top three underlying factors for Management of Assets & Infrastructure by region			
METROPOLITAN		REGIONAL	
1. Capacity to finance asset & infrastructure management		1. Capacity to finance asset and infrastructure management	
2. Inflation impact on costs to maintain/upgrade/replace assets & infrastructure		2. Cost of upgrading/betterment when repairing assets	
3. Ability to adequately and appropriately insure assets/infrastructure		3. Impact of supply of resources & materials	
REGIONAL CITY		REMOTE/RURAL	
1. Cost of upgrading/betterment when repairing assets		1. Capacity to finance asset and infrastructure management	
2. Capacity to finance asset & infrastructure management		2. Cost of upgrading/betterment when repairing assets	
3. Inflation impact on costs to maintain/upgrade/replace assets & infrastructure		3. Inflation impact on costs to maintain/upgrade/replace assets & infrastructure	



In Queensland, the capacity to finance Assets & Infrastructure management emerged as the most significant factor to the local government portfolio. This was closely followed by the impact of inflation on maintenance, upgrades and replacements. Nationally, the cost of betterment when repairing assets rated as the second highest factor, with 60% of CEOs considering it a high-risk factor for Assets & Infrastructure. In Queensland, however, this was identified as the fourth highest risk, with 45% of CEOs regarding it as a high concern.

Top three underlying factors for Management of Assets & Infrastructure by region	
METROPOLITAN 1. Significant increase in funding required due to limited supply chain/ inflation 2. Inflation impact on costs to maintain/upgrade /replace assets & infrastructure 3. Ability to adequately and appropriately insure assets/infrastructure	REGIONAL 1. Capacity to finance asset and infrastructure management 2. Cost of upgrading/betterment when repairing assets. 3. Impact of supply of resources & materials
REGIONAL CITY 1. Significant increase in funding required due to limited supply chain/inflation 2. Capacity to finance asset and infrastructure management 3. Inflation impact on costs to maintain/upgrade /replace assets & infrastructure	REMOTE/RURAL 1. Inflation impact on costs to maintain/upgrade/replace assets & infrastructure 2. Impact of supply of resources & materials 3. Cost of upgrading/betterment when repairing assets

Tasmania

In Tasmania, GMs ranked Assets & Infrastructure sixth, with 14% of respondents ranking this equally to negligence caused by civil liability claims, statutory and/or regulatory requirements and waste management. This ranking differs from the national ranking, where Assets & Infrastructure is ranked third.

Top three underlying factors for Management of Assets & Infrastructure by region

METROPOLITAN

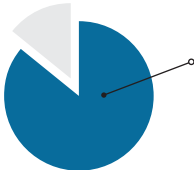
1. Cost of upgrading/betterment when repairing assets. Cyber security failure
2. Inflation impact on costs to maintain/upgrade/ replace assets & infrastructure
3. Capacity to finance asset and infrastructure management

REGIONAL

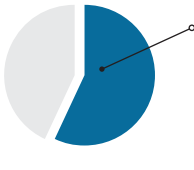
1. Cost of upgrading/betterment when repairing assets. Cyber security failure
2. Significant increase in funding required due to limited supply chain and/or inflation
3. Capacity to finance asset and infrastructure management

REMOTE/RURAL

1. Capacity to finance asset and infrastructure management
2. Natural disaster/catastrophe damage to critical infrastructure
3. Ability to adequately and appropriately insure assets/infrastructure



86%
Ranked the capacity to finance asset and infrastructure management as the leading underlying factor



57%
Ranked the cost of upgrading/betterment when repairing assets as the leading underlying factor

Nearly 86% of respondents identified the capacity to finance Assets & Infrastructure management as the leading reason for this risk. This concern was particularly prominent among rural/remote councils, while metropolitan and regional councils ranked this as their third highest concern. This indicates the divide in resources between these groups, given the geographic distances and sparse communities existing in regional areas. Nearly 56% of GMs ranked the cost of upgrading or betterment when repairing assets as the second highest reason for this risk. It should be noted that metropolitan and regional councils ranked this as the leading reason while rural and remote councils ranked this factor eighth.

In line with the national ranking, 44% of respondents ranked Assets & Infrastructure as the third highest risk

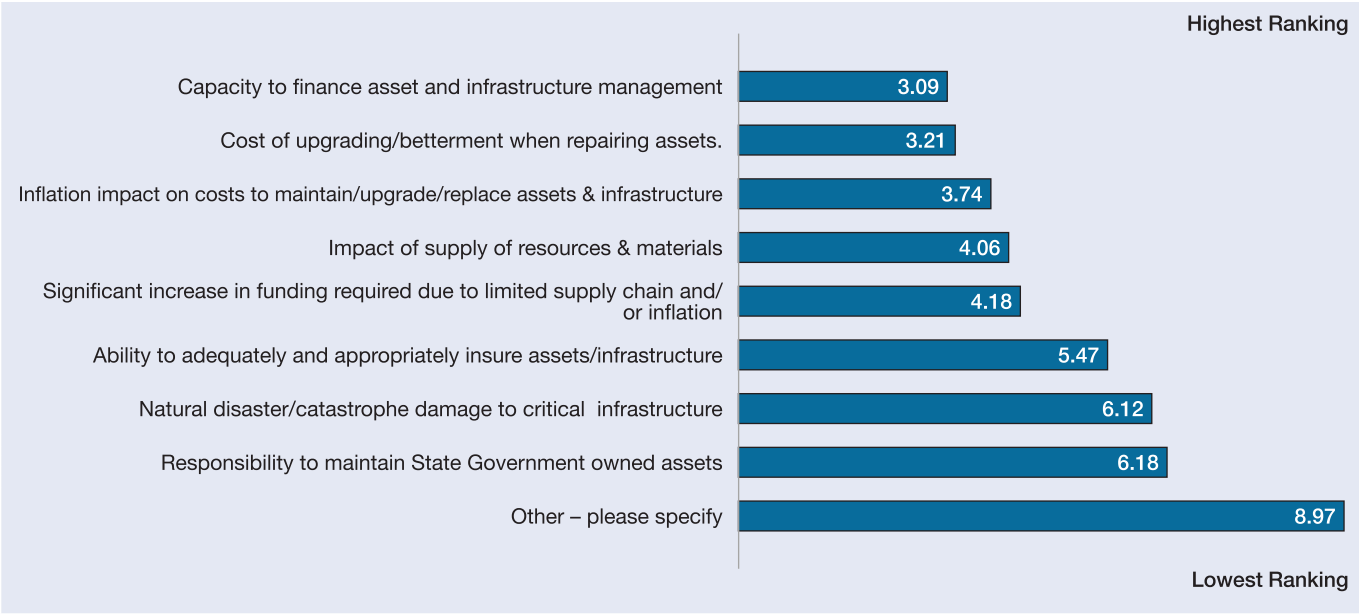


Figure 9: Management of and/or damage to property, infrastructure & assets average ranking in SA of underlying factors

The capacity to finance Assets & Infrastructure management was considered the primary concern underlying this risk, with 67% of respondents ranking it as the leading issue. This result was unsurprising as councils have expressed significant challenges with cost-shifting and applying adequate investment in maintaining and replacing critical infrastructure. While the state constructed many of these assets, they are expected to be maintained by local government. Common examples include jetties, wharves and sea walls. This issue was prominently ranked number one in regional city, regional and rural/remote areas. The concern is worsened for regional councils with lower revenue and capital works budgets, even though in many cases they may have substantial assets in need of upgrades or replacements.

The cost of upgrading or betterment when repairing assets was ranked as the second highest reason for this risk by nearly 56% of CEO/GMs. Unsurprisingly, the cost of repairing assets ranked highly, considering the predominantly fixed income and very limited funding to facilitate major maintenance works. This risk is closely interconnected with the number one overall risk: Financial Sustainability.

Top three underlying factors for Management of Assets & Infrastructure by region

CITY

- Impact of supply of resources & materials
- Inflation impact on costs to maintain/upgrade/replace assets & infrastructure
- Cost of upgrading/betterment when repairing assets

METROPOLITAN

- Significant increase in funding required due to limited supply chain and/or inflation
- Inflation impact on costs to maintain/upgrade/replace assets & infrastructure
- Cost of upgrading/betterment when repairing assets

REGIONAL CITY

- Cost of upgrading/betterment when repairing assets
- Inflation impact on costs to maintain/upgrade/replace assets & infrastructure
- Capacity to finance asset and infrastructure management

REGIONAL

- Capacity to finance asset and infrastructure management
- Cost of upgrading/betterment when repairing assets
- Significant increase in funding required due to limited supply chain and/or inflation

REMOTE/RURAL

- Capacity to finance asset & infrastructure management
- Impact of supply of resources & materials
- Inflation impact on costs to maintain/upgrade/replace assets & infrastructure



Victoria

Aligned with the national ranking, 74% of respondents ranked Assets & Infrastructure as the third leading risk.

Like many other states, the capacity to finance Assets & Infrastructure management was ranked as the leading reason for this risk by 86% of respondents. This concern consistently ranked in the top three across all responding regions, with metropolitan, regional city and regional councils ranking this as their number one concern. Victorian councils have significant asset portfolios that they are either directly responsible for or are required to manage and maintain on behalf of the state government. Many of the assets and infrastructure are ageing and require committed annual funding to restore and maintain them.

The cost of upgrading or betterment when repairing assets was considered the second highest reason for this risk by 67% of CEO and GMs. This concern consistently ranked in the top three places by respondents, which is unsurprising considering the financial sustainability aspect.

Top ranking underlying factor for Managing Assets & Infrastructure risk by region

CITY

1. Cost of upgrading/betterment when repairing assets
2. Significant increase in funding required due to limited supply chain and/or inflation
3. Capacity to finance asset and infrastructure management

METROPOLITAN

1. Capacity to finance asset & infrastructure management
2. Inflation impact on costs to maintain/upgrade/replace assets & infrastructure
3. Ability to adequately and appropriately insure assets/infrastructure

REGIONAL CITY

1. Capacity to finance asset and infrastructure management
2. Cost of upgrading/betterment when repairing assets
3. Ability to adequately and appropriately insure assets/infrastructure.

REGIONAL

1. Capacity to finance asset and infrastructure management
2. Cost of upgrading/betterment when repairing assets
3. Inflation impact on costs to maintain/upgrade/replace assets & infrastructure

REMOTE/RURAL

1. Cost of upgrading/betterment when repairing assets
2. Capacity to finance asset and infrastructure management
3. Impact of supply of resources & materials

Western Australia (Appendix AAR: 11.3A)

In Western Australia, 57% of respondents ranked Asset & Infrastructure as their leading risk. This percentage is higher than the national ranking of third.

71% of respondents ranked the capacity to finance Assets & Infrastructure management as the main reason for this risk. The budgetary constraints on local government can have a massive implication on their Assets & Infrastructure. In recent years, cyclones have posed challenges in restoring assets, as there have been difficulties in obtaining resources to complete repairs and claims.

In rural areas, local government is responsible for increasingly diverse infrastructure networks that were previously run by other tiers. Most rural councils will continually discuss the ageing infrastructure predominantly on heritage sites, especially regarding issues on how to maintain such an old property.

Nearly 66% of respondents ranked the impact of inflation on maintenance, upgrade and replacement of Assets & Infrastructure as the second most significant factor contributing to this risk. As WA competes with other states, the mining industry and the export trade, industries have the opportunities to earn higher profits, thereby leaving the local government adversely affected.

Top three underlying factors for Management of Assets & Infrastructure by region

METROPOLITAN

1. Inflation impact on costs to maintain/upgrade/replace assets & infrastructure
2. Capacity to finance asset and infrastructure management
3. Significant increase in funding required due to limited supply chain and/or inflation

REGIONAL CITY

1. Capacity to finance asset and infrastructure management
2. Inflation impact on costs to maintain/upgrade/replace assets & infrastructure
3. Cost of upgrading/betterment when repairing assets

REGIONAL

1. Cost of upgrading/betterment when repairing assets
2. Inflation impact on costs to maintain/upgrade/replace assets & infrastructure
3. Significant increase in funding required due to limited supply chain and/or inflation

REMOTE/RURAL

1. Capacity to finance asset and infrastructure management
2. Cost of upgrading/betterment when repairing assets.
3. Significant increase in funding required due to limited supply chain and/or inflation

4

CLIMATE CHANGE

Three-quarters of Australian councils have set or are in the process of developing community emissions reduction targets in alignment with the 2015 Paris Agreement. These councils are committed to achieving net zero emissions, the target limit for mitigating climate change risks.

Councils recognise that investing in local clean energy solutions creates new jobs, delivers more affordable energy, improves housing and increases our climate change resilience. However, despite tangible reductions achieved in Europe and the United States⁷, greenhouse gas emissions in Australia have continued to increase.

Greenhouse gas emissions have already resulted in major changes in our atmosphere. These have amplified extreme weather events and caused significant impacts on ecological systems and processes, urbanisation, planning, chain of supply, health and wellbeing, economy and social structures.⁸

The World Economic Forum, The Global Risks Report 2024 supports this, noting, 'countries are grappling with the impacts of record-breaking extreme weather, as climate-

change adaptation efforts and resources fall short of the type, scale and intensity of climate-related events already taking place."⁹

The 2023 JLT Risk Survey results indicate that councils share a common stance on climate change. This links with their assessment that predicting climate change impacts on council business and functions is difficult. In fact, 79.45% of councils listed this as their primary underlying concern for climate change risk.

According to a 2021 survey by the Australian Local Government Association (ALGA), the most common barrier for local government in addressing emissions reduction is a lack of funds.

As climate change related extreme weather-related hazard events become more frequent and unpredictable, a council's ability to lead its community to quick recovery is significantly diminished. Current disaster recovery funding arrangements designed to respond rather than mitigate the risk of future climate/extreme weather scenarios demonstrate this.

⁷ Friedlingstein, P. et al. (2023). Global Carbon Budget 2023.

⁸ Australian Climate Service. (2023). A changing climate.

In the 2023 JLT Public Sector Risk Survey, council CEOs/GMs ranked Climate Change as the fourth highest risk, narrowly surpassing Disaster & Catastrophic events by 0.91%.

This placement is understandable given increasing global focus and effort on decarbonisation and the strong link between climate change, increased natural hazard weather events and disasters.



Moreover, our survey data show that 48.4% of respondents are concerned that disaster recovery funding arrangements are insufficient to build back better and adequately support more resilient communities.

These issues underscore the importance of identifying, understanding and mitigating interrelated risks that influence via the domino effect other critical risks like financial sustainability and assets and infrastructure.

31.51% of councils cited inadequate capacity or capability to develop strategic plans, risk reduction frameworks and financial budgets to mitigate and adapt to the risk of climate change as contributing factors to this risk.

As current emissions continue to increase and cause major changes in our atmosphere and weather patterns, responding to climate change requires serious, measurable and collective action around the globe.

Many Australian councils are adopting and encouraging emission reduction targets and renewable energy goals often making tangible inroads to decarbonise operations.¹⁰ Such actions include investing in energy efficiency and building sustainability, deploying local renewable energy supported by battery storage, investing in public transport, mitigating emissions from landfill and sewage treatment, incorporating emissions considerations in fleet procurement and offsetting residual emissions.

Councils can become leaders in their communities by facilitating local decarbonisation action. Common approaches include setting community-based emission reduction targets, advocating for policy change and amending planning instruments and building codes as well as collaborating with businesses, community groups and other levels of government to leverage and support local action and innovation.

¹⁰ Ironbark Sustainability and ICLEI – Local Governments for Sustainability Oceania, Australian Local Government Climate Review 2021 and Climate Council 2023 Tracking Progress: 2022 Snapshot of Council Action on Climate Change

However, while Councils can play their part in reducing emissions, the consequences of past, current and anticipated future emission scenarios mean that climate change will increasingly impact councils and their communities into the future. Because of this, establishing and undertaking disaster risk profiling that considers vulnerability, hazard and exposure to climate change remains a key priority for councils.

Additionally, councils must account for reviewing and amending planning schemes, planning policies, infrastructure design standards and building codes. They also need to embed climate change considerations into several structures, including strategic and operational asset planning and management; proactive planning for resilience in disaster preparedness; and recovery including parks, reserves, streetscapes and urban forestry.

Climate change mitigation and adaptation is both risky and costly with significant implications for councils and their communities. Many of these risks are highly interconnected with other risks identified in this report, as illustrated in the Risk Heat Map below.

(Appendix AAR: 11.3A)

Top ranking underlying factors for Climate Change by State/Territory

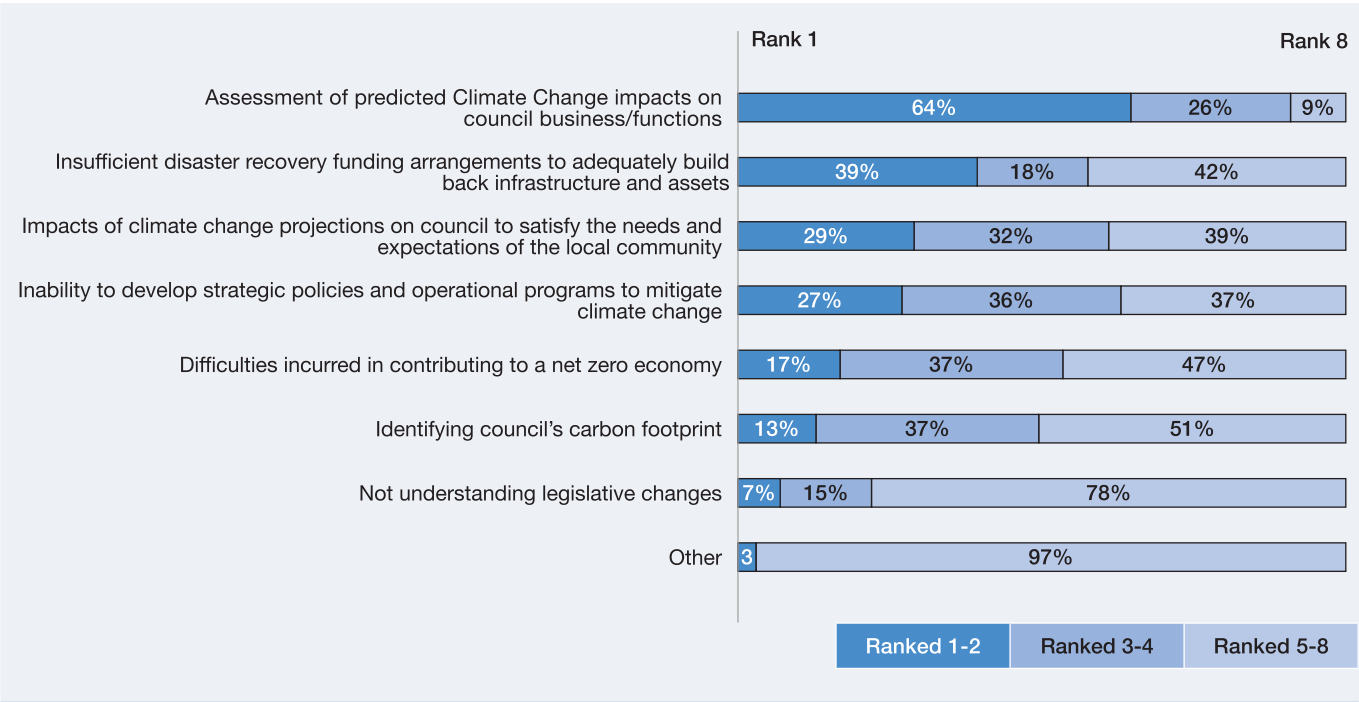
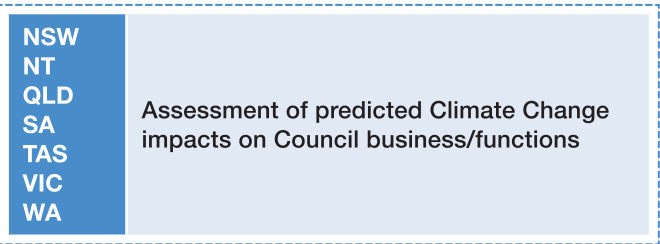


Figure 10: Climate change and/or adaption national heat map

Top three underlying factors for Climate Change/Adaption by region	
CITY - Assessment of predicted climate change impacts on council - Impacts of climate change projections on council & ability to meet community expectations. - Difficulties incurred in contributing to a net zero economy	- Insufficient disaster recovery funding - Impacts of climate change projections on council/ meet community expectations
METROPOLITAN - Assessment of predicted climate change impacts on council - Impacts of climate change projections on council/ meet community expectations. - Insufficient disaster recovery funding	REGIONAL - Assessment of predicted climate change impacts on council - Insufficient disaster recovery funding - Difficulties incurred in contributing to a net zero economy
REGIONAL CITY Assessment of predicted climate change impacts on council	REGIONAL/RURAL - Assessment of predicted climate change impacts on council - Insufficient disaster recovery funding - Difficulties incurred in contributing to a net zero economy

Victoria

Victorian CEOs ranked Climate Change in fourth, equalling the national ranking. 60% of CEOs ranked the assessment of predicted climate change impacts on councils' business and functions as the leading concern underpinning this risk. This is likely due to Victoria's diverse topography and climate change's increasing pace.

Financial constraints on Victorian councils due to rate capping leave them with few alternatives to manage the rapid environmental change. This reason ranked in the top two positions by all represented regions.

Second were two equally placed concerns: insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets that can withstand future climate scenarios, and the impact of climate change projection on councils' business/functions and ability to satisfy the local community's needs.

Insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets that can withstand future climate scenarios was ranked in the top three places in regional city, regional and remote/rural areas.

This shows that limited revenue growth restricts councils' ability to implement proactive strategies for addressing climate change.

Top three underlying factors for Climate Change/Adaption by region

CITY

1. Assessment of predicted Climate Change impacts on council business/function
2. Immature/inability/or not sure how to develop strategic policies and operational programs to mitigate and adapt to climate change
3. Not understanding legislative changes due to predicted climate change impacts

METROPOLITAN

1. Assessment of predicted Climate Change impacts on council business/function
2. Impacts of climate change projections on council/meet community expectations.
3. Insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets

REGIONAL CITY

1. Assessment of predicted Climate Change impacts on council business/functions
2. Insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets
3. Impacts of climate change projections on council/meet community expectations

REGIONAL

1. Insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets
2. Impacts of climate change projections on council/meet community expectations
3. Assessment of predicted Climate Change impacts on council business/function

REMOTE/RURAL

1. Assessment of predicted Climate Change impacts on council business/function
2. Immature/inability/or not sure how to develop strategic policies and operational programs
3. Insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets

New South Wales

In New South Wales CEO/GMs ranked Climate Change fifth, just one point lower than the national ranking. 63% of respondents noted the unpredictability of climate change and its impact on Council business and functions as the leading contributing factor to this risk.

Severe and unforeseen natural events have impacted several regions over the past few years in which local governments and communities could not be prepared for. The Northern Rivers, for example, has experienced a series of unpredictable and devastating events, including storms, floods and bushfires.

The frequency and severity of these events have made it challenging for the community to anticipate and prepare for the impacts of these events. Residents have faced the difficult task of recovering from one disaster only to be struck by another, leaving them with little time to catch their breath and rebuild. These repeated and unpredictable events have devastated the region.

The 2022 Central NSW floods have had similar effects. The town of Forbes prepared for a one-in-100-year event but was instead impacted by a one-in-500-year event.

Though these floods were expected and planned for, no one predicted their magnitude.

Following this, 44% of respondents cited insufficient disaster recovery funding arrangements as a major concern. Current funding will not adequately build back better, nor will it fund building more resilient, climate-proof infrastructure and assets.

For example, Northern Rivers Councils have only received remediation works in 2024 for floods that occurred in 2021. Despite this, councils have made every effort to manage recovery efforts with their own funds. However, limited cash flow and the difficulty of repairs make true recovery challenging.

Lack of funds, construction resources, supplies, human resources and trades has a profound impact on communities. Without these critical resource efforts, councils face continued difficulties that hamper their ability to respond and support affected communities effectively.

Queensland

Queensland CEOs in line with the national perspective cited the assessment of predicted impacts on council business and functions as their leading underlying concern for climate change by a significant margin. This was followed by insufficient disaster recovery funding to build back better and more resilient infrastructure capable of withstanding future climate scenarios.

The consistency between Queensland CEOs and their counterparts nationally demonstrates the need for prioritisation of support, investment and resilience building by the Commonwealth and states. These efforts must aim address local vulnerabilities and increase local response capacity and capability, with the ultimate goal of ensuring councils can help their local communities adapt to climate change's impact.

Top three underlying concerns for climate Change/Adaption by region (Appendix AAR: 11.3A)

METROPOLITAN

- 1. Assessment of predicted Climate Change impacts on council business/function
- 2. Difficulties incurred in contributing to a net zero economy
- 3. Impacts of climate change projections on council/ meet community expectations

REGIONAL CITY

- 1. Assessment of predicted Climate Change impacts on council business/functions
- 2. Insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets
- 3. Impacts of climate change projections on council/ meet community expectations

REGIONAL

- 1. Assessment of predicted Climate Change impacts on council business/function
- 2. Impacts of climate change projections on council/ meet community expectations.
- 3. Difficulties incurred in contributing to a net zero economy

REMOTE/RURAL

- 1. Insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets
- 2. Assessment of predicted Climate Change impacts on council business/function
- 3. Difficulties incurred in contributing to a net zero economy

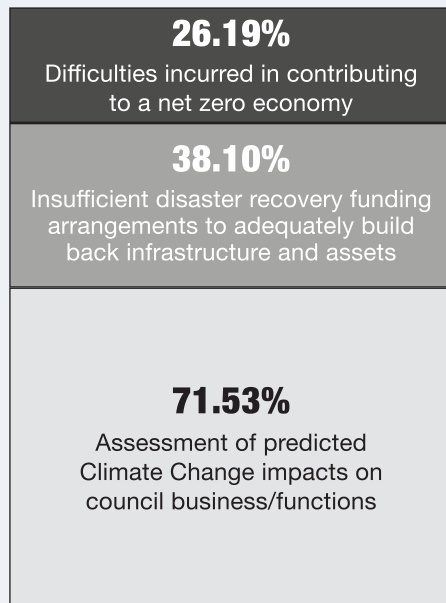


Figure 11: The top three underlying factors for this risk in Queensland. This shows the percentage of councils that ranked each factor as high by CEOs.

Top three underlying factors for Climate Change/Adaption by region

METROPOLITAN

1. Assessment of predicted Climate Change impacts on council business/function
2. Identifying council's carbon footprint to respond to community expectations
3. Impacts of climate change projections on council/ meet community expectations

REGIONAL CITY

1. Insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets
2. Assessment of predicted Climate Change impacts on council business/functions
3. Impacts of climate change projections on council/ meet community expectations

REGIONAL

1. Assessment of predicted Climate Change impacts on council business/function
2. Difficulties incurred in contributing to a net zero economy
3. Insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets

REMOTE/RURAL

1. Assessment of predicted Climate Change impacts on council business/function
2. Insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets
3. Not understanding legislative changes due to predicted climate change impacts

Tasmania (Appendix AAR: 11.3A)

Tasmanian respondents ranked Climate Change fourth, equal to the national ranking.

Over 85% of respondents ranked the assessment of predicted climate change impacts on councils' business and functions as the primary contributing factor for this risk. In seaside councils managing coastal erosion, this concern poses a serious threat. Discussions are taking place at the State level to address this issue and find solutions.

As the young, climate-conscious generation become eligible voters, climate change must be prioritised in policy. This concern was ranked in the top two positions across all regions.

Next was the impact of climate change projection on councils' business/functions and ability to satisfy the needs of the local community. This concern was ranked 57% of CEO/GMs. Metropolitan and rural/remote councils placed this in the top two positions.

Top three underlying factors for Climate Change/Adaption by region

METROPOLITAN

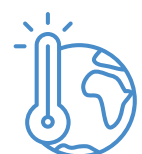
1. Assessment of predicted Climate Change impacts on council business/function
2. Impacts of climate change projections on council/ meet community expectations
3. Insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets

REGIONAL

1. Assessment of predicted Climate Change impacts on council business/function
2. Identifying council's carbon footprint to respond to community expectations
3. Not understanding legislative changes due to predicted climate change impacts (Development and Planning legislation, Emergency Management processes, budget impact on assets/infrastructure)

RURAL/REMOTE

1. Impacts of climate change projections on council/ meet community expectations
2. Assessment of predicted Climate Change impacts on council business/function
3. Not understanding legislative changes due to predicted climate change impacts



In the Northern Territory, CEOs ranked Climate Change considerably lower at ninth, compared to the national ranking of fourth.

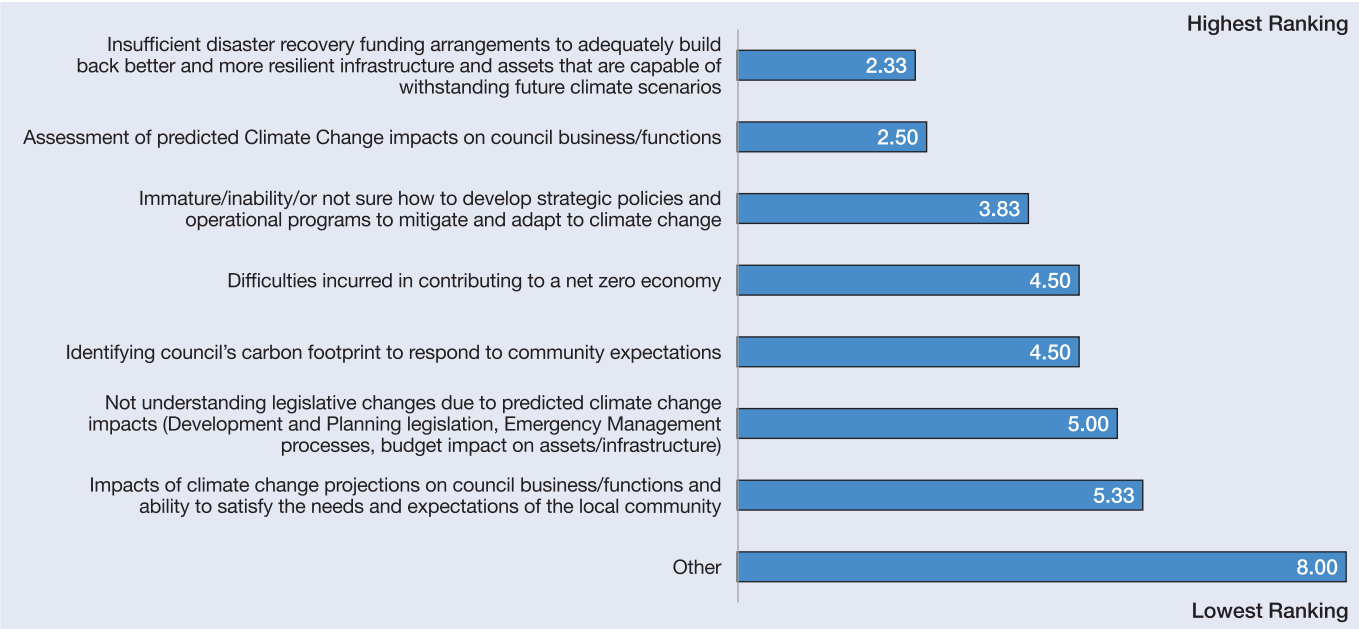


Figure 12: Climate change and/or adaption average ranking of underlying factors 1-8

This difference may be due to their focus on addressing ongoing short-term challenges and/or given the NT’s familiarity with extreme weather and catastrophic events that infrastructure and communities are resilient.

When reviewing the underlying reasons for this risk, 66.6% of respondents equally ranked the following two factors as the underlying reasons for this risk. The assessment of predicted climate change impacting on councils’ business

and functions was one of the concerns, along with insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets that can withstand future climate scenarios.

The assessment of predicted climate change impacts on councils’ business function was within the top two ranking for all councils. However, insufficient disaster recovery funding ranked in the top two for municipal and regional councils.

Western Australia

Western Australian council CEO/GMs placed the Climate Change risk fourth, in line with the national ranking

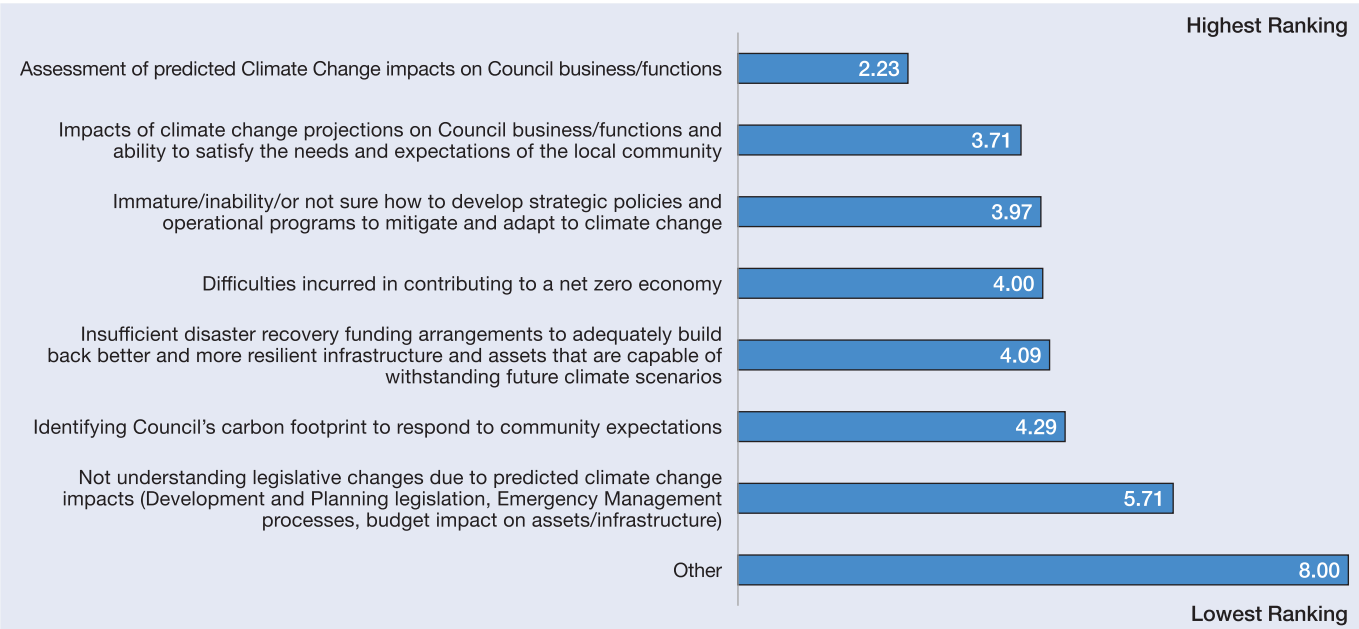


Figure 13: Climate change and/or adaption average ranking of underlying factors 1-8

60% of respondents noted the assessment of predicted climate change impacts on councils' business and functions as the leading concern for this risk. This reason was the highest ranking across all responding regions.

This ranking is critical considering WA's vulnerability to climate change, environmental and ecological risks, and the potential economic and social repercussions. Local government must prioritise strategies to address these risks and ensure their community's resilience and sustainability.

37% of respondents ranked insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets that can withstand future climate scenarios as the second most concern.

The underlying factor of insufficient disaster recovery funding arrangements for building resilient infrastructure and assets was ranked in the top three positions by

metropolitan, regional, and rural/remote councils. This is likely due to WA's vulnerability to climate change-related natural disasters, limited recovery resources and budgets, and Council's understanding that resilient buildings are critical for ensuring their community's long-term sustainability and safety.

Climate change and its impacts on councils' business and functions are significant concerns for WA local governments. Assessing predicted climate change impacts and sufficient funding arrangements for disaster recovery and resilience building are crucial for addressing these risks. It is vital that WA local governments prioritise climate change adaptation and mitigation strategies to protect their communities and ensure their sustainable future.

South Australia

South Australian CEO/GMs ranked Climate Change as the sixth highest risk. This is relatively close to the national placement of fourth.

The assessment of predicted climate change impacts on councils' business and functions was ranked as the leading concern underpinning climate change, with over 61% of respondents placing it first.

Climate data and projections are key to assessing climate risk impact on councils' business and functions. With accurate data, councils can undertake accurate risk assessments, identify the impacts and develop risk management strategies to reduce exposure to liability risk.

The second most significant concern underpinning climate change was difficulties incurred in contributing to a net zero economy, as ranked by 38% of respondents. This was ranked in the top two positions across all regions.

South Australian councils are working towards a net zero economy, with notable progress in some areas. However, with Financial Sustainability as the top risk in the JLT Risk Report, this objective faces significant challenges.

Top three underlying factors for Climate Change/Adaption by region	
CITY 1. Impacts of climate change projections on council/ meet community expectations. 2. Assessment of predicted Climate Change impacts on council business/function 3. Difficulties incurred in contributing to a net zero economy METROPOLITAN 1. Impacts of climate change projections on council/ meet community expectations. 2. Assessment of predicted Climate Change impacts on council business/function 3. Insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets REGIONAL CITY 1. Assessment of predicted Climate Change impacts on council business/functions 2. Insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets 3. Inability to develop strategic policies and operational programs to mitigate and adapt to climate change	REGIONAL 1. Assessment of predicted Climate Change impacts on council business/function 2. Insufficient disaster recovery funding arrangements to adequately build back better and more resilient infrastructure and assets 3. Difficulties incurred in contributing to a net zero economy REGIONAL/RURAL 1. Assessment of predicted Climate Change impacts on council business/function 2. Identifying Council's carbon footprint to respond to community expectations 3. Difficulties incurred in contributing to a net zero economy

5

DISASTER & CATASTROPHE



Unpredictable weather-related events and their profound impact on communities remain at the forefront of local government executives' agendas. Natural catastrophes/disasters and climate change consistently rank among the top three to five risks faced.

Unpredictable weather-related events and their profound impact on communities remain at the forefront of local government executives' agendas. Natural catastrophes/disasters and climate change consistently rank among the top three to five risks faced.

(Appendix AAR: 11.3A)

Australia continues to experience increased weather-related catastrophes, including extreme storm events, bushfires and floods. These are occurring with unprecedented frequency and severity and are exacerbated by unpredictable weather patterns.

82.65% of CEOs/GMs identified these extreme, unpredictable climate-related events as the leading contributing factor to the Disaster & Catastrophe risk.

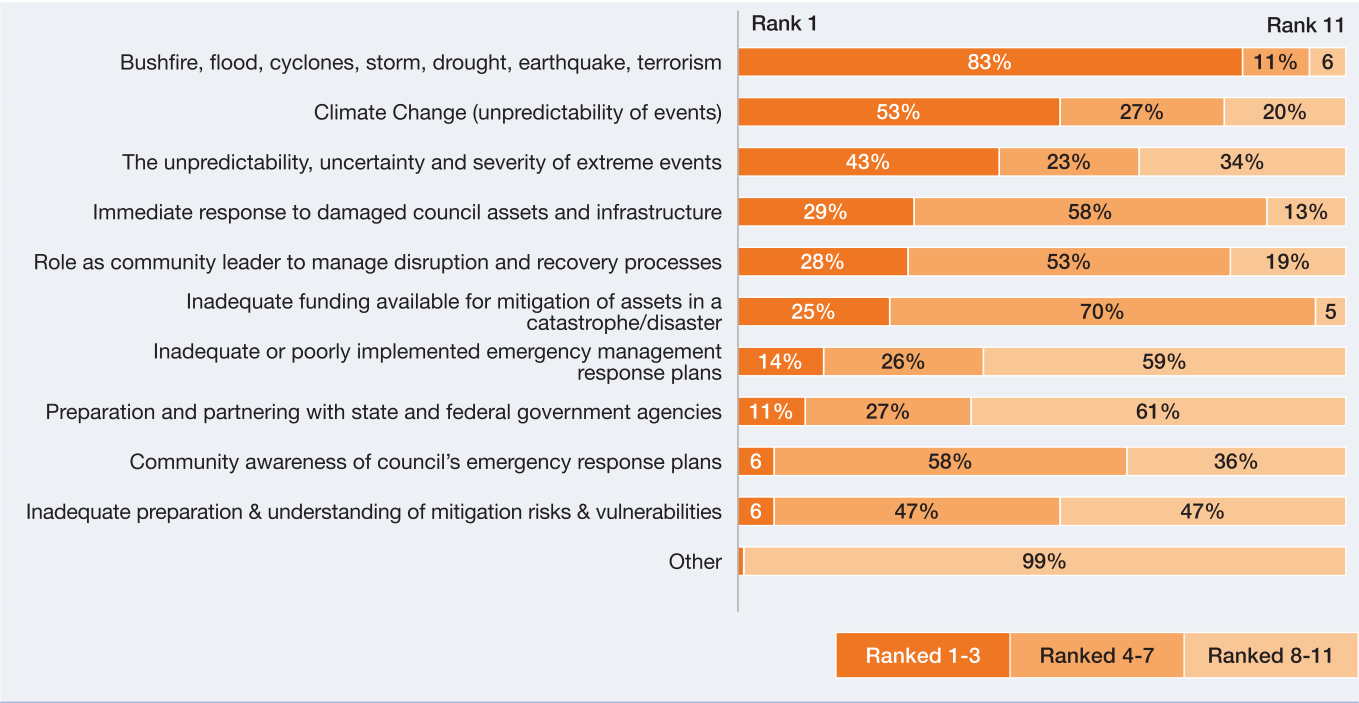


Figure 14: Disaster or Catastrophic Events National Risk Heat Map

This aligns with the 2024 World Economic Forum Global Risk Report findings, where world leaders ranked Extreme Weather events as the second most significant short-term risk (under two years) and the top risk over a longer term (10-year horizon).

In fact, 66% of respondents in this report identified Extreme Weather as the foremost global crisis risk, with El Niño's warming phase projected to intensify and persist into 2024.



Figure 15: Global risks ranked by severity over the short and long term
Source: World Economic Forum, Global Risks Perception Survey 2023-2024

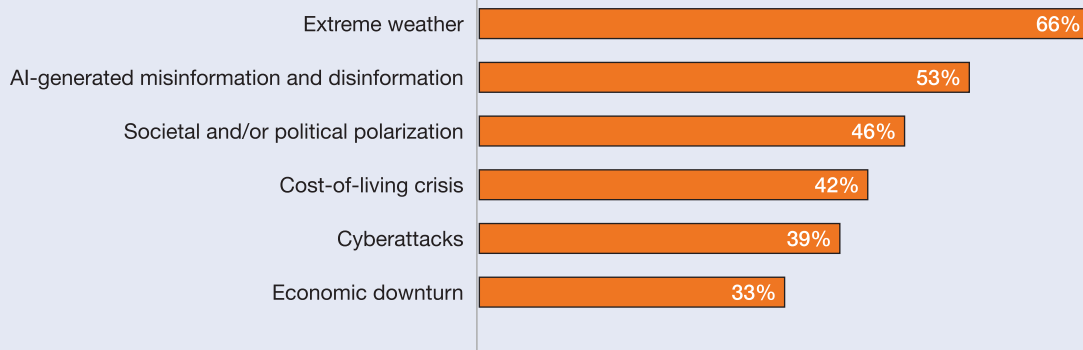


Figure 16: Current risk landscape

Source: World Economic Forum, Global Risks Perception Survey 2023-2024

This finding aligns with the 2023 Allianz Risk Barometer,¹³ which identified the major global business risks across 94 countries. Australia was the only country that rated Natural Catastrophes as its leading risk, followed closely by Business Interruption and Climate Change.

The Allianz Risk Barometer Global, Corporate & Specialty listed the top three risks in Australia as:

1. Natural catastrophes ↑
2. Business interruption ↓
3. Climate change ↑

Natural catastrophes are the new top risk, driven by events such as flooding, which resulted in the country's most costly natural catastrophes in 2022.

The findings from the Public Sector Survey aligns with the trend over the past five years, marked by high costs from such events. The Insurance Council of Australia reported the 2022 New South Wales/Southeast Queensland flood as the second largest insured event, with over 240,000 claims totalling \$6 billion. This includes \$3.4 billion in home property, \$710 million in home contents and \$304 million in personal motor claims.

These figures highlight the interconnected nature of the risks outlined in this report, emphasising Financial Sustainability as the leading risk.

When combining the high and medium priority rankings, 94.52% of councils consider the immediate response to damaged council assets and infrastructure as the most pressing underlying concern. This further underscores the link between catastrophic events, assets & infrastructure and the associated management and repair costs.

These findings highlight other concerns like the 'protection gap' – the discrepancy between total and insured losses. Low insurance coverage in communities and high hazard levels ensures disaster risk and business continuity, risks remain key priorities for local government. This protection shortfall presents insurers with an opportunity to bridge the gap, contributing to more resilient communities in vulnerable regions in the future.

The national rankings of the top three factors contributing to this risk show minimal regional differences.

Regions hit by disasters and catastrophes in the past five years may have at least one distinct factor, yet Climate Change consistently ranks second following specific events affecting metropolitan, regional city, regional and remote/rural communities, reflecting the significant impact these areas have faced.

The impact of natural disasters on local government owned or controlled assets is significant. Local governments are crucial in assisting communities post-disaster. Although government funding for roads and infrastructure repairs may be available to councils, accessing and consistently allocating them is challenging. Moreover, securing contractors for timely repairs is difficult in the current environment. This situation complicates meeting and managing community expectations.

To address these challenges, the Australian Government's National Action Plan, supported by the National Disaster Resilience Strategy, advocates for building resilience as the key solution to lessen the impacts of disaster risk.

Although local governments are increasingly overwhelmed by the capacity and capability to respond and recover from unprecedented natural hazards, the urgency to bolster national-level resilience appears to be diminishing. For 537 councils, response strategies under the National Action Plan must vary to align with local needs and state/national priorities, crucially evolving over time as natural hazards occur.

As these events become more frequent, local governments face increasing pressure to prioritise disaster risk investment despite other priorities. Such informed investment decisions aim to mitigate the impact of natural hazards on communities.

It's clear that more effective, efficient investment enhances the ability to measure and monitor Australia's resilience. And when applied with certainty, this approach promotes better governance and informed decision-making – and attracts targeted investment.

Measuring resilience is complex due to the varied challenges natural hazards pose to all stakeholders, including households, communities, organisations, businesses, insurers and local, state and national governments. Plus, resilience levels fluctuate with the changing impact of disasters, the effectiveness of mitigation investment, shifting vulnerabilities, and the varying resources available to respond.

Measuring national resilience against disaster risk reveals the competing interests of communities, local, state, national government, national security and national sustainability. It also offers evidence to question the protection gap, the assumed ‘adequacy’ of protection, and ‘insurance’ accessibility and availability. A detailed national understanding of Australia’s strengths and vulnerabilities will enable timely and decisive action to prepare for future crises, whatever they may be.

To June 2024, 34 councils have participated in the National Local Government Vulnerability Program which collaborates across all levels of government and is fundamental to the National Action Plan.

Through this program, JLT has collected risk and profile data to develop and apply suitable risk transfer solutions that mitigate disaster impacts on built, natural, community/ social and financial environment in a form that enables better informed decision for disaster risk reduction investments.

Participating councils gain valuable insights into their vulnerability profile with access to national data sorted by council and region acquiring harmonised information that informs and strengthens community resilience.

Responding to the assumptions of adequate levels of protection and the accessibility and availability of insurance for disaster risk, insurance in its traditional form falls short, as cost and limited availability of ‘solutions’ drive consumers away from the market. This leads to more challenging responses for governments, councils and communities to natural hazards/disaster events.

A Community Catastrophe Mutual (CCM) a financial model where a local government area or region partners with its community, other government levels and the insurance sector could be an alternative solution.

Insurers continue to advocate strongly for mitigation measures that systemically reduce disaster risk, enabling balanced downward pressure on insurance premiums. Reducing disaster risks and costs requires collaboration, effective long-term planning and measured investment to better protect Australians.

A CCM model could be a viable solution, provided it meets local environments, expectations and specific community needs. It must also provide sustainable and financially stable disaster risk protection.

Having insights into each council’s vulnerability profile shapes each council’s strategic, financial and risk reduction planning. In line with the objectives of the National Action Plan, Strategy and Risk Reduction framework, all levels of government will utilise the NLGVP data for coordinated and better informed decision-making, ensuring investments in disaster risks are made effectively and efficiently.

This will bolster Australia’s resilience, fostering a culture where all community members can access safety, assurance and prosperity.

Top ranking underlying factors for Disaster or Catastrophic Event by State/Territory (Appendix AAR: 11.3A)

NSW NT QLD SA VIC WA	Bushfire, flood, cyclones, storm, drought, earthquake, terrorism
TAS	Climate Change (unpredictability of events)

Top three underlying factors for Disaster/ Catastrophic Event by region	
CITY	1. Inadequate funding available for mitigation of assets in a catastrophe/disaster 2. Climate Change (unpredictability) 3. Bushfire, flood, cyclones, storm, drought, earthquake, terrorism
METROPOLITAN	1. Bushfire, flood, cyclones, storm, drought, earthquake, terrorism 2. Climate Change (unpredictability) 3. Unpredictability/uncertainty and severity of extreme events
REGIONAL CITY	1. Bushfire, flood, cyclones, storm, drought, earthquake, terrorism 2. Climate Change (unpredictability) 3. Immediate response to damaged council assets/ infrastructure
REGIONAL	1. Bushfire, flood, cyclones, storm, drought, earthquake, terrorism 2. Climate Change (unpredictability) 3. Unpredictability/uncertainty and severity of extreme events
REMOTE/RURAL	1. Bushfire, flood, cyclones, storm, drought, earthquake, terrorism 2. Climate Change (unpredictability) 3. Community awareness of council’s emergency response plans



New South Wales respondents ranked the Disaster & Catastrophe risk fourth, one point higher than the national ranking. This is unsurprising, considering the events the state has faced over the past five years.

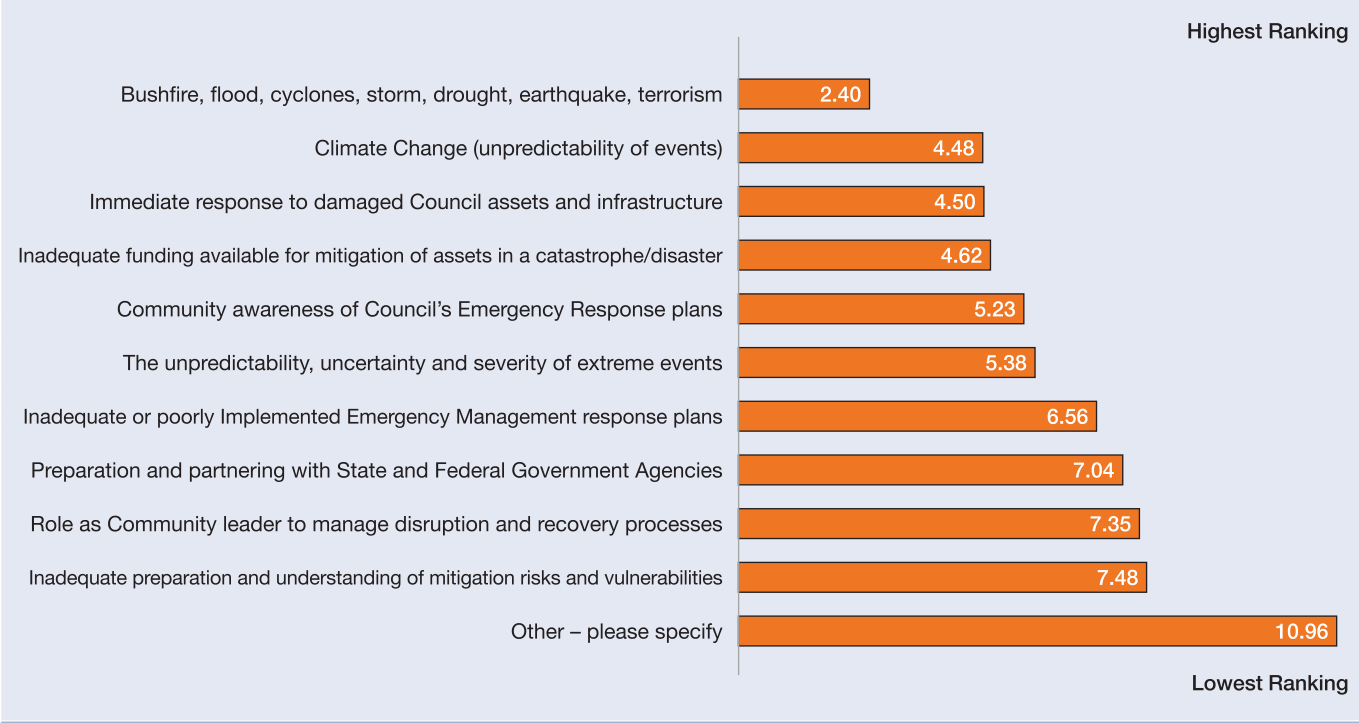


Figure 17: Disaster/Catastrophic Event Average Ranking for New South Wales of underlying factor 1-11

In line with the nationwide view, NSW council executives raised the threat of natural hazards like bushfires, floods, cyclones and storms as their primary concern.

This was especially true for regional councils, where 83% ranked it as a major concern compared to 60% of metropolitan councils. The frequent and severe storm-related flood events in the Northern Rivers and the Central West regions in recent years are likely to blame for this discrepancy.

50% of councils across the state identified climate change as a major concern, in line with the nationwide result. This highlights that many councils view climate change as the driving force behind rising natural catastrophic events. Climate change is viewed as an ongoing threat that could escalate the frequency and severity of these events.

Meanwhile, 40% of respondents raised the unpredictability, uncertainty and severity of extreme events as a major concern. This was slightly higher than the nationwide response of 39%.

Lack of funding poses a constant challenge for NSW councils, closely following this concern. 38% of NSW councils cite potential inadequate funding availability for disaster mitigation as a major threat, surpassing the national average of 32%.

This minor difference may be because some NSW councils received delayed and insufficient funding to assist with mitigating assets after catastrophes.

The rising frequency and severity of natural events in recent years has significantly impacted many NSW councils, heightening concerns about climate change and the potential lack of funds for mitigating assets after future catastrophic events.

Top three underlying factors for Disaster/ Catastrophic Event by region

METROPOLITAN

1. Bushfire, floods, cyclones etc.
2. Unpredictability, uncertainty and severity of extreme events
3. Climate Change

REGIONAL CITY

1. Bushfire, floods, cyclones etc.
2. Climate Change
3. Unpredictability, uncertainty and severity of extreme events

REGIONAL

1. Bushfire, floods, cyclones etc
2. Inadequate funding available for mitigation of assets
3. Climate Change

REMOTE/RURAL

1. Bushfire, floods, cyclones etc
2. Climate Change
3. Inadequate funding available for mitigation of assets

Northern Territory

This year, the Northern Territory ranked Disaster & Catastrophe tenth.

The ranking of concerns can be influenced by recent events or experiences in the Northern Territory. While some NT communities have been impacted by recent significant events such as floods and cyclones, they have not had catastrophic impacts to NT Councils therefore it's natural for CEOs to have other leading concerns.

It is important to note that risk rankings can fluctuate annually and by regions, influenced by each area's unique context, experience, and priorities. These significantly shape the perception of various risks

Queensland

Queensland respondents ranked Disaster & Catastrophe as the fourth highest risk, one point higher than the national ranking.

Queensland's Disaster & Catastrophe risk perspective aligns with the national view, prioritising the risk from exposure to natural or man-made hazards, followed by climate change impacts and the predictability of extreme events.

Interestingly, 92% of CEOs identified exposure to natural or manmade hazards as a high risk in Queensland compared with 82% of CEOs nationally, likely reflecting the state's higher frequency and exposure to natural disaster events in recent years.

Top three underlying factors for Disaster/ Catastrophic Event by region

METROPOLITAN

1. Climate Change
2. Bushfire, floods, cyclones etc.
3. Unpredictability/uncertainty and severity of extreme events

REGIONAL CITY

1. Bushfire, floods, cyclones etc.
2. Immediate response to damaged council assets & infrastructure
3. Inadequate funding available for mitigation of assets

REGIONAL

1. Bushfire, floods, cyclones etc
2. Climate Change
3. Unpredictability/uncertainty and severity of extreme events

REMOTE/RURAL

1. Bushfire, floods, cyclones etc
2. Community awareness of council's emergency response plans
3. Unpredictability/uncertainty and severity of extreme events

South Australia (Appendix AAR: 11.3A)

South Australian CEO/GMs shared similar concerns as their interstate counterparts with the risk of bushfire, flood and the impact of extreme weather events as their principal concern. South Australia experienced significant bushfire events in 2020/21 on Kangaroo Island, Adelaide Hills and the South East region.

The River Murray floods in 2022/23 served as a stark reminder of the significant impact that flooding events can have on communities. These floods highlighted assets and infrastructure vulnerability and Council's exposure to such risks.

Managing community expectations after these bushfire and flooding events proved challenging. CEO/GMs reported that both private property and business owners were deeply affected by these events, particularly on Kangaroo Island and in the towns impacted by the River Murray flooding which rely heavily on tourism adding urgency and pressure to the recovery and restoration of critical assets and infrastructure. As such, meeting the expectations of the community, especially in terms of recovery and reinstatement efforts that became a critical focus for councils in these areas.

Interestingly, SA regional CEO/GMs ranked the ability for councils to respond immediately to address damaged assets and infrastructure equally to council's exposure to extreme weather events. This highlights the dual challenge councils face in securing adequate funding and mobilising resources for the recovery process.

Top three underlying factors for Disaster/ Catastrophic Event by region

CITY

1. Inadequate funding available for mitigation of assets
2. Immediate response to damaged council assets & infrastructure
3. Inadequate or poorly implemented emergency response plans

METROPOLITAN

1. Bushfire, floods, cyclones etc.
2. Climate Change (unpredictability)
3. Unpredictability, uncertainty and severity of extreme events

REGIONAL CITY

1. Immediate response to damaged council assets and infrastructure
2. Bushfire, floods, cyclones etc
3. Climate change (unpredictability)

REGIONAL

1. Bushfire, floods, cyclones etc
2. Inadequate funding available for mitigation of assets
4. Climate change (unpredictability)

REMOTE/RURAL

1. Bushfire, floods, cyclones etc
2. Unpredictability, uncertainty and severity of extreme events
3. Climate Change (unpredictability)

28% of Victorian CEO/GMs ranked Disaster & Catastrophe as a leading risk for their councils, placing it fifth, matching the national ranking.

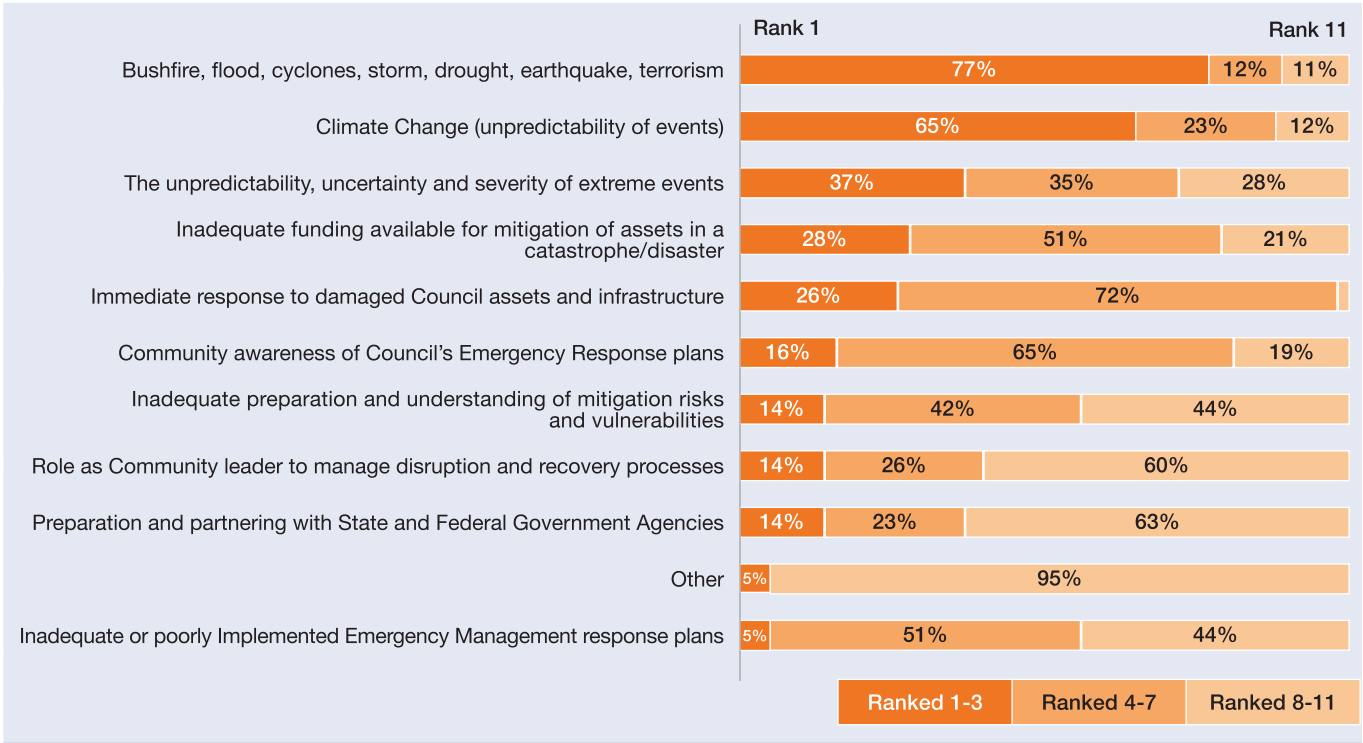


Figure 18: Disaster or Catastrophe Event, Victoria Risk Heat Map

This ranking likely follows the catastrophic flooding event in regional Victoria in 2022 and the extensive bushfire disaster that preceded it. Victoria’s natural risk profile is particularly prone to bushfire and flooding events, though concern levels for these risks can vary by location, particularly among metropolitan councils.

Over 76% of respondents ranked bushfires, floods, cyclones as their primary concern for this risk. This ranking is likely linked with the second and third ranked concerns, with 65% of respondents ranking Climate Change as the second most pressing issue, followed by 37% who are concerned about the unpredictability, uncertainty and severity of extreme events.

Nearly 35% of respondents ranked the unpredictability of extreme events as a medium risk, nearly equal to the highest-ranking position. The summer of 2023/24 has proven the unpredictable nature of Victorian weather, with extreme heat, storms, flash-flooding and even a mini tornado affecting the state.

Interestingly, metropolitan councils ranked the unpredictability of natural events and climate change as their leading concern for this risk closely followed by bushfires, floods and cyclones etc. 90%-100% of regional city, regional and remote/rural regions ranked this as their leading concern.

Top three underlying factors for Disastster/Catastrophic Event by region			
CITY		REGIONAL	
1. Inadequate funding available for mitigation of assets		1. Bushfire, floods, cyclones etc	
2. Climate Change (unpredictability)		2. Climate Change (unpredictability)	
3. Unpredictability/uncertainty and severity of extreme events		3. Inadequate funding available for mitigation of assets	
METROPOLITAN		REMOTE/RURAL	
1. Unpredictability/uncertainty and severity of extreme events		1. Bushfire, floods, cyclones etc	
2. Climate Change (unpredictability)		2. Climate Change (unpredictability)	
3. Bushfire, floods, cyclones etc		3. Unpredictability/uncertainty and severity of extreme events	
REGIONAL CITY			
1. Bushfire, floods, cyclones etc			
2. Climate Change (unpredictability)			
3. Immediate response to damaged council assets and infrastructure			

Tasmania

Disasters & Catastrophes ranked third among risks, with over 42% of Tasmanian CEO/GMs prioritising it.

In Tasmania, all respondents cited climate change and natural disasters such as bushfires, floods, cyclones as equal leading concerns for this risk, underscoring the acute awareness and vulnerability to weather-related perils. The island's unique natural environment contributes to an extremely high risk of bushfires and flooding in specific areas.



Figure 19: The top three underlying factors for this risk in Tasmania. This shows the percentage of councils that ranked each factor as high.

Top three underlying factors for Disaster/ Catastrophic Event by region	
METROPOLITAN	1. Climate Change (unpredictability)
	2. Bushfire, floods, cyclones etc.
	3. Unpredictability/uncertainty and severity of extreme events
REGIONAL	1. Unpredictability/uncertainty and severity of extreme events
	2. Climate Change (unpredictability)
	3. Bushfire, floods, cyclones etc
REMOTE/RURAL	1. Climate Change (unpredictability)
	2. Bushfire, floods, cyclones etc
	3. Community awareness of council's Emergency Response plans

Western Australia (Appendix AAR: 11.3A)

Western Australia aligned with the national ranking, placing Disaster & Catastrophe in fifth position, with 28% of respondents citing it as their leading risk. Meanwhile, 77% of respondents identified bushfires, floods, cyclones as the leading concern for this risk.

Regional city councils ranked this issue second, and regional and remote/rural councils ranked it as their top concern.

Natural disasters are becoming more frequent, reducing the recovery, planning and preparation time between incidents. This issue affects all WA local governments, but remote/rural councils are particularly susceptible to natural hazards (like bushfires, floods and cyclones) due to their geographical location and closeness to natural environments.

Resource availability also plays a crucial role. While all regional councils face challenges in resource allocation, larger regional centres often have better access to emergency services, funding and support from higher government levels. This improves their ability to manage and respond to disasters, resulting in less concern than rural areas with more limited resources and support.

Beyond the Disasters & Catastrophes concern, 51% of respondents identified climate change as their second highest concern, highlighting a direct link between these risks. Climate change exacerbates the frequency and intensity of natural disasters, a critical issue for WA local governments facing more frequent bushfires and coastal erosion due to rising sea levels.

Almost 49% of respondents identified community awareness of the council's emergency response plans as a leading concern, especially in regional and remote areas, where it was ranked among the top three concerns.

Local governments in these areas face distinct challenges in promoting community awareness of emergency response plans. Factors such as vast geographic distances, dispersed populations, limited resources, and unreliable internet and phone systems complicate effective communication with the community.

Top three underlying factors for Disaster/ Catastrophic Event by region	
METROPOLITAN	1. Unpredictability/ uncertainty and severity of extreme events
	2. Climate Change (unpredictability)
	3. Bushfire, floods, cyclones etc.
REGIONAL CITY	1. Climate Change (unpredictability)
	2. Bushfire, floods, cyclones etc
	3. Inadequate funding available for mitigation of assets
REMOTE/RURAL	1. Bushfire, floods, cyclones etc
	2. Climate Change (unpredictability)
	3. Community awareness of council's emergency response plans
REMOTE/RURAL	1. Bushfire, floods, cyclones etc
	2. Climate Change (unpredictability)
	3. Community awareness of council's emergency response plans



The shift from the term 'Human Resources' to 'People and Culture' reflects a broader shift in the mindset of organisations. This change in language signifies a departure from viewing employees solely as resources to recognising them as vital contributors to the identity of local governments.



People and Culture represents a commitment to fostering an inclusive and collaborative workplace. It acknowledges that individuals are integral to driving innovation and a positive organisational ethos. This rebranding reflects a modern perspective on work, is aligned with the terminology used in the private sector and emphasises valuing individuals.

Despite ranking fifth, People and Culture has progressed two places. Councils have recognised the connection between their human resources and the culture of the organisation, which intertwines with many other risks.

When a significant event occurs, employees are stretched to their capacity to manage operational requirements while either preparing or recovering from the event. How this is

addressed can impact the reputation and governance for a council and this therefore demonstrates the importance of People and Culture in supporting the workforce. Councils that have a strong culture and resilient workforce unsurprisingly can move past a significant event and resume normal operations sooner.

There were two main underlying issues identified within People and Culture, with their perceived importance varying between metropolitan and regional local governments. Metropolitan councils expressed their primary concern for their limited capacity to attract and retain professional staff. Meanwhile, regional areas noted managing a remote workforce as the number one challenge, with attracting staff followed closely behind.



Figure 20: People & Culture National Risk Heat Map

The limited capacity to attract and retain professional staff, coupled with inadequate employee numbers, can profoundly impact local government. This shortfall can jeopardise operational efficiency, hindering the completion of tasks and projects.

The inability to attract and retain qualified staff can lead to constant turnover, which disrupts institutional knowledge and continuity. This places undue strain on existing employees, potentially resulting in burnout and decreased morale. The consequence of the inability to attract and retain a qualified workforce impedes day-to-day operations and undermines the capacity to adapt, innovate, continuously improve and thrive in local government.

With heightened expectations on working from home, there are unique challenges in managing a remote workforce. Maintaining team cohesion, monitoring productivity and

addressing communication gaps become more complex. Balancing flexibility with accountability is crucial, as is providing adequate support to ensure employee wellbeing and sustained performance in a virtual work landscape. Employers must also accommodate for the services that are not always available in remote communities. As such, transparent processes in managing these risks will contribute to a more resilient workforce and cultivate a positive relationship between leaders and employees.

Interestingly, the underpinning factor of rapidly increasing employment market costs and compliance with employee work, health and wellbeing regulations ranked similarly across all regions. Wage pressure and competing with private sector offerings are a concern, as is the ongoing handling of workers' compensation matters.

Competing with wage variations between local government and the private sector will always be challenging, as salaries are determined differently. Private sector wages are often influenced by market demand and competition, leading to potential fluctuations. However, local government wages can be more stable, as they reflect public sector policies and enterprise agreements, which impact salary scales and overall compensation structures.

Efficiently handling workers' compensation claims in Australia continues to be essential for both employers and employees. It guarantees prompt and equitable assistance for injured workers, supporting their recovery. Sound management minimises financial strain on councils by returning injured workers earlier and improving the sense of belonging. Several studies have shown that prioritising and valuing injured workers has a significant impact in decreasing in return-to-work timeframes.

By viewing these concerns holistically, we can see how ineffective People and Culture is one of the greatest risks moving forward and this is reflected in the higher ranking this year. Appropriate leadership and developing strategies to obtain, maintain and develop individuals into long-serving employees is more critical than ever.

Top ranking underlying factors for People & Culture by State/Territory

NSW QLD SA VIC WA	Limited capacity to attract and retain professional staff
NT	Inadequate employee numbers
TAS	Compliance with employee health, safety and wellbeing regulation

Top three underlying factors for People & Culture by region
CITY 1. Rapidly rising employment market costs 2. Limited capacity to attract and retain professional staff 3. Compliance with employee health, safety & wellbeing regulation
METROPOLITAN 1. Rapidly rising employment market costs 2. Compliance with employee health, safety & wellbeing regulation 3. Limited capacity to attract and retain professional staff
REGIONAL CITY 1. Inadequate employee numbers 2. Limited capacity to attract and retain professional staff 3. Rapidly rising employment market costs
REGIONAL 1. Limited capacity to attract and retain professional staff 2. Inadequate employee numbers 3. Rapidly rising employment market costs
REMOTE/RURAL 1. Limited capacity to attract and retain professional staff 2. Inadequate employee numbers 3. Compliance with employee health, safety & wellbeing regulation

Queensland

Like the rest of Australia, Queensland councils are struggling to attract and retain employees. In comparison to the national view, a larger percentage of CEOs ranked the top two risks to People and Culture as high or medium risk. This suggests that Queensland's employment market may be more challenging than other states.

Indeed, addressing these risks in the context of local government is incredibly complex. Successfully navigating these challenges will require sustained focus, innovation and state government support.

Top three underlying factors for People & Culture by region	
METROPOLITAN 1. Limited capacity to attract & retain professional staff 2. Workplace safety – protection from community & the psychological impact 3. Compliance with employee health, safety and wellbeing regulation	REGIONAL 1. Limited capacity to attract and retain professional staff 2. Inadequate employee numbers 3. Compliance with employee health, safety and wellbeing regulation
REGIONAL CITY 1. Inadequate employee numbers 2. Workplace safety – protection from community and the psychological impact inadequate employee numbers 3. Limited capacity to attract & retain professional staff	REMOTE/RURAL 1. Inadequate employee numbers 2. Limited capacity to attract and retain 3. Managing staff productivity and performance

In the Northern Territory, CEOs ranked People and Culture as the fifth risk, which is one point above the national ranking.



Figure 21: People & Culture Average Ranking of underlying factors in Northern Territory 1-10

The leading reasons for this risk were inadequate employee numbers and limited capacity to attract and retain professional staff. In fact, 83% of respondents ranked these as the top concerns.

When comparing the rankings between capital cities and regional councils, inadequate employee numbers were graded first or second by capital cities, while regional cities positioned this sixth.

Capital cities ranked limited capacity to attract and retain employees eighth while regional city and regional councils placed this second.

Tasmania

In Tasmania, People and Culture was not considered a high risk, ranking eleventh compared to its sixth national ranking.

The reasons behind this risk in Tasmania include compliance with employee health and wellbeing regulations, rapidly rising employment market costs and the challenges of managing a remote workforce with increased expectations of workplace flexibility arrangements. These three factors ranked equally as the top reasons agreed upon by 57% of respondents. It is worth noting that the medium to low rankings for these reasons were the same.

Nearly 43% of respondents ranked inadequate employee numbers as the second highest concern underpinning this risk. This was cited as a leading concern for metropolitan councils equalling the three above concerns. It was also ranked first by regional councils. However, it didn't receive a high ranking by rural and remote councils, indicating a sound medium ranking.

These results underscore the challenges encountered by Tasmanian councils in attracting and retaining quality staff. Tasmania has been a 'confined talent pool' for many years, and considering the cost-of-living crisis, councils have struggled to match the private sector to secure high level talent.

Top three underlying factors for People & Culture by region

METROPOLITAN

1. Inadequate employee numbers

2. Rapidly rising employment market costs

3. Compliance with employee health, safety and wellbeing regulation

REGIONAL

1. Rapidly rising employment market costs

2. Limited capacity to attract and retain professional staff

3. Inadequate employee numbers

REMOTE/RURAL

1. Compliance with employee health, safety and wellbeing regulation

2. Challenges of managing a remote workforce with increased expectation of WFH arrangements

3. Rapidly rising employment market costs

New South Wales

Among New South Wales respondents, People and Culture ranked sixth – agreed upon by 21% of respondents and aligned with the national ranking.

Nearly 60% of respondents identified the limited capacity to attract and retain professional staff as the primary reason for this risk. Many councils operate under stringent budgets, which impacts their ability to offer competitive remuneration compared to other tiers of government or the private sector.

In rural areas, the situation is further complicated by the shortage of specialised positions. Rural workers often need to wear multiple hats and adopt various responsibilities, which can be daunting to candidates and deter them from working in regional locations.

Local government’s political nature can present challenges for individuals from corporate backgrounds who are unfamiliar with the unique processes and requirements involved. Furthermore, it’s not always perceived as exciting or rewarding compared to other sectors. This perception can be influenced by negative portrayals in the media or on social media platforms. It is important to note that these impressions do not always reflect the reality of working in local government.

In metropolitan, regional and rural/remote areas, this issue ranked second, while in regional cities it ranked fifth. Typically, regional city councils are large enough to attract public sector candidates, but not enough corporate talent. They strike the right balance of incorporating a greater job scope and remuneration compared to city, regional and rural councils.

Regional cities can often access quality health and education services and are close to airports and other essential facilities. This allows residents to enjoy the benefits of city life while living in a quieter environment. It also provides great flexibility for professionals to travel to major cities for work or personal reasons.

This issue was closely followed by rapidly rising employment market costs, which nearly 56% of respondents ranked second.

Top three underlying factors for People & Culture by region
METROPOLITAN 1. Rapidly rising employment market costs 2. Limited capacity to attract and retain professional staff 3. Compliance with employee health, safety and wellbeing regulation
REGIONAL CITY 1. Rapidly rising employment market costs 2. Compliance with employee health, safety and wellbeing regulation 3. Inadequate employee numbers
REGIONAL 1. Limited capacity to attract and retain professional staff 2. Inadequate employee numbers 3. Rapidly rising employment market costs
REMOTE/RURAL 1. Limited capacity to attract and retain professional staff 2. Rapidly rising employment market costs 3. Inadequate employee numbers

Victoria

In Victoria, nearly 14% of CEO/GMs ranked this risk seventh, which is lower than the national ranking of sixth.

58% of respondents identified the limited capacity to attract and retain professional staff as the primary reason for this risk. This reason was ranked the highest by regional and rural/remote councils. Metropolitan and regional city councils ranked this third, while capital city councils placed it ninth. This might reflect the COVID-19 sea or tree change that many Victorians made. Now, several years on, evidence reveals growth is declining in regional areas as many people return to metropolitan hubs.

Nearly 49% of CEO/GMs ranked inadequate employee numbers as the second highest concern. This issue was particularly significant in regional city and regional councils, where they ranked highly. The other regions placed this in the middle.

This further supports the notion that councils’ financial stability is hindering their ability to attract and retain staff in a highly inflationary environment. The private sector has been offering higher wages for a while. Yet many councils particularly regional ones do not have the resources to compete for talent.

46% of respondents ranked compliance with employee health, safety and wellbeing regulations, as well as rapidly rising employment market costs as equal third reasons for this risk. All regions ranked these two concerns in the top five. These results indicate the increasing burden of employee mental health related complaints and wellbeing issues since the COVID-19 pandemic. These are major issues in the WorkSafe claims within the sector and we’re likely to see increases in these issues by approximately 40% across local government for many years.

28% of respondents ranked People and Culture in sixth position, aligning with the national ranking.

The survey results revealed that the limited capacity to attract and retain professional staff is a leading concern for local government CEOs in Western Australia, with 65% ranking it as the top issue. This challenge arises from factors such as competition for talent, limited resources, geographic location, workload demands, limited training opportunities and work perceptions. These factors make it difficult for local governments to attract and retain skilled professionals, leading to challenges in delivering effective services and implementing projects.

The concern of inadequate employee numbers is particularly pronounced in regional and rural/remote local governments. This is attributed to factors such as a limited pool of professionals, geographic isolation, lack of infrastructure, limited professional development opportunities and challenges in maintaining work-life balance. To tackle these issues, we need targeted strategies, including offering competitive remuneration, providing professional development opportunities, improving infrastructure and highlighting the unique benefits of working in regional and rural/remote areas.

In summary, the challenges in attracting and retaining professional staff pose a risk to the people and culture of WA local governments. Factors such as limited capacity, competition for talent, limited resources, geographic location, workload demands, and negative perceptions contribute to this risk. Inadequate staffing levels can lead to decreased productivity and service delivery delays. To mitigate this risk, local governments need to offer competitive remuneration, implement targeted recruitment strategies, invest in professional development, address work-life balance and promote the positive aspects of working in the public sector. These measures will help ensure a skilled and engaged workforce to effectively serve the community.

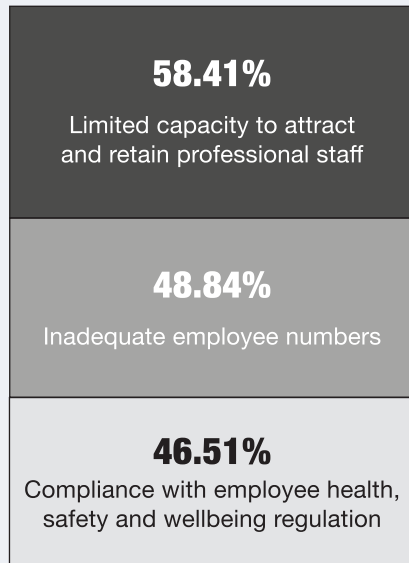


Figure 22: The top three underlying factors for this risk in Victoria. This shows the percentage of councils that ranked the respective factor as high.

Top three underlying factors for People & Culture by region

CITY

1. Rapidly rising employment market costs
2. OHS & PWHS fines & penalties
3. Compliance with employee health, safety and wellbeing regulation

METROPOLITAN

1. Workplace safety – protection from community & the psychological impact
2. Compliance with employee health, safety and wellbeing regulation
3. Limited capacity to attract and retain professional staff

REGIONAL CITY

1. Inadequate employee numbers
2. Challenges of managing a remote workforce with increased expectation of WFH arrangements
3. Limited capacity to attract and retain professional staff

REGIONAL

1. Limited capacity to attract and retain professional staff
2. Inadequate employee numbers
3. Compliance with employee health, safety and wellbeing regulation

REMOTE/RURAL

1. Limited capacity to attract and retain professional staff
2. Rapidly rising employment market costs
3. Compliance with employee health, safety and wellbeing regulation

Top three underlying factors for People & Culture by region

METROPOLITAN

1. Workplace safety – protection from community & the psychological impact
2. Rapidly rising employment market costs
3. Compliance with employee health, safety and wellbeing regulation

REGIONAL CITY

1. Managing staff productivity & performance
2. Rapidly rising employment market costs
3. Workplace safety – protection from community & the psychological impact

REGIONAL

1. Limited capacity to attract and retain professional staff
2. Inadequate employee numbers
3. Managing staff productivity & performance

REMOTE/RURAL

1. Limited capacity to attract and retain professional staff
2. Inadequate employee numbers
3. Rapidly rising employment market costs

In South Australia, 34% of CEOs/GMS ranked People and Culture as the fourth highest risk two points above the national ranking. Among the respondents, 62% identified the limited capacity to attract and retain professional staff as the primary reason for this risk. This concern was placed in the top two positions by all regions in South Australia.

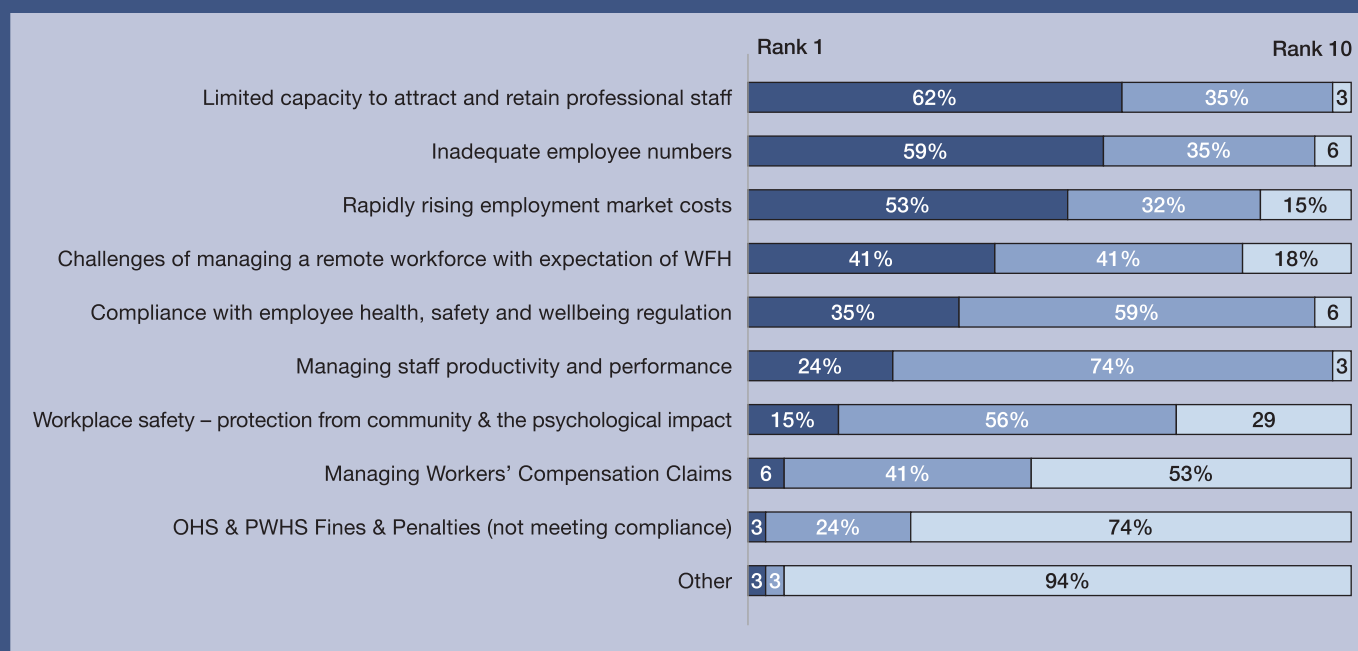


Figure 23: People & Culture South Australia risk heat map

Additionally, nearly 59% of CEOs/GMs ranked inadequate employee numbers second. This was the leading reason for rural/remote councils, as other states placed it in the top four positions.

According to the Australian Local Government Association's 2022 report on Workplace Skills & Capability, South Australian executives identified the key drivers of skills shortages as:

- Pandemic border closures and the subsequent impact on skilled workers
- Depth of the labour market and Local Government competing for talent with the private industry
- Budgetary constraints
- Lack of employment opportunities for spouses in regional areas
- Providing fixed-term contracts, with applicants seeking longer-term security
- Challenges of competing against major infrastructure projects for labour.

Rapidly rising employment market costs was cited as the third factor underpinning this risk, as determined by 53% of respondents. South Australian regional councils were heavily impacted by the strong performance of the mining and agriculture sectors, resulting in losing key staff to the private industry. Councils have struggled to compete with salaries in the private sector. It's also been difficult to secure affordable housing to attract candidates to regional areas.



BUSINESS CONTINUITY PLANNING



Over the past year, the world has faced a multitude of challenges, with some disruptions occurring simultaneously, leaving organisations and communities with little time to recover. Local government in Australia also felt the weight of these difficulties.

Spurred by various events, councils experienced substantial business interruptions. These included post-COVID19 events, the succession of severe and frequent natural disasters and escalation in incidents or threats of cyberattacks. Many councils faced these tragic events from 2021 to 2023. The disruptions greatly impacted local government authorities operations and finances.

Seemingly distant global events (e.g. supply chain and geopolitical events) have also impacted Australian businesses and communities, including those in regional areas. These events placed additional pressure on councils, resulting in their inability to deliver services.

The most direct impact on local government has been financial. Every disaster or interruption changes priorities, with resources being redirected towards repairs and recovery efforts. As local government's main source of income is continuously strained due to dealing with disruption shocks the gap between what can be accomplished and what needs to be done widens.

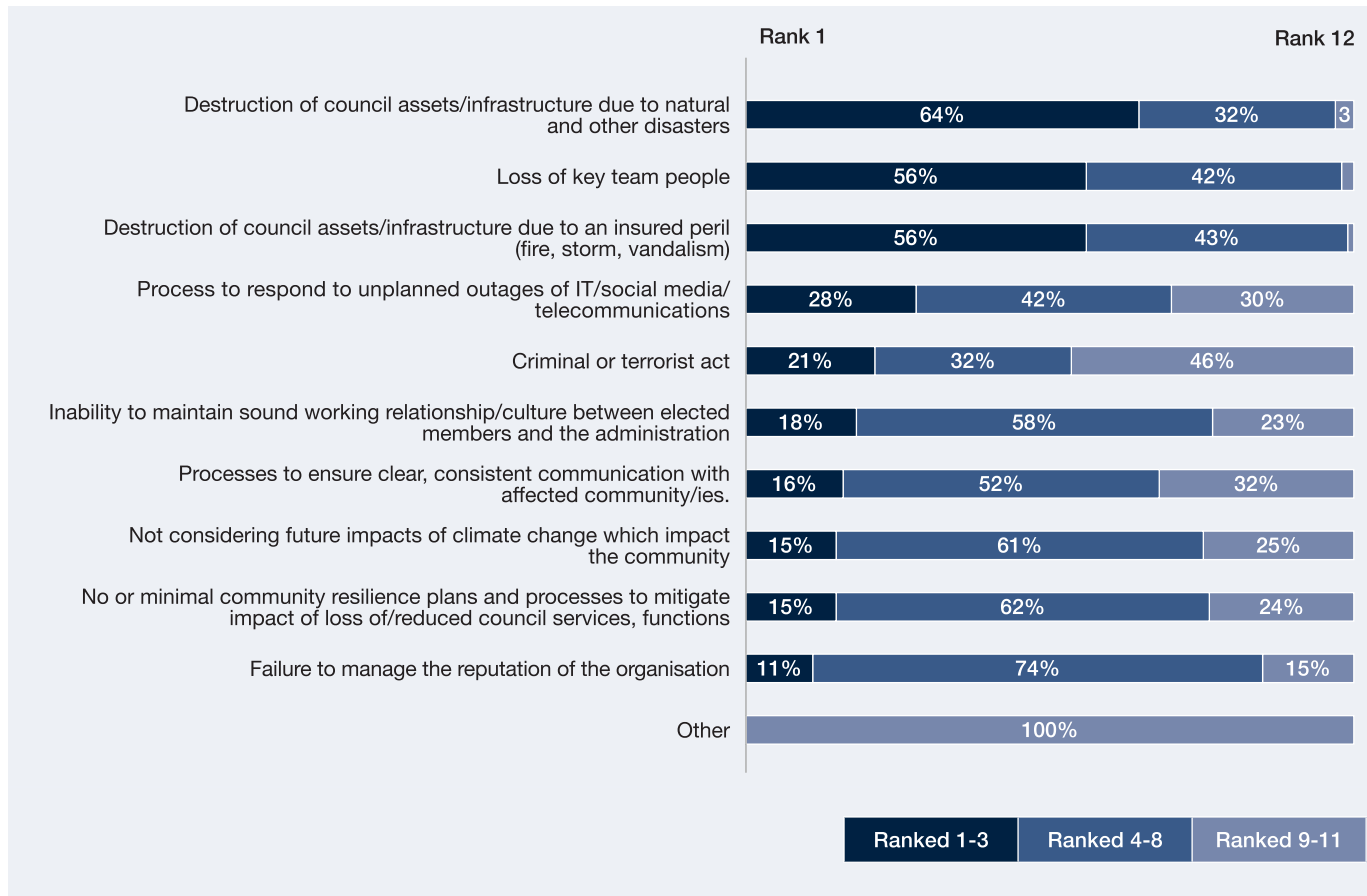


Figure 24: Business Continuity Planning National Risk Heat Map

Since 2018, natural disaster impacts have consistently ranked among the top five concerns. This is attributed to the compounded natural disaster events (e.g. bushfires, severe storms and floods) occurring in the same regions – sometimes within days of each other. In the 2023 Risk Survey, this disruption ranked as the top business continuity planning risk at 26.48%.

The financial cost associated with disaster events amounts to billions of dollars, and the visible remnants of these events can be observed in assets waiting repair or replacement. In addition to the monetary costs, there is also the immeasurable emotional and wellbeing tax on communities, families and individuals, which will have enduring effects for years to come.

The Loss of Key People ranks as the second highest factor for business continuity planning. Although this aspect is experienced by all organisations and businesses, the survey results indicate that regional councils regard it as the leading factor (21%) impacting their business continuity capabilities.

The above concerns directly effect the business continuity capability on various levels. They range from losing key people, which compromises effective decision-making and resourcing, to losing premises to operate from. While organisations have adapted and perfected the working-from-home arrangements, many essential council services rely on specific facilities to deliver what are often critical services such as water, sewer and waste management.

The lessons learned from the impact of COVID-19 have prompted organisations to embrace a more agile approach. As a result, information technology experts have furnished councils with an unprecedented level of workforce flexibility. This advancement has alleviated concerns councils may have regarding certain operations, as many can be swiftly restored through remote working arrangements.

However, technology cannot solve every business continuity impact nor costs of rebuilds or repairs from asset destruction. Understandably, financial sustainability is the leading national concern.

Top three underlying factors for Business Continuity Planning by region

CITY

1. Destruction of council assets/infrastructure due to disasters
2. Loss of key team people
3. Destruction of council assets/infrastructure due to an insured peril

METROPOLITAN

1. Loss of key team people
2. Destruction of council assets/infrastructure due to disasters
3. Destruction of council assets/infrastructure due to an insured peril

REGIONAL CITY

1. Destruction of council assets/infrastructure due to disasters
2. Destruction of council assets/infrastructure due to an insured peril
3. Loss of key team people

REGIONAL

1. Loss of key team people
2. Destruction of council assets/infrastructure due to disasters
3. Destruction of council assets/infrastructure due to an insured peril

RURAL/REGIONAL

1. Destruction of council assets/infrastructure due to disasters
2. Destruction of council assets/infrastructure due to an insured peril
3. Loss of key team people

In an uncertain situation like a disaster event, it is essential to have the right individuals with the necessary expertise to plan and strategise a path towards recovery.

It is considered best practice for organisations to proactively plan for such events to minimise the impact. This involves having a documented framework and set of recovery strategies and operational workarounds that are sound, current, reliable and logical. These plans need to provide clear guidance and high-level strategies that are dynamic enough to be effectively implemented in any major circumstance. A well-crafted business continuity plan can provide the right framework for decision-making and instil confidence in people by establishing a structured approach. This can only be achieved if the framework is effective, fit for purpose and involves the active participation and commitment of the organisation's top management.

To address the concern of the potential loss of key people, councils can implement practical measures to create redundancy within the organisation. Strategically, organisations should ensure there are alternate personnel who can step into key decision-making roles in the event of a major disruption. Operationally, councils can create redundancy by ensuring that all critical business services have sufficient personnel who are cross-skilled and qualified to assume other positions. Additionally, documenting clear recovery strategies for these personnel will further enhance preparedness and resilience.

Implementing a well-structured business continuity management framework and ensuring personnel are well-trained and are confident to step into their assigned roles. This will ensure an effective and timely recovery from a major disruption, significantly minimising its impact. When an organisation demonstrates this level of resilience, it not only instils confidence in its people but also the trust of the community it serves.

The level of complexity, frequency and severity of disruptions have become commonplace. Considering this, it is more important than ever for organisations to recalibrate and plan for a new comprehensive approach to managing significant disruptions. This approach should be holistic and consider the new scale of 'worst case' scenarios and provide an efficient and effective method for responding and recovering from major complex disruptions. Additionally, it must prioritise collaboration, which involves working closely with state and federal levels of government, the community, the private sector, and neighbouring councils. This unified effort will help develop broader recovery plans, secure funding and implement measures that will support their communities.

Top ranking underlying factors for Business Continuity by State/Territory

NSW QLD SA VIC	Destruction of council assets/infrastructure due to natural and other disasters (bushfire, flood, extreme storms, pandemic, drought, earthquake, act of terror etc.)
NT WA	Loss of key team people
TAS	Destruction of council assets/infrastructure due to an insured peril (fire, storm, vandalism)



In the rankings, NSW placed Business Continuity Planning in seventh position, which is consistent with the national level ranking. Although only 21% of respondents viewed it as a high risk, it is important to highlight that nearly 54% considered it as a medium risk.

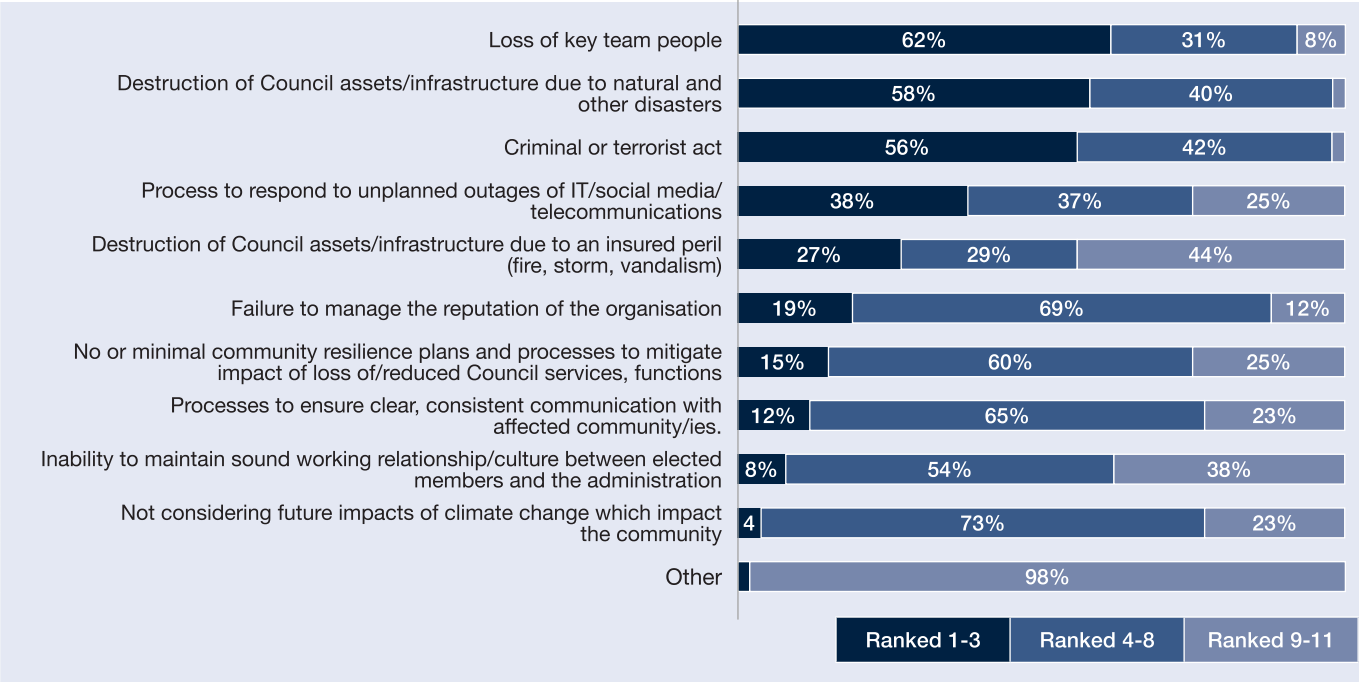


Figure 25: Business Continuity Planning NSW Risk Heat Map

Nearly 62% of respondents identified the destruction of council assets as the primary factor for this risk. This factor was particularly prominent in metropolitan, regional, and remote/rural areas.

The lack of preparedness and the outdated nature of existing assets, which were not designed to withstand the disasters of the 21st century, is a growing concern for councils. It is necessary to futureproof these assets, but this comes with significant costs that need to be allocated appropriately. Retrofitting older assets, particularly those with heritage listing, presents challenges in NSW, as it is difficult to strike a balance between heritage requirements with the needs of business continuity planning.

While councils demonstrate competence in emergency preparation and response, there may be a lack of comprehensive plans in place. It is crucial to focus on prevention and proactive measures. Additionally, it is also important to consider the other risks that contribute to business continuity, as it is not solely about the Business Continuity Plan itself.

Many councils have assets located in flood-prone or bushfire-prone areas, which further complicates the management of council services and land.

58% of respondents identified the loss of key personnel as a significant contributing factor to the management of business continuity. This concern was particularly notable in metropolitan, regional, and remote/rural councils, where it ranked among the top two concerns.

Whilst experiencing a disaster, the loss of key personnel can have a substantial impact. Local Emergency Management Officers (LEMOs) and council staff involved in business continuity planning may also be responsible for managing local emergencies. The unavailability of key staff during an event can impede response efforts. Also, the rotation of staff and the ongoing need to train and maintain their present

additional challenges, as continuity may be disrupted when new personnel join the organisation.

The adoption of communication tools like Zoom has enhanced communication capabilities, and councils are embracing these opportunities to strengthen their business continuity efforts.

Top three underlying factors for Business Continuity Planning by region

METROPOLITAN

1. Destruction of council assets/infrastructure due to an insured peril

2. Loss of key team people

3. Process to respond to unplanned outages of IT/ social media/telecommunications

REGIONAL CITY

1. Destruction of council assets/infrastructure due to disasters

2. Destruction of council assets/infrastructure due to an insured peril

3. Criminal or terrorist act

REGIONAL

1. Loss of key team people

2. Destruction of council assets/infrastructure due to disasters

3. Failure to manage the reputation of the organisation

REMOTE/RURAL

1. Destruction of council assets/infrastructure due to disasters

2. Loss of key team people

3. Destruction of council assets/infrastructure due to an insured peril

Queensland

In Queensland, Business Continuity Planning was ranked fifth, which is two points higher than the national ranking of seventh.

The most significant factor for business continuity in Queensland is the damage to infrastructure or assets from natural hazards or insured perils such as a fire, storm or vandalism event. This is due to the frequency of disasters that have impacted Queensland councils in the past five years, where many councils have struggled to recover before another event occurred.

This factor is followed by the loss of key personnel. This reason was consistent with the national view, emphasising the fundamental similarities between council operations and business interruption risk in an event.

Top three underlying factors for Business Continuity Planning by region

METROPOLITAN

1. Destruction of council assets/infrastructure due to natural and other disasters
2. Process to respond to unplanned outages of IT/ social media/telecommunications
3. Loss of key team people

REGIONAL CITY

1. Destruction of council assets/infrastructure due to natural and other disasters
2. Destruction of council assets/infrastructure due to an insured peril
3. Process to respond to unplanned outages of IT/ social media/telecommunications!

REGIONAL

1. Destruction of council assets/infrastructure due to natural and other disasters
2. Destruction of council assets/infrastructure due to an insured peril
3. Loss of key team people

REMOTE/RURAL

1. Destruction of council assets/infrastructure due to natural and other disasters
2. Destruction of council assets/infrastructure due to an insured peril
3. Loss of key team people

Northern Territory

In the Northern Territory, Business Continuity Planning was ranked as the second highest risk by 37% of CEOs. This is five positions higher than the national average. Operating in a lean environment poses a challenge for most NT councils. Despite this, councils remain committed to maintaining business continuity, and take pride in their ongoing response to disruptive events.

The primary factor contributing to this ranking is the loss of key personnel, with 83% of respondents ranking it as their top concern. This result was particularly pronounced among regional councils, where 100% of respondents ranked it as their number one concern.

Tasmania (Appendix AAR: 11.3A)

Business Continuity Planning was ranked second with 71% of councils considering it as the second leading risk for the state. This significant risk for the state could be attributed to the challenges faced by councils in accessing trades and reinstating services. While planning efforts are robust, the difficulty lies in obtaining the necessary resources to support when an event occurs, and rebuilding becomes necessary.

The above is reinforced by the fact 100% of respondents placed the destruction of council assets or infrastructure due to insured peril as the leading reason for this placement. As mentioned earlier, the lead times for trades and resources can extend beyond three years before rehabilitation works can begin, and this effects business continuity planning for future events. Regardless of the region of the council, all ranked this between first and third.

Furthermore, nearly 86% of respondents noted the destruction of council assets or infrastructure due to a natural or other disaster as an underlying factor for this risk. Once again, councils from different regions ranked this in the top three further reinforcing why they had ranked BCP in second position.

Top three underlying factors for Business Continuity Planning by region

METROPOLITAN

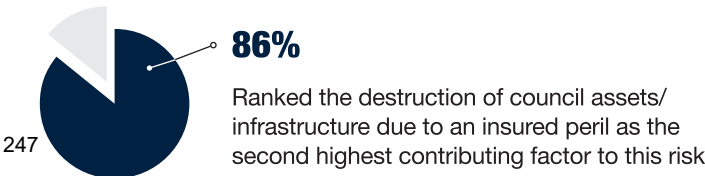
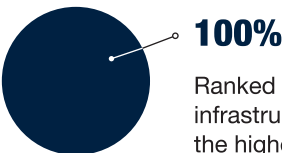
1. Destruction of council assets/infrastructure due to natural and other disasters (bushfire, flood, extreme storms, pandemic, drought, earthquake, act of terror etc.)
2. Destruction of council assets/infrastructure due to an insured peril (fire, storm, vandalism)
3. Loss of key team people

REGIONAL

1. Destruction of council assets/infrastructure due to natural and other disasters (bushfire, flood, storms, pandemic, drought, earthquake, act of terror etc.)
2. Processes to ensure clear, consistent communication with affected community/ies. Integrity of current business continuity plan and process
3. Destruction of council assets/infrastructure due to an insured peril (fire, storm, vandalism)

REMOTE/RURAL

1. Criminal or terrorist act
2. Destruction of council assets/infrastructure due to an insured peril (fire, storm, vandalism)
3. Failure to manage the reputation of the organisation



Victoria

(Appendix AAR: 11.3A)

In Victoria, CEOs ranked Business Continuity Planning in eighth position, one point lower than the national ranking. 63% of respondents identified the destruction of council assets and infrastructure caused by natural and other disasters as the leading underlying reason for this risk. This concern was ranked as the first or second reason by all councils except for city councils. The specific reasons for city councils not ranking this as high could vary and may be influenced by factors such as different risk profiles or a greater focus on other aspects of business continuity.

While destruction of council assets & infrastructure from natural and other disasters was the leading factor, 53% of CEOs/GMs identified the destruction caused by insured perils as the second-highest contributing factor. This reason consistently ranked between first and third by all councils except for city councils. Again, the specific reasons for city councils ranking this differently could vary and may be influenced by factors such as different risk profiles or a greater emphasis on other aspects of business continuity.

The loss of key team members was identified as a contributing factor to this risk. It ranked third across the state, with all councils placing it between first and fourth. The positioning of this factor may be influenced by the relative importance placed on other risks or the perception that other factors have a more significant impact on business continuity.

It is important to note that the rankings and reasons presented are derived from the responses of the CEOs/GMs in the survey and may vary depending on the specific circumstances and priorities of each council.

Top three underlying factors for Business Continuity Planning by region	
CAPITAL 1. Not considering future impacts of climate change which impact the community 2. Process to respond to unplanned outages of IT/social media/telecommunications 3. Loss of key team people	REGIONAL 1. Destruction of council assets/infrastructure due to natural and other disasters 2. Not considering future impacts of climate change which impact the community 3. Destruction of council assets/infrastructure due to an insured peril
METROPOLITAN 1. Destruction of council assets/infrastructure due to an insured peril 2. Destruction of council assets/infrastructure due to natural and other disasters 3. Loss of key team people	REMOTE/RURAL 1. Destruction of council assets/infrastructure due to natural and other disasters 2. Destruction of council assets/infrastructure due to an insured peril 3. Not considering future impacts of climate change which impact the community
REGIONAL CITY 1. Loss of key team people 2. Destruction of council assets/infrastructure due to natural and other disasters 3. Destruction of council assets/infrastructure due to an insured peril	

South Australia

Among South Australian CEO/GMs, Business Continuity was ranked seventh by 14% of respondents, with nearly 65% ranking it as medium risk.

The primary factor contributing to this ranking is the destruction of council assets or infrastructure caused by natural and other events, as identified by nearly 59% of respondents. This concern was consistently ranked as either first or second across all regions represented in the survey. These rankings can be attributed to the significant impact of flooding and storm-related events that occurred in South Australia during the 2022/23 period.

The Loss of Key People was ranked equally with the Destruction of Council Assets or Infrastructure as significant contributing factors to the risk of business continuity. This concern was ranked as either first or second by all council regions.

The destruction of Council Assets or Infrastructure due to an Insured Peril was ranked second, with 41% of councils listing this as a primary concern for this risk. This ranking was primarily supported by capital city and regional city councils. However, when considering the combined high and medium risks, this concern becomes more prominent across all regions.

Top three underlying factors for Business Continuity Planning by region

CAPITAL

1. Failure to manage the reputation of the organisation
2. Destruction of council assets/infrastructure due to an insured peril
3. Loss of key team people

METROPOLITAN

1. Loss of key team people
2. Destruction of council assets/infrastructure due to natural and other disasters
3. Not considering future impacts of climate change which impact the community

REGIONAL CITY

1. Loss of key team people
2. Destruction of council assets/infrastructure due to natural and other disasters
3. Destruction of council assets/infrastructure due to an insured peril

REGIONAL

1. Loss of key team people
2. Destruction of council assets/infrastructure due to natural and other disasters
3. Inability to maintain sound working relationship/culture between elected members and the administration

REMOTE/RURAL

1. Destruction of council assets/infrastructure due to natural and other disasters
2. Loss of key team people
3. No/minimal community resilience plans and processes to mitigate impact of loss of/reduced council services, functions

Western Australia

In Western Australia, Business Continuity was ranked ninth among other risks by CEO. The leading factor driving this ranking was loss of key people with 70% contributing to this ranking.



Figure 26: Business Continuity Planning WA Risk Heat Map

The loss of key people within local governments in WA during a disruption can impede continuity, decision-making, relationships, and expertise. It is crucial for councils to have succession planning strategies in place to mitigate the impact and ensure the continuity of essential services.

The findings also revealed that the destruction of council assets and infrastructure due to disasters and the destruction of council assets and infrastructure due to an insured peril are closely aligned risks for WA local governments. These risks share the potential to impact service delivery, financial stability, public safety, and community well-being. In both scenarios, there is a loss or damage of critical assets and infrastructure, which can result in service disruptions, economic consequences, compromised public safety, and reduced community resilience. While disasters may encompass a broader range of perils, including uninsured events, the risks associated with the destruction of assets and infrastructure in both cases require similar mitigation strategies. These strategies include disaster preparedness, risk assessment, contingency planning, and investment in infrastructure resilience.

Business Continuity Planning is a key risk for local governments in WA, as it can lead to disruptions in essential services, financial stability, public safety, and community wellbeing. This risk can occur from various events, such as disasters, the loss of key people, and the destruction of assets and infrastructure. To mitigate these risks local government need to prioritise business continuity planning, including risk assessment, emergency response strategies, succession planning, infrastructure resilience, and resource allocation, to ensure the continuity of essential services and minimise the impact of potential risks.

Top three underlying factors for Business Continuity Planning by region	
METROPOLITAN 1. Loss of key team people 2. Process to respond to unplanned outages of IT/social media/telecommunications 3. Destruction of council assets/infrastructure due to natural and other disasters	REGIONAL 1. Loss of key team people 2. Destruction of council assets/infrastructure due to natural and other disasters 3. Destruction of council assets/infrastructure due to an insured peril
REGIONAL CITY 1. Destruction of council assets/infrastructure due to natural and other disasters 2. Destruction of council assets/infrastructure due to an insured peril 3. Inability to maintain sound working relationship/ culture between elected members and the administration	REMOTE/RURAL 1. Destruction of council assets/infrastructure due to natural and other disasters 2. Destruction of council assets/infrastructure due to an insured peril 3. Loss of key team people

8

INEFFECTIVE GOVERNANCE



Good governance embraces strong ethics, practical and robust risk management, a compliance culture, good decision-making and transparency. Australian communities expect local governments to adhere to these standards.

Australian local governments, like all organisations, are operating in an increasingly interconnected and rapidly advancing technological environment. While this brings many opportunities, it also brings new vulnerabilities and risks.¹⁵

Nationwide supply chain issues, inflationary pressures, election cycles and workforce challenges further compound the challenges local governments face. Without strong governance frameworks, this can place significant pressure on local governments’ workplace culture, internal control environment and capacity, potentially leading to performance and accountability issues.

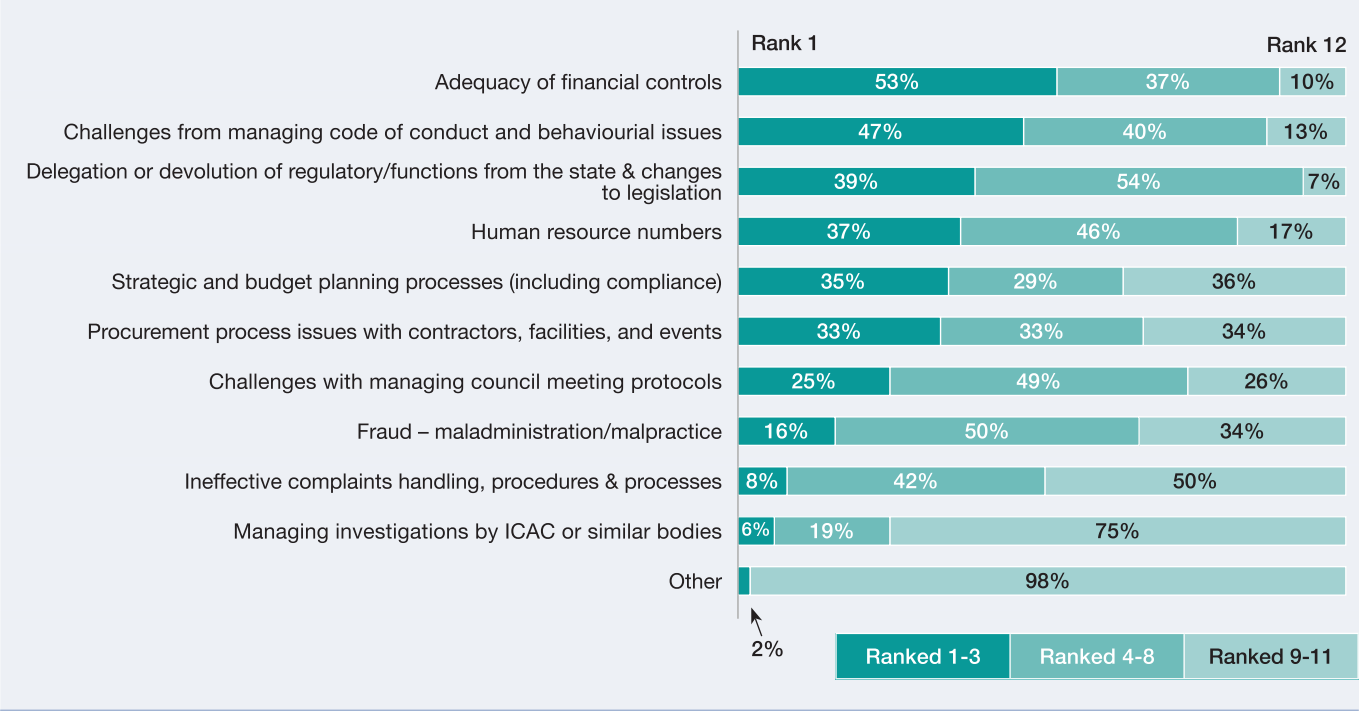


Figure 27: Ineffective Governance National risk heat map

In 2023, local government CEOs/GMs provided valuable insights into ineffective governance. The Risk Heat Map above highlights these national results.

Over 50% of respondents considered the adequacy of financial controls as their primary underlying concern for Ineffective Governance. This sheds some light on the driving forces behind the foremost risk overall, Financial Sustainability.

In order to effectively manage this critical risk due to financial controls, elected members and leaders of local government need to take a strategic approach to their organisation’s financial sustainability framework. This involves ensuring all strategic planning, budgeting and corporate planning activities are considered within the context of long-term financial sustainability

Over 46% of respondents considered challenges from managing elected members and/or employee behaviour/misconduct as a high risk. This aligns with the continued increase in claims in areas like public and professional liability, councillors and officers, and fidelity/crime covers.

These findings highlight the ongoing need for these risk coverage solutions in these areas and emphasise the importance and ongoing need for strong and practical councillor and employee induction programs and ongoing code of conduct training. Additionally, the elected member position’s political nature and ongoing reform by all state governments have an impact on on integrity-related matters.

The 2024 Edelman Trust Barometer results show an increase in public trust in the Australian Government (without distinguishing each level of government. An increase that brings it to a neutral position of 50%.¹⁶

Other factors contributing to Ineffective Governance are the delegation/devolution of regulatory or other functions from the state (noted by 38% of respondents) and changes to legislation and human resource numbers (noted by 35% of respondents).

These two risks play a key role in accelerating governance risk for local governments. These concerns place additional pressures on local government’s lean operating environment – many of which are already operating beyond capacity due to labour market challenges.

¹⁴ Governance Institute of Australia: What is governance? (governanceinstitute.com.au).
¹⁵ International Risk Governance Council: What do we mean by ‘Risk Governance’ – IRGC
¹⁶ Edelman Trust Barometer, Australia Report. 2023

The fifth contributing factor to Ineffective Governance is the strategic and budget planning processes (including compliance), noted by 34% of respondents. These legislative processes have been implemented to better support local government's ability to mitigate key risks associated with financial sustainability and improve governance. This is crucial, as many local governments operate in such a lean operating environment with human resource constraints, making compliance with these processes a risk in itself.

The concern of procurement process issues with contractors, facilities and events, was classified as an impacting factor by 32% of respondents, while an additional 32% considered it a medium concern. These results highlight the continued importance of ensuring these fundamental processes are right, ensuring all sourcing and delivery of services are carried out transparently and effectively. This is paramount in the current environment and will contribute to improving and maintaining trust in government.

Failing to adhere to legislation and community expectations and neglecting the necessary due diligence in sourcing and delivering services, can expose local governments to various risks. These can include liability claims, financial losses, and significant damage to their reputation.

Top three underlying factors for Ineffective Governance risk by region

CITY

1. Adequacy of financial controls
2. Challenges from managing code of conduct/behavioural issues
3. Challenges with managing council meeting protocols

METROPOLITAN

1. Adequacy of financial controls
2. Challenges from managing code of conduct/behavioural issues
3. Procurement process issues with contractors/facilities/events

REGIONAL CITY

1. Adequacy of financial controls
2. Strategic and budget planning processes
3. Challenges with managing council meeting protocols

REGIONAL

1. Adequacy of financial controls
2. Challenges from managing code of conduct/behavioural issues
3. Human resource numbers

RURAL/REGIONAL

1. Adequacy of financial controls
2. Challenges from managing code of conduct/behavioural issues
3. Human resource numbers

Across the country many respondents identified the above six underlying concerns of Ineffective Governance as substantial issues. This indicates that, despite the differences in state legislation and regulatory bodies across the country, the principles of good governance apply nationally and should be a strategic priority for all local governments.

An effective elected member group and executive leadership team that establishes a positive tone at the top can greatly contribute to addressing this risk. By investing in governance-related training, process mapping, and internal audit, these leaders can provide valuable support to the organisation. This approach will help effectively manage and combat the overall impact of this risk.

Top ranking underlying factors for Ineffective Governance by State/Territory

NSW NT QLD TAS VIC WA	Adequacy of financial controls
SA	Challenges from managing code of conduct and behavioural issues

Tasmania

Ineffective Governance was placed tenth in Tasmania, two points lower than the national ranking. Respondents ranked it only in the medium to low level.

Nearly 72% of respondents noted the adequacy of financial controls as the leading contributor to Ineffective Governance. This was especially true in metropolitan and rural areas. Concern around employee numbers was ranked second by 52% of respondents.

Top three underlying factors for Ineffective Governance risk by region

METROPOLITAN

1. Adequacy of financial controls
2. Challenges with managing council meeting protocols
3. Human resource numbers

REGIONAL

1. Strategic and budget planning processes (including compliance)
2. Delegation or devolution of regulatory or other functions from the state and changes to legislation
3. Human resource numbers

REMOTE/RURAL

1. Adequacy of financial controls
2. Human resource numbers
3. Strategic and budget planning processes (including compliance)

South Australia

South Australian council CEO/GMs ranked Ineffective Governance fifth which was a slight move upward on the 2021 survey. 53% of respondents cited challenges associated with managing elected member code of conduct and behavioural issues as a leading contributing factor to Ineffective Governance. Regional and rural areas ranked this contributing factor the highest at 71% and 88%, respectively.

A significant contributing factor negatively impacting councils' ability to meet legislative requirements was the inability to resource key roles, particularly for regional councils.

Interestingly, managing code of conduct and behavioural issues was equally ranked with adequate staff resourcing. This suggests that these contributing factors are seen as equally important to effective governance. Councils have indicated that along with staff resourcing, attracting and retaining talent is a major challenge, with private sector competition and escalating wages a key factor.

Adequate financial controls follow closely behind these concerns. This aligns with the importance of ensuring proper financial management within organisations to maintain effective governance and mitigate risks.

(Appendix AAR: 11.3A)

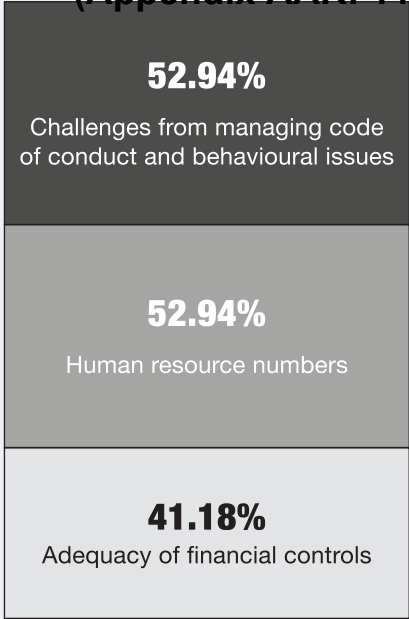


Figure 28: The top three underlying factors for this risk in South Australia. This shows the percentage of councils that ranked the respective factor as high.

Top three underlying factors for Ineffective Governance risk by region	
CAPITAL - Challenges from managing code of conduct and behavioural issues - Ineffective complaints handling, procedures & processes - Delegation or devolution of regulatory or other functions from the state and changes to legislation	REGIONAL - Challenges from managing code of conduct and behavioural issues - Adequacy of financial controls - Challenges with managing council meeting protocols
METROPOLITAN - Procurement process issues with contractors, facilities, and events - Challenges from managing code of conduct and behavioural issues - Delegation or devolution of regulatory or other functions from the State and changes to legislation	RURAL/REGIONAL - Human resource numbers - Strategic and budget planning processes (including compliance) - Delegation or devolution of regulatory or other functions from the state and changes to legislation
REGIONAL CITY - Strategic and budget planning processes (including compliance) - Challenges with managing council meeting protocols - Procurement process issues with contractors, facilities, and events	



Northern Territory

(Appendix AAR: 11.3A)

Northern Territory council CEOs placed Ineffective Governance in third position which is higher than the national average of eighth (noting only six NT councils participated in the survey).

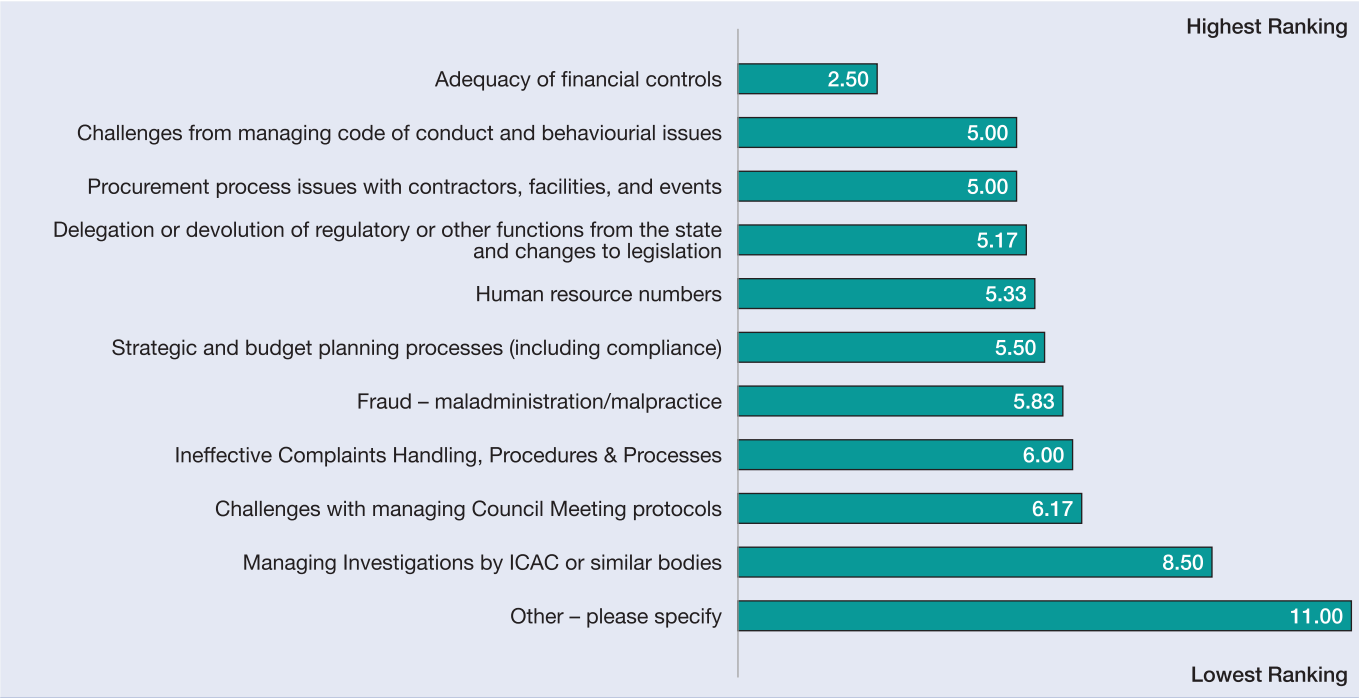


Figure 29: Business Continuity Average Ranking of Northern Territory underlying factors

This placement may be attributed to the NT’s limited human resources along with NT councils also managing increasing governance requirements and associated governance costs.

66% of respondents cited the adequacy of financial controls as their leading contributing factor to Ineffective Governance, likely due to complex management controls.

Interestingly, the NT and QLD ranked issues procuring contractors, facilities and events higher than all other states.

New South Wales

While Ineffective Governance is not identified as a leading risk for councils in New South Wales, the underlying issues are well recognised.

The JLT Public Sector Risk Survey found 57% of NSW respondents highlighted the adequacy of financial controls as their leading contributing factor to Ineffective

Governance. 50% of respondents noted challenges in managing the code of conduct and behavioural issues with employees and councillors as a major concern.

Metropolitan and regional city councils identified challenges of managing a code of conduct as their primary concern, while regional and rural councils expressed greater concern with the adequacy of financial controls.

Top three underlying factors for Ineffective Governance risk by region	
METROPOLITAN 1. Challenges from managing code of conduct and behavioural issues 2. Adequacy of financial controls 3. Challenges with managing council Meeting protocols	REGIONAL 1. Adequacy of financial controls 2. Challenges from managing code of conduct and behavioural issues 3. Procurement process issues with contractors, facilities, and events
REGIONAL CITY 1. Challenges from managing code of conduct and behavioural issues 2. Challenges with managing Council Meeting protocols 3. Adequacy of financial controls	REMOTE/RURAL 1. Adequacy of financial controls 2. Delegation or devolution of regulatory or other functions from the state and changes to legislation 3. Challenges from managing code of conduct and behavioural issues

In Victoria, CEO/GMs are more concerned about Ineffective Governance than the national ranking, 23% of Victorian respondents ranked it sixth, compared to the national ranking of eighth.

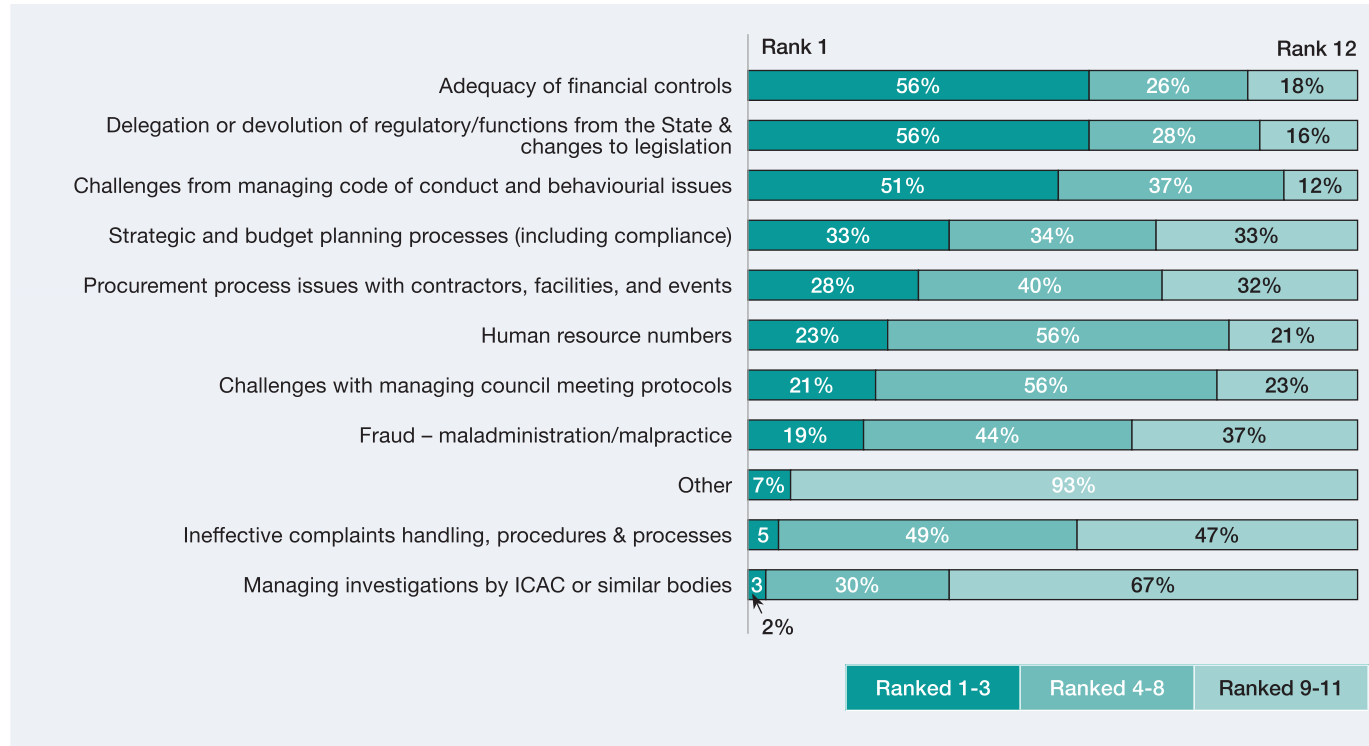


Figure 30: Ineffective Governance Victoria Risk Heat Map

Like other states and territories, 56% of respondents cited the adequacy of financial control as their leading contributing factor, tied for first place with devolution of regulatory and other functions due to state and changes to legislation. This factor is ranked as the highest by 75% of metropolitan councils and 63% of regional councils, indicating that these regions are more impacted by this issue.

51% of respondents ranked challenges in managing code of conduct and behavioural issues as their second highest contributing factor to Ineffective Governance. This concern was ranked higher in regional city, regional and rural councils.

Top ranking underlying concern for Ineffective Governance risk by region	
CAPITAL 1. Strategic and budget planning processes 2. Adequacy of financial controls 3. Managing investigations by ICAC or similar bodies	REGIONAL 1. Delegation or devolution of regulatory or other functions from the state and changes to legislation 2. Challenges from managing code of conduct and behavioural issues 3. Fraud – maladministration/malpractice
METROPOLITAN 1. Delegation or devolution of regulatory or other functions from the state and changes to legislation 2. Adequacy of financial controls 3. Procurement process issues with contractors, facilities, and events	REMOTE/RURAL 1. Adequacy of financial controls 2. Challenges from managing code of conduct and behavioural issues 3. Delegation or devolution of regulatory or other functions from the state and changes to legislation
REGIONAL CITY 1. Challenges from managing code of conduct and behavioural issues 2. Human resource numbers 3. Challenges with managing council meeting protocols	

In Queensland, CEOs identified issues procuring contractors, facilities and events as their leading contributing factor to ineffective governance. This differs from the national view, which identifies the adequacy of financial controls first.

Nationally, only 33% of respondents identified procurement issues as high-risk to governance – far below code of conduct issues, delegation or devolution from the state, human resources and strategic and budget planning processes.

Top three underlying factors for Ineffective Governance risk by region

METROPOLITAN

1. Human resource numbers
2. Procurement process issues with contractors, facilities, and events
3. Delegation or devolution of regulatory or other functions from the state and changes to legislation

REGIONAL CITY

1. Strategic and budget planning processes (including compliance)
2. Delegation or devolution of regulatory or other functions from the state and changes to legislation
3. Procurement process issues with contractors, facilities, and events

REGIONAL

1. Delegation or devolution of regulatory or other functions from the state and changes to legislation
2. Strategic and budget planning processes (including compliance)
3. Procurement process issues with contractors, facilities, and events

REMOTE/RURAL

1. Adequacy of financial controls
2. Challenges from managing code of conduct and behavioural issues
3. Procurement process issues with contractors, facilities, and event

Western Australia

Western Australian council CEO/GMs ranked Ineffective Governance tenth, two points lower than the national ranking. Effective governance is a strong focus for WA governments; however, the number and demographic of survey responders have led to a lower ranking.

Again, as with most states and territories, WA respondents' primary concern is the adequacy of financial control, with 54% placing this first. Metropolitan (72%) and rural/remote councils (60%) ranked this as the first concern. Rural/regional and metropolitan were the primary responders to this question.

48% of CEO/GMs ranked challenges in managing code of conduct and behavioural issues as their second highest concern. This was particularly noted by metropolitan (54%) and regional councils (66%), indicating a significant concern across these areas.

In WA, the booming resource sector in regional areas poses a challenge to local governments. In some areas, the fierce competition for a limited talent pool leads to inflated wages, making attracting and retaining employees challenging. Accommodation shortages compound this issue.

Top three underlying factors for Ineffective Governance risk by region

METROPOLITAN

1. Adequacy of financial controls
2. Challenges from managing code of conduct and behavioural issues
3. Procurement process issues with contractors, facilities, and events

REGIONAL CITY

1. Strategic and budget planning processes (including compliance)
2. Delegation or devolution of regulatory or other functions from the state and changes to legislation
3. Adequacy of financial controls

REGIONAL

1. Human resource numbers
2. Challenges from managing code of conduct and behavioural issues
3. Challenges with managing council Meeting protocols

RURAL/REGIONAL

1. Adequacy of financial controls
2. Human resource numbers
3. Delegation or devolution of regulatory or other functions from the state and changes to legislation



9



STATUTORY/REGULATORY REQUIREMENT

Australian local governments face the complex and dynamic task of managing numerous statutory and regulatory requirements mandated by State and Federal legislation. They must also act as regulators themselves through local laws and exercise delegated powers from state/territory government agencies in areas like waste management and environmental management.

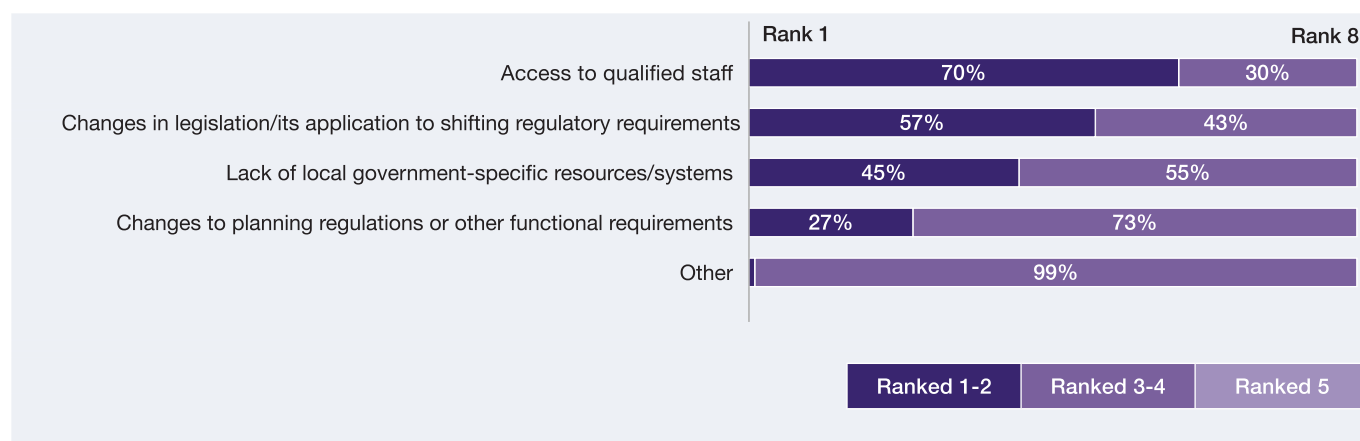


Figure 31: Inability for council to meet increased statutory and/or regulatory requirements National Risk Heat Map

This delegation of power has risen in recent years due to cost-shifting policy priorities from higher levels of government. Consequently, local governments often have to accomplish more with limited resources.

Australian communities rightfully expect their local governments to operate in compliance with legislative obligations and to regulate in a consistent, fair and transparent manner. However, in the current environment, this has become increasingly complex and costly for local governments. As the range of services provided by local governments continues to expand, so does the risk of non-compliance.

Organisations urgently require robust and accurate compliance functions.¹⁷ Although the need for these functions is clear and appropriate, the capability to meet them in the current climate poses a challenge for many organisations.

According to the JLT Public Sector Risk Survey, more than 70% of respondents identified access to qualified staff as a significant issue for this category. This is unsurprising as local governments across the country face fierce competition for talent from the private industry. Regional areas that compete with large mining and agricultural firms and lack secure accommodation for prospects find accessing quality staff more challenging. Over 57% of respondents considered changes in legislation or its application to shifting regulatory requirements to be a concern. Additionally, more than 44% considered the lack of local government-specific resources/systems to meet regulatory requirements a high risk.

Top three underlying factors for Statutory/regulatory requirement risk by region
CITY - Changes in legislation or its application to shifting regulatory requirements. - Access to qualified staff - Changes to planning regulations/other functional requirements
METROPOLITAN - Changes in legislation or its application to shifting regulatory requirements. - Access to qualified staff - Changes to planning regulations/other functional requirements
REGIONAL CITY - Changes in legislation or its application to shifting regulatory requirements. - Access to qualified staff - Lack of local government specific recourses/systems to meet requirements
REGIONAL - Access to qualified staff - Changes in legislation or its application to shifting regulatory requirements. - Lack of local government specific recourses/systems to meet requirements
RURAL/REGIONAL - Access to qualified staff - Changes in legislation or its application to shifting regulatory requirements. - Lack of local government specific recourses/systems to meet requirements

These results highlight the ongoing challenges faced by local governments in Australia. The competition for qualified staff, coupled with the need to adapt to evolving regulatory landscapes, poses significant hurdles.

The lack of dedicated resources and systems tailored to local government further compounds the risk. Addressing these issues will ensure effective governance and compliance within local government organisations. This aligns with the sixth-ranked risk of People & Culture, which specifically addresses the challenges of attracting and retaining professional staff. These risks are clearly depicted in the accompanying heat map.

For regional and remote local governments, accessing qualified staff to manage these risks was considered at even higher risk by many respondents. This underscores the significant challenge smaller and more remote communities face in addressing their staffing needs.

Failure to comply with statutory requirements and to appropriately regulate local government obligations can have significant consequences, including:

- Risk of harm to the workplace and community:** Non-compliance can lead to unsafe working conditions and potential harm to employees and the community at large.
- Reputational damage:** Failure to meet regulatory obligations can tarnish the council's reputation, eroding public trust and confidence.
- Environmental harm:** Inadequate regulation and non-compliance can result in environmental damage, such as pollution or improper waste management, impacting ecosystems and natural resources.
- Financial loss via litigation, fines and penalties for non-compliance:** Non-compliance can lead to legal action, resulting in costly litigation, fines and penalties imposed by regulatory authorities.

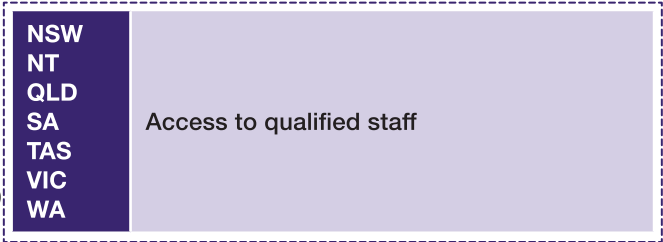
Amid ongoing nationwide legislative reform and labour market challenges, this risk will continue to accelerate this year and into the next. In response, local governments must adopt a risk-based approach. This means seeking support where necessary from external experts, leveraging internal audit planning to focus on key high-risk areas, and investing in staff professional development and technology systems to support and improve the council's compliance management framework.

The rise in statutory and regulatory compliance risk corresponds with the increase of claims in the Public and Professional Liability, Council and Officers, and Fidelity/ Crime covers highlighting the importance of this risk transfer mechanism to local governments.

Local governments can position themselves to effectively manage the increasing risk of statutory and regulatory requirements this year and beyond. But it's a long game of strategic investment in things like:

- Investment in development and or review of Compliance Management Framework aligned to ISO 37301
- Organisational development programs
- Management commitment and accountability
- Relevant systems
- Ongoing professional development
- Robust internal audit functions
- Practical enterprise risk management

Top ranking underlying factors for Statutory/regulatory requirements by State/Territory



Victoria

Only 4% of Victorian respondents ranked the inability of councils to meet increased statutory and/or regulating requirements as a high risk, placing it ninth, consistent with the national ranking.

65% of CEO/GMs ranked access to qualified staff as the leading contributing factor for this risk. Staff turnover in Victorian councils is significant and, unfortunately, is gathering momentum as councils compete with the private sector's higher salaries.

This competition has changed the profile of candidates attracted to the sector, especially in regional areas where it's a top concern for all, except capital city councils, which placed it second to last.

53% of respondents identified changes in legislation or its application to shifting regulatory requirements as the second leading reason for this risk, with significant regional variations. Capital city, regional city and regional councils ranked it among the top two concerns, whereas metropolitan and rural/remote councils ranked it as their second to last concern.

Western Australia

19% of Western Australian respondents viewed council's inability to meet increased state and/or regulatory requirements as high risk, placing it seventh, two points below the national ranking.

65% of CEO/GMs identified access to qualified staff as the number one contributing factor for this risk. This is unsurprising, given Western Australia's extremely tight labour market.

As of December 2023, Western Australia's unemployment rate was 3.8%. Meanwhile, the underemployment rate sits at 5.9% - slightly lower than the national average of 6.6%. This, coupled with the strongest participation rate of any of the states at 69.3%, indicates an incredibly tight employment market.

Regional councils in particular struggle to find appropriately qualified staff, ranking this concern second. In contrast, metropolitan organisations rank it as their second last concern. The disparity is unsurprising given the skills needed and labour market data.

Regional and rural WA experience even tighter labour markets, with the employment rate ranging from 81.7% to 79.6%, and the unemployment rate between 2.7% and 3.2%. To attract talent, regional councils are innovating, offering competitive packages that may include housing, fly-in/fly-out options, health and wellbeing benefits and generous leave policies.

Nearly 64% of respondents expressed concern over legislation changes or its application to shifting regulation requirements. WA local governments have experienced considerable legislative change in the past year, with significant further changes anticipated.

Top three reasons for increasing statutory/regulating requirements by region

- METROPOLITAN**
- 1. Changes in legislation/shifting regulatory requirements.
 - 2. Changes to planning regulation/function requirements
 - 3. Lack of LG-specific resources/systems
- REGIONAL**
- 1. Lack of LG-specific resources/systems
 - 2. Access to qualified staff
 - 3. Changes in legislation/shifting regulatory requirements
- REMOTE/RURAL**
- 1. Lack of LG-specific resources/systems
 - 2. Access to qualified staff
 - 3. Changes to planning regulation/function requirements

These adjustments introduce new or modified requirements, where non-compliance can lead to penalties or legal consequences. Regional councils feel the pressure acutely, struggling to allocate resources like time, staff and funding to meet new standards. This can strain their operational efficiency, budget planning and increase the risk of compliance issues.

Top three underlying factors for Statutory/Regulatory Requirement risk by region

- METROPOLITAN**
- 1. Access to qualified staff
 - 2. Changes in legislation/shifting regulatory requirements
 - 3. Changes to planning regulation/function requirements
- REGIONAL CITY**
- 1. Changes in legislation/shifting regulatory requirements
 - 2. Access to qualified staff
 - 3. Changes to planning regulation/function requirements
- REGIONAL**
- 1. Changes in legislation/shifting regulatory requirements
 - 2. Access to qualified staff
 - 3. Lack of LG-specific resources/systems
- REMOTE/RURAL**
- 1. Access to qualified staff
 - 2. Lack of LG-specific resources/systems
 - 3. Changes in legislation/shifting regulatory requirements

New South Wales

All metropolitan and regional councils in New South Wales ranked most contributing factors influencing their ability to meet increased statutory and/or regulating requirements as medium to high.

50% of metropolitan councils and 30.77% of regional councils ranked access to qualified staff as their leading concern contributing to statutory and regulatory compliance risk. Staff turnover and the ability to attract and retain qualified staff continue to impact councils across New South Wales.

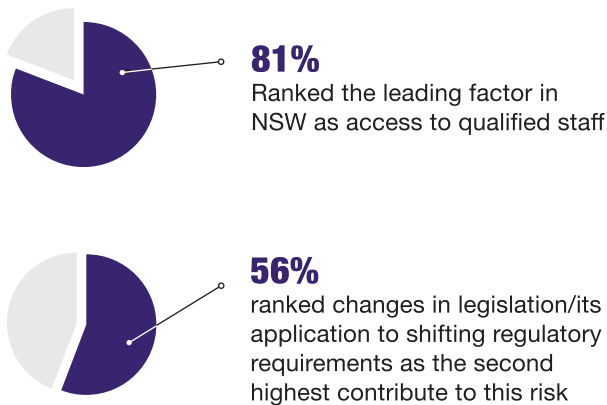
38.46% of regional councils ranked lack of local government-specific resources/systems to meet regulatory requirements as a contributing factor to this risk, compared to 10% of metropolitan councils. This discrepancy highlights the differing challenges regional and metropolitan councils face.

Councils across NSW face challenges arising from changes in legislation or its application to shifting regulatory requirements. This is a concern for 23.08% of regional councils and 20% of metropolitan councils, indicating its significance as an underlying issue.

Furthermore, 20% of metropolitan councils compared with 7.69% for regional councils identified changes to planning regulation or other functional requirements as a contributing factor.

These findings demonstrate the shared compliance and regulatory challenges NSW councils face, while also pinpointing some variations between metropolitan and regional councils. Addressing these issues requires a comprehensive approach that includes attracting and retaining qualified staff, allocating resources for local government-specific needs and adapting to evolving legislative and regulatory landscapes.

Top three underlying factors for Statutory Regulatory Requirement risk by region	
METROPOLITAN	
1. Access to qualified staff	
2. Changes in legislation/shifting regulatory requirements	
3. Lack of LG-specific resources/systems	
REGIONAL CITY	
1. Access to qualified staff	
2. Changes in legislation/shifting regulatory requirements	
3. Lack of LG-specific resources/systems	
REGIONAL	
1. Access to qualified staff	
2. Lack of LG-specific resources/systems	
3. Changes in legislation/shifting regulatory requirements	
REMOTE/RURAL	
1. Access to qualified staff	
2. Changes in legislation/shifting regulatory requirements	
3. Lack of LG-specific resources/systems	



Northern Territory

The inability of councils to meet increased statutory and regulatory requirements was not ranked highly by Northern Territory CEOs. In fact, they placed this risk 11th, two points lower than the national ranking.

That said, 100% of respondents ranked access to qualified staff as the leading factor for this risk. This may be because of several factors specific to the region. For example, the NT faces challenges in attracting and retaining qualified staff due to its remote location, small local talent pool, and competition from other levels of government and industries. This has a negative impact on NT councils’ ability to effectively manage compliance and regulatory requirements.

The lack of local government-specific resources and systems to meet regulatory requirements was ranked as the second reason for this risk, with 66% of respondents identifying it as a concern. This suggests NT councils struggle with securing the necessary resources and systems to meet the specific regulatory requirements for local government operations. Challenges might stem from limited funding, increasing obligations, or a lack of specialised expertise in the region. This shortfall in resources and systems can hinder NT councils’ ability to manage compliance and regulatory obligations effectively, thereby exacerbating the overall risk.

In Queensland, 71% of CEO considered legislation changes as the highest risk to meeting their statutory and regulatory requirements.

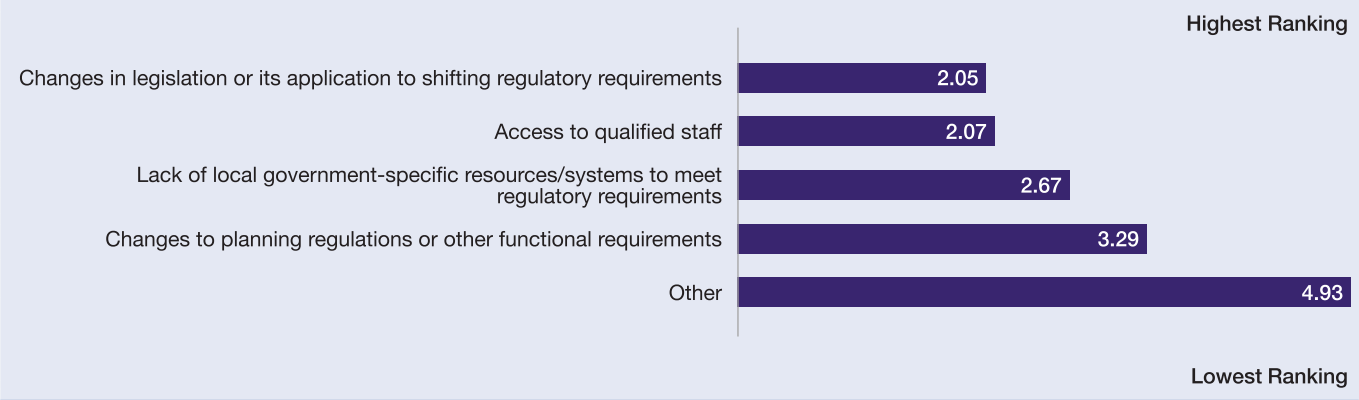


Figure 32: Inability for council to meet increased statutory and/or regulatory requirements Average Ranking of Queensland underlying factors

This concern significantly surpasses issues related to access to qualified staff, ranked by 60%, and the availability of local government-specific resources and systems, ranked by 50%.

This contrasts with the national view where 70% of CEO/GMs noted access to qualified staff as the biggest contributing factor for risk, with legislation changes following at 57%. This difference underlines the need for legislators to be aware of and support ongoing investment in governance by councils.

Top three underlying factors for Statutory/Regulatory Requirement risk by region	
METROPOLITAN - Changes in legislation/shifting regulatory requirements. - Lack of LG-specific resources/systems - Changes in planning regulation/functional requirements	REGIONAL - Changes in legislation/shifting regulatory requirements. - Lack of LG-specific resources/systems - Access to qualified staff
REGIONAL CITY - Changes in legislation/shifting regulatory requirements. - Lack of LG-specific resources/systems - Access to qualified Staff	REMOTE/RURAL - Access to qualified staff - Changes in legislation/shifting regulatory requirements. - Lack of LG-specific resources/systems

Tasmania

In Tasmania, 14% of respondents ranked the inability of councils to meet increased statutory and/or regulatory requirements placing it in eighth. This was one point higher the national ranking.

57% of respondents identified the lack of local government-specific resources/systems to meet regulatory requirements as the primary contributor to this risk.

Regional and rural/remote councils expressed greater concern for this reason, while metropolitan councils ranked it third. This underscores the challenges councils face particularly in regional and rural areas in securing the right resources and systems for effective compliance with local government regulation. This lack of resources and systems can hinder their ability to fulfil obligations and manage complex regulations.

A 2023 local government review recommended merging 12 state councils into seven to improve per capita resourcing.

Approximately 43% of respondents equally ranked access to qualified staff, changes in legislation or its application to shifting regulatory requirements and changes to planning regulations or other functional requirements as the second highest contributing factors.

Regional data analysis revealed that metropolitan councils are primarily concerned about legislation changes or shifting regulation requirements, while regional and rural/remote councils were more concerned about accessing qualified staff.

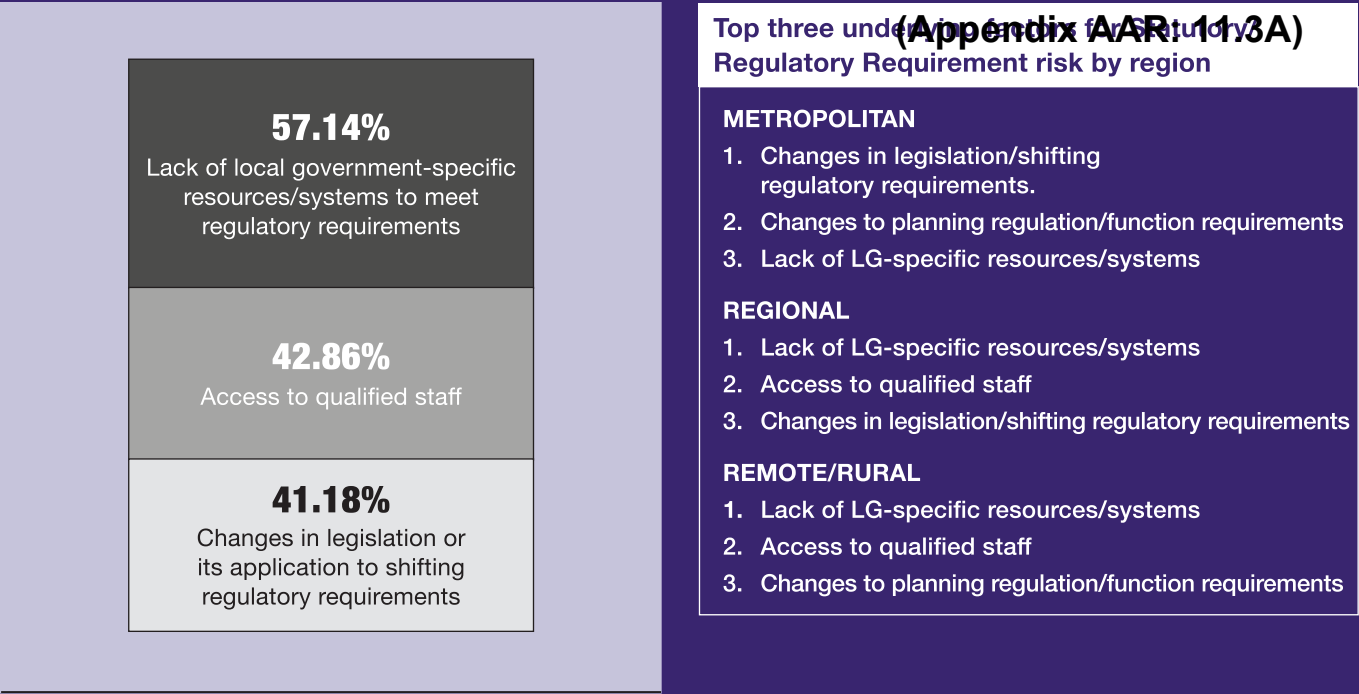


Figure 33: The top three underlying factors for this risk in Victoria. This shows the percentage of councils that ranked the respective factor as high.

South Australia

In South Australia (SA), executives identified access to qualified staff as the primary contributing factor to statutory and regulatory risk. A significant 76% of participants considered this to be a high-risk factor.47% of respondents considered both changes in legislation/risk shifting and lack of local government-specific resources/systems as high-risk factors. These challenges are widely recognised by local governments and have been exacerbated post-pandemic.

Councils require experienced risk and governance staff to effectively navigate the local government regulatory environment. And yet, attracting and retaining specialist staff is a key challenge for SA local governments. Councils often compete with private industry for talent, making it difficult to secure the necessary expertise.

The 2022 Local Government Workforce Skills and Capability Survey, commissioned by the LGASA, revealed that 84% of SA Councils had some critical skills shortages. This was a 45% increase on the 2018 report.

The survey identified several key specialist roles that were particularly affected, including IT, engineering, urban and town planning and human resources. 47% of SA respondents were investigating or engaging in shared services for governance, compliance and environmental and planning roles.

Top three underlying factors for Statutory/Regulatory requirements risk by region	
CAPITAL 1. Changes in legislation/shifting regulatory requirements 2. Access to qualified staff 3. Lack of LG-specific resources/systems	REGIONAL 1. Access to qualified staff 2. Changes in legislation/shifting regulatory requirements 3. Lack of LG-specific resources/systems
METROPOLITAN 1. Access to qualified staff 2. Lack of LG-specific resources/systems 3. Changes to planning regulation/function requirements	RURAL/REGIONAL 1. Access to qualified staff 2. Lack of LG-specific resources/systems 3. Changes in legislation/shifting regulatory requirements
REGIONAL CITY 1. Changes in legislation/shifting regulatory requirements 2. Access to qualified staff 3. Lack of LG-specific resources/systems	

10 WASTE MANAGEMENT

The increased expectations to reimagine the waste management process to create better practices and sustainability continue to pose substantial challenges for the sector. These challenges encompass issues of financial capacity, environmental sustainability, resource allocation and public health. In some local government areas, Councils are exposed to these changes across its functions as a waste authority, recycler and a producer of waste. Waste management is a high-risk activity with challenges around all aspects of risk, from liability, property, workers, and the environment.

The Federal Government is committed to improving waste management across the country. To do this, it has introduced three initiatives:

- 1. A national target to reduce landfill waste by 80% by 2030
- 2. A ban on waste plastic, paper, glass and tyre exports
- 3. A strategy to significantly enhance Australia's ability to produce and sell high-value recycled commodities

Infrastructure development to support these initiatives is progressing, though slower than expected. This may raise the risk of stockpiling and redirection to landfill.

Australia's population is experiencing continuous growth, leading to evolving waste streams. Additionally, the rapid pace of technology enhancements has introduced new types of waste such as electronic and hazardous materials.

In 2023, local governments' risk sentiment towards Waste Management remained mostly unchanged. 96% of respondents cited financial capacity, mitigation and waste disposal methods, and evolving community expectations as the most significant risks to sustainable waste management.

Lower national risk averages are noted against compliance and regulation suggesting local governments continue to have challenges in managing evolving regulatory

environments and exposure to long-tail risks from historic waste management practices.

Interestingly, whilst cost pressure and financial sustainability dominates as the primary national risk, state-level trends vary.

Councils in NSW and Victoria place the circular economy in its top three concerns. Meanwhile, Western Australia and Victoria stand out as the only states where assessing and monitoring environmental risk does not rank within the top three exposures.

Queensland largely mirrors national trends but places greater emphasis on the macro environment. And the Northern Territory considers monitoring environmental pollution and improper disposal as its most significant exposure concerns.

Top ranking underlying concerns by state

NSW NT SA	Balancing community expectations for managing recycling/reuse operations in accordance with regulations
QLD VIC WA	Cost and ability to effectively manage waste
TAS	Environmental land/air/water management and compliance

The move towards a circular economy puts short-term pressure on financial resources and councils' ability to adapt. After all, this shift necessitates infrastructure and customer offering updates.

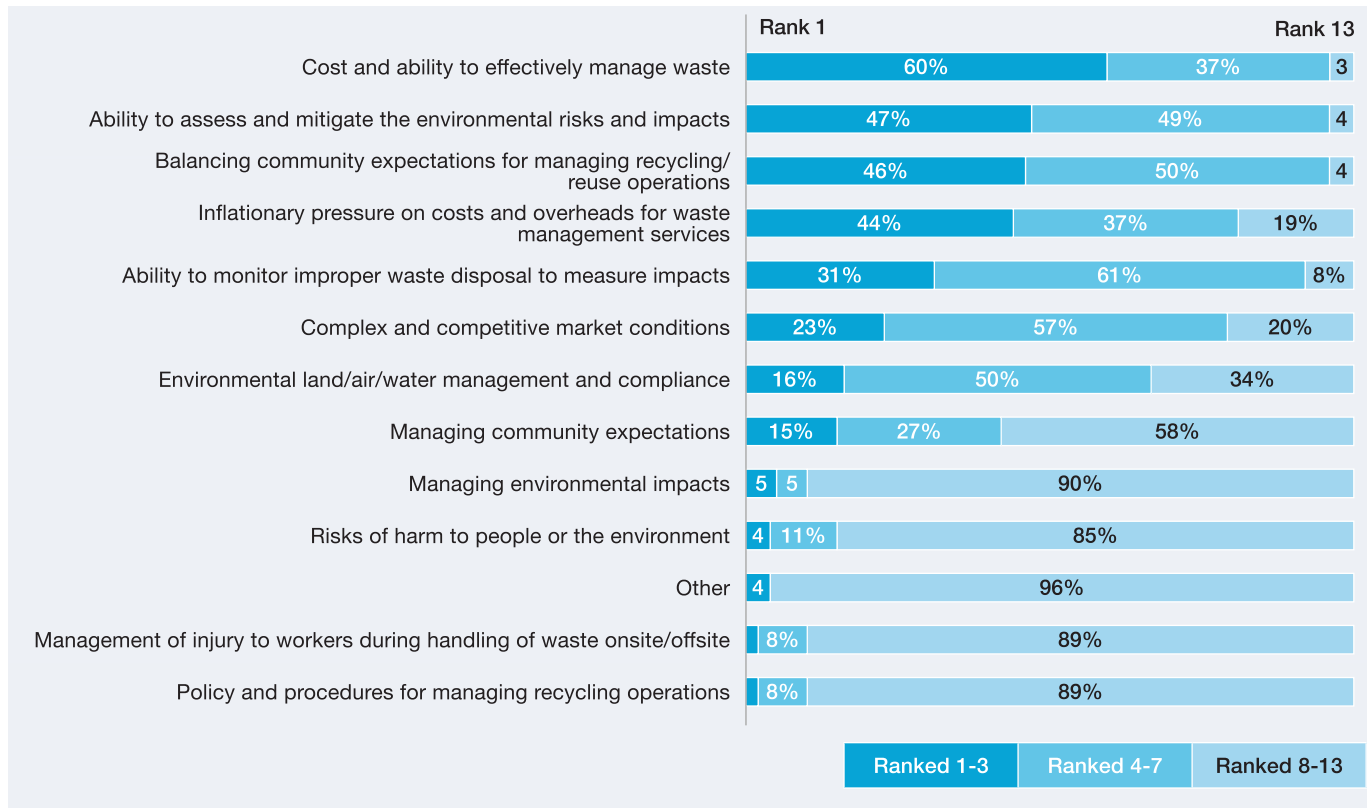


Figure 34: Waste Management National Risk Heat Map

Shifting Waste Management trends in Australia and globally

1. Alternative to landfill disposal: Stricter regulations and higher handling fees are driving national and international demand for waste managers to find alternatives to landfill disposal.

At the same time, there's competing pressure to invest in improved landfill practices. Local government entities are exploring Waste-to-Energy (WTE), recovery and reuse options to control operational costs and generate revenue.

This shift is supported by the Federal Government's commitment to boost renewal energy, as announced at the COP28 summit. Therefore, careful balancing of landfill improvements and transition efforts is critical.

2. Innovation: Technological advancements like smart waste bins, recycling robots and e-waste kiosks show the potential to revolutionise waste management practices. Investment in smart infrastructure is increasing across the sector, with the growing use of artificial intelligence, analytics and cameras to analyse waste items. Transitioning to electric fleets and enhancing material extraction from electronics is also on the rise.

New technology also brings new risks, particularly in data management, cybersecurity, system security and increased e-waste.

3. Transportation: Legacy collection fleets pose serious sustainability challenges, particularly in reaching carbon targets. Transitioning to suitable fuels and vehicles is crucial. However, implementing such changes involves capital risk, operational risks and uncertainties.

4. Shifting towards electrical or biofuel: Electric or biofuel waste fleets introduce different characteristics and requirements than traditional fuel systems. This shift may result in increased maintenance, repair and supply costs. Careful consideration and planning are necessary to mitigate these risks and ensure a smooth transition to more sustainable waste management practices.

5. Transition waste: Transition waste, such as WTE residual waste, could also pose a challenge for transportation and supply chain routes. Careful assessment of supply chain dependencies, pollution and emergency response is required.

6. Greenwashing: Greenwashing is when entities make sustainability declarations without basis. Recently, we've seen increased litigation and regulatory action against greenwashing. While local governments don't fall within the bounds of the Corporation Act, liability may arise from Australian consumer Law, which states that when a local government involves itself in trade or commerce, it is prohibited from engaging in misleading or deceptive conduct. Misstatements in publications of de-carbonisation plans or climate change initiatives linked to funding may fall within this exposure area.

7. Changes in climate: Changing climate conditions in Australia continue to pose risks to waste management activities across production local governments must address risks from bushfires, flood, land use planning and buffer zones, and increased demand and dependency risks posed by natural disasters. The National Waste Report 2022 reported that 2020-21's major weather events produced 181,000 tonnes of disaster waste. Managing such disaster waste must also contend with increased asbestos contamination (for example, Tweed Shire Council collected 1,440 tonnes of ACM following the flood in early 2022). Enhanced regulatory management could improve tracking from source to disposal but may lead to higher costs and the risk of illegal disposal.

Waste Management risk drivers

Local governments have strong incentives to adopt and evolve to ensure efficient management of waste to accommodate changing waste streams and meet community expectations. This will require careful consideration across the following key areas of change:

- **Exposure:** Business interruption and supply chain exposure, along with challenges accessing capital and social governance, the costs of managing non-revenue-generating legacy landfills, and an increased dependency on one or two private sector operators, are significant concerns.

- **Partnerships:** Private and Public Partnerships (PPP) are expected to grow and evolve, changing the dynamic and potentially leading regional amalgamation of waste management due to increased operating costs.
- **Operations:** As new technology and automation gain popularity, worker safety, liability, and property exposures will change, as well as staff retention and training.
- **Digitisation:** IT dependency, cyber and data security, and WTE operations being classified under critical infrastructure provisions represent significant issues.

Continued investigation and investment in WTE solutions, recycling hubs and regional waste facilities is crucial to ensure a resilient transition to the Federal Government's waste management objectives.

Top ranking underlying factors for Waste Management by state/territory

NSW NT SA	Balancing community expectations for managing recycling/reuse operations in accord with regulations
QLD VIC WA	Cost and ability to effectively manage waste
TAS	Environmental land/air/water management and compliance

Top three underlying factors for Waste Management risk by region

CITY

1. Ability to monitor improper waste disposal
2. Balancing community expectations for managing recycling/reuse operations
3. Complex/competitive market conditions for waste collection

METROPOLITAN

1. Cost & ability to effectively manage waste
2. Inflationary pressure on costs/overheads for waste management
3. Balancing community expectations for managing operations

REGIONAL CITY

1. Ability to assess and mitigate the environmental risks/impacts
2. Cost & ability to effectively manage waste
3. Inflationary pressure on costs/overheads for waste management

REGIONAL

1. Cost & ability to effectively manage waste
2. Balancing community expectations for managing recycling/reuse operations
3. Ability to assess and mitigate the environmental risks/impacts

RURAL/REGIONAL

1. Cost & ability to effectively manage waste
2. Ability to assess and mitigate the environmental risks/impacts
3. Balancing community expectations for managing recycling/reuse operations

Victoria

Victorian senior council executives placed Waste Management in twelfth position two points lower than the national ranking.

Nearly 70% of respondents identified the cost and ability to effectively manage waste relevant to Council areas as the leading contributing factor to this risk. This was the highest-ranked reason for all regions except for capital city councils, who ranked this 12th out of 13.

Complex and competitive market conditions for waste collection, disposal, recycling and reuse procurement processes was ranked as the second concern by 46% of respondents. Unlike regional city councils, capital, metropolitan and regional councils ranked this issue in their top three concerns.

This discrepancy is mainly because regional areas often manage waste internally, whereas most metropolitan councils seek external assistance to collect and process waste, facilitated by their higher population density

Top three underlying factors for Waste Management risk by region

CITY

1. Complex and competitive conditions for collection, disposal, recycling and reuse
2. Managing community expectations for councils to manage environmental responsibilities
3. Ability to monitor improper waste disposal

METROPOLITAN

1. Cost and ability to effectively manage waste
2. Complex and competitive market conditions for waste collection
3. Inflationary pressure on costs and overheads for waste management services

REGIONAL CITY

1. Cost and ability to effectively manage waste
2. Ability to assess and mitigate the environmental risks and impacts of waste disposal methods
3. Environmental land/air/water management and compliance

REGIONAL

1. Cost and ability to effectively manage waste
2. Complex and competitive conditions for collection, disposal, recycling and reuse
3. Inflationary pressure on costs and overheads for waste

RURAL/REGIONAL

1. Cost and ability to effectively manage waste
2. Inflationary pressure on costs and overheads for waste
3. Balancing and mitigating the environmental risks and impacts of waste disposal methods

New South Wales (Appendix AAR: 11.3A)

20% of metropolitan councils in New South Wales identified inflationary pressure as high risk, compared to 15% of regional councils. Both areas ranked the impact of inflation on waste management operations as medium risk, with very few regional councils identifying inflation as low risk.

40% of metropolitan councils rated waste management as high risk due to complex and competitive market conditions for waste collection, disposal, recycling and reuse procurement processes relevant to all aspects of contractual arrangements.

Regional councils shared similar concerns, with 30.77% of respondents identifying the same challenges facing local government.

30% of metropolitan councils and 30.77% of regional councils ranked the ability to assess and mitigate the environmental risks and impacts of waste disposal as a leading concern.

Both metropolitan and regional councils showed similar levels of risk maturity in managing work health and safety (WH&S) concerns. 70% of metropolitan councils considering this low risk, and 53.85% of regional councils agreed. However, 7.59% of regional councils identified WH&S exposure as medium risk.

For 10% of metropolitan councils, the cost and effectiveness of waste management are major concerns, compared to 30% of regional councils. Climate change poses ongoing operational challenges for waste management, with fires and flood increasing operational costs for councils.

Top three underlying factors for Waste Management risk by region

METROPOLITAN

1. Balancing community expectations for managing recycling/reuse operations
2. Complex and competitive market conditions for waste collection, disposal, recycling and reuse
3. Inflationary pressure on costs and overheads for waste management services

REGIONAL CITY

1. Ability to assess and mitigate the environmental risks and impacts of waste disposal methods
2. Inflationary pressure on costs and overheads for waste management services
3. Cost and ability to effectively manage waste

REGIONAL

1. Balancing community expectations for managing recycling/reuse operations in accord with regulations
2. Ability to assess and mitigate the environmental risks and impacts of waste disposal methods
3. Cost and ability to effectively manage waste

RURAL/REGIONAL

1. Cost and ability to effectively manage waste
2. Balancing community expectations for managing recycling/reuse operations in accord with regulations
3. Ability to assess and mitigate the environmental risks and impacts of waste disposal methods

Respondents ranked the cost and ability to effectively manage waste relevant to council area as the second highest contributing factor. In fact, 66% of respondents ranked this as a high risk.

Interestingly, only regional city councils and regional councils ranked this in their top two positions. Metropolitan councils ranked this as medium. Assessing and mitigating the environmental risks and impacts of waste disposal methods was ranked equal second.

This concern was the primary contributing factor in capital city and regional city councils, and it was ranked third by regional councils.



Figure 35: Waste Management Average Ranking of Northern Territory underlying factors

Tasmania

14% of Tasmanian council senior executives ranked Waste Management as high risk, placing it ninth, one spot higher than the national ranking.

57% of respondents ranked environmental land/air/water management, compliance and ability to assess and mitigate the environmental risks, and impact of waste disposal methods, as their leading contributing factors.

Nearly 43% of respondents ranked the costs and ability to effectively manage waste relevant to council areas. The wide geographic spread of councils and small population bases across many municipalities increase waste management costs.



Top three underlying factors for Waste Management risk by region (Appendix AAR: 11.3A)

CAPITAL

1. Complex and competitive conditions for collection, disposal, recycling and reuse
2. Managing community expectations for councils to manage environmental responsibilities
3. Ability to monitor improper waste disposal

METROPOLITAN

1. Cost and ability to effectively manage waste
2. Complex and competitive market conditions for waste collection
3. Inflationary pressure on costs and overheads for waste management services

REGIONAL CITY

1. Cost and ability to effectively manage waste
2. Ability to assess and mitigate the environmental risks and impacts of waste disposal methods

3. Environmental land/air/water management & compliance

REGIONAL

1. Cost and ability to effectively manage waste
2. Complex and competitive conditions for collection, disposal, recycling and reuse
3. Inflationary pressure on costs and overheads for waste

REMOTE/RURAL

1. Cost and ability to effectively manage waste
2. Inflationary pressure on costs and overheads for waste
3. Balancing and mitigating the environmental risks and impacts of waste disposal methods

Western Australia

20% of Western Australian respondents ranked Waste Management as a considerable risk, placing it eighth, two points higher than the national ranking



Figure 36: Waste Management Average Ranking of Western Australia underlying factors

In Western Australia, 57% of council senior executives ranked the cost and ability to effectively manage waste relevant to Council areas as the leading underlying concern. Metropolitan and regional councils ranked this as their leading reason, whereas regional city and rural/remote councils considered it a lower concern.

Recent significant population growth, particularly in urban areas, has led to increased waste production and the demand for waste management services across the state. This places stress on existing infrastructure and resources.

Metropolitan councils face the challenge of finding suitable sites for new landfills, prompting the sector to adopt alternative waste management strategies. This transition requires substantial investment and introduces greater risk, as waste managers store and process greater volumes of complex waste, like mineral-rich batteries.

For 51% of respondents, the ability to assess and mitigate the environmental risks and the impact of waste disposal

methods was the second highest contributing factor. This is understandable, as waste management carries higher risks than many other industries and local government services.

Recent major incidents in Western Australia have increased awareness of these risks and their potential long-term negative impacts on local communities, environments and industries.

Moreover, as WA waste managers transition to new processes particularly those involving mineral-rich waste and energy generation they face a steep learning curve to understand new risk exposures and implement suitable controls.

These concerns are more pronounced for regional city, regional and rural/remote councils, as their challenges are compounded by geographic size, limited resource availability and the difficulty of securing skilled workers.

Top three underlying factors for Waste Management risk by region	
METROPOLITAN 1. Cost and ability to effectively manage waste 2. Inflationary pressure on costs and overheads for waste management services 3. Balancing community expectations for managing recycling/reuse operations in accord with regulations	REGIONAL 1. Cost and ability to effectively manage waste 2. Ability to assess and mitigate the environmental risks and impacts of waste disposal methods 3. Balancing community expectations for managing recycling/reuse operations in accord with regulations
REGIONAL CITY 1. Ability to assess and mitigate the environmental risks and impacts of waste disposal methods 2. Environmental land/air/water management & compliance 3. Management of injury to workers during handling of waste onsite/offsite	REMOTE/RURAL 1. Ability to assess and mitigate the environmental risks and impacts of waste disposal methods 2. Balancing community expectations for managing recycling/reuse operations in accord with regulations 3. Ability to monitor improper waste disposal to measure contamination etc

Queensland

In Queensland, financial challenges were identified as the most pressing risks for effective waste management, with 76% of council senior executives citing costs as a high concern, followed by inflationary pressures, which were rated as high by 52%.

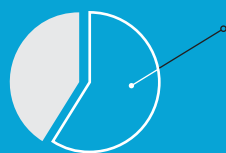
Nationally, cost was still the highest risk but cited by only 60% of council senior executives. The impacts of inflation fell to fourth, with 44% identifying this as a high risk.

Queensland councils are likely to prioritise financial considerations in evaluating their waste management programs and risk controls. It is unclear whether this is due to decentralised settlement patterns, demographic changes or underlying system and regulatory framework.

South Australia

(Appendix AAR: 11.3A)

8% of senior council executives in South Australia ranked Waste Management as high risk, placing it in eleventh position, one spot lower than its national ranking.



59%

Noted balancing community expectations for managing recycling/reuse operations as the leading issue for this risk



53%

Noted cost and ability to effectively manage waste as the second leading reason for this risk

Nearly 59% of council senior executives ranked balancing community expectations with regulation compliance in managing recycling/reuse operations as the primary contributing factor to this risk. This remains consistent with national responses.

Capital city, metropolitan and regional councils ranked this as a leading contributing factor. Regional city and rural/remote councils ranked this as the fourth contributing factor.

Council senior executives ranked cost and ability to effectively manage waste relevant to council area, along with inflationary pressure on costs and overheads for waste management services, as the joint second highest contributing factor for this risk.

Inflationary pressure was a major concern for metropolitan, regional city and rural/remote councils, ranking third highest. City and regional councils ranked this issue in fourth and fifth position.

City, regional city, regional and rural/remote councils ranked the cost and ability to effectively manage waste relevant to council's area within the top three positions as a high concern. In contrast, metropolitan ranked this in fifth position.

Policy and procedures for managing recycling operations ranked the lowest on the South Australia heat map. This indicates that councils have appropriate controls in place to address liability exposures.

Legacy landfill sites and new developments pose risks for South Australian councils.

Top three underlying factors for Waste Management risk by region

CITY

1. Balancing community expectations for managing recycling/reuse operations
2. Managing community expectations on Councils ability to manage its environmental responsibilities
3. Monitoring the diverse environmental waste mediums

METROPOLITAN

1. Balancing community expectations for managing recycling/reuse operations
2. Inflationary pressure on costs and overheads for waste management services
3. Complex and competitive conditions for collection, disposal, recycling and reuse

REGIONAL CITY

1. Inflationary pressure on costs and overheads for waste management services
2. Cost and ability to effectively manage waste
3. Environmental land/air/water management & compliance

REGIONAL

1. Balancing community expectations for managing recycling/reuse operations
2. Ability to assess and mitigate the environmental risks and impacts of waste disposal method
3. Cost and ability to effectively manage waste

REMOTE/RURAL

1. Cost and ability to effectively manage waste
2. Ability to assess and mitigate the environmental risks and impacts of waste disposal methods
3. Inflationary pressure on costs and overheads for waste management services

REPUTATION RISK

Reputation remains a prominent risk for local government CEO/GMs. As the government level closest to communities, councils are in touch with community needs and often know the best way to meet those needs. Nonetheless, this comes with the challenge of managing community expectations around providing essential services.

CEOs and GMs often encounter a significant challenge when it comes to the breadth of services that councils deliver, especially considering the finite financial and human resources available when managing an extremely broad portfolio. This challenge becomes even more pronounced for smaller regional councils. Merged councils that have limited funds to allocate across multiple towns face an even greater challenge, often having to navigate the prospect of capped rates.

Like last year's results, executives identified their ability to administer governance effectively as their most significant contributor to Reputation risk. This is closely followed by a loss of community trust in council executives and elected bodies. Prominent issues that contribute to this risk include governance failures in procurement, discharging duties, and elected member behaviour.

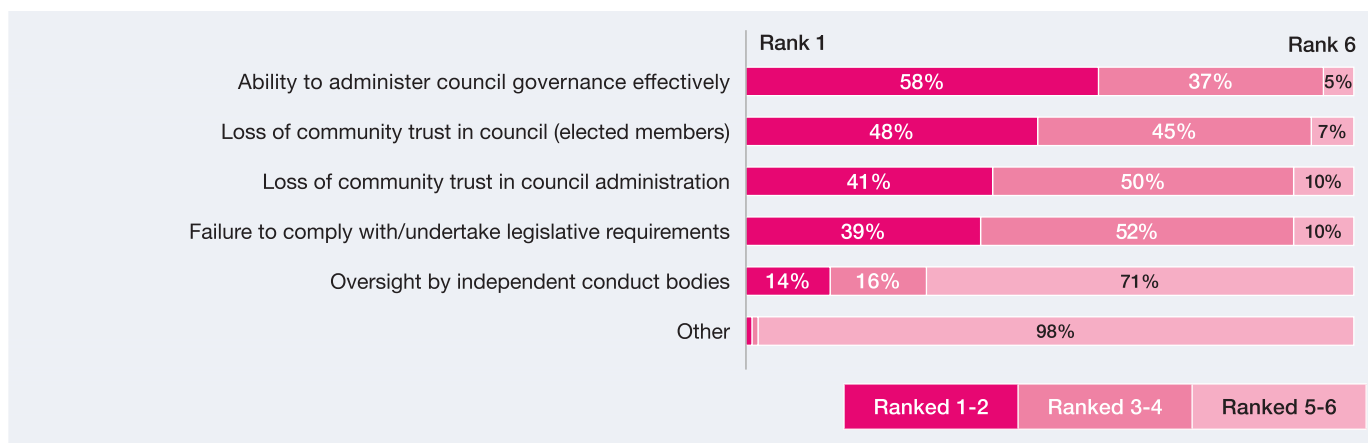
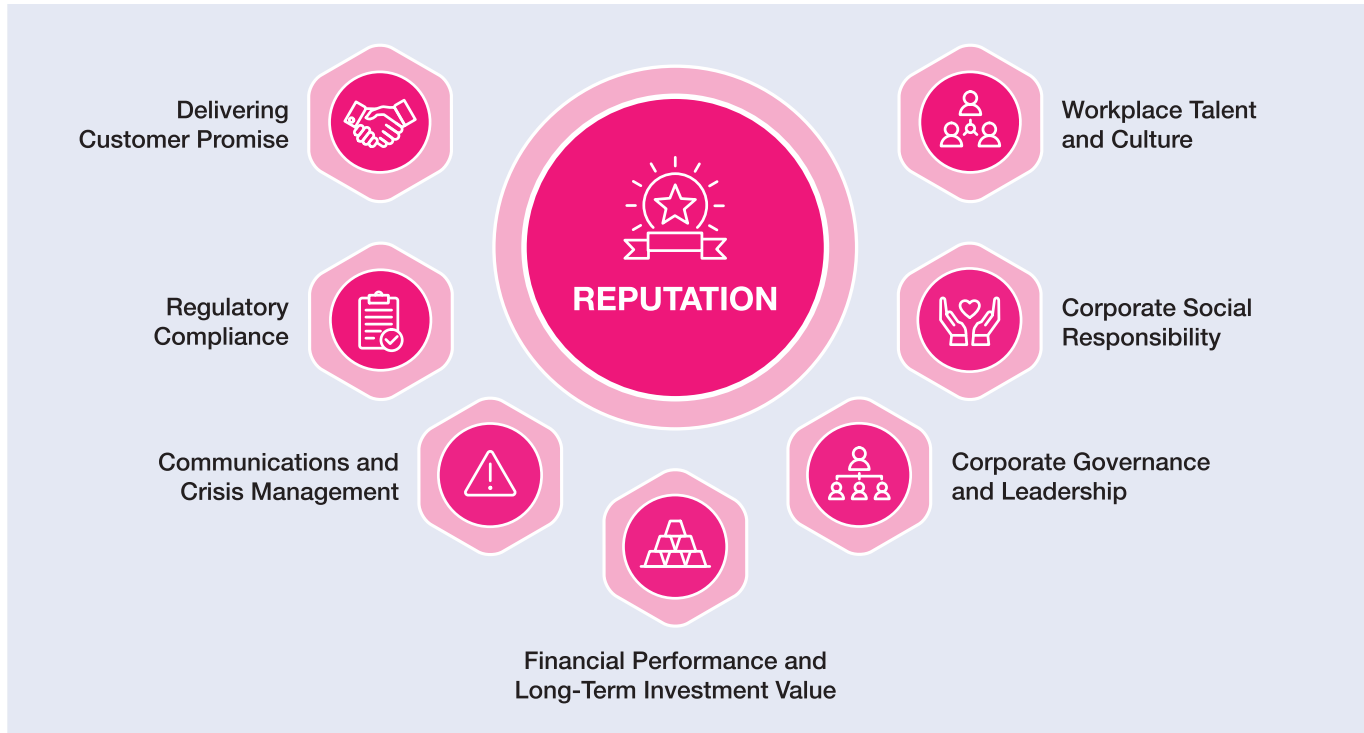


Figure 37: Reputation as Local Government National Risk Heat Map ²⁷²

Like many risks, reputation is closely interconnected with other key risks for the sector. One such risk that local government faces is ineffective governance, which ranked number 11 this year. High-profile issues that attract media attention, such as disputes among elected member, electoral procedure errors and controversial planning decisions, all have the potential to adversely affect the reputation of the council.

Another risk closely connected to this is assets & infrastructure, ranking third this year. As previously mentioned, it can be challenging to meet community expectations regarding the management and maintenance of critical infrastructure and community recreation spaces. In many instances, Councils are responsible for maintaining key assets that are owned by the state government such as jetties, wharves and sea walls. Due to limited funds, council's reputation is often impacted when such infrastructure fails.

The graphic below highlights several reputation risk drivers for organisations.



Reputation plays a critical role in building public trust, attracting investment, retaining talent and fostering community engagement.

The biggest drivers of reputational risks have been perceived to be related to governance practices, ethics and integrity of local government. In fact, 57% of respondents ranked their ability to administer council governance effectively as the most significant issue underpinning their reputation.

Interestingly, larger metropolitan councils ranked this contributing factor lower than smaller regional and remote councils (albeit slightly). This suggests that resource constraints and difficulties in attracting and retaining talent may be potential contributors to the perception of its significance within councils.

The governance implications that arise from the involvement of councils in such a wide range of activities are significant. It is important to note governance is a response that is influenced by the organisation's operating environment. This places even greater strain on already limited resources and capacity.

Furthermore, councils are often the central institution in their communities. This high degree of visibility and expectation can increase their reputation risk.

Changing community and other stakeholder expectations introduces an additional dimension to the consideration of these issues. In recent years, there has been a growing awareness and an increase in social activism around

Environmental, Social and Governance ESG issues. As the closest level of government to the community and subject to established statutory governance regimes, councils already were and are at the forefront of many of these issues.

The evolution of public values in ESG matters undoubtedly pose challenges to existing council governance mechanisms and add additional pressure on already limited council resources. Councils are faced with the task of meeting the changing demands and expectations of their constituents to adapt to these public values.

This once again highlights the interconnectedness among various significant risks councils encounter, with ongoing financial sustainability challenges being one of the most notable. These challenges have the potential to result in complex, compounding and cascading consequences.

In addition to their ability to effectively administer governance, respondents identified a loss of community trust in the council (and elected members) as the next most significant risk to reputation.

Trust serves as the foundation on which thriving communities and effective local governments are built. It is the social contract between elected representatives and their communities and is crucial for developing public policy and delivering community services.

According to a recent Edelman survey, Australian government is less trusted than businesses.

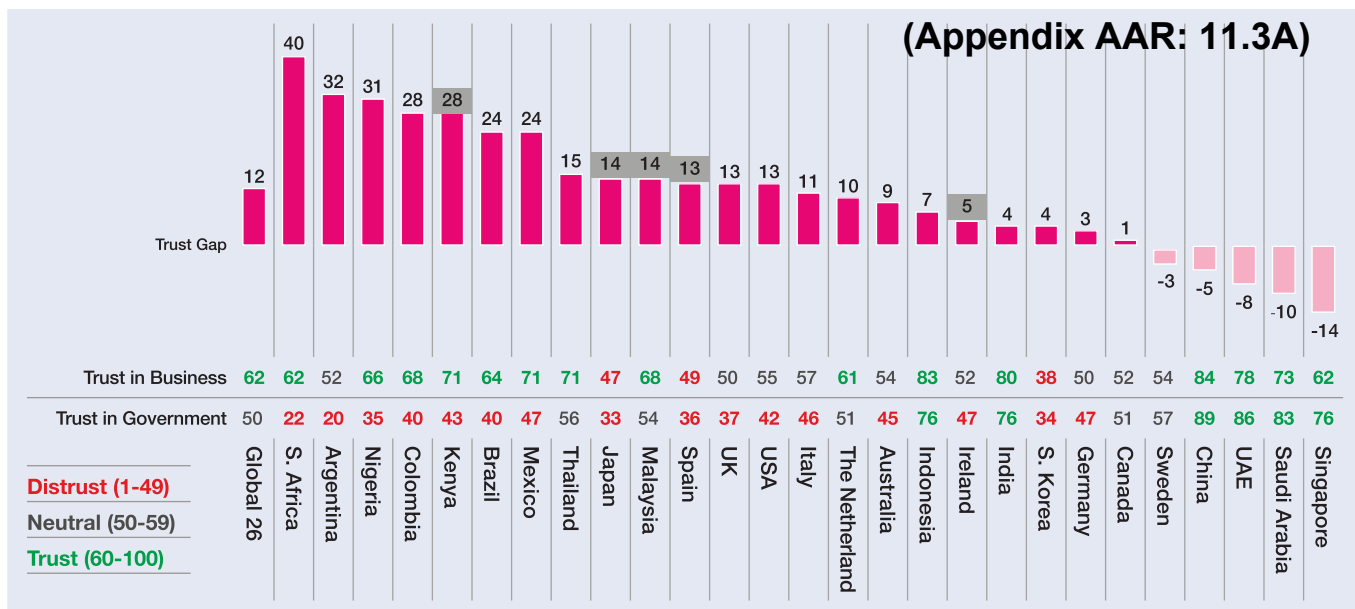


Figure 38: Government Less Trusted than Business

This trust gap has obvious implications for government reputations – and reinforces respondents' view on this risk. Despite these results, local government is generally perceived as more trustworthy than the State and Federal Governments.

The following elements can help secure public trust:

- **Demonstrating competence:** The organisation's ability to demonstrate competence and deliver on promises.
- **Demonstrating empathy:** The organisation's empathy demonstrated toward the community showcasing that the council does more than serve its own agenda.
- **Demonstrating integrity:** The organisation shows integrity by representing the community's interests and acts in alignment with its stated values and commitments, even when no one is watching.

While councils have been actively advocating for and addressing the needs of their communities, there have also been notable instances in the past 12 months where councils have been placed into administration or had elected representatives dismissed. These occurrences serve as a confirmation that the risk of losing trust and the subsequent impact on reputation is not unfounded or unrealistic.

As councils strive to meet their community's evolving needs and expectations, they must continue to ask: 'Do our actions enhance or erode trust?'

Prioritising actions and implementing structures and mechanisms that enhance trust ensures that councils can effectively serve their communities, make informed decisions and build a strong reputation. This creates a growth and prosperity environment.

Top ranking underlying factors for Reputation by State/Territory

NSW NT QLD TAS VIC WA	Ability to administer council governance effectively
SA	Loss of community trust in council (elected members)

Top three underlying factors for Reputation risk by region

CITY

1. Loss of community trust in council administration
2. Loss of community trust in council (elected members)
3. Ability to administer council governance effectively

METROPOLITAN

1. Loss of community trust in council (elected members)
2. Ability to administer council governance effectively
3. Loss of community trust in council administration

REGIONAL CITY

1. Ability to administer council governance effectively
2. Failure to comply with/undertake legislative requirements

3. Loss of community trust in council (elected members)

REGIONAL

1. Ability to administer council governance effectively
2. Loss of community trust in council (elected members)
3. Loss of community trust in council administration

REMOTE/RURAL

1. Ability to administer council governance effectively
2. Failure to comply with/undertake legislative requirements
3. Loss of community trust in council (elected members)

Social media has increased public awareness, making it easier for the public to scrutinise their local government. Communities are eager to judge poor decision-making or conduct that falls short of their expectations.

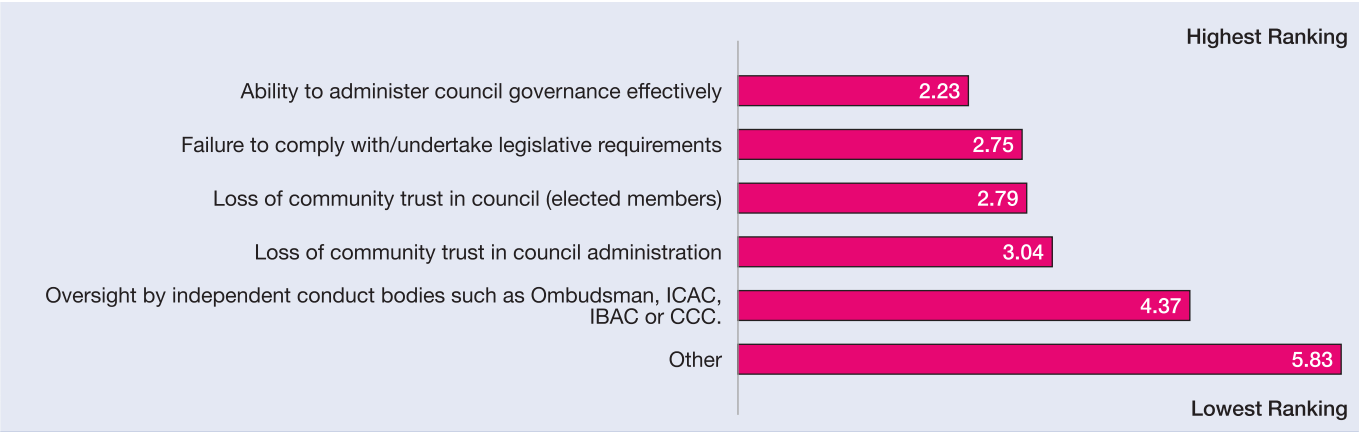


Figure 39: Reputation as Local Government Average Ranking of New South Wales underlying factors

Unfortunately, loss of community confidence can lead to lasting voter backlash, making forgiveness challenging. Such a loss of trust often leads elected officials and executives to potentially act ultra-conservatively, wary of their future tenure. A council that lacks respect also tends to discourage community-minded individuals from running for election, as they fear facing distasteful sentiments even before making a decision to run.

Over 30% of all CEO/GMs have been displaced in NSW following the local government elections after COVID-19. This resourcing ‘re-correction’ endured for nearly 18 months, and management continuity versus effective government suffered considerably during this time.

Top three underlying factors for Reputation risk by region	
METROPOLITAN 1. Ability to administer council governance effectively 2. Failure to comply with/undertake legislative requirements 3. Loss of community trust in council (elected members)	REGIONAL 1. Ability to administer council governance effectively 2. Failure to comply with/undertake legislative requirements 3. Loss of community trust in council administration
REGIONAL CITY 1. Loss of community trust in council (elected members) 2. Ability to administer council governance effectively 3. Failure to comply with/undertake legislative requirements	REMOTE/RURAL 1. Ability to administer council governance effectively 2. Failure to comply with/undertake legislative requirements 3. Loss of community trust in council (elected members)

Queensland

In Queensland, the view on reputational risk was consistent with the national perspective. However, there is more concern about the ability to administer council governance effectively.

Over 40% of CEO/GMs ranked this as their leading underlying factor to local government's reputation. The national ranking is 30%.

Contrastingly, loss of trust in elected members was ranked higher nationally (29%) than in Queensland (26%).

It is anticipated that there will continue to be a strong focus on supporting and improving governance in Queensland as a means to manage reputational risk

METROPOLITAN

1. Loss of community trust in council administration
2. Loss of community trust in council (elected members)
3. Ability to administer council governance effectively

REGIONAL CITY

1. Ability to administer council governance effectively
2. Loss of community trust in council (elected members)
3. Loss of community trust in council administration

REGIONAL

1. Ability to administer council governance effectively
2. Failure to comply with/undertake legislative requirements
3. Loss of community trust in council (elected members)

RURAL/REGIONAL

1. Ability to administer council governance effectively
2. Failure to comply with/undertake legislative requirements
3. Loss of community trust in council administration

Victoria

Reputation was ranked tenth in Victoria, one point higher than the national ranking. This suggests that it remains a considerable risk for councils.



Consistent with other states and territories, the survey results indicate that 60% of respondents ranked the ability to administer council governance effectively as the primary reason for this risk. This factor was ranked first by all council regions, except for capital city councils, where it was ranked fifth.

53% of respondents cited loss of community trust in council elected members as their second-most concern. All regions ranked this in the top two places, except for regional city councils, which ranked it fourth.

This may stem from the potential loss of community trust in the council administration and elected members, which may lead to communication breakdowns, diminished confidence in decision-making, and a negative perception of the council's ability to serve effectively.

Top three underlying factors for Reputation risk by region

CITY

1. Loss of community trust in council administration
2. Loss of community trust in council (elected members)
3. Oversight by independent conduct bodies

METROPOLITAN

1. Loss of community trust in council (elected members)
2. Loss of community trust in council administration
3. Ability to administer council governance effectively

REGIONAL CITY

1. Loss of community trust in council administration
2. Ability to administer council governance effectively
3. Failure to comply with/undertake legislative requirement

REGIONAL

1. Loss of community trust in council (elected members)
2. Loss of community trust in council administration
3. Ability to administer council governance effectively

RURAL/REGIONAL

1. Ability to administer council governance effectively
2. Loss of community trust in council (elected members)
3. Failure to comply with/undertake legislative requirements

Northern Territory

In the Northern Territory respondents ranked Reputation twelfth, one point lower than the national average.

66% of respondents ranked the ability to administer council governance effectively as their leading contributing factor. This was closely followed by the loss of community trust in council administration and the loss of community trust in elected members (50%).

These rankings could be attributed to the Northern Territory's current lower human resource capacity. Councils in the Northern Territory are also managing the increasing governance requirements and the associated costs.

Western Australia

The ability to administer council governance effectively is a reputational risk for Western Australian local governments, affecting public trust, compliance with regulations, ethical conduct, stakeholder relationships, and the media and public perception.

The results indicated that while all regions ranked administering council governance effectively as the leading reason, regional councils ranked this slightly lower. In Western Australia, both metropolitan and regional councils face this factor, however, the higher public visibility, complex decision-making, greater financial resources, and higher expectations placed on metropolitan local governments may contribute to higher reputational risk compared to regional local governments.

The loss of community trust in council administration and elected members poses a critical challenge, undermining local government’s legitimacy, accountability, and transparency, reducing public participation and engagement. It also damages its reputation and impacts effective governance and service delivery. Restoring and maintaining this trust is essential for effective governance and service.

Despite ranking eleventh, reputational risk remains a considerable concern. Local governments need to mitigate this risk through implementing strategies that safeguard their reputation through clear communication, ethical conduct, stakeholder engagement, and transparency. Through proactive reputation management, local governments in Western Australia can ensure their ongoing effectiveness in serving the community and cultivating public trust.

Top three underlying factors for Reputation risk by region (Appendix AAR-11.3A)

METROPOLITAN

- 1. Loss of community trust in council administration
- 2. Ability to administer council governance effectively
- 3. Loss of community trust in council (elected members)

REGIONAL CITY

- 1. Ability to administer council governance effectively
- 2. Failure to comply with/undertake legislative requirement
- 3. Loss of community trust in council administration

REGIONAL

- 1. Loss of community trust in council administration
- 2. Loss of community trust in council (elected members)
- 3. Failure to comply with/undertake legislative requirement

RURAL/REGIONAL

- 1. Ability to administer council governance effectively
- 2. Failure to comply with/undertake legislative requirements
- 3. Loss of community trust in council (elected members)

South Australia

South Australian CEO/GMs ranked reputation ninth, higher than the national ranking of eleventh.

61% of CEO/GMs cited the Loss of Community Trust in Council Elected Members as their leading concern. This is closely followed (53%) by the Loss of Trust in Council Administration.

All participating councils ranked these two contributing factors in their top three positions. Metropolitan councils ranked oversight by independent conduct bodies such as the ombudsman, ICAC, etc. as their second-most reason, however, other councils did not cite this as a major concern.

Top three underlying factors for Reputation risk by region

CITY

- 1. Loss of community trust in council administration
- 2. Loss of community trust in council (elected members)
- 3. Oversight by independent conduct bodies.

METROPOLITAN

- 1. Loss of community trust in council (elected members)
- 2. Oversight by independent conduct bodies
- 3. Loss of community trust in council administration

REGIONAL CITY

- 1. Loss of community trust in council administration
- 2. Ability to administer council governance effectively
- 3. Loss of community trust in council (elected members)

REGIONAL

- 1. Loss of community trust in council (elected members)
- 2. Loss of community trust in council administration
- 3. Ability to administer council governance effectively

REMOTE/RURAL

- 1. Ability to administer council governance effectively
- 2. Failure to comply with/undertake legislative requirements
- 3. Oversight by independent conduct bodies

Tasmanian respondents ranked Reputation last, consistent with the national ranking.

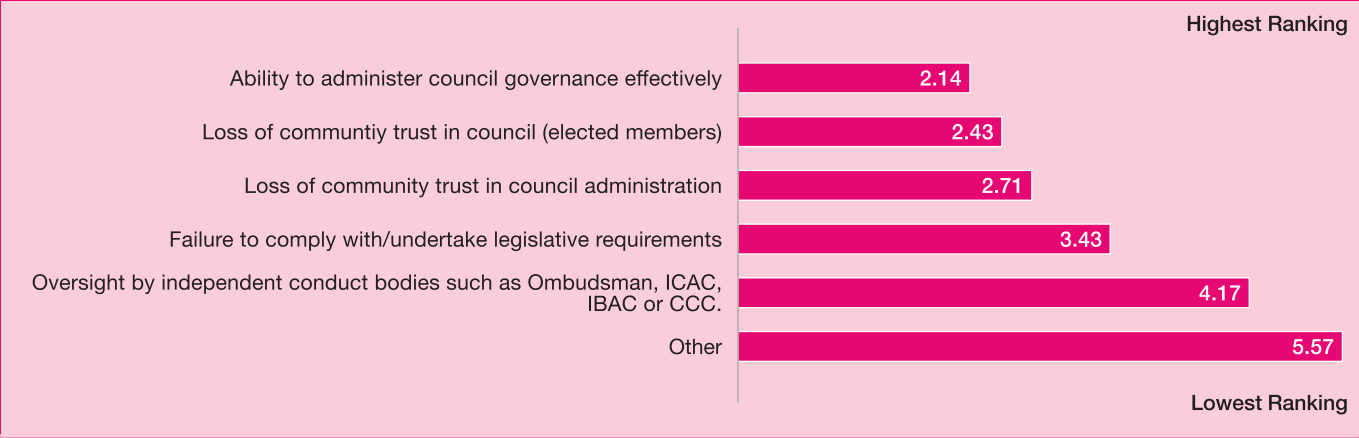


Figure 40: Reputation as Local Government Average Ranking of Tasmania underlying factors

83% of respondents cited the ability to administer council governance effectively as the leading reason for this risk. All represented regions placed this first.

Additionally, 50% of respondents ranked the loss of community trust in council administration and the loss of community trust in council elected members as their second-most reason for this risk. This may stem from the risk of the community losing trust in the administration and elected members, which can lead to communication breakdowns, diminished confidence in decision-making and a negative perception of the council's ability to serve effectively.

Top three underlying factors for Reputation risk by region		
METROPOLITAN	REGIONAL	REMOTE/RURAL
1. Ability to administer council governance effectively	1. Ability to administer council governance effectively	1. Ability to administer council governance effectively
2. Loss of community trust in council administration	2. Loss of community trust in council (elected members)	2. Oversight by independent conduct bodies
3. Failure to comply with/undertake legislative requirements	3. Oversight by independent conduct bodies	3. Loss of community trust in council administration



NEGLIGENCE GIVING RISE TO CIVIL LIABILITY CLAIMS AGAINST COUNCIL

Gone are the days of 50c per litre fuel or 30c ice cream. The cost of living has significantly increased over the past decade, rising by 23.4%. This upward trend has continued in the past year with a notable increase of 5.1%. The rise of living costs has impacted various sectors – and claims costs have been no exception.



Figure 41: Negligence giving rise to civil liability claims against council National Risk Heat Map

According to the Australian Prudential Regulation Authority claims cost increases in the liability sector 'have been higher than general inflation'.¹⁸ Several factors contribute to the significant increase in claim costs, including but not limited to 'higher claimant demands and media scrutiny, as well as legal and litigation expenses and rising medical bills'.¹⁹

On top of the cost of liability claims increasing, the frequency of claims has also risen. Australia has become one of the most litigious countries globally when it comes to personal injury and damages claims.²⁰ In fact, New South Wales ranks as the second most litigious region behind California in the USA.²¹

We can only speculate as to why Australia has become more litigious. For example, individuals struggling in the cost-of-living crisis may be seeking compensation through legal means. Plaintiff law firms may also contribute to the rise of litigation as they become more active.

Liability claims against councils have ranked as the eleventh highest risk to local government in Australia. This placement support the overall trend of increased litigation and highlights the importance of effectively managing this risk for councils. It is interesting to note that 29.68% of Australian councils identified 'understanding of council's risk profile and application of the risk management policy and processes' as the highest issue concerning liability claims.

Consequently, data analysis and AI technology may escalate in severity and frequency, as these tools can instantaneously review claims-related data points and analyse them to indicate a claim. Looking forward, this proactive approach will be essential to understanding claims risk across Australia.²² To effectively understand their risk profiles and subsequently apply their risk management policies effectively, it is critical for councils to accurately record all claims data. When councils access accurate data, it can be determined where their major risks lie and subsequently, which areas the council should focus on to apply their risk management policies. For example, with accurate data, we may find a significant influx of tree limb claims from a particular area within a council municipality. This data can help council identify the high-risk area and move it to the risk management action for tree management. Risks for each council will be unique and we suspect the risk profile of metropolitan councils will differ from regional councils. Emerging AI technologies will help councils manage and analyse their risk profiles and take steps to minimise liability exposure.

The top concern underlying liability claims subcategories across Australia is being able to deter liability claims and the 'ability to discharge a reasonable duty of care resulting in fewer injuries.' Another factor is 'the ability to apply policy and procedures in accordance with the strategic plan.'

For instance, in one state, most liability claims arose from trip and fall incidents. For councils to effectively discharge a reasonable duty of care and apply policy and procedure effectively, it is essential councils adhere to statutory and common law obligations in their respective state. If councils adhere to the required inspections, repairs, intervention levels or other state-determining factors, this will prevent claims incidents from occurring and/or provide better protection as it improves the prospects of successfully defending any claim.

Nationally, understanding the risk associated with providing professional advice ranked as a low concern, with only 3.2% of councils considering it their greatest risk. Councils should monitor and review this factor further. The pandemic's aftermath poses an increased risk for professional indemnity claims due to inflationary pressures with rising legal defence costs and higher settlements.

Independently, liability claims present a high-level risk. It is also important to consider their intersection with other major risks. Through examining the top risks such as Cybersecurity/IT Infrastructure, Natural Hazard, Disaster/Catastrophic events and Managing Ageing, Assets and Infrastructure, it is clear that these risks can result in claims when inadequately managed.

While claims are inevitable, some are also preventable. With councils involved in various activities, it is unrealistic to wholly eliminate the risk of losses or damages. However, by implementing a robust risk management regime, many claims can be avoided.

Top ranking underlying factors for Negligence giving rise to civil liability claims

NSW WA	Ability to apply policy and implement procedures in accordance with the strategic plan
NT	Ability to undertake due diligence when administering statutory/regulatory responsibilities including administration of code of conduct
QLD TAS VIC	Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
SA	Understanding of council's risk profile and application of the risk management policy and processes

²⁰ So, J, Australasian Lawyer, Highlight: Australia among the most litigious countries for personal injury

²¹ AHK Australien, Did you know? Australia is the world's second most litigious country, 2021

²² AHK Australien, Did you know? Australia is the world's second most litigious country, 2021

²³ Allianz, Global Claims Review, 2022

CAPITAL

1. Understanding of council's risk profile and application of the risk management policy and processes
2. Understanding the risk associated with providing professional advice
3. Ability to undertake due diligence when administering statutory/regulatory responsibilities

METROPOLITAN

1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
2. Ability to apply policy and implement procedures in accordance with the strategic plan
3. Ability to undertake due diligence when administering statutory/regulatory responsibilities

REGIONAL CITY

1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
2. Ability to apply policy and implement procedures in accordance with the strategic plan

3. Understanding of council's risk profile and application of the risk management

REGIONAL

1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
2. Ability to apply policy and implement procedures in accordance with the strategic plan
3. Ability to undertake due diligence when administering statutory/regulatory responsibilities

REMOTE/RURAL

1. Ability to discharge a reasonable duty of care to the public resulting in injury/loss claims of negligence
2. Ability to apply policy and implement procedures in accordance with the strategic plan
3. Understanding of council's risk profile and application of the risk management

New South Wales

CEO/GMs ranked negligence giving rise to civil liability claims against councils as their lowest risk. Nearly 79% of respondents cited the ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss.

Factors that contribute to this concern include:

- **Volume of people:** In metropolitan areas, the higher population density increases the potential for incidents and claims.
- **Funding pitfalls:** Councils struggle to address all risks due to limited resources. This raises the need for councils to prioritise risks.

The ability to apply policy and implement procedures in accordance with council's strategic plan ranked closely as a contributing factor to this risk. It was the second highest concern, as determined by 75% of respondents. This reason was ranked second in all regions except metropolitan councils who regarded it as their leading concern. For councils, this demonstrates their competing issues – especially in cases where there are larger populations and workplaces.

Top three underlying factors for Liability Claims risk by region

METROPOLITAN

1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
2. discharge a reasonable duty of care to the public resulting in injury/loss claims of negligence
3. Ability to undertake due diligence when administering statutory/regulatory responsibilities

REGIONAL CITY

1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
2. Ability to apply policy and implement procedures in accordance with the strategic plan
3. Ability to undertake due diligence when administering statutory/regulatory responsibilities

REGIONAL

1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
2. Ability to apply policy and implement procedures in accordance with the strategic plan
3. Ability to undertake due diligence when administering statutory/regulatory responsibilities

REMOTE/RURAL

1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
2. Ability to apply policy and implement procedures in accordance with the strategic plan
3. Understanding of council's risk profile and application of the risk management

Northern Territory

(Appendix AAR: 11.3A)

Northern Territory CEO ranked the risk of negligence giving rise to civil liability claims against councils eighth, which is 4 points higher than the national ranking of twelfth.

83% of respondents noted the leading reason for this risk as the ability to discharge a reasonably duty of care to the public to avoid negligence claims for injury/loss. This could be attributed to the remote, challenging environment and resourcing issues that councils face in the Northern Territory. Furthermore, there can be multiple stakeholders in the delivery of infrastructure, facilities and services to the community.

The above contributes to the next factor leading to this risk. The ability to undertake due diligence when administering statutory/regulatory responsibilities, including the administration of the code of conduct, ranked as the second reason by 66% of respondents.

Top three underlying factors for Liability Claims risk by region
CAPITAL CITY 1. Understanding of council's risk profile and application of the risk management policy and processes 2. Understanding and implementing council's regulatory requirements 3. Understanding the risk associated with providing professional advice
METROPOLITAN 1. Understanding of council's risk profile and application of the risk management 2. Ability to undertake due diligence when administering statutory/regulatory responsibilities 3. Ability to apply policy and implement procedures in accordance with the strategic plan
REGIONAL CITY 1. Understanding of council's risk profile and application of the risk management 2. Understanding the risk associated with providing professional advice 3. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
REGIONAL 1. Ability to discharge a reasonable duty of care to the public resulting in injury/loss claims of negligence 2. Understanding of council's risk profile and application of the risk management policy and processes 3. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
REMOTE/RURAL 1. Understanding of council's risk profile and application of the risk management 2. Ability to apply policy and implement procedures in accordance with the strategic plan 3. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss

South Australia

South Australian respondents ranked the risk of negligence giving rise to civil liability claims as their lowest risk, supporting the national ranking.

79% of respondents cited the leading reason for this risk as understanding the council's risk profile and application of the risk management policy and processes. There is 100% council membership in South Australia's liability and workers' compensation schemes. The workers' compensation scheme operates in accordance with stringent licencing requirements and conditions. However, lines can blur on the difference between compliance and liability, leading to a higher awareness of this issue.

61% of respondents ranked the ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss as this risk's second concern. Regional councils brought this ranking to second, with regional city and rural/remote councils placing this third. It was ranked fourth by city and regional councils. This situation could impact the claims experience of the Council. If Council respondents do not submit a significant number of claims, it is possible that claims may no longer be considered a high priority risk. In SA, all councils benefit from three statutory immunities:

- 1. **Section 42 of the Civil Liability Act:**
For example, council isn't liable because of failing to repair/renew roads, footpaths and associated infrastructure.
- 2. **Section 245 of the Local Government Act:**
Council isn't liable for the loss or damage caused by street trees.
- 3. **Section 244 of the Local Government Act:**
Council, as the occupier of community land (e.g. parks and reserves), is only liable by consequence of a wrongful act.

These three immunities will impact councils liability claims.



Tasmania

14% of Tasmanian respondents ranked the risk of negligence giving rise to liability claims seventh. This placement is five positions above the national ranking. This risk also ranked equally with Managing Ageing, Property Assets and Infrastructure. These two risks are connected in Tasmania as councils have a statutory defence under sub-section (4) of Section 21 of the Local Government (Highways) Act 1982. Council is not liable for any loss or damage unless they had conducted works and caused the damage.

With ongoing ageing assets and infrastructure, it becomes necessary to conduct required works. If these works are not carried out, it can expose council to liability.

All CEO/GMs ranked the ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss as the leading factor for this risk.

When determining whether council has breached this duty, council can usually rely on section 28 of the Civil Liability Act 2002 (Tas). This places a reasonable constraint on the financial resources available to councils. Given the current economic climate and increasing inflation, it would be more challenging for councils to allocate and manage their resources effectively. 71% of respondents ranked understanding the council's risk profile and application of the risk management policy and processes as the second highest reason for this risk.

Top three understanding of the public to avoid negligence claims risk by region (Appendix AAR: 11.3A)

METROPOLITAN

- 1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
- 2. Understanding of council's risk profile and application of the risk management policy and processes
- 3. Ability to undertake due diligence when administering statutory/regulatory responsibilities

REGIONAL

- 1. Understanding of council's risk profile and application of the risk management
- 2. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
- 3. Ability to apply policy and implement procedures in accordance with the strategic plan

REMOTE/RURAL

- 1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
- 2. Understanding of council's risk profile and application of the risk management policy and processes
- 3. Understanding of the risk associated with providing professional advices

Victoria

Victorian respondents ranked the risk of negligence giving rise to civil liability claims eleventh. This position is one spot higher than the national ranking of twelfth.

74% of CEO/GMs ranked the ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss as the leading reason for this risk. In Victoria, councils must inspect, repair and maintain their footpaths and roadways under section 40 of the Road Management Act 2004. This requirement has made councils be proactive in their inspection and intervention regimes. If councils choose not to adhere to requirements, this can increase the risk of claims due to negligence.

Regional city, regional and rural/remote councils ranked the above as their highest contributing factor to this risk. This risk is likely higher in regional councils as they have less resources and often, more rural trees or infrastructure which makes inspection regimes more onerous. Capital city and metropolitan cities placed this reason third and fourth. This is likely due to having more resources. It is easier to address issues such as tree management and inspections as they have fewer in these areas. Metropolitan councils have a higher foot traffic which creates greater risk for trip and fall claims. However, with a higher population and smaller area, there are less areas to 'inspect' and more people to notify councils of a potential risk.

The second highest reason for this risk was the equal importance placed on the ability to apply policy and implement procedures in alignment with the council's strategic plan, as well as the diligent administration of statutory/regulatory responsibilities, including the enforcement of the Code of Conduct. In Victoria, councils have 'Road Management Plans' under the Road Management Act 2004. Applying these policies and procedures is essential for defending negligence claims.

Regional city, regional and remote/rural councils ranked the ability to apply policy and implement procedures in accordance with council's strategic plan in the top three places. However, this ranked lower for city and metropolitan councils, which is likely due to more resources and a bigger municipality, making inspection and intervention targets easier to achieve than in regional locations.

City and metropolitan council ranked undertaking due diligence when administering statutory/regulatory responsibilities including administering the code of conduct highly, while other regions ranked this lower.

CAPITAL

1. Ability to undertake due diligence when administering statutory/regulatory responsibilities including administration of code of conduct
2. Understanding the risk associated with providing professionals advice
3. Understanding of council's risk profile and application of the risk management policy and processes

METROPOLITAN

1. Ability to undertake due diligence when administering statutory/regulatory responsibilities including administration of code of conduct
2. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
3. Understanding of council's risk profile and application of the risk management policy and process

REGIONAL CITY

1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss

2. Ability to apply policy and implement procedures accordance with the strategic plan
3. Ability to undertake due diligence when administering statutory/regulatory responsibilities including administration of code of conduct

REGIONAL

1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
2. Ability to apply policy and implement procedures accordance with the strategic plan
3. Understanding of council's risk profile and application of the risk management policy and process

REMOTE/RURAL

1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
2. Ability to undertake due diligence when administering statutory/regulatory responsibilities including administration of code of conduct
3. Ability to apply policy and implement procedures accordance with the strategic plan

Western Australia

Respondents ranked the risk of negligence giving rise to civil liability claims twelfth, equalling the national placement.

77% of respondents attributed the ability to apply policy and implement procedures in accordance with the strategic plan as the leading reason for this risk. Their liability risk management maturity has grown in recent years, increasing awareness of the potential risks and controls. This response reflects the sector's deep understanding of knowledge, resources and process implementation gaps to ensure they meet the strategic plan's requirements. This concern ranked highest in metropolitan, regional and rural/remote regions. However, it ranked much lower in regional cities, with the response linked to the level of exposure. Offering a range of services, metropolitan councils have dense populations with high demands and expectations. This mix can lead to increased liability exposures. Rural/remote councils share a similar problem, and often, they fill a community need when it is unaddressed by the state government or commercial market. They venture into non-traditional areas such as housing, medical services and even supermarkets. An unfamiliarity with these services coupled with the difficulty of having insufficient resources and being remote all provides challenges to implementing liability risk controls.

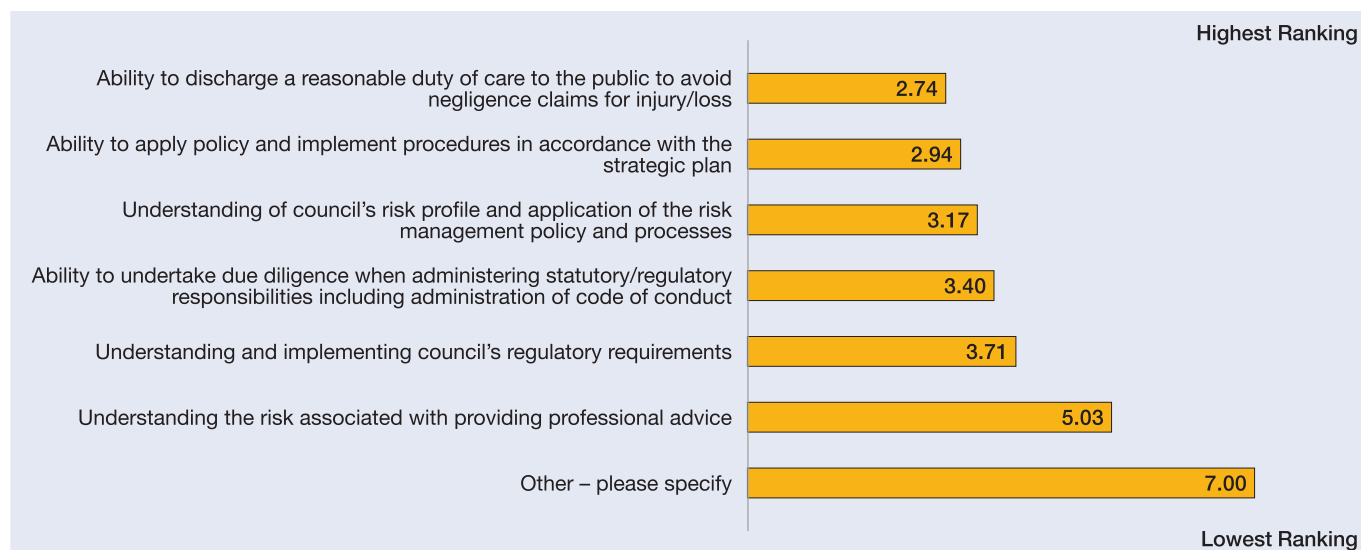


Figure 42: Negligence giving rise to civil liability claims Western Australia underlying factors Western Australia underlying factors

These contributors, particularly the tension between community expectations and limited resources, also account for respondents' concern about their ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss. 65% of respondents ranked this factor as the second highest reason behind this risk.

Top three underlying factors for Liability Claims risk by region**METROPOLITAN**

1. Ability to apply policy and implement procedures accordance with the strategic plan
2. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
3. Understanding of council's risk profile and application of the risk management policy and process

REGIONAL CITY

1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
2. Understanding of council's risk profile and application of the risk management policy and process
3. Understanding and implementing council's regulatory requirements

REGIONAL

1. Ability to apply policy and implement procedures accordance with the strategic plan
2. Ability to undertake due diligence when administering statutory/regulatory responsibilities including administration of code of conduct
3. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss

REMOTE/RURAL

1. Ability to apply policy and implement procedures in accordance with the strategic plan
2. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
3. Ability to undertake due diligence when administering statutory/regulatory responsibilities including administration of code of conduct

Queensland

In Queensland, respondents ranked the risk of negligence giving rise to liability claims eleventh, one point above than the national ranking of last (eleventh).



88% of respondents identified the leading factor underlying this risk as the Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss. This reason placed in the top two by all regions.

66% of CEO/GMs ranked the ability to apply policy and implement procedures in accordance with council's strategic plan as the second highest reason for this risk. Regional and remote/rural councils placed this reason second while metropolitan and regional cities ranked it fourth.

Top three underlying factors for Liability Claims risk by region**METROPOLITAN**

1. Ability to undertake due diligence when administering statutory/regulatory responsibilities
2. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
3. Understanding and implementing council's regulatory requirements

REGIONAL CITY

1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
2. Understanding of council's risk profile and application of the risk management
3. Ability to undertake due diligence when administering statutory/regulatory responsibilities

REGIONAL

1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
2. Ability to apply policy and implement procedures in accordance with the strategic plan
3. Ability to undertake due diligence when administering statutory/regulatory responsibilities

REMOTE/RURAL

1. Ability to discharge a reasonable duty of care to the public to avoid negligence claims for injury/loss
2. Ability to apply policy and implement procedures in accordance with the strategic plan
3. Ability to undertake due diligence when administering statutory/regulatory responsibilities

OUTCOMES OF THE RISKS

This year, for the first time since the inception of the JLT Public Sector Risk Report and JLT Risk Survey, we surveyed CEOs and General Managers to gain insight into their concerns regarding the outcomes of the identified risks. After the general survey on the 12 risks, we asked participants to rank their top choices for specific outcomes.

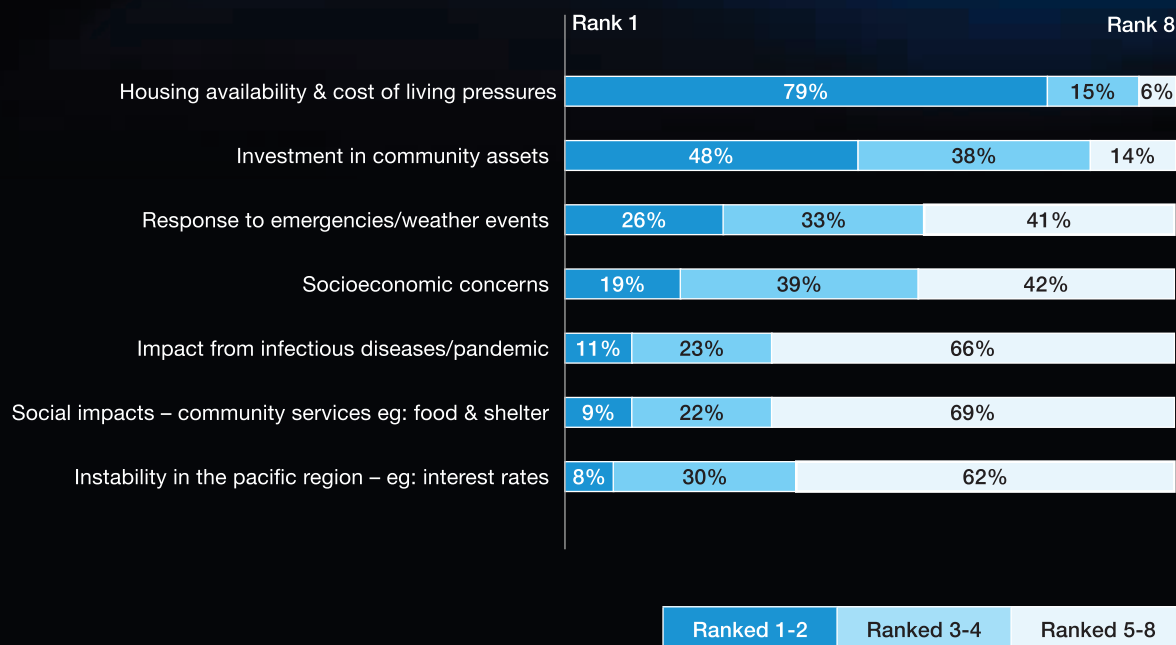


Figure 43: Concern for Potential Outcomes from the Risks National Heat Map

THE KEY RISK INDICATOR REPORT METHODOLOGY

(Appendix AAR: 11.3A)

The 2023 JLT Risk Survey was conducted between September and October of 2023. A total of 219 CEOs and GMs from rural/remote, regional, metropolitan, and city councils participated in the questionnaire.

Survey Approach

The survey offers insights from CEOs and General Managers of local government regarding their perception of 12 key risks. It provides respondents with the opportunity to rank their risks in a more specific manner. Initially, each risk was ranked based on the level of concern.

Respondents are specific in their ranking of their risks. The first question asks respondents to rank each risk in order of concern.

CEOs/GMs then ranked the underlying factors in order of concern from highest to lowest.

The following explanation illustrates this approach using example rankings.

Risk Category:

Reputation

	HIGH	MEDIUM	LOW
	Ranked 1-2	Ranked 3-4	Ranked 5-6
Ability to administer council governance effectively	58%	37%	5%
Loss of community trust in council (elected members)	48%	45%	7%
Loss of community trust in council administration	41%	50%	10%
Failure to comply with/undertake legislative requirements	39%	52%	10%
Oversight by independent conduct bodies	14%	16%	71%
Other	1%	1%	98%

If we take the reputation risk category as an example, the highlighted row above sums to 100% and shows a breakup of all the risks ranked high.

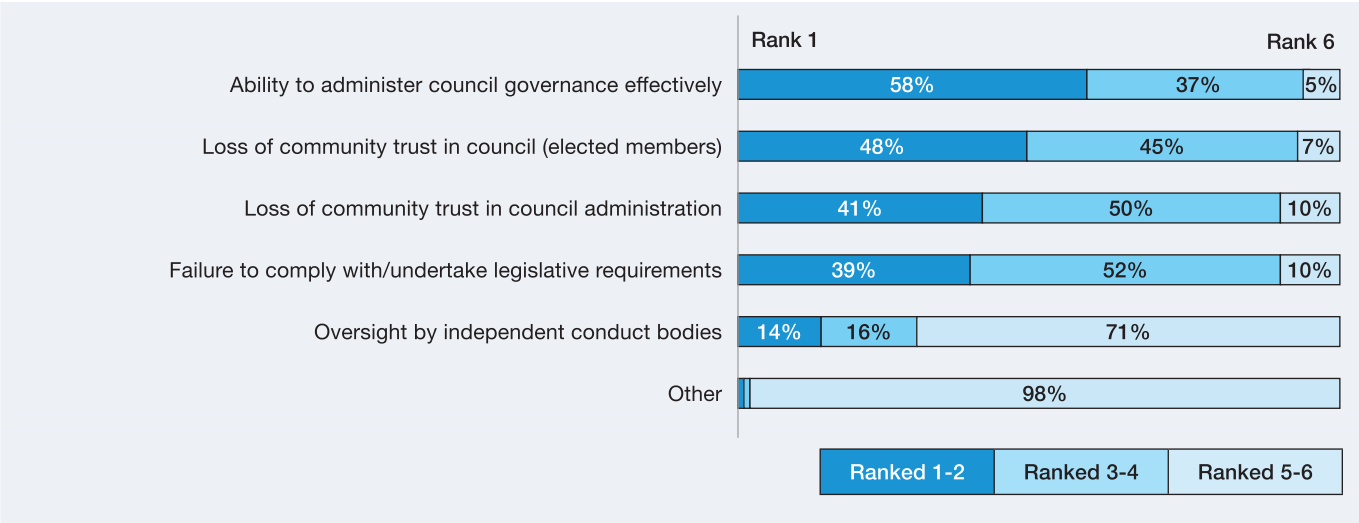
To ascertain the highest rank risk, the rankings are divided into high, medium and low.

Sample: Reputation

HIGH	MEDIUM	LOW
Ranked 1-2	Ranked 3-4	Ranked 5-6

The following example looks at Reputation and shows the underlying factors and how they are ranked. You can see in this example that 58% of respondents ranked ability to administer council governance effectively and 5% ranked this factor as low.

(Appendix AAR: 11.3A)



Whilst the above showcased the ranking of high, medium and below, the following table demonstrates the underlying factors average ranking. In the following table, you note that the ‘Ability to administer council governance effectively’ is ranked highest with an average ranking is 2.37.

When we look at the third and fourth rankings, Loss of community trust in council administration and Failure to comply with/undertake legislative requirements, we can see the rankings are 2.88 and 2.91. This means when we average out all the rankings the responders placed these two underlying factors for Reputation and they averaged out to be fairly close.

Survey Respondents

The 2023 JLT Public Sector Risk Survey saw the participation of 219 local government CEOs and General Managers. Representatives came from all states and the Northern Territory, representing metropolitan, city, regional, regional city and rural/remote communities.

Participants were asked to rank 12 risks from highest to lowest, providing further insight into the factors behind each risk.

State representation nationally

The 2023 Risk Survey had 219 respondents representing 40.73% of council CEO/GMs. Of this representation of State responses is in Figure 42

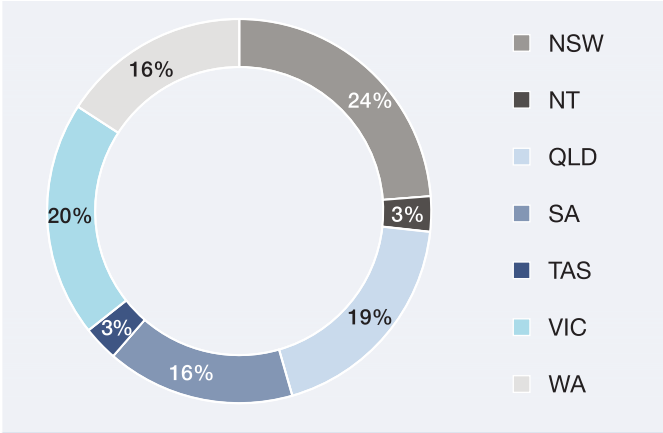
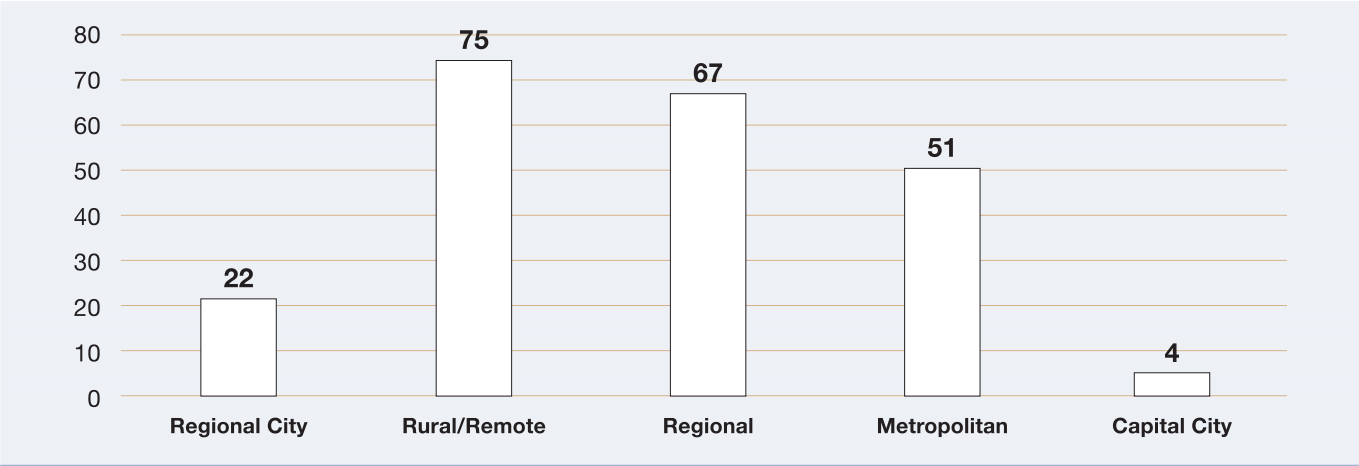


Figure 42: State Representation in JLT Public Sector Risk Survey

Regions

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



2018-2023

(Appendix AAR: 11.3A)

MOVEMENT OF RISKS OVER THE PAST SIX YEARS

	2018	2019	2020	2021	2022	2023
1	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability
2		Cyber Security	Assets & Infrastructure	Cyber Security	Cyber Security	Cyber Security
3			Disaster or Catastrophic	Asset & Infrastructure	Asset & Infrastructure	Asset & Infrastructure
4		Natural Catastrophes	Cyber Security	Disaster or Catastrophe	Business Continuity	Climate Change
5					Disaster or Catastrophe	Disaster or Catastrophe
6	Asset & Infrastructure	Asset & Infrastructure	Business Continuity	Business Continuity		
7	Natural Catastrophes					
8	Cyber Security					
9	Business Continuity	Business Continuity				

GLOSSARY

Business Continuity		Business continuity planning and community disruption
Climate Change/Adaption		Climate Change and/or Adaptation
Cyber		Cyber security/IT infrastructure
Financial Sustainability		Financial Sustainability
Ineffective Governance		Ineffective governance
Assets & Infrastructure		Managing aging, property, assets, and infrastructure
Disaster & Catastrophic		Natural Hazard, Disaster/Catastrophic Events
Liability Claims		Negligence giving rise to civil liability claims
People & Culture		People & Culture
Reputation		Reputation as a local government and with the community
Statutory and/or Regulatory requirements		Statutory and/or Regulatory requirements
Waste Management		Waste Management

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RISK ASSESSMENT TOOL

OVERALL RISK EVENT: 2023-2024 JLT Public Sector Risk Report

RISK THEME PROFILE: All Risk Profile Themes

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	Not considering the local government industry risks noted in the JLT report could have implications towards managing risk in accordance with Regulation 17 of the <i>Local Government (Audit) Regulations 1996</i>	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 considering industry reported risk and the potential impact this could have to long-term planning.	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.
PROPERTY	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.

Internal Audit Strategic Plan

2024/25 – 2026/27



Document Control					
Document ID: Internal Audit Strategic Plan					
Rev No	Date	Revision Details	Author	Approver	Adopted
1.0	01/07/2019	Original plan created and adopted	Cindy Barbetti / Phil Anastasakis	Phil Anastasakis	OCM 14-08-2019 Res 251-19
2.0	23/06/2020	Annual update of plan	Cindy Barbetti / Phil Anastasakis	Phil Anastasakis	OCM 30-09-2020 Res 280-20
3.0	03/08/2021	Annual update of plan	Cindy Barbetti / Phil Anastasakis	Phil Anastasakis	OCM 29-09-2021 Res 304-21
4.0	14/09/2022	Annual update of plan	Cindy Barbetti / Phil Anastasakis	Phil Anastasakis	OCM 28-09-2022 Res 250-22
5.0	13/09/2023	Annual update of plan	Cindy Barbetti / Phil Anastasakis	Phil Anastasakis	OCM 27-09-2023 Res 241-23
6.0	11/09/2024	Annual update of plan	Cindy Barbetti / Phil Anastasakis	Phil Anastasakis	Scheduled for OCM 25-09-2024 Res Pending

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Introduction

The primary purpose of the Shire of Dardanup's Internal Audit Plan is to align its focus and activities on the Council's key internal risks. The Internal Audit functional planning framework consists of two key elements:

- an Internal Audit Strategic Plan with a three-year outlook that relates the role of internal audit to the requirements of the Council by outlining the broad direction of internal audit over the medium term, in the context of all the Council's assurance activities; and
- an Internal Audit Annual Work Plan which includes an Internal Audit Annual Work schedule.

Together, these plans serve the purpose of setting out, in strategic and operational terms, the broad roles and responsibilities of Internal Audit and identify key issues relating to internal audit capability, such as the required professional skills.

This Annual Work Plan covers a financial year in line with the Council's annual budgeting and planning cycle and specifies the proposed internal audit coverage within the financial year.

It is reviewed annually by the Deputy CEO in the first quarter of each financial year and presented to the Audit and Risk Committee for endorsement.

Internal Audit Activities Overview

It is important that internal audit has a predominant focus on the conduct of assurance and advisory activities. Nevertheless, audit support activities are also important activities generally undertaken by Internal Audit.

The relative proportion of resources devoted to audit support activities, compared with audit assurance and advisory activities, is an important matter for consideration by the Audit and Risk Committee when considering Internal Audit plans and budgets.

It is important to note that the smaller the size of the in-house Internal Audit team, the greater the proportion of the audit support activities will be.

Internal Audit conducts the following audit support activities which are generally non-discretionary:

- Internal Audit strategic and operational planning.
- Internal Audit functional and administrative reporting.
- Monitoring the implementation of audit recommendations made by Internal Audit and the External Auditor.
- Liaison with the External Auditor.
- Internal Audit Quality Assurance and Improvement Program.

- Performing any appropriate special tasks or projects requested by the Deputy CEO, CEO or the Audit and Risk Committee.
- Disseminating better practice and lessons learnt arising from the internal audit activities across local government.

The Internal Audit **assurance activities** include engagements with the following orientation:

- Financial
 - Auditing the financial statements of externally funded grants including research, capital and other special purpose grants/programs; and
 - Auditing the special purpose financial statements of discrete business operations such as Eaton Recreation Centre.

In performing financial statement audits, Internal Audit typically provides an audit opinion and a reasonable level of assurance to parties outside the Council, depending on the purpose for which the financial statements are prepared.

- Compliance
 - Compliance has traditionally been a focus area for Internal Audit activities. The objective of a compliance engagement is to enable Internal Audit to express an opinion on whether the Council or an organisational area has complied in all material aspects, with requirements as measured by the suitable criteria which include:
 - Federal and State legislation and regulatory requirements.
 - Federal and State Government policies and administrative reporting guidelines.
 - Council policies, procedures, and Code of Conduct.
 - contracts to which the Council is a part.
 - strategic plans, or operational programs.
 - ethics related objectives and programs; and
 - other standards and good practice control models.
- Performance (improvement)
 - Performance (improvement) engagement is designed to assess the economy, efficiency and effectiveness of the Council's business systems and processes.

A compliance or performance (improvement) engagement is conducted either as an audit, which provides reasonable assurance, or as a review, which provides limited assurance.

For all assurance activities, Internal Audit observes, where applicable, the professional practice guidelines or statements issued by relevant professional bodies, including (but not limited to):

- CPA Australia; and

- Chartered Accountants Australia and New Zealand.

The Internal Audit **advisory activities** are to provide objective and relevant review services or ad hoc advice to management without assuming management responsibility.

The Deputy CEO considers accepting proposed review engagements based on the engagement's potential to improve the management of risks, add value, and improve the Council's operations.

Internal Audit applies the principle that issue prevention activities are more beneficial and could be more cost-effective than issue detection activities. Accordingly, Internal Audit acts proactively in providing ad hoc advice to utilise its control and risk evaluation skills in preventing control weaknesses and breakdowns by providing ad hoc advice to the Council's management on a range of matters, including:

- development of new programs and processes.
- risk management; and
- fraud control.

The percentages of Internal Audit effort to conduct audit support, assurance and advisory activities will fluctuate over the years depending on the Council's assurance needs and the Internal Audit's operational needs and priorities such as system, process, and staff professional development requirements. This is monitored by the Audit and Risk Committee.

Methodology

Internal Audit adopts a **risk-based methodology**. The planning at both the functional and engagement levels is based on the risk assessment performed to ensure that it is appropriate to the size, functions and risk profile of the Council.

In order to provide optimal audit coverage to the Council and minimise duplication of assurance effort, due consideration is given to the following aspects:

- key Council business risks.
- any key risks or control concerns identified by management.
- assurance gaps and emerging needs; and
- scope of work of other assurance providers, internal and external.

Internal Audit maintains an open relationship with the external auditor and other assurance providers.

Internal Audit Coverage Prioritisation

During each financial year, the Internal Audit coverage will have a different focus depending on the Council's current risk profile and assurance needs. The Internal Audit coverage is categorised into the following broad groups. The order in which these are listed is in line with the current priority given to each group based on the risk assessment.

1. **Annual audits** to review key areas of financial, operational, and human resources across the whole Council. This group of engagements are treated as first priority audits to meet the external reporting and compliance obligation of the Council, which can include:
 - a. Grant Audits.
 - b. Direct assistance to external audit by performing audit or review procedures under the direction of the external auditor; such activities customarily include the following engagements:
 - i. Salaries Audit.
 - ii. Expenditure Audit.
 - iii. Revenue Audit; and
 - iv. Follow up on audit recommendations made by the external auditor.
2. Audits of **high-risk areas/systems** where the controls are considered to be effective, however, independent assurance is required to ensure that the controls are in fact operating as intended.
3. Audits that review particular topics **across the whole Council** – such as supplier selection and WHS management framework. This group of engagements are aimed at addressing systemic risks.
4. Audits that review **particular processes/activities** owned by a particular Directorate or Divisions such as gym membership; and
5. Consultancy/ad hoc advice on new systems, processes, and initiatives.

A small contingent time budget may be set aside to accommodate ad hoc or special requests, particularly those from the CEO and the Audit and Risk Committee.

Objective

Engagement objectives are broad statements developed by Internal Audit that define intended engagement accomplishments. This is largely informed by the identified risks and assurance needs of the Council upon commencing of an engagement. Internal Audit provides opportunities for auditees to have input in formulating audit objective(s). For high-risk audits, Internal Audit also seeks the CEO's endorsement of the audit objective(s).

Engagement scope is driven by:

- the determined objectives; the broader the objectives, the wider the audit scope; and
- the level of assurance required; an "audit" provides a reasonable level of assurance and requires wider scope than that for a "review" which provides limited level of assurance.

Responsibilities

The Internal Audit program is to be undertaken by the Shire of Dardanup Corporate Excellence & Compliance Officer, with oversight by the Deputy CEO and assistance of other Council staff when required or available.

Council staff involved with the Internal Audit program will have access to all areas of the Shire of Dardanup operations, including correspondence, files, accounts, records, and documents as is necessary to perform the duties of the role, except those items that are noted as confidential and/or personal. Access to material noted as confidential and/or personal will only be provided upon request by the CEO.

Council staff involved with the Internal Audit program will conduct their reviews based on the methodology and internal audit coverage prioritization contained within the Internal Audit Plan, and report on the outcome of this review. Where it is reported that problems exist, corrective action will be recommended and followed through for action, ensuring that resources are directed towards areas of highest risk.

The Shire of Dardanup Internal Audit Plan will be reviewed and assessed on an annual basis. The Internal Audit Plan may be adjusted as a result of receiving requests to undertake special advisory services to conduct reviews that do not form part of the structured plan.

At the conclusion of each internal audit a report on the outcome will be forwarded to the Deputy CEO. This report will outline what auditing actions were actually taken, provide recommendations for corrective action as required, monitoring, and reporting on the corrective actions undertaken.

Auditor General Reports

The *Local Government Amendment (Auditing) Act 2017* was proclaimed on 28 October 2017. The purpose of the Act was to make legislative changes to the *Local Government Act 1995* to provide for the auditing of local governments by the Auditor General.

The Act also provides for a new category of audits known as 'performance audit reports' which examine the economy, efficiency, and effectiveness of any aspect of a local government's operations. The findings of these audits are likely representative of issues in other local government entities that were not part of the sample. In addition, the Auditor General releases 'guides' to help support good governance within a local government's operations.

The Auditor General encourages all entities, not just those audited, to periodically assess themselves against the risks and controls noted in each of the performance audit reports and guides when published. Testing performance against the Auditor General findings and reporting the outcomes to the Audit and Risk Committee can be further viewed as a vital component of the internal control function under Regulation 17.

Internal Audit Annual Work Plan

INTERNAL AUDIT ANNUAL WORK SCHEDULE 2024-2025					
PROJECT	TYPE	RISK RATING	BUDGET DAYS	DATE	RESOURCES
Register Review	Assurance – Compliance	Low	7 days	November 2024	Acting Corporate Excellence & Compliance Officer
Lease/Property Management	Assurance – Financial; Compliance	Moderate	10 days	March 2025	Corporate Excellence & Compliance Officer
Staff Exit Controls	Assurance – Financial; Compliance	Moderate	3 days	April 2025	Corporate Excellence & Compliance Officer
Accounts Payable Review	Assurance – Financial; Compliance	High	14 days	May 2025	Corporate Excellence & Compliance Officer
CCTV Review	Assurance - Compliance	Moderate	5 days	June 2025	Corporate Excellence & Compliance Officer

Annual Audit Review 2024-2025

Assurance – Compliance

Tender Register

- Review register for compliance with *Local Government (Functions and General) Regulations 1996*, Regulation 17 and ensure the register accurately and completely records all tenders.

Register of Gifts and Contributions to Travel Register

- Review register for compliance with *Local Government Act 1995*, s5.87A and s5.87B.
- Register accurately records all declarations.
- Declaration Form 4 complies with disclosure requirements.

Electoral Gift Register

- Review register for disclosures by candidates and donors in accordance with *Local Government (Elections) Regulations*, Regulation 30G.
- Review disclosures relating to unsuccessful candidates have been removed from the register and retained separately for at least 2 years.

Financial and Non-Financial Interests Register (Declarations of Interests)

- Review register for compliance with s5.88 *Local Government Act 1995*, and *Local Government (Administration) Regulations 1996*, Regulation 28.
- Register accurately records all declarations.
- Declarations comply with disclosure requirements under the *Local Government Act 1995*, Part 5, Div 6, Subdivision 1.

Common Seal Register

- Review register for compliance with Division 3 sections 9.49 and 9.49A *Local Government Act 1995*, and Council Policy Exec CP201 Execution of Documents and Application of Common Seal.
- Register accurately records each date the Common Seal was affixed to a document, the purpose of the document, and the number of copies sealed.
- Review the Councillor Information Bulletins for a report listing the documents to which the Common Seal has been affixed, and that the report has been presented to the next available Bulletin after which the Common Seal has been affixed.

Related Party Register

- Review register for compliance with AASB 124 Related Party Disclosures.
- Register accurately records related party relationships and related party transactions.
- The Annual Financial Report accurately reports transactions that have occurred with related parties.

Assurance – Financial; Compliance

Lease/Property Management

- Review process in place to ensure all lease monies (including utility reimbursements) are raised and collected on a timely basis.
- Lease reviews are conducted in a timely and appropriate manner.
- Leases are properly authorised, with appropriate agreements in place.
- Revenue is accurately recorded in the general ledger.

Assurance – Financial; Compliance

Staff Exit Controls

- Review end-to-end policies and procedures for employee terminations.
- Disabling of access to IT systems, buildings and banking delegations occur within 24 hours of exit date.
- Review adequacy of controls in place to ensure:
 - termination payments are reviewed and approved by another officer, and
 - that termination payments are processed within 1 week of the termination date, in accordance with the Industrial Agreement.
- Assess if exit interviews have been offered to terminating staff, and that feedback received has been analysed.

Assurance – Financial; Compliance

Accounts Payable

- Review supplier application/modification process to ensure suppliers are added/modified in accordance with policy and procedure.
- Test the reliability of the reporting and approval process for changes to Accounts Payable Masterfile details.
- Review permission levels in the financial system to determine credibility of officers that can create/amend/delete Accounts Payable Masterfile details.
- Review adequacy of controls in place to ensure only authorised payments are made.

Assurance – Compliance

Closed Circuit Television (CCTV) Review

- Review the governance and business oversight of the installation and management of installed CCTV systems, since the inception of administration policy [AP043 - Closed Circuit TV Governance](#).
- Assess if the procurement policy and process has been applied with regard to all financial and related delegations, since the inception of administration policy [AP043 - Closed Circuit TV Governance](#).
- Assess if access logs and monitoring activities are compliant with [AP043 - Closed Circuit TV Governance](#).
- Review the central register of all CCTV installations by site.

Template – Internal Audit Assessment and Response Summary

SHIRE OF DARDANUP – INTERNAL AUDIT ASSESSMENT AND RESPONSE SUMMARY		
Prepared by		
Date		
Audit Focus Area		
ASSESSMENT	OBJECTIVES MET Yes/No/NA	COMMENTS
C1 Internal Controls C1.1 Ownership C1.2 Comprehensive Written Procedures C1.3 Confirm Staff Aware of Procedures C1.4 Confirm Staff Follow Procedures		
C2 Transaction Verification		
C3 Authorising Process		
C4 Processing		
C5 Compliance		
C6 Payments		
Reviewed by		
Date		
Signed		

RISK ASSESSMENT TOOL**OVERALL RISK EVENT:** 2024-2025 Internal Audit Program**RISK THEME PROFILE:**

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

9 - External Theft and Fraud (including Cyber Crime)

8 - Errors, Omissions and Delays

12 - Misconduct

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 internal control within the organisation would result in non-compliance with 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)	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.
PROPERTY	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:** Biannual Compliance Task 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.
PROPERTY	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

7th Floor, Albert Facey House
469 Wellington Street, Perth

Mr Andre Schonfeldt
Chief Executive Officer
Shire of Dardanup
PO Box 7016
EATON WA 6232

Mail to: Perth BC
PO Box 8489
PERTH WA 6849

Tel: 08 6557 7500
Email: info@audit.wa.gov.au

Email: andre.schonfeldt@dardanup.wa.gov.au

Dear Mr Schonfeldt

**ANNUAL FINANCIAL REPORT
INTERIM AUDIT RESULTS FOR THE YEAR ENDED 30 JUNE 2024**

We have completed the interim audit for the year ended 30 June 2024. We performed this phase of the audit in accordance with our audit plan. The focus of our interim audit was to evaluate your overall control environment, but not for the purpose of expressing an opinion on the effectiveness of internal control, and to obtain an understanding of the key business processes, risks and internal controls relevant to our audit of the annual financial report.

The result of the interim audit was satisfactory. An audit is not designed to identify all internal control deficiencies that may require management attention. It is possible that irregularities and deficiencies may have occurred and not been identified as a result of our audit.

This letter has been provided for the purposes of your local government and may not be suitable for other purposes.

We have forwarded a copy of this letter to the President. A copy will also be forwarded to the Minister for Local Government when we forward our auditor's report on the annual financial report to the Minister on completion of the audit.

Feel free to contact me on 6557 7551 if you would like to discuss these matters further.

Yours sincerely

Suraj Karki
Acting Director
Financial Audit
6 June 2024

Attach

RISK ASSESSMENT TOOL								
OVERALL RISK EVENT: Annual Financial Report – Interim Audit Results for the Year Ending 30 June 2024 RISK THEME PROFILE: 3 - Failure to Fulfil Compliance Requirements (Statutory, Regulatory) 12 - Misconduct 8 - Errors, Omissions and Delays 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	Not presenting the Interim Audit Results for the year ending 30 June 2023 to the Audit and Risk Committee (and subsequently Council).	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 being open and transparent with disclosing findings from the Auditor General.	Minor (2)	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.
PROPERTY	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.

