

West Gippsland Libraries

RISK MANAGEMENT STRATEGY

March 2021





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Inherent Limitations

The Services provided are advisory in nature and have not been conducted in accordance with the standards issued by the Australian Auditing and Assurance Standards Board and consequently no opinions or conclusions under these standards are expressed.

Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made.

Our work is performed on a sample basis; we cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud.

Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Recommendations and suggestions for improvement should be assessed by management for their full commercial impact before they are implemented.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy, or reliability is given in relation to the statements and representations made by, and the information and documentation provided by WGL personnel. We have not attempted to verify these sources independently unless otherwise noted within the report.

Limitation of Use

This report is intended solely for the information and internal use of WGL in accordance with our proposal dated December 2020 and is not intended to be and should not be used by any other person or entity. No other person or entity is entitled to rely, in any manner, or for any purpose, on this report. We do not accept or assume responsibility to anyone other than WGL for our work, for this report, or for any reliance which may be placed on this report by any party other than WGL.

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WGL Risk Management Strategy

1. Overview

West Gippsland Libraries (WGL) is a leader and innovator within the Library sector. It has been providing quality, specialist library services to the Shires of Baw Baw, Bass Coast and South Gippsland for over 25 years, offering extensive benefits to ratepayers and the broader community.

Changes to the Local Government Act 2020 (LGA) come into effect from July 2021, requiring Library Corporations to change their legal entity governance. Whilst there is a 10 year period to transition into a new entity structure, WGL has developed a business case that demonstrates the benefits of being incorporated as a company limited by guarantee not-for-profit.

2. Risk Management Strategy

The West Gippsland Libraries Risk Management Strategy (RMS) is a document that describes the approach for managing risks arising from WGL's strategy and business operations, and the key elements of the organisation's risk management framework (RMF).

The RMS has been updated to support Council Members fulfil part of their risk management responsibilities under the LGA. Section 111 of the LGA requires Councils participating in a beneficial enterprise to:

- Have regard to the risks involved; and
- Establish risk management arrangements.

Given the regulatory landscape and changes driven by the LGA, WGL's RMS has been updated to focus on three pillars of risk for the organisation and its member Councils:

- Legal entity structure risk
- Incorporation risk (i.e. on the basis of WGL being incorporated under a new legal entity structure)
- Operational risks (day-to-day risks that could impact WGL achieving its strategic objectives).

3. Setting the Risk Management Strategy

3.1. Approach

Through its entity structure and operations, WGL is exposed to a broad range of inter-related risks. In order to set the risk appetite and risk strategy of the organisation, the organisation undertakes an exercise whereby:

- Key risks facing the organisation are identified. The process for identifying risks is explained in detail under Risk Identification in the RMF.
- Key risks are analysed and summarised into Material Risk categories.
- Risk appetite is set for specific components impacting Material Risks. The process for establishing a risk appetite statement is explained in detail in Section 3.2 (Risk Appetite Statement) below.



All key underlying risks identified are managed and monitored as part of WGL's RMF described below.

3.2. Risk Appetite Statement

WGL has developed a Risk Appetite Statement (RAS) which monitors how material risks of the organisation are being managed. The following method has been applied to develop the RAS:

- Synthesised the risks identified (see Section 5.2) into material risks. The material risks identified for WGL are described below.
- For each material risk, identified risk statements that can be measured with objective data. These data points are called risk appetite metrics.
- Risk appetite metrics are classified as Green, Amber or Red depending on the data point. Given the risk appetite of WGL is not simply zero risk, the following principles are adopted for managing risk against the RAS:
 - The RAS is a *call to action* as follows:
 - RAS metric is green – no action. The risk is being managed
 - RAS metric is amber – Management and the Board should assess where additional controls may be required to manage the risk. Strategic action is likely required to bring the risk back into the green zone
 - RAS metric is red – The Board should sign up to an action plan that strengthens the control environment.
- The RAS is included in all Board meetings and is used to drive a strategic discussion on risk management. The RAS should enable the Board to dive into specific organisational risks identified in the risk register (Appendices 2-4) and discuss where control investment may be required.

Material Risks

Based on WGL's risk assessment undertaken (Appendices 2-4), the following two Material Risks have been identified.

- *Strategic Risk*: risks that affect or are created by WGL's business strategy and strategic objectives. A possible source of loss might arise from the pursuit of an unsuccessful business plan. For example, strategic risk may arise from making poor strategic business decisions, inappropriate business structures, sub-standard execution of decisions, inadequate resource allocation, or failure to respond well to changes in the business environment
- *Operational Risk*: risks of loss or non-compliance with laws resulting from inadequate or failed business processes, people, systems and/or external events. Compliance Risk, which is the risk of failure to act in accordance with laws, regulations and industry standards and policies falls within this Material Risk category as this risk is generally the outcome of failures in people, processes, and systems.

WGL has not identified Reputation Risk as a Material Risk. WGL recognises that Reputation Risk is largely a consequence of one of the key risks eventuating. Reputation Risk is therefore mitigated through the appropriate management of each key risk identified.

4. Roles and Responsibilities

Roles and responsibilities for WGL's risk management are shared across the Board and management. This section outlines the broad responsibilities of the Board and Management



for identifying and monitoring WGL's risks. A RACI (Responsible, Accountable, Consulted, Informed matrix) has also been provided to outline some more detailed risk management accountabilities across the organisation.

4.1. Board

WGL's Board is responsible for:

- Establishing WGL's governance structure (board sub-committees, management responsibilities for risk management)
- Overseeing the design and implementation of an effective risk management framework (RMF)
- Approving the organisation's RMS
- Setting WGL's risk appetite
- Overseeing WGL's risk profile. This means that the Board is responsible for having oversight of risk management activities across WGL, specifically where assurance activities demonstrate that controls are ineffective and action is required to mitigate the key risk(s) appropriately.
- Influencing a sound risk management culture (i.e. people understanding the organisation's risks and mechanisms in place to mitigate these risks).

4.2. Management

WGL's Management is responsible for:

- Implementing and maintaining the organisation's RMF on an ongoing basis. This includes, but is not limited to:
 - Identifying risks to which the organisation is exposed;
 - Implementing risk management mechanisms to mitigate such risks (i.e. the control environment); and
 - Assurance activity, which is controls testing undertaken to validate that controls are effective, or if not, drive action planning to further mitigate risks.
- Escalating any actual or emerging risks to the Board so that timely action can be taken
- Setting the tone about risk management with staff across the organisation.

WGL's RMF is articulated in more detail below.

4.3. RACI (responsible, Accountable, Consulted, Informed)

	Responsible	Accountable	Consulted	Informed
Material Risks				
Identification of Material Risks for WGL	Management	Board		Councils
Identification of risk appetite metrics	Management	Board	Councils	
Identification of risk appetite thresholds	Management	Board		



	Responsible	Accountable	Consulted	Informed
Monitoring of risk appetite thresholds	Management	Board		Councils
Reporting of risk appetite thresholds		Management		Board
Escalation of risk appetite breaches		Management		Board
Identification of strategies to mitigate Material Risks	Management	Board	Councils	
Oversight of risk mitigation strategies	Management	Board		
Approval of funding required to mitigate Material Risks		Board	Councils	
Key Organisational Risks				
Identification of key risks	Management	Board	Councils	
Identification of controls to mitigate key risks	Management	Board		
Funding controls to mitigate key risks	Management	Board		
Monitoring that controls mitigate key risks	Management	Board		
Assurance that controls are designed and operating effectively		Management		Board ¹
Reporting of ineffective controls		Management		Board
Funding remediation for ineffective controls	Management	Board		
Monitoring that ineffective controls are remediated	Management	Board ²		Councils
Endorsing risk position based on control environment	Management	Board		
Identifying impact to risk appetite threshold(s)	Management	Board		

5. Risk Management Framework

WGL's RMF comprises the following steps:

- Contextualising the internal and external business environment

¹ The Board is not accountable or responsible for reviewing every control test undertaken, however, must be informed where controls are ineffective so that they can exercise their accountability for overseeing that ineffective controls are being remediated (see note 2.)

² Following on from Note 1 above, Board accountability kicks in for overseeing that ineffective controls are remediated in a timely manner.



- Identifying key risks
- Identifying key controls
- Assurance (obtaining assurance that controls mitigate key risks, from both a design and operating perspective)
- Reporting and escalation

5.1. Contextualising the internal and external business environment

All environmental factors impacting WGL are articulated upfront. These factors inform the Board and Management what risks may be emerging as a result of the organisation's external and internal landscape. External and internal environmental factors impacting WGL include:

- *External environmental factors:*
 - Changes to the LGA in July 2021
 - Competition as more Library Corporations transition to NFPs
 - Changes to legislation and regulations
 - Changes to the broader local Government environment
 - Changes in State Government
 - Misalignment with community expectations
 - Ongoing uncertainty associated with COVID-19.
- *Internal environmental factors:*
 - Legal entity structure
 - Funding agreements
 - Restrictive constitution
 - Lack of clear business strategy with well-articulated KPIs
 - Move to more digital services.

5.2. Identifying key risks

From the environmental context provided key risks are identified. Whilst key material risks ultimately drive WGL's risk appetite statement, the methodology used for identifying risks includes:

- *Identifying risk events:* Outcomes that could have financial and/or reputation implications for WGL
- *Identifying risk causes:* Events that could result in the risk event identified

The Board and Management of WGL have workshopped the organisation's risks and these are reflected in Appendices 2-4. Given the LGA being introduced from July 2021 and the need to restructure the organisation from a legal entity perspective in the next 10 years, the risk assessment for WGL has been broken down into the following three categories:

- Legal entity structure – business case risk
- Incorporation Risk
- Ongoing Operational Risk.

The legal entity structure risk and incorporation risk are key strategic risks for WGL, given the short, medium and long term implications to the organisation of selecting a structure that does not enable WGL to deliver the required library services to the community. These risks, and risk management strategies have been workshopped by the Board and Management in February 2021 and can be found in Appendices 2-4.



5.3. Identifying key controls

The Board and Management invest in people, processes and systems to mitigate WGL's key risks. Within each process (manual or automated):

- *Control design*: Specific attributes are designed to mitigate the specific risk. As a simplistic example, for manual people-centric processes that could culminate in fraud, a second person independent of a transaction could be introduced to review and validate the transaction.
- *Control operating effectiveness*: Attributes are built into the controls to ensure the controls operate effectively. Following on from the control design example, a second person check is only effective if the person understands the key aspects of the transaction they are validating, such as bank account details of WGL rather than the individual who processed the transaction.

The Board and Management of WGL have identified key controls implemented for each risk in Appendix 2. Given this is a RMS, specific control attributes in place to mitigate each risk will be separately outlined by Management as part of WGL's Assurance outlined in Section 5.4 below. As with Risk Identification, controls are in place for each risk cause associated with:

- Legal entity structure – business case risk
- Incorporation Risk
- Operational Risk

5.4. Assurance

The Board and Management obtain assurance that the control environment is effective, and mitigates their associated risks. Assurance can be obtained in one of two ways:

Controls Testing whereby control design and control operating effectiveness is tested:

- *Control design*: Assurance validates that control investment made is fit for purpose from a design perspective. This means that the controls in place should mitigate the risks to which they have been assigned.
- *Control operating effectiveness*: In order for risks to be mitigated, controls must be operating effectively. This means that specific control attributes built into the control must be in place. As explained in the control identification example above, a maker/checker control for fraud will not be effective if the second person (checker) does not validate that the payee bank details are in fact legitimate.

Test scripts are generally developed for Assurance purposes. Test scripts outline the key controls, and control attributes that must be operating effectively in order to mitigate the risk. Control testing underlying the assurance is done on a sample basis, the sample size being dependent on the number of transactions taking place in a given period that could expose WGL to the risk.

Key risk indicators whereby data points are used to provide evidence on the effectiveness of the control environment:

- *Risk Indicators*: Data points that demonstrate the risk profile of WGL is changing, and therefore additional investment in the control environment is required. For example, if the number of library users increase by more than 10%, additional funding may be required to ensure that service provision can be sustained.



- *Control indicators:* Data points that demonstrate controls are not operating effectively. For example, continuing on from the fraud example, if data points suggest that payments are not independently authorised.

Data points that enable the use of risk indicators will be developed over time. The level of control testing will be reduced as more data points are developed and relied upon for monitoring risk indicators.

5.5. Reporting and escalation

There are two components of reporting and escalation

- *Reporting to the CEO*
 - All ineffective controls identified from controls testing are reported to the CEO. Action plans are developed within the organisation to remediate the control weaknesses and therefore, mitigate key risks.
 - Any risk indicator that is amber or red gets reported to the CEO. Action plans are developed within the organisation to remediate the control weaknesses and therefore, mitigate key risks
- *Reporting to the Board*
 - Action plans in place to remediate ineffective controls are reported to the Board. The Board will be involved in specific discussions where additional funding may be required to remediate ineffective controls.
 - The risk appetite statement is reported to the Board periodically³, and as described above should be used as a 'call to action':
 - The Board should engage with Management to develop actions in a timely manner to address Amber risk appetite metrics. Timely action will enable WGL to manage its risk environment.
 - The Board should sponsor investment in the control environment to address any Red risk appetite metrics.

³ The Board will undertake a formal review of the WGL risk appetite statement on an annual basis, to ensure it aligns with the organisational strategy and whenever internal or external factors shift which impact the organisation's risk profile.



Appendix 1: Risk appetite statement

MATERIAL RISK	METRIC	THRESHOLDS		
Material Risk: Strategic Risk				
Financial Sustainability		Green	Amber	Red
1. Funding to support service delivery	Annual rate cap	<rate cap	>rate cap	
2. Notice to withdraw from funding agreement	Number of councils withdrawing	0	>0	
3. Actual annual financial result versus budget	Unfavourable variance to budget %	<0%	0% - 1%	>1%
Delivering on community expectations		Green	Amber	Red
1. Physical downtime Downtime due to failure in WGL controls	Maximum Hours	<1hr	1-5hrs	>5hrs
2. Virtual downtime Downtime due to failure in WGL controls	Maximum Hours	<1 hr	1-5hrs	>5hrs
3. Maximum net loss of library members (physical visits)	Quarterly drop (%)	>0	0 - -2%	>-2%
4. Maximum loss of library visits (virtual)	Number of users	>0	0 - -2%	>-2%
5. Insufficient community consultation pertaining to significant service delivery changes	% of active members affected by change	>1%	0.5%-1%	<0.5%
6. Reduction in membership	% decrease in active membership	>0%	0% -/-2%	>-2%
Material Risk: Operational Risk				
Governance		Green	Amber	Red
1. Board turnover ⁴	Average Months	≥24 months	18-23 months	<18 months
2. Attendance at Board meetings by Nominated Directors	% of Board meetings	>90%	75-90%	<75%
Well Managed				
1. Regulatory breaches ⁵ *Any notice, fine or other indication that a regulation has been breached	Number per annum	0	1-3	>3
2. Operational losses *Adverse financial impact from operations not working effectively (e.g. fraud, loss from a transaction processing error)	% of revenue budget	0.5%	0.5-1%	>1%
3. Adverse media *News in the press or social media that damages WGL's reputation (e.g. child abuse on library premises)	Number of adverse media per year ⁶	0	1	>1
4. Staff culture surveys *Measures sentiment of staff in the organisation and therefore links to staff attraction and retention risk	Staff engagement average rating (score out of 5)	4	3-4	<3

⁴ Amber and Red metrics indicate that ongoing Board changes may result in the organisation constantly having to re-align its strategic imperatives which could impact the level of focus required to deliver WGL's strategy. This is a call to action to ensure stability at the Board level and consequently, reduced distraction from frequent changes

⁵ Regulatory breaches that culminate in Red operational losses or adverse media, including breaching obligations on child safety, OH&S, privacy and fraud

⁶ Adverse media could include objective compliance breaches such as child safety, OH&S, fraudulent activity and excludes media around service delivery which may be subjective in nature – which would be expected to have adverse financial or reputational impacts for the organisation



Appendix 2: Risk Register – Business Case Risk

Key Risk	Key Controls	Expected Risk	Assurance	Status
1. Financial Sustainability				
Loss of operational effectiveness	<ol style="list-style-type: none"> WGL Board approves preferred legal entity option structure, based on an assessment of pros and cons of entity structure options for library service provision. WGL Board approves preferred legal entity option by giving consideration to the risk assessment. 		<ul style="list-style-type: none"> LGV Regional Library Discussion paper VAGO Council Libraries Performance Audit 2019 Russell Kennedy Discussion Paper May 2020 WGL Board Briefing Legal Entity Background and Overview January 2021 Risk assessment 	Completed
Revenue base is too narrow (e.g. lost opportunities in the form of sponsorships/fee for service)	<ol style="list-style-type: none"> Preferred legal entity supports the ability to diversify and increase library funding Donation, fundraising and sponsorship policy Legal advice around constitution to provide funding flexibility 		<ul style="list-style-type: none"> History of Councils creating Not-for-Profits for this purpose – i.e. Shepparton City Council Art Museum. Appropriate flexibility worded in the constitution to support revenue diversification. Appropriate wording in constitution that supports continuation of State Government annual recurring grants. Lawyers to provide appropriate wording in the constitution 	In progress
Council funding pressures result in funding cuts	<ol style="list-style-type: none"> Funding agreement with Councils 		<ul style="list-style-type: none"> Lawyers to novate the existing funding agreement to the new entity. No new funding agreement required. 	Novation will occur at the time of entity transfer.
2. Inappropriate service offering				
Service dilution (when trying to address too many community expectations)	<ol style="list-style-type: none"> Board approves the Strategic Plan: <ul style="list-style-type: none"> Key stakeholders are identified and engaged as part of the Strategic Plan development. Stakeholder needs are identified and communicated Stakeholder needs are balanced against the available Annual Budget Service offering is supported with a clear stakeholder communication plan Quarterly performance reports provided to the Board Member Councils approve annual funding contribution when approving their Annual Budget. 		<ul style="list-style-type: none"> Well established Strategic Plan development, engagement, and approval process in place. Robust quarterly reporting process in place and reported to the Board. Robust Annual Budget development process in place and approved by the Board. Ongoing stakeholder engagement methods in place and specific plans are developed specifically for each project. 	Completed Annual-ongoing
Pressure emerging on councils when community	<ol style="list-style-type: none"> Approved entity option maintains / increases existing service provision. 		<ul style="list-style-type: none"> WGL Board Briefing Legal Entity Background and Overview January 2021 	Completed



Key Risk	Key Controls	Expected Risk	Assurance	Status
expectations not fulfilled	9. Due diligence undertaken to support decision		<ul style="list-style-type: none"> Risk assessment of Business Case risks 	
Lack of rigour in decision making or slow/fast decision making	10. Entity and service options are analysed in detail 11. Legal advice outlining the transition requirements and process 12. Risk assessment of legal entity structure completed		<ul style="list-style-type: none"> Due diligence has been undertaken over the past two years. LGV Regional Library Discussion paper VAGO Council Libraries Performance Audit 2019 New LGA forces an entity change Russell Kennedy Discussion Paper May 2020 WGL Board Briefing Legal Entity Background and Overview January 2021 Risk assessment Legal advice and overview of what is involved in the transition process. 	Completed
KPIs are not appropriately set and measured	13. Board approves the Strategic Plan 14. Board approves the CEO KPIs 15. Board has a Remuneration and Performance Sub-committee 16. Quarterly performance reports provided to the Board 17. Member Councils approve annual funding contribution when approving their Annual Budget		<ul style="list-style-type: none"> Board adopted CEO KPI to progress/complete the entity transition 	Completed Annual-Ongoing
3. Inappropriate governance structure				
Directors are conflicted between their roles in member councils and fiduciary duties to WGL Roles and responsibilities not appropriately designed and managed Board constraints – skills and turnover/capacity of members	18. Governance structure in the new legal entity considers: <ul style="list-style-type: none"> Various options available and analysed for board structures (i.e. combination of Council nominee Board members and skilled bases independent Board members) Board skills matrix is completed and gaps identified to inform an optimal structure Consultation is undertaken on Board policies that may include Board Succession and Board Terms. 19. Board Members undertake governance training to ensure they understand their fiduciary obligations as a WGL Board Member.		<ul style="list-style-type: none"> Lawyers are providing multiple Board composition options for consideration in the constitution. Lawyers will present to the Board and provide an overview (scheduled for 26/3/21) of pros and cons on each option so the Board can make an informed decision. Skills matrix will be developed and identify required and desired skills required as a Board Member. Constitution includes wording that supports the above points. 	Completed



Key Risk	Key Controls	Expected Risk	Assurance	Status
	21. Board performance and self-assessment undertaken each year, coordinated by the Board Chairperson.			
4. Delays in progressing a new legal entity structure because the business case does not support an informed decision				
<p>Business case does not contain a roadmap for implementation</p> <p>Decision takes a prolonged period of time</p> <p>Misalignment between internal and external stakeholders</p>	<p>22. Board approves a roadmap with steps required to make a decision regarding the new legal entity structure. The roadmap includes, but is not limited to</p> <ul style="list-style-type: none"> • Specific advice required to support the decision (e.g. legal and financial advice) • Council-specific considerations (e.g. Council policies such as Investment Policies) • Stakeholder engagement <p>23. Management maintains the legal entity roadmap and provides periodic updates to the Board for monitoring and for decision-making purposes</p>		<ul style="list-style-type: none"> • Legal conversion checklist requirements and timelines has been completed by Lawyers. • Entity transition project plan (v1) circulated to the Board on 8/2/21 • Communication and Stakeholder Engagement Plan to be developed and presented to the Board on 26/3/21. • Accounting valuation assessment to support transition and support compliance with sec 111(1)(a) LGA 2020 being developed and will be presented to the Council CFO's 23/4/21. • Lawyers drafting the terms of entity transition in consultation with Accountants and Council CFO's. • Marketing Agency developing new entity name options for the Boards consideration and will be presented to the Board on 26/3/21. • Revised road map to be provided to the Board on 26/3/21. • Specific legal advice has been sought on: <ul style="list-style-type: none"> • Council procurement requirements • Entity competitive neutrality requirements • Councils property requirements i.e. leases 	Completed
<p>Council specific obligations are not considered such as:</p> <ul style="list-style-type: none"> • Competitive neutrality • Procurement • Occupancy / lease/ management agreements 	<p>24. Competitive neutrality legal advice and assessment undertaken.</p> <p>25. Lawyers will advise wording for inclusion in Council's Procurement Policies post 1 July 2021 to support receiving services from WGL NFP.</p> <p>26. Management agreement will be executed, outlining terms of use of buildings</p>		<ul style="list-style-type: none"> • Competitive neutrality legal advice received. • Competitive neutrality assessment periodically undertaken by WGL NFP in the future. • Procurement legal advice received. Council Procurement Policy clause wording to be provided to Councils post 1 July 2021. • Novate existing Library Agreement that outlines facilities management 	Completed



Key Risk	Key Controls	Expected Risk	Assurance	Status
			responsibilities and obligations.	

Appendix 3: Risk Register – Entity Incorporation Risk

Key Risk	Key Controls	Expected Risk	Assurance	Status
5. Financial Sustainability				
Constitution restricts membership (e.g. lack of ability to attract new council members)	1. Board reviews and approves constitution documented by external legal advisors for the new entity <ul style="list-style-type: none"> • Lawyers draft clause options for constitution that provides flexibility and outlines pros and cons of each option 		<ul style="list-style-type: none"> • Lawyers workshop final constitution wording options with the Board (scheduled for 26/3/21). 	Completed
Inability to attract new members	2. Entity Membership/funding (equity contribution) and fee for service options framework are approved by the Board (i.e. new Councils can become a member with an asset contribution or opt for a fee for service) 3. Board reviews promotion collateral and monitors progress 4. Achievement of alternative funding methods is monitored through KPIs set with management		<ul style="list-style-type: none"> • To be developed once new entity is created or sooner if a Council expresses interest in the provision of services. 	To be completed in 2022
Inability to diversify revenue streams (e.g. fee for service)	5. Skills based independent Board Member with revenue growth and philanthropy experience included in the required skills matrix.		<ul style="list-style-type: none"> • Skills matrix being drafted. • Approval of the board composition and constitution required prior to sourcing independent skills-based board members. 	Board Composition determined. Skills matrix to be developed in 2021.22
Funding commitments (under contract) does not protect the financial sustainability of the organisation	6. Funding agreement with Founding Councils are in place 7. Entity membership/funding options for new Members and fee for service options framework are approved by the Board (i.e. new Councils can become a member with an asset contribution or opt for a fee for service) 8. Workshops undertaken with financial and legal advisers to: <ul style="list-style-type: none"> • Determine financial impacts to WGL and 		<ul style="list-style-type: none"> • Novate existing funding agreements • Qualified accountants being engaged to provide advice on accounting implications to WGL, NFP and member Councils from the transition (Note – separate accountants are required to be engaged to ensure there is no conflict of interest between each Member Council's VAGO Audit Provider) 	At time of transition Completed



Key Risk	Key Controls	Expected Risk	Assurance	Status
	<p>Councils from winding-up the current structure</p> <ul style="list-style-type: none"> Determine financial implications to the new entity from founding Councils Define the characteristics of loan agreements to mitigate financial risks to founding members. Establish a membership model in the constitution that limits liability i.e. members cannot be liable for monies exceeding their contribution to the new entity. 		<ul style="list-style-type: none"> Accounting options for consideration by Councils include donation of investment to the new NFP or creating a loan receivable that requires ongoing review and assessment. 	
6. Inflexible legal structure				
Inflexible constitution impacting financial and representation matters	<p>8. As per above</p> <p>9. Determine board structures that meet the needs of the organisation and ensure that the Constitution provides flexibility around Board representation</p>		<ul style="list-style-type: none"> Board workshop with the lawyers regarding constitution options scheduled for 26/3/21 	Completed
7. Employee relations				
Transfer of business protocols not followed under employment legislation	<p>11. Lawyers provide advice on transmission of business requirements</p> <p>12. Communication to employees incorporated into stakeholder engagement plan</p>		<ul style="list-style-type: none"> Existing EBA transferred to new entity. Process outlined in EBA followed. Letters of offer to all employees provided under same rates and employment conditions. 	In progress Time of transition
Funding is lower than expected resulting in redundancy costs	<p>20. Novate existing Library Agreement</p> <p>21. No redundancies under transmission of business</p>		<ul style="list-style-type: none"> Funding not expected to be less. 	Time of transition
8. Governance				
Board of Directors does not have diversity of skills required to drive long term sustainability of the organisation	<p>23. Governance structure in the new legal entity considers:</p> <ul style="list-style-type: none"> Various options available and analysed for board structures (i.e. combination of Council nominee Board members and skilled bases independent Board members) Board skills matrix is completed and gaps identified to inform an optimal structure Consultation is undertaken on Board policies that may include Board Succession and Board Terms. <p>24. Board Members undertake governance training to</p>		<ul style="list-style-type: none"> Lawyers are providing multiple Board composition options for consideration in the constitution Lawyers will present to the Board and provide an overview (scheduled for 26/3/21) of pros and cons on each option so the Board can make an informed decision Skills matrix will be developed and identify required and desired skills required as a Board Member Constitution includes wording that supports the above points 	Completed



Key Risk	Key Controls	Expected Risk	Assurance	Status
	<p>ensure they understand their fiduciary obligations as a WGL Board Member.</p> <p>25. Board performance and self-assessment to be undertaken each year, coordinated by the Board Chairperson.</p>			
Inability to attract independent skills-based board members.	<p>26. Ability to remunerate Board Directors provided for in the Constitution</p> <p>27. The Entity (and Board) will develop an Independent Board Member Remuneration Policy at time of the transition and prior to recruiting new independent Board Members</p>		<ul style="list-style-type: none"> • Lawyers drafting a clause for the constitution 	Completed
<p>Directors are conflicted between their roles in member organisations and fiduciary duty to WGL</p> <p>Ineffective Board succession planning</p> <p>Ineffective Board recruitment (new non-Council Board members) –</p> <ul style="list-style-type: none"> • Inappropriate skills • Insufficient capacity • Insufficient diversity 	<p>28. Governance structures are reviewed by the Board as part of the new legal entity decision, taking into consideration:</p> <ul style="list-style-type: none"> • Board skills matrix (used to identify skill gaps and required skills) • Conflicts of interest that may exist between members and WGL, and ability to manage such conflicts • Continuity, including Board terms and capacity of Board members <p>29. External legal review of Board-related policies to be adopted by WGL, which may include but not be limited to:</p> <ul style="list-style-type: none"> • Board Terms • Dispute resolutions • Conflict of Interest <p>30. Board recruitment</p>		<ul style="list-style-type: none"> • Lawyers are providing multiple Board composition options for consideration in the constitution. • Lawyers will present to the Board and provide an overview (scheduled for 26/3/21) of pros and cons on each option so the Board can make an informed decision. • Skills matrix will be developed and identify required and desired skills required as a Board Member. • Constitution includes wording that supports the above points. 	Completed
Undefined cadence and disciplines for Board to make informed decisions	31. Provide Board and Member Councils with due diligence reports and project timelines.		<ul style="list-style-type: none"> • Completed Risk Strategy, Due Diligence Reports, and Council Briefings. 	In progress
Dispute resolution mechanisms not in place	32. Dispute resolution procedure included in constitution.		<ul style="list-style-type: none"> • Lawyers drafting clause for the constitution 	To be novated from Library Agreement/Funding Agreement
9. Compliance obligations				
Regulatory obligations not identified upfront impacting ongoing compliance, specifically:	<p>33. External legal advice provided on regulatory obligations that must be addressed in day-to-day obligations, and:</p> <ul style="list-style-type: none"> • An obligations register outlining regulations impacting WGL 		<ul style="list-style-type: none"> • WGL Accountants will provide Company Secretarial function ensuring ongoing compliance • Lawyers provide checklist for regulatory obligations 	In progress



Key Risk	Key Controls	Expected Risk	Assurance	Status
<p>Not-for-Profits Commission (ACNC)</p> <ul style="list-style-type: none"> Competitive neutrality 	<ul style="list-style-type: none"> An approach to compliance articulated for each obligation – i.e. outlining how WGL has a defensible position that it is compliant through its underlying processes and systems <p>34. External legal review of organisation policies that support compliance with underlying regulations</p>		<ul style="list-style-type: none"> Policies and procedures will be developed for additional obligations not already being fulfilled Annual Audit and preparation of Financial Statements will continue 	
<p>Council policies impact the feasibility of the decision (e.g. Investment Policy, Lease Policy)</p>	<p>35. Competitive neutrality legal advice and assessment undertaken</p> <p>36. Lawyers to provide wording for inclusion in Council's Procurement Policies post 1 July 2021 to support receiving services from WGL NFP</p> <p>37. Maintain/novate existing agreement outlining obligations and responsibilities of WGL/new entity and Councils.</p>		<ul style="list-style-type: none"> Competitive neutrality legal advice received Competitive neutrality assessment periodically undertaken by WGL NFP in the future Procurement legal advice received. Council Procurement Policy clause wording to be provided to Councils post 1 July 2021 Novate existing Library Agreement that maintains existing arrangements with Council functions 	Completed
<p>Accounting impact on existing non-current asset on Councils Balance Sheet</p>	<p>38. Fair value assessment/valuation to be undertaken by qualified accountants</p> <p>39. Accounting advice provided outlining how to account for transition</p>		<ul style="list-style-type: none"> Novate existing agreement Qualified accountants being engaged to undertake a fair value assessment of WGL to inform transition value. <i>(Note – separate accountants are required to be engaged to ensure there is no conflict of interest between each Member Councils VAGO Audit Provider)</i> Qualified accountants being engaged to provide advice on accounting implications to WGL, NFP and member Councils from the transition 	Completed



Appendix 4: Risk Register – Operational Risks

Risk/s	EXPECTED RISK LEVEL	PROPOSED CONTROLS
Operational Risks		
Financial Sustainability 1. Ineffective budget management 2. Ineffective oversight of finances 3. Reduction in committed funding		1. Annual budget is reviewed and approved by the Board 2. Periodic Board reporting outlines actual vs budget revenue / expenses – any emerging variances are discussed with an action plan <ul style="list-style-type: none"> • The Board and Management implement contingency plans to address emerging funding gaps
Services not delivered 1. Ineffective service planning		3. Service plan is tabled with the Board on an [annual] basis for review 4. Regular reporting to the Board on achievements against service plan
Governance 1. Operational governance fails to oversee <ul style="list-style-type: none"> • Mechanisms in place to ensure compliance with regulatory obligations • Effectiveness of controls to mitigate key operational risks 2. Key operational risks include, but may not be limited to: <ul style="list-style-type: none"> • Breach of privacy obligations (including cyber risks) • Breach of copyright obligations • Breach of software licencing obligations • Fraud (external / internal) • Expense management risks • Employee relations • Business continuity • Occupational Health & Safety • Child safety • Leases • Procurement of library services • Staff attraction/retention • Rights and obligations under lease agreements • Failure to identify and manage regulatory obligations • Ineffective communication impacts stakeholder relationships 		5. In line with the WGL's Risk Management Framework: <ul style="list-style-type: none"> • Management identifies controls in place to mitigate key operational risks identified • Periodic assurance is undertaken on effectiveness of controls • Ineffective controls are escalated to the Board – action plan / funding requirement is agreed



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