

5.11. 2020/2021 INTERNAL AUDIT PLAN

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DEPARTMENT Governance

RECOMMENDATION

That Council endorse The Strategic Internal Audit Plan FY 2020-2022 and the Annual Internal Audit Plan for FY2021 as presented.

EXECUTIVE SUMMARY

The Internal Audit function is one component of the Douglas Shire Council's Governance Structure. In addition to key management controls and the organisation-wide risk assessment process, the Internal Audit function provides the organisation's stakeholders with a level of assurance that business processes are operating appropriately and effectively in accordance with organisational and legislative requirements.

BACKGROUND

In accordance with section 207(1) of the *Local Government Regulation 2012* (LGR 2012), Council must prepare and carry out an internal audit plan each financial year. Additionally, Council is to receive a progress report to enable it to assess compliance with the adopted internal audit plan.

COMMENT

A local government's internal audit plan is a document that includes statements about:

- The way in which the operational risks have been evaluated
- The most significant operational risks identified from the evaluation
- Control measures, that the Council has adopted to manage the most significant operational risks

The Internal Audit Function (Governance Department) will provide the Council Audit Committee a progress report for the internal audit at least twice during the year after the internal audit is carried out by providing a summary of recommendation stated in the report, summary of actions that have been taken by Council in response to the recommendations and a summary of any actions that have not been taken by Council in response the recommendations.

Pacifica Chartered Accountants have been performing the Internal Audit for Douglas Shire Council for a number of years. These projects were prioritized to focus on the immediate needs of management and provide assurance coverage over elements of the Councils most significant risks. The following represents Internal Projects that have been previously completed for Council.

FY 2014: Specific Procedures requested by Management & Payroll Processes

FY 2015: Cash Handling Practices / Procurement Compliance / Rates and Water Billing Procedures

FY 2016: Customer Request Management / Plant Management Practices / Stores and Inventory Management

FY 2017: Trust Account Validation

FY 2018: Financial Statement Assurance / Property and Leasing / Fraud Risk and Ethical Conduct

FY 2019: Data Analytics / Grants Application and Management Process / Risk Assessment of changes to payroll function reporting lines

FY 2020: Revenue Assurance & Cash Handling / Water Management Practices

PROPOSAL

That Council endorse The Strategic Internal Audit Plan FY 2020-2022 and the Annual Internal Audit Plan for FY2021 as presented.

FINANCIAL/RESOURCE IMPLICATIONS

The cost of Internal Audit services, which includes the development and implementation of the Annual Internal Audit Plan has been included in Council's annual budget.

RISK MANAGEMENT IMPLICATIONS

The Internal Auditors undertake the projects outlined in the Annual Internal Audit Plan from a risk management and industry best practice perspective. They review Council's processes and procedures associated with each project and in collaboration with senior staff, provide recommended enhancements that will assist in mitigating risk to Council operations

SUSTAINABILITY IMPLICATIONS

Economic: Nil

Environmental: Nil

Social: Nil

CORPORATE/OPERATIONAL PLAN, POLICY REFERENCE

This report has been prepared in accordance with the following:

Corporate Plan 2019-2024 Initiatives:

Theme 5 - Robust Governance and Efficient Service Delivery

Strong governance and financial management are the foundations of the way in which Council will conduct its business and implement the initiatives of the Corporate Plan.

Goal 1 - *We will conduct Council business in an open and transparent manner with strong oversight and open reporting.*

Operational Plan 2020-2021 Actions:

5.1.2 - *Review Council's reporting to the community. Update key performance indicators.*

COUNCIL'S ROLE

Council can play a number of different roles in certain circumstances and it is important to be clear about which role is appropriate for a specific purpose or circumstance. The implementation of actions will be a collective effort and Council's involvement will vary from information only through to full responsibility for delivery.

The following areas outline where Council has a clear responsibility to act:

Information Provider Council provides the community with important information on services, events, policies, rules, strategies, and any other relevant data that helps the community to stay informed. In performing this role, Council seeks to be open and transparent.

CONSULTATION

Internal: Executive staff have discussed and support the Internal Audit Plan relating to possible scope for the next three years

External: Internal Auditors – Pacifica

COMMUNITY ENGAGEMENT

Nil

ATTACHMENTS

1. Risk Aligned Strategic & Annual Internal Audit Plan 2020-22 [5.11.1 - 8 pages]

INTERNAL AUDIT MEMORANDUM



**RISK-ALIGNED
STRATEGIC INTERNAL AUDIT PLAN FY2020-2022**

AND

ANNUAL INTERNAL AUDIT PLAN FOR FY2021 (YEAR 2)

JULY 2020



1. Background

The Internal Audit function is one component of Douglas Shire Council's (Council) governance framework. In addition to key management controls and the organisation-wide risk assessment process, the Internal Audit function provides the organisation's stakeholders with a level of assurance that business processes are operating appropriately and effectively in accordance with organisational and legislative requirements.

Supported by legislation, the Internal Audit function is directed to examine, assess and evaluate the operational and financial control measures that Council has adopted, or plans to adopt, to manage business risks that have the potential to impact the achievement of the corporate objectives. In doing so, the Internal Audit function must review the key corporate-wide risks and consider the areas of the organisation, in consultation with Management, that require or would benefit from internal audit activity.

2. Internal Audit planning approach using Corporate Risk Register outputs

The outputs of the Risk process are best utilised by Internal Audit to develop an Internal Audit Plan that assesses the effectiveness of the existing systems, processes and controls that are implicitly relied upon by the Executive Team.

By assessing the application and effectiveness of existing systems and controls (Risk Treatments) as they operate in the organisation, Internal Audit provides independent and objective information to the Leadership Team (Council, Executive Team and Audit Committee, where one exists) about the level of reliance that should be placed on existing systems and processes, and will also identify improvements required.

Furthermore, Management is best placed to continue to progress actions that strengthen existing systems and controls where there are known deficiencies, lower than expected (or unacceptable) effectiveness ratings or further initiatives/management actions are required to move the risk to a level that is tolerable.

It is important that Internal Audit is cognisant of the work being undertaken and planned by Management to reduce or mitigate risks and leave enough time for these initiatives, systems and controls to become embedded before Internal Audit assess their effectiveness. Exceptions to this may be reviews designed to establish a baseline position as a guide to future Management initiatives or to provide assurance that the implementation status or progress of an initiative is adequate and can achieve the desired objectives.

3. Alignment and prioritisation of Internal Audit projects to the Corporate Risk Register (auditable risk areas)

The appropriateness of our judgments on the organisation's key risks were reconfirmed in consultation with the Chief Executive Officer and Mayor in July 2020.

In developing the Internal Audit Plan, we focussed on those risks where the effectiveness of systems and controls are integral to reducing the severity of the risk, and where internal controls were expected to be in place and operating. The most significant risks identified from our review of the Douglas Shire Council Risk Registers, and discussions with management, capture the rationale for Internal Audit activity and are included below.

3.1 Rationale for determining the direction of Internal Audit effort based on risk severity

In our assessment of Council's Corporate Risk Register, we considered the residual risk ratings and Management's assessment of the control effectiveness of existing systems and controls to mitigate those risks. We used this information to develop a list of possible projects for discussion with management and prioritise the Internal Audit projects to be performed in each year. The basis for our rationale, as it relates to each risk is outlined in the table below. It is important to recognise that not all risks and/or risk treatments are auditable.

Our analysis of the alignment between each risk and potential Internal Audit projects is included in section 3.3 – Risk Assurance Map, and sections 4.1 – Proposed Projects - Internal Audit Plan 2021-2023 and 4.2 – Alternative Audit Projects (available for Substitution) later in this report.

3.2 Summary of past Internal Audit Projects

The following represents the Internal Projects that have previously been completed for Council. These projects were prioritised to focus on the immediate needs of management and provide assurance coverage over elements of the organisation's most significant risks:

FY 2018:

- Property and Leasing
- Fraud Risk and Ethical Conduct

FY 2019:

- Grants Application and Management Process
- Payroll Function - New Structure Assurance
- Grant Acquittal - Reservoir Funding
- Data Analytics – Fraud Red Flags on Payroll, Accounts Payable and Procurement

FY 2020:

- Revenue Assurance & Cash Handling
- Water Management Practices

[SECTION ENDS]

3.3 Risk Assurance Map – Agreed Internal Audit Projects - Aligning Internal Audit effort to the Douglas Shire Council Corporate Risk Register

This table shows the alignment between the operational risks to which the organisation is exposed, and the proposed Internal Audit projects identified during consultation with the Executive Management Team. Not all the key risks identified are auditable or suitable for review by Internal Audit in the short-term as further Management action is required. Where auditable, we have provided our view of the type of Internal Audit coverage that will be provided over key processes in place to mitigate the risks identified in Council’s Risk Register.

IA Coverage: ■ Direct | ■ Indirect

Rationale for determining the direction of Internal Audit effort based on risk severity (per 3.1 above)		2019 - 20 Plan		2020 - 21 Plan			2021 - 22 Plan						
		Revenue Assurance & Cash Handling Review - selected areas	Water Management Practices Review	Corporate cards, Standing accounts, Staff reimbursements and fuel cards Review	Environmental Management Systems Review	Customer Request Management Practices	Payroll processes, including HR selection & exit procedures	Developer Contributions - development approvals, headworks calculations, payment riggers and collection processes	Accounts Receivable & Debtor Management, including Payment Card Industry Data Security Standard	Information security management, including data breach requirements	Asset Management and Asset Accounting - identification and recognition (new & existing infrastructure assets)	Councillor Obligations, including Implementation of Council Decisions	Records Management Practices
1	Failure to deliver essential services	✓	✓		✓	✓					✓		
2	Failure to deliver projects	✓		✓	✓	✓					✓	✓	
3	Potential for ineffective financial management	✓		✓	✓	✓	✓	✓	✓				✓
4	Failure of Corporate Business Systems							✓	✓				✓
5	Lack of capacity, skills or capabilities to meet emerging needs of the organisation		✓		✓	✓	✓		✓	✓	✓	✓	✓
6	Inability to effectively respond to and recover from disaster events		✓							✓			
7	Fraud and corruption	✓	✓	✓			✓	✓		✓		✓	
8	Failure to comply with statutory and legal organisational obligations and responsibilities		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓
9	Reduction in revenue raising capacity	✓						✓					
10	Political risks	✓										✓	
Number of Risks covered by the IA Project		6	5	3	5	5	4	4	4	4	5	5	4

4. Summary of proposed Internal Audit effort – Annual Internal Audit Plan

The Internal Audit activity will comprise the following components:

Internal audit activity - type	Description of activity	TOTAL DAYS		
		Year 1 FY2020	Year 2 FY2021	Year 3 FY2022
Designated Project Reviews	This Internal Audit Plan sets out the designated Internal Audit projects to be undertaken in each year. The specific projects are detailed to be performed each year are included in Section 4.1 of this document.	27	44	TBA
Audit Matrix – Progress validation	The Audit Issues Register is maintained by Council to track and monitor the implementation status of Management actions in response to findings raised by Internal and External Audit. Internal Audit has not performed any validation of the status of previously raised findings to provide assurance to Council (or the Audit Committee where one exists) that the status of Management’s actions is fairly reported. An estimate of the time required to complete this task can be provided if required, however we can also provide management with suggested approaches used by other Councils that can be explored. Management (and the Audit Committee where one exists) may prefer other attestation protocols that do not require Internal Audit involvement enabling the function to focus on project reviews over administrative tasks. However, we are committed to assisting wherever it is most suitable to Council.	-	TBA	TBA
Probity Advisory & Assurance Services over Large-Scale Procurement	Large-scale procurement can carry significant risks to Council. At times, an external independent Probity Advisor may benefit Council to mitigate some of the risks and ensure compliance. Pacifica has an independent Probity Advisory Service available to Council. Our tailored approach covers probity risks associated with the application of Sound Contracting Principles (LGAct2012) and provides assurance over: <ul style="list-style-type: none"> ▪ Fairness and impartiality ▪ Accountability and transparency of process ▪ Confidentiality and security of information and materials ▪ Effective management of conflicts of interest 	-	If required	
Special Projects & Hot Topics	Hot topics are rapid reviews or investigations into specific activities/areas that are carried out in short timeframes. Management (or the Audit Committee where one exists) may, from time to time, request that Internal Audit provide assurance or information on a specific topic, such as: <ul style="list-style-type: none"> ▪ Follow-up Review of Port Douglas Markets 	-	If required	
Internal Audit Planning and Coordination	The following activities are required to deliver an effective, integrated and credible Internal Audit function at Douglas Shire Council: <ul style="list-style-type: none"> ▪ Formation of the Strategic Internal Audit Plan and Annual Internal Audit Plans in accordance with S.207 LGR2012 and the Professional Standards of the Institute of Internal Auditors; ▪ Preparation for and attendance at (in person or teleconference) Audit Committee Meetings (where one exists), including Internal Audit Status Reporting; ▪ Liaison with External Auditors and/or third-party assurance providers where appropriate; ▪ Meetings with Internal Audit Sponsor or Executive Management as required; ▪ Annual Internal Audit Professional Standards Declaration, where required. 	6	3	3
Summary of Total Days allocated to proposed Internal Audit activity		33	47	TBA

The following table represents each of the proposed project areas that Management and Internal Audit support for delivery over the three (3) years. For each project, we have included an overview of the project objective, the link to specific relevant key risks within Council’s Corporate Risk Register, and an estimate of the number of days.

4.1 Proposed Annual Internal Audit Plan FY2020 -2022

AUDIT ACTIVITY	Overview of project scope	Proposed Days		
		2020	2021	2022
YEAR 1 – FY2020 – COMPLETE				
Revenue Assurance, including Cash Handling Practices – selected income streams		12		
Review of Water Management Practices		15		
YEAR 2 – FY2021				
1. Corporate Cards, Standing Accounts, Staff Reimbursements & Fuel Cards. [DEFERRED FROM FY2020]	Internal Audit will examine, on a sample basis, the nature of corporate transactions to determine whether cardholders (credit and fuel) and other reimbursable and standing account arrangements are compliant with Council policy. The review will examine the appropriateness, completeness and application of Delegations of Authority vested in officers to perform their roles and duties. Assess the adequacy of internal controls in place to ensure delegations are known, properly applied, controlled, and monitored.		10	
2. Environmental Management Systems Review	Council has significant environmental management obligations internally, to third-party agencies and to the community. The effectiveness of environmental management systems, processes and practices to monitor and prevent environmental impacts of Council operations (or identify and resolve environmental breaches) is strongly aligned with Council’s Corporate Objectives and captured implicitly in risks in the Corporate Risk Register. This project will assess Council’s Environmental Management compliance with requirements of environmental legislation ISO 14001:2015 (or more recent).		10	
3. Customer Request Experience	Customer Request and Complaints Management is an essential part of Council’s service responsibility and it requires a systematic approach to ensure satisfactory outcomes. The review will examine the effectiveness and efficiencies of the procedures to capture, process and close-out Service Requests and formal complaints.		24	
Proposed level of Internal Audit effort – Project days only			44	
YEAR 3 – FY2022				
1. Payroll processes, including HR selection & exit procedures	As one of the largest operational expenses, payroll (including overtime, allowances, and entitlements) will be examined by internal audit to ensure that the internal controls surrounding additions, deletion and changes to key information are adequate. Consider any results of previous reviews on Council’s payroll system and determine if the issues have been adequately addressed. Further, given the number of employees and the potential staff turnover that may arise, there will be benefit in reviewing the processes associated with employee movements in to and out of the organisation through the HR selection, induction and exit procedures.			15

2. Developer Contributions – development approvals, headworks calculations, payment triggers and collection processes	Infrastructure charges are levied upon developments as part of the development assessment process. Charges are collected or assets constructed contribute to the provision of essential trunk infrastructure to service the region. Deficiencies in the process can result in significant write-off of Council income. The review will consider procedures for tracking and monitoring approved developments to gain assurance that the process improvements and control activities expected are in play and operating effectively and efficiently. This review will assess how headwork charges are tracked, recognised and the timeliness of identification and collection of income.			15		
3. Accounts Receivable & Debtor Management, including Payment Card Industry Data Security Standard	As the Rates and Water Billing collections processes have been reviewed in a previous internal audit, management have recognised that an opportunity exists to review the accounts receivable and debtor management practices for other revenue streams. Evaluate controls around credit worthiness, credit approval, maintenance of accounts receivable master file, reporting, treatment of outstanding accounts, entering repayment plans, doubtful debts, provisioning for bad and doubtful debts. As part of the review, we will also examine the security controls and retention of payment card data that Council collects through online and card payment methods. Payment Card Industry Data Security Standard (PCIDSS) is a mandatory compliance requirement for all enterprises that process, store, transmit or access cardholder information.			13		
4. Information security management, including data breach requirements	The stability and effectiveness of Council’s Information Systems environment is critical to the organisation’s ability to operate and deliver on community expectations. Internal Audit will examine Council’s protocols (in accordance with the requirements of ISACA) in place to secure and protect Council’s information and systems, including back-up protocols, business continuity procedures, physical security measures, supplier performance and network stability. As part of the review, we will also examine Council’s readiness under the <i>Privacy Amendment (Notifiable Data Breaches) Act 2017</i> to report on any obligations to notify individuals whose personal information is involved in a data breach (if such were to occur) that is likely to result in serious harm.			20		
5. Asset Management and Asset Accounting – identification and recognition (new & existing infrastructure assets)	Council has a significant existing asset base to which it constantly adds, maintains at the same level or improves (betterment). Maintaining the accuracy and completeness of the asset registers and the processes needed to identify, record and recognise assets across various departments is complex. There are significant adverse impacts for Council if deficiencies exist in work practices.			12		
6. Councillor Obligations, including Implementation of Council Decisions	High level examination of the practices and awareness of Councillor obligations under the Local Government Act, Local Government Regulations and the Belcarra Reforms. This review will focus predominantly around keeping up-to-date declarations and disclosing material personal interest (at meetings and in general). To provide a holistic assessment of management and Councillor processes that support decision making and delivery, Internal Audit will also evaluate the processes in place to ensure that Council decisions are recorded, tasked and actioned in a timely matter; and that completed actions are appropriately recorded and/or reported upon to Council/CEO/Manager. The review will consider the quality and content of officer decision reports and the rigour in formulating the recommendation to Council, as well as mechanisms in place that ensure ‘enduring’ Council decisions are completely and correctly reflected in formal registers and legislative requirements are met.			14		
7. Records Management Practices	Records management comprises the creation, receipt, maintenance, use, safeguarding, and disposal of records. It includes processes for capturing and maintaining evidence and information of business value. Enabling the effective management of records throughout their life-cycle requires knowledge of the business; system support; naming conventions consistently applied; appropriate access rights; knowledge of disposition practices such as archiving, transferring and deleting; and, importantly, compliance with the policy and standards established throughout the process. Sound records management contributes to the timely provision of information under the <i>Right to Information Act 2009</i> and <i>Information Privacy Act 2009</i> which is essential to meeting legislative requirements and mitigating reputational risks to Council.			12		
Proposed level of Internal Audit effort – Project days only				27	44	101

4.2 Alternative Audit Projects (Available for Substitution)

Several alternative projects were considered in developing the above Internal Audit plan. When prioritised the following projects were considered relevant but not as high a priority as the projects selected above. These projects have been captured below as potential substitutable projects, if Council's need change or other risks emerge requiring Internal Audit attention:

- Project Management, Recoverable Works & Contract Administration
- Maintenance Management Systems & Processes
- Contract Management & Procurement
- Works Programme Budget Development (capital & maintenance budgets)
- Non-Financial Delegations of Authority
- Compliance Management systems and reporting

[END]