

5.15. INTERNAL AUDIT PLAN FOR FY2022

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DEPARTMENT Governance

RECOMMENDATION

That Council endorse the Annual Internal Audit Plan for FY2022.

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 s 207(1) of the *Local Government Regulation 2012*, Council must prepare and carry out an internal audit plan each financial year.

Additionally, Council is to receive a progress report at the completion of each scope to enable it to assess compliance with the adopted internal audit plan.

COMMENTS

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 Douglas Shire Council Audit Committee with 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 recommendations stated in the report, a 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 prioritised to focus on the immediate needs of management and provide assurance coverage over elements of the Councils most significant risks.

FY2022 Internal Audit Projects will be:

- Records Management Practices (12 Days)
- Developer Contributions (15 Days)
- Internal Audit Coordination Activities (3 Days)
- Audit Maxtrix – Progress Validation (6-8 days)

PROPOSAL

That Council endorses the Annual Internal Audit Plan for FY2022.

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 2021-2022 annual budget. The cost associated with this year's Audit is \$66,860.80 (GST Inc.)

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 Management and the Audit Committee, provide recommended enhancements that will assist in mitigating risk to Council operations.

Failure to undertake an Annual Internal Audit Plan is a breach of s 207(1) of the *Local Government Regulation 2012*.

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.

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: Management & Audit Committee

External: Pacifica Chartered Accountants

COMMUNITY ENGAGEMENT

Nil

ATTACHMENTS

1. DSC FINAL Annual Internal Audit Plan F Y 2022 - STC 270122 [5.15.1 - 5 pages]

INTERNAL AUDIT MEMORANDUM



ANNUAL INTERNAL AUDIT PLAN FOR FY2022

REVISED JANUARY 2022

[PROJECTS ENDORSED AT 23 AUGUST 2021 AUDIT COMMITTEE MEETING]



1. Background

The Internal Audit function is one key 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.

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 consider the key corporate-wide risks typically present in the Local Government environment, and in consultation with Management, determine the auditable areas that require, or would benefit from, internal audit activity.

2. Planning approach to align and prioritise the Internal Audit Effort

The outputs of Council's 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). Predominantly this covers the level of reliance that should be placed on existing systems and processes and identifies 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/actions are required to move the risk to a tolerable level.

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.

It is important to recognise that not all risks and/or risk treatments are auditable. Our analysis of the alignment between Council's most significant risks and potential Internal Audit projects is included in *Section 4 – Risk Assurance Map*, and *Section 6 – Internal Audit Plan FY2022* later in this report.

3. 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 2021:

- Corporate Cards, Standing Accounts, Staff Reimbursements & Fuel Cards
- Environmental Management Systems Review
- Customer Request Management Practices

FY 2020:

- Revenue Assurance & Cash Handling
- Water Management Practices

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

4. Risk Assurance Map – Agreed Internal Audit Projects - Aligning Internal Audit effort to the Douglas Shire Council Key Risks

This table shows the alignment between the operational risks to which the organisation is exposed, and the proposed Internal Audit projects identified by the Audit Committee and 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.

IA Coverage: ■ Direct | ■ Indirect

Rationale for determining the direction of Internal Audit effort based on risk severity (per 3.1 above)		2021 - 22 Plan		2020 - 21 Plan			2019 - 20 Plan	
		Records Management Practices	Developer Contributions - development approvals, headworks calculations, payment triggers and collection processes	Corporate Cards, Standing Accounts, Staff Reimbursements and Fuel Cards Review	Environmental Management Systems Review	Customer Request Management Practices	Revenue Assurance & Cash Handling Review - selected areas	Water Management Practices Review
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 (all forms)		✓				✓	
10	Political risks		✓				✓	
Number of Risks covered by the IA Project		4	5	3	5	5	6	5

5. Summary of 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 3 FY2022	Year 2 FY2021	Year 1 FY2020
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 6 of this document.	27	44	27
Audit Matrix – Progress validation	The Audit Issues Register is maintained by Council to track and monitor the implementation status of agreed Management actions in response to findings raised by Internal Audit. Internal Audit has never performed any validation of the status of previously raised findings to provide assurance to Council (via the Audit Committee) that measures introduced have improved internal control and business processes. An estimate of the time required to complete this task is provided.	6-8	-	-
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) may, from time to time, request that Internal Audit provide assurance or information on a specific topic.	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, 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. 	3	3	6
Summary of Total Days allocated to proposed Internal Audit activity		36-38	47	33

6. Annual Internal Audit Plan FY2022

The following table represents each of the proposed projects that Management and the Audit Committee have requested to be performed in the FY2022 Annual Internal Audit Plan. For each project, we have included an overview of the project objective, the link to specific relevant key risks in Council’s Corporate Risk Register, and an estimate of the number of days required.

AUDIT ACTIVITY	Overview of project scope	Proposed Days
YEAR 3 – FY2022		
1. 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 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 disposal and retention 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> , and in examining complaints (which is essential to meeting legislative requirements and mitigating reputational risks to Council).	12
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 developer-constructed assets 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 and insufficient or problematic infrastructure. The review will consider procedures for tracking and monitoring approved developments to gain assurance that the process improvements and control activities expected are in place and operating effectively and efficiently. This review will assess how headwork charges are tracked, recognised and the timeliness of identification and collection of income, among other key processes.	15
Proposed level of Internal Audit effort – Project days only		27

[ENDS]