Procedure 6.03.5

Internal Audit

<table>
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<th>Directorate</th>
<th>Business &amp; Governance</th>
</tr>
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<tbody>
<tr>
<td>Responsible Officer</td>
<td>Executive Manager</td>
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Introduction

Internal audit is an essential component of a good governance framework for all councils. Bega Valley Shire Council (BVSC) has made an undertaking to establish and maintain an effective Internal Audit function as a key component of its governance framework, and to meet all relevant internal audit requirements.

Scope

This procedure includes planning, execution, reporting and follow–up of BVSC internal audits and applies to all activities within Council.

Objectives

To ensure BVSC continually operates in accordance with the specified policies, procedures, internal controls and external requirements in meeting organisational goals and objectives. Also to ensure that improvements to Council’s management and operational systems are identified, implemented and suitable to achieve objectives.

References

- Internal Audit Guidelines (2010), The Office of Local Government,
- AS NZS ISO 9001 Quality Management Systems
- AS NZS ISO 19011 Guidelines for auditing management systems
- Internal Audit Committee (IAC) Charter

Definitions

<table>
<thead>
<tr>
<th>Term</th>
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<tbody>
<tr>
<td>Audit</td>
<td>An audit is an evidence gathering process. Audit evidence is used to evaluate how well audit criteria are being met. Audits must be objective, impartial, and independent, and the audit process must be both systematic and documented.</td>
</tr>
<tr>
<td>Auditee</td>
<td>An auditee is a section within BVSC that is being audited. Specifically the auditee will be the manager or coordinator of the area being audited and will be responsible for ensuring that identified non-conformances or opportunities for improvement are implemented as appropriate.</td>
</tr>
<tr>
<td>Auditor</td>
<td>An auditor is a person who carries out audits. Auditors collect evidence in order to evaluate how well audit criteria are being met. They must be objective, impartial, independent, and competent.</td>
</tr>
<tr>
<td>Audit Client</td>
<td>An audit client is any person or organisation that requests an audit. Internal audit clients can be either the auditee or audit program manager whereas external audit clients can include regulators or customers or any other parties that have a legal or contractual right or obligation to carry out an audit.</td>
</tr>
<tr>
<td>Audit Criteria</td>
<td>Audit criteria include policies, procedures, and requirements. Audit evidence is used to determine how well audit criteria are being met. Audit evidence is used to determine how well policies are being implemented, how well procedures are being applied, and how well requirements are being followed.</td>
</tr>
<tr>
<td>Audit Evidence</td>
<td>Audit evidence includes records, factual statements, and other verifiable information related to the audit criteria being used. Audit criteria include policies, procedures, and requirements. Audit evidence can be either qualitative or quantitative. Objective evidence is information that shows or proves something exists or is true.</td>
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</table>
Term | Definition
--- | ---
Audit Scope | The scope of an audit is a statement specifying the focus, extent, and boundary of a particular audit. The scope can be specified by defining the physical location of the audit, the organisational units that will be examined, the processes and activities that will be included, and the time period that will be covered.

Internal Audit function | Internal Audit function encompasses in-house audit staff employed by Council, staff from the contracted internal audit co-source provider and/or staff from an external organisation engaged by the Governance Unit to provide specific internal audit services.

Nonconformity | Nonconformity is the "non-fulfilment of a requirement". It is a failure to comply with requirements. A requirement is a need, expectation, or obligation. It can be stated or implied by an organisation, its customers, or other interested parties.

### Duties and responsibilities

The following duties and responsibilities apply to the following BVSC positions as detailed below:

#### Internal Audit Coordinator

The internal audit coordinator will:

- Prepare an audit program in consultation with the General Manager, the Leadership Executive Group (LEG) and the IAC.
- Coordinate BVSC internal audit activities (excluding the financial audits as defined in the Local Government Act)
- Act as lead auditor for identified internal audits conducted by BVSC
- Liaise with Consultant Auditors undertaking internal auditing for BVSC
- Prepare the IAC annual report which will summarise the activities of the committee throughout the reporting period. The annual report will be reviewed and endorsed by the IAC and presented to Council

#### Lead Auditor

An audit team is made up of one or more auditors, one of whom is appointed to be the audit leader. The audit team may also include audit trainees. When necessary, audit teams are also supported by guides and technical experts. Guides and technical experts assist auditors but do not themselves act as auditors. The lead auditor will:

- Coordinate the audit schedule with responsible personnel
- Plans the audit, prepares the working documents and briefs the audit team
- Consolidates all audit findings and observations and prepares internal audit report
- Reports critical non-conformities to the auditee immediately
- Report to the auditee the audit results clearly and without delay
- Conducts the opening and closing meeting

#### Audit Team Member

Audit team members will:

- Support the Lead Auditor’s activities
- Performs the audit using the audit program
- Reports the non-conformities and recommends suggestions for improvement
- Retains the confidentiality of audit findings
- Acts in an ethical manner at all times
Auditees will:

- Fully cooperate with the Audit Team, and with full and timely provision of information and records and management responses
- Receive, consider and discuss the audit report
- Determine resources and complete corrective actions as necessary

Internal Audit Committee

The IAC is an independent objective appraisal and consulting function established within Council to examine and evaluate its activities. The Committee provides an advisory role to Council but does not have executive power or authority to implement actions. The IAC consists of one elected Councillor and three external independent representatives. The requirements of the IAC are documented in the IAC Charter.

Procedure

General

The following general principles will apply to the internal audit function at BVSC:

- An audit programme shall be created that contains all scheduled and potential audits for each financial year;
- Only competent personnel who are truly independent of the subject area shall perform audits
- All members of the Internal Audit Team shall be appointed by the Internal Audit Coordinator
- The Lead Auditor shall supervise the activity of the Audit Team
- An Audit Notification Memo is sent to the department/section to be audited at least three working days in advance of the audit

Note: Annex 1 provides a dot point summary of the key audit processes outlined below.

Planning and Preparing the Audit

An annual BVSC internal audit programme will be prepared by the Lead Auditor in consultation with the Internal Audit Committee and approved by the General Manager. It should be revised to reflect any changes in the priorities or schedule during the year.

Based on the audit programme, the Lead Auditor will ensure the respective audit specific plans are developed.

The audit plan and notification will be prepared by the Lead Auditor, reviewed and approved by the auditee. It shall be communicated to the auditors and the auditees. It shall be designed to be flexible in order to permit changes based on the information gathered during the audit. The plan shall include:

- Audit details (i.e. audit number, title, date, location and relevant contact person).
- Background information
- Audit objective, scope and criteria
- An audit feasibility review should be included if the original audit scope is altered
- Department/Section and responsible individuals in charge
- Methodology
- Audit risks
- Confidentiality, information security and dispute resolution
- Resources Required
- Draft Audit Schedule
- Audit team members. The number of auditors depends on the audit area size
One or more pre-audit meetings between the auditee, Lead Auditor and auditors shall take place not later than one day prior to the audit proper. Objectives are as follows:

- To ensure the availability of all the resources needed and other logistics that may be required by the auditor.
- The scope of the audit is verified from the Audit Plan

Opening meeting

An opening meeting shall be held on the first day of the audit but before the audit proper. The following (but not limited to) may be discussed during the opening meeting:

- Introduction of the audit and auditee team members
- Explanation of audit objectives, scope and criteria
- Risk Management and Identification
- Discussion of the audit schedule
- Explanation of methodology that will be used for the audit
- Explanation of methods that will be used to report audit findings
- Discuss how to deal with audit findings
- Discuss the system to be used for feedback from the auditee on the findings or on conclusion of the audit
- Confirmation of resources and facilities availability
- Discuss conditions under which the audit may be terminated
- Confirmation of communication channels
- Discussion of security/confidentiality related issues
- Discussion of emergency/security related procedures

Audit Execution

Audit findings will be collected through interviews, examination of documents and observation of activities and conditions in the areas of concern. The auditors will use observational worksheets to document the evidence sighted which supports the conclusions made by the audit team in the final audit report.

Closing Meeting

The Lead Auditor shall preside over the closing meeting attended by the audit team and the auditees. The auditors shall report their findings, observations and recommendations, summarising the good points before discussing non-conformities supported by the audit evidence. All parties shall safeguard the confidentiality of the internal audit report.
The closing meeting agenda should include:

- Review, analysis and stakeholder endorsement of findings
- Observed strengths and weaknesses of the organisation’s management system
- Corrective actions required
- Agreed management response
- Time line for delivery of the final audit report

The audit team shall meet and review all of their findings ensuring they are supported by objective evidence prior to conducting the closing meeting.

**Audit Reporting**

The Lead Auditor will consolidate all audit findings for the preparation of the audit report.

**Classification of findings shall be:**

The following categories relating to overall compliance will be used in the detailed findings section and the concluding remarks for this audit:

<table>
<thead>
<tr>
<th>Non-Conformity</th>
<th>Opportunity for improvement</th>
<th>Conformity</th>
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<tbody>
<tr>
<td>A failure to comply with a requirement. A requirement is a need, expectation or obligation. It can be stated or implied by an organisation, its customers or other interested parties and must be actioned and closed off within an agreed timeframe.</td>
<td>The effectiveness of processes can be enhanced with improved system efficiency or better practice.</td>
<td>The results of the audit activity indicate an acceptable fulfilment of a requirement.</td>
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The Lead Auditor shall prepare a standard internal audit Report containing the following information:

- Audit title, reference number and date
- Executive Summary
- Name of auditee and auditors
- Relevant background Information
- Statement of findings
- Corrective actions with completion date
- Concluding statement
- Risk management action plan which summarises key recommendations using appropriate risk ratings.

Auditors shall follow a code of conduct in the manner of reporting:

- The report should be concise but factual and presented in a constructive manner.
- The findings should be within the scope of audit and shows the relationship of the standard used.
- The report should not show bias by the individual auditor.
- The Lead Auditor shall issue a formal Audit Report to the Audit client.
- The internal audit report shall be maintained and controlled by the internal audit coordinator in accordance with Councils Records Management Procedures.
Risk Ratings

In addition to the classification of findings detailed in an audit report an overall risk rating scale for each engagement will be used. The purpose of the rating is to provide an indicator of the adequacy of risk management activities and controls and will be used in the audit report to assist auditee’s prioritise recommendations.

<table>
<thead>
<tr>
<th>Level</th>
<th>Risk Description</th>
<th>Recommended Actions</th>
<th>Action Timeframe</th>
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<tbody>
<tr>
<td>VERY HIGH</td>
<td>Unsatisfactory: Numerous very high and/or high risk issues identified. Controls are not adequate to address the associated risk.</td>
<td>Key controls are not in place around a critical business function which is exposing Council to substantial risk. Immediate remediation action needed to bring controls to acceptable standards.</td>
<td>ASAP or no more than 3 months.</td>
</tr>
<tr>
<td>HIGH</td>
<td>Requiring significant improvement: A small number of very high or high risk issues or a large number of medium risk issues were identified. Controls are not adequate to address the associated risk.</td>
<td>Significant control exposure was noted that could result in significant financial or reputational loss. Immediate short term attention / review is required.</td>
<td>ASAP or no more than 6 months.</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>Requiring improvement: Only isolated instances of high risk issues and or a small number of medium risk issues.</td>
<td>Isolated control gaps were noted, which if not addressed may in future lead to significant exposure. Tolerable with periodic review</td>
<td>ASAP or no more than 12 months.</td>
</tr>
<tr>
<td>LOW RISK</td>
<td>Satisfactory: Only isolated instances of moderate risk issues.</td>
<td>Minor control gaps and/or longer term opportunities for improvement were noted. Level of identified risk is acceptable with periodic review.</td>
<td>ASAP or schedule for remediation as per next budgetary cycle as appropriate.</td>
</tr>
<tr>
<td>NOT RATED</td>
<td>No action: Applies to focused reviews where a rating may not be representative of the overall control environment; high level or specific reviews where only a small section of an area/process is examined; and investigations which are not rated.</td>
<td>No action required.</td>
<td>No action required.</td>
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Audit Follow-up and Closure

Whereas the auditors are responsible for identifying non-conformities, auditees are responsible for resolving non-conformities. Approved corrective actions shall be based on time scales agreed with the auditors.

The Lead Auditor shall follow-up to check the implementation of corrective actions as stated in the audit report. An audit will not be considered complete and closed until all corrective actions or measures have been successfully implemented or scheduled for implementation within a reasonable timeframe to the satisfaction of the Lead Auditor.
Continuous Improvement Plan

Whenever an auditor identifies areas of improvement which Council agrees to implement a continuous improvement plan (CIP) should be created. This CIP will be used to document the actions required to implement those recommendations identified and will be tabled at a meeting of the IAC. Once a CIP is developed the IAC may wish to track the progress of any agreed actions and may invite the relevant ‘risk owner’ to an IAC meeting so that they may be briefed on what actions have been completed etc.

Self-assessment checklists

Self-assessment is a vital component of Council’s overall compliance program. It does not replace the need for other processes used to achieve and maintain compliance, such as ongoing training of employees, day-to-day monitoring of adherence by managers/coordinators or the internal audit function. The aim of a self-assessment checklist is to enable managers to ensure that their staff are meeting the requirements of Council’s policies/procedures and should be conducted regularly (as appropriate). A register of self-assessment checklists will be maintained by Council’s Risk and Internal Audit Coordinator and will be made available to staff on SharePoint.

Records

As well as miscellaneous audit evidence (such as copies of documents, audit notes, records of interviews, system printouts etc.), BVSC internal audits generate the following formal records:

- Audit plan
- Opening/closing meeting agenda and minutes
- Audit observational worksheet
- Audit Report

All information shall be appropriately secured given its often confidential nature. All information shall be properly filed and indexed within Council’s document management system TRIM.
Annex 1 Internal Audit Checklist

The following checklist provides a summary of the procedure outlined above.


1.1 An audit programme shall be created that contains all scheduled and potential audits for the whole financial year. ☐

1.2 Only competent personnel who are truly independent of the subject area shall perform audits. ☐

1.3 An Audit Notification Memo is sent to the department/section to be audited at least three working days in advance of the audit. ☐

2. Audit Plan

2.1 An audit plan must be created for each audit activity and should include the following: ☐
   - Audit details (i.e audit number, title, date, location and relevant contact person)
   - Background information
   - Audit objective, scope and criteria
   - An audit feasibility review should be included if the original audit scope is altered
   - Department/Section and responsible individuals in charge
   - Methodology
   - Audit risks
   - Confidentiality, information security and dispute resolution
   - Resources Required
   - Draft Audit Schedule
   - Audit team members

3. Audit Meetings

3.1 The following meetings should be undertaken as part of the auditing process: ☐
   - Pre-Audit meeting
   - Opening Meeting
   - Closing Meeting

4. Audit Report

4.1 All audit findings shall be classified as a conformance, non-conformance or opportunity for improvement. ☐

4.2 The Lead Auditor shall prepare a standard internal audit report containing the following information: ☐
   - Audit title, reference number and date
   - Executive Summary
   - Name of auditee and auditors
   - Relevant Background Information
   - Statement of findings
   - Corrective Actions with completion date
   - Concluding statement
   - Risk management action plan which summarises key recommendations using appropriate risk ratings.