



Rous County Council

Internal Audit Plan 2022-25

FINAL

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Contents

Introduction	3
Purpose	3
Role of Internal Audit.....	3
Audit Planning Approach	3
Organisational Context	4
Finances	4
Audit Universe.....	5
Risk Assessment	5
Other Considerations.....	6
Suggested Audit Engagements	7
Appendix A – Auditable Unit Risk Assessment	8
Appendix B – Proposed Internal Audit Plan for the Period 1 July 2022 to 30 June 2025	11
Appendix C – Factors Used in Risk Assessment	12

Internal Audit Plan

Introduction

Rous County Council's internal audit function has been established to provide independent assurance and assistance to Council on risk management, control, governance, continuous improvement and external accountability responsibilities.

The International Standards for the Professional Practice of Internal Auditing require internal audit to develop a risk-based audit plan that establishes the priorities of the internal audit activity, consistent with the goals of the organisation.

Good practice internal audit plans need to be based on a risk assessment of the Council's key strategic and operational objectives and functions. The input of senior management and the Audit, Risk and Improvement Committee must also be considered.

Accordingly, this plan has been developed to guide the internal audit activity over the next three years and is based on a high-level assessment of the risks involved in Council's objectives, key functions and activities undertaken in February 2022.

Purpose

The purpose of this Plan is to identify key risks and auditable units and establish priorities for internal audit activities for the period 1 July 2022 to 30 June 2025.

Role of Internal Audit

The role of internal Audit at Rous County Council is to provide an independent, objective assurance and consulting service to add value and improve Council's operations. It helps Council accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes across all activities and processes.

Audit Planning Approach

The Internal Audit Plan is based on an assessment of the goals, objectives and business risks of Council, and also takes into consideration any special requirements of the Audit, Risk and Improvement Committee and Management.

A risk-based rolling program of internal audits over a three-year period is developed. This approach is designed to be flexible, dynamic and timelier in order to meet the changing needs and priorities of Council.

The audit planning approach and methodology involves:

1. Establishing organisational context
2. Identification of the Audit Universe

3. Risk Assessment
4. Selection of Audit Engagements

Organisational Context

To assist in the development of an appropriate Internal Audit Plan, a high-level review of Rous County Council was undertaken. The following sources of information were used in the review:

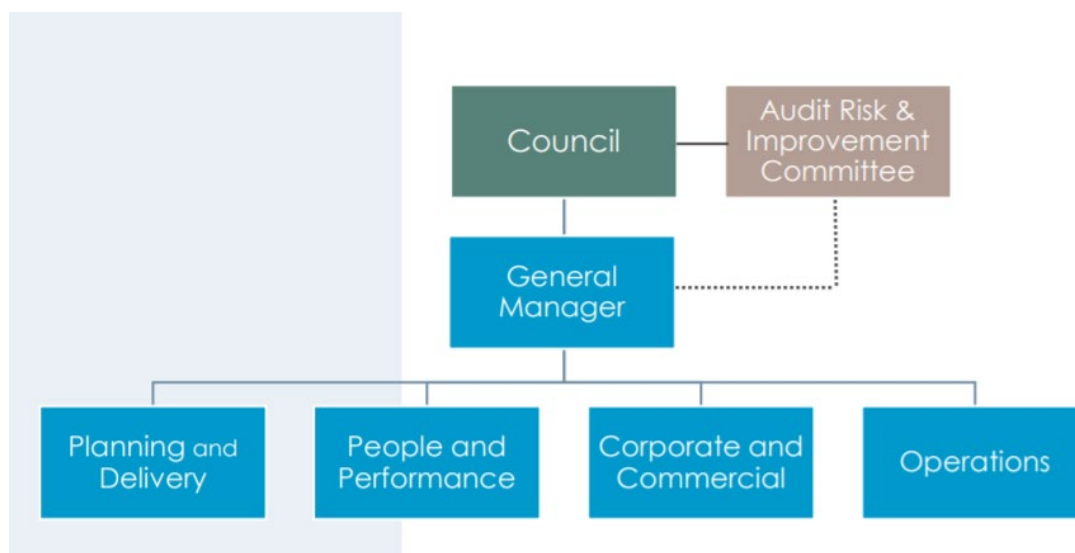
- 2020/21 Annual Report and Financial Statements
- Integrated Planning and Reporting Framework 2017-22
- Internal Audit Strategy 2019-2022
- Previous Internal Audit Reports
- Operational Risk Registers All Directorates

Meetings were held with the General Manager, Departmental Managers, the Governance and Risk Manager and independent members of the Audit, Risk and Improvement Committee to understand the scope of Council functions and activities and identify and analyse the inherent risks involved in each.

Organisation function and structure

Rous County Council is a county council constituted under the Local Government Act 1993, with three main functions: bulk water supply, weed biosecurity and flood mitigation.

Council has adopted the following functional organisation structure. Council employs approximately 91 Full Time Equivalent staff.



Finances

Council's revenue from continuing operations in the 2020/21 financial year was approximately \$30.58m. Operating expenses were approximately \$26.25m. User charges and fees were the major

source of income (68%) whilst the major expense items were employee costs (35%) and materials and services (34%).

Key financial performance indicators were:

- Unrestricted current ratio - 7.03x
- Operating performance ratio - (4.92%)
- Building and infrastructure renewals ratio – 1.00x
- Debt service ratio – 1.59x
- Own source operating revenue ratio – 78.85%
- Cash expense cover ratio - 25.80 months

Audit Universe

Based on a high-level risk assessment of Council activities conducted in February 2022, an 'audit universe' of auditable areas has been developed. The list of auditable areas is detailed in Appendix A. The specific controls to be audited within each area should be determined at the commencement of an audit assignment based on a detailed risk assessment of the area in question.

Risk Assessment

Risk Assessment

The high-level risk assessment considered a number of risk types:

- Financial - Risks that impact revenue, expenses, assets, liabilities, reserves
- Legal and Regulatory - Risks that impact compliance with or enforcement of various legislation and regulatory requirements
- Human - Risks that impact staff wellbeing, working conditions and the working environment
- Business Disruption - Risks that impact on Council's ability to deliver services to customers
- Environment - Risks that impact the natural environment
- Reputation – Risks that have an impact on Council's reputation
- Strategic - Risks that impact the development and execution of mid to long term plans

Consideration was also given to risks identified in Council's risk register and risks arising from use of technology.

In accordance with Council's adopted risk matrix, we categorised risk levels as Extreme, High, Medium or Low. See Appendix C for an explanation of the risk ratings that were used.

Internal Control Environment

We also made an assessment of the strength of the internal control environment in place for each auditable unit. This was purely based on discussions with management and review of Council's risk register and is not supported by any audit evidence. We categorised the internal control environment according to the following scale:

- **Effective** – a robust system of internal controls is in place that is effective in reducing the likelihood of risks occurring and/or the consequence if they do occur. Controls are also designed to detect possible risk events.
- **Partially Effective** – controls are in place and are generally effective, but some gaps may exist and/or the system of controls could be further strengthened.
- **Not Effective** – the control system is inadequate and unlikely to prevent risks from occurring at some point in the future.

Other assurance activities

Many of Council's functions are subject to a range of assurance activities. For example, financial statements and key financial controls are audited annually by the external auditor, Work Health and Safety audits and inspections may be carried out by the WHS team or external authorities and environmental licencing requirements are periodically reviewed and audited by the relevant regulatory authority. We assessed the level of other assurance activities in place using the following scale:

- **Externally Reviewed** – there are regular independent reviews or audits undertaken by external parties that provide a high level of certainty that controls are working effectively as intended.
- **Internal Oversight Only** – there are no independent checks undertaken, but internal oversight is conducted by management and only provides a limited degree of assurance.

Other Considerations

The following factors were also taken into consideration when developing the Internal Audit Plan:

Alignment with Corporate Risks

Council has a register of risks which may impact on the achievement of corporate objectives. These risks were considered in developing the Internal Audit Plan. These registers are currently due for review, and it is recommended that Council complete this review as soon as possible.

Previous audits

Consideration has been given to the timing of previous audits that have been conducted. An assessment has been made of the appropriate timing for future audit of those areas that have been audited within the last five years.

Budget and organisational capacity

Council's budget allows for approximately one internal audit (IA) to be completed per year. Additional audits may be carried out if considered appropriate by management and the ARIC. Council should consider supplementing the internal audit program with other forms of assurance including Control Self Assessments in each critical area of operation that is unlikely to be audited over the next three years.

Time Horizon

The Internal Audit Plan has been developed with a time horizon of three years out to July 2025.

Functional Audits v Detailed Activity Audits

Given the size of the audit universe, the capacity of the organisation to respond to internal audit recommendations and the limited resources available for conducting internal audits, the plan is focused on reviewing high level/ high risk functions. For example, rather than splitting procurement into multiple separate audits e.g. petty cash, tendering, credit cards, stores etc. the plan identifies a single broad procurement audit covering all types of procurement. Similarly, rather than conducting an audit specifically on delegations of authority, it is envisaged that delegations would be reviewed as a component of other audits e.g. in a procurement audit, testing would be done to verify that purchasing delegations are being complied with. Further to this, a list of additional audits has been suggested to add flexibility in the case of a specific concern arising or Management / ARIC decides another audit would add greater overall value to the organisation.

Suggested Audit Engagements

Based on the high-level risk assessment and in recognition of the context in which Council operates, a suggested priority for each auditable unit has been determined. Based on the suggested priorities the strategic audit plan is presented in **Appendix B**.

The precise controls to be audited or assessed within each audit area will need to be determined prior to the commencement of the audit engagement.

Finally, it should be noted that the suggested internal audit plan is a guide only. Council management may decide to alter the plan if there are special considerations that would not have been appropriately considered during the risk assessment.

Appendix A – Auditable Unit Risk Assessment

Activity/ Auditable Unit	Inherent Risk Level	Control Environment Rating	Other Assurance	Internal Audit Priority	Rationale/Notes (NB: Content of this column has been redacted due to commercial sensitivities)
Asset Management	High	Partially Effective	Internal Oversight Only	High	
Business Continuity / Emergency Management	High	Partially Effective	Internal Oversight Only	High	
Commercial Operations	High	Partially Effective	Internal Oversight Only	High	
Catchments / River Health / Water Conservation	High	Effective	Internal Oversight Only	Medium	
Customer Service	High	Effective	Internal Oversight Only	Medium	
Cyber Security	Extreme	Partially Effective	Internal Oversight Only	Very High	
Data Management / Analysis	High	Partially Effective	Internal Oversight Only	High	
Employee Management	High	Effective	Internal Oversight Only	Medium	
Enterprise Risk	High	Effective	Externally Reviewed	Medium	
Environmental Management	Extreme	Effective	Internal Oversight Only	High	

Financial Controls	High	Effective	Externally Reviewed	Medium
Fraud and Corruption Prevention	Extreme	Effective	Internal Oversight Only	High
Flood Mitigation / Floodplain Management	High	Partially Effective	Internal Oversight Only	Medium
Grant Management	High	Partially Effective	Internal Oversight Only	Medium
Information Management	High	Partially Effective	Internal Oversight Only	High
Inventory Management	High	Partially Effective	Internal Oversight Only	High
IT General Controls / ICT Strategy	High	Partially Effective	Internal Oversight Only	High
Long Term Financial Planning	Extreme	Partially Effective	Externally Reviewed	High
Operations	High	Partially Effective	Internal Oversight Only	High
Payroll	High	Effective	Externally Reviewed	Medium
Procurement	High	Partially Effective	Externally Reviewed	High

Project Management	Extreme	Partially Effective	Internal Oversight Only	Very High	
Water Security	Extreme	Effective	Internal Oversight Only	High	
Work Health and Safety	Extreme	Partially Effective	Externally Reviewed	High	

Appendix B – Proposed Internal Audit Plan for the Period 1 July 2022 to 30 June 2025

Activity/ Auditable Unit	Internal Audit Priority	Confirmed	Likely/ Indicative		Possible Scope / Comments
		1 2022/23	2 2023/24	3 2024/25	
IT General Controls / ICT Strategy	High	IA			Comprehensiveness of proposed ICT Strategy, general IT controls, user access, physical access, password controls, management of systems and updates.
Information Management	High		IA		Information required to be held, systems in use, utilisation of systems, ease of access to records, GIPA enquiry handling.
Project Management	Very High			IA	Project management methodology, reporting and monitoring, adequacy of framework, adherence to framework. Project delivery and governance. Focus on Future Water Projects.
Cyber Security	Very High	Timing to be determined.			This should ideally be completed in the next 18 months. Specialist audit, may need to sit outside of the Internal Audit Plan due to limitations of audit plan.

To be considered for audit if additional funds/ capacity available. Otherwise, key controls should be defined, monitored and assessed as part of a rolling plan of control assessments:

Activity/ Auditable Unit	Internal Audit Priority
Asset Management	High
Business Continuity / Emergency Management	High
Commercial Operations	High
Data Management / Analysis	High
Environmental Management	High
Fraud and Corruption Prevention	High

Activity/ Auditable Unit	Internal Audit Priority
Inventory Management	High
Operations	High
Procurement	High
Long Term Financial Planning	High
Water Security	High
Work Health and Safety	High

Appendix C – Factors Used in Risk Assessment

Impact Scale						
Category	Impact	Negligible 1	Minor 2	Moderate 3	Major 4	Severe 5
Financial	- Financial loss	- Operating blowout of 1%. - Reduction in operating profit of >1%.	- Operating blowout of 1 - 5%. - Reduction in operating profit of 1 - 5%.	- Operating blowout of 5 - 10%. - Reduction in operating profit of 5 - 10%.	- Operating blowout of 20 - 30%. - Reduction in operating profit of 20 - 30%.	- Operating blowout of >30%. - Reduction in operating profit of >30%.
People / Safety	- Loss of personnel - Decrease in productivity - Personal Harm	- Adverse impacts result in minimal change to work conditions. - No injury or harm to persons.	- Staff required to work extra hours resulting in short-term increase in stress levels. - Potential for minor injury requiring first aid treatment.	- Staff required to work long hours for a sustained period affecting wellbeing and causing unsafe work practices. - Potential for injury or illness resulting in medical attention and several days off work.	- Sustained longer working hours and heavy work loads resulting in sharp increase in sick leave, unsafe work practices and stress related conditions. - Potential long term or serious injury.	- Extended working hours and workloads for long periods resulting in breaches of OHS regulations, injuries, extended sick leave, resignations. - Potential death, permanent disability or ill-health.
Environmental	- Environmental damage	- Minor effects on biological or physical environment.	- Moderate, short term effects but not affecting ecosystem functions.	- Serious medium term environment effects.	- Very serious long-term environmental impairment of ecosystem functions.	- Most serious irreversible environment impairment of ecosystem functions.
Legal / Compliance	- Compliance/legal breach	- Minor legal issues.	- Minor non-compliance with regulation.	- Serious breach of regulation with investigation and report to authority and/or moderate fine possible.	- Major breach of regulation. - Major litigation.	- Loss of licence. - Significant prosecution and fines. - Very serious litigation including class action.
Reputational / Brand	- Loss of Reputation	- Public complaint retained in-house or dealt with via normal procedures.	- Minor adverse local public or media attention or complaints.	- Attention from media and/or heightened concern by local community.	- Significant adverse national media attention.	- Serious public or media outcry.
Strategic	- Costs exceed budget - Failure to attract & retain high quality staff	- Localised concern - No impact on long term viability.	- Detrimental to short term profitability or achievement of current year objectives.	- Detrimental to mid-term profitability or achievement of next three years' objectives	- Significant long-term impacts. - Will require change to strategic direction and objectives.	- Business units no longer viable.

Likelihood			
Probability Factor	Description	Frequency	Rating
Almost Certain	There is a >90% chance that the event will occur once in the next 12 months.	Expected to occur in most circumstances.	5
Likely	There is a 65% - 90% chance that the event will occur once in the next 12 months.	Will probably occur in most circumstances.	4
Possible	There is a 35% - 65% change that the event will occur once in the next 12 months.	May occur at some point.	3
Unlikely	There is a 10% - 35% chance that the event will occur in the next 12 months.	Could occur at some point.	2
Rare	There is a <10% chance that the event will occur once in the next 12 months.	May only occur under exceptional circumstances.	1

Risk Ratings		Low	Medium	High	Extreme
Negligible	Minor	Moderate	Major	Severe	
5	10	15	20	25	
4	8	12	16	20	
3	6	9	12	15	
2	4	6	8	10	
1	2	3	4	5	