

INTERNAL AUDIT PROGRAM 2020-2021

OVERVIEW

The Internal Audit Program for the 2020/2021 financial year takes a systematic risk-based approach to determine the effectiveness of organisational controls and processes for managing the High-Risk Events of non-compliance and fraud and corruption identified in the Strategic Risk Register. It is intended that the findings of this evaluation will inform improvements to the effectiveness of risk management, internal controls, and governance processes.

The Program comprises a set of prioritised audits which cover compliance, fraud and corruption and other risks in selected high-risk focus areas.

APPROACH

Focus areas which make up the scope of the risk-based Internal Audit Program were identified from an analysis of the Town of Victoria Park's Strategic Risk Register (current as at June 2020), addressing the following elements of the Register:

- a) Risk Events
- b) Risk Impact Category
- c) Inherent Risk Rating
- d) Risk Treatment Actions

Inherent High Risk Event	Risk Treatment Action
Non-compliance with Council's governance obligations under the Local Government Act	<ul style="list-style-type: none"> • Develop and implement internal audit on compliance and performance
Failure to prevent occurrences of fraud and corruption	<ul style="list-style-type: none"> • Conduct a regular internal audit on fraud and corruption • Conduct regular audits against findings by integrity bodies like the CCC, PSC and OAG

The design and approach is based on extensive research, including, but not limited to, the following references:

- a) WA Local Government Operational Guidelines: The operation, function and responsibilities of Audit Committees
- b) Key Western Australian Office of Auditor General (OAG) reports on Fraud Prevention and Information Systems
- c) Public Sector Commission (PSC) WA Integrity Framework
- d) Corruption and Crime Commission (CCC) reports and findings (Western Australia and interstate counterparts)
- e) Industry and international best practice standards, guidance material and articles

SCOPE AND CRITERIA

The scope covers cross-functional audits to be undertaken in the following high-priority focus areas for the 2020-2021 financial year:

- (a) Conflicts of Interest
- (b) Gifts, Benefits and Hospitality
- (c) Misuse of Information
- (d) Information Security
- (e) Reporting of Fraud and Corruption

The Internal Audit Program proposes minimum internal audit criteria for each focus area audit to enable evidence-based assessment of the extent to which the focus areas are being effectively managed by the Town, in compliance with legislative and regulatory requirements, and in alignment with best practice.

AUDIT PLANS

A detailed Audit Plan will be developed for each focus area. The internal audit criteria are subject to review and updates as part of detailed planning for each specific audit, taking into consideration emergent risks, internal and external trends and identified issues as they arise. A responsive, proactive and agile approach to audit planning will ensure currency and relevance, through environmental scanning, research and networking to keep abreast of industry and sector developments and changes in the regulatory environment.

REPORTING AND MONITORING

In line with the Terms of Reference of the Audit and Risk Committee, the findings of each audit will be presented at the first Audit and Risk Committee meeting following the completion of the audit.

Progress against internal audit recommendations will be tracked and a report presented to the Audit and Risk Committee at each quarterly meeting of the Committee.

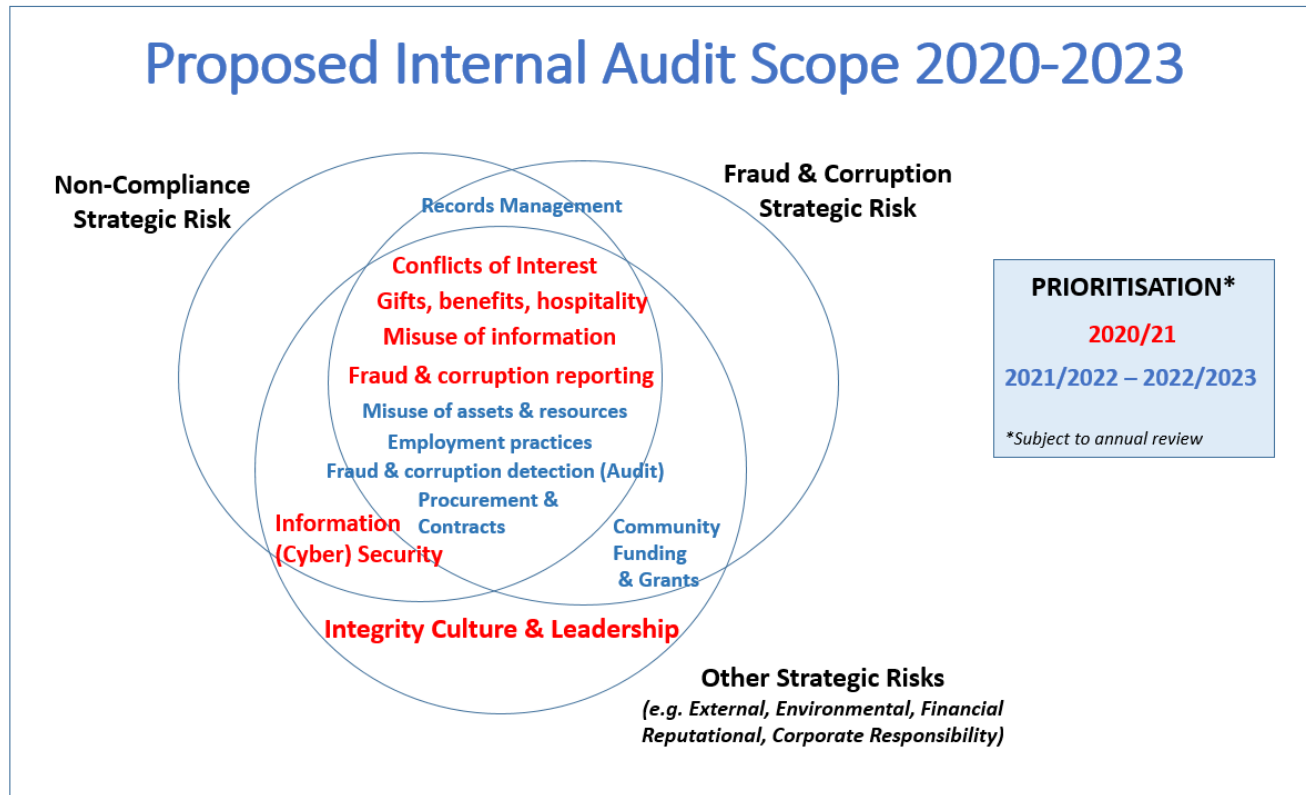
PROBITY

To ensure the probity and integrity of the Internal Audit function, it is recommended that:

- (a) The Internal Audit Program includes an out-sourced independent internal audit of the Internal Audit function in future years.
- (b) Where it is identified that the performance of an internal audit would create a conflict of interest for the Internal Audit function, an out-sourced independent auditor be appointed.

LOOKING FORWARD

While the scope of this Program focuses on 2020-2021 priorities, a multi-year view of internal audit should be considered, with a rolling three-year program (reviewed annually) which proposes future focus areas to be audited for the second and third years. Scope selection in terms of focus areas will be based on assessments of the risk and threat environments undertaken through the strategic risk management function, with the Strategic Risk Register as a starting point.



It is intended that as the Town’s internal audit model matures, it will evolve in line with the contemporary view of internal audit as outlined in the Institute of Internal Audit’s factsheet “Evolution of Internal Audit”, developing accretionally from a compliance-based function to one that helps to drive enterprise-wide value.



SUMMARY INTERNAL AUDIT PROGRAM SCHEDULE

Schedule	Risk Events Addressed (Strategic Risk Register)	Risk Impact Category (Strategic Risk Register)	Inherent Risk Rating (Strategic Risk Register)	Focus Area	Description (including rationale and risk drivers)	Suggested Minimum Internal Audit Criteria (Best Practice and Compliance)
2021/22 FY	<p>Failure to detect and prevent occurrences of fraud and corruption</p> <p>Non-compliance with Council's governance obligations under the Local Government Act</p>	<ul style="list-style-type: none"> Financial Reputation Legislative compliance 	MEDIUM	Employment Practices	<p>Employment practices are vulnerable to corruption including recruitment compromised by nepotism, conflicts of interest and inadequate pre-employment screening. This can result in the recycling of employees with problematic discipline and criminal histories.</p> <p>Councils are required under the Local Government Act to ensure employment decisions are based on merit and that employees have avenues of redress against unfair or unreasonable treatment.</p>	<ul style="list-style-type: none"> Policy, guidelines and practice compliance with relevant provisions of the Local Government Act and regulations. <p>Pre-employment</p> <ul style="list-style-type: none"> A range of pre-employment screening checks, particularly for high risk positions, including police checks, working with children checks, reference checks, verification of qualifications, currency of professional memberships and proof of eligibility to work. Requiring prospective employees to complete a statutory declaration about their employment history, including if they have been investigated for disciplinary or criminal matters. Conducting pre-employment screening for internal applicants, particularly if they are applying for positions which are considered high risk. Considering additional pre-employment screening processes for high risk positions such as bankruptcy checks, credit history checks and psychometric screening. <p>Selection</p> <ul style="list-style-type: none"> Recruitment panel members are required to withdraw from a panel where a conflict of interest, either personal or professional in nature, exists or is perceived to exist. Maintaining confidentiality of council information, particularly where an employee's secondary employment may be with an organisation that interacts with the council. <p>Secondary employment and conflicts</p> <ul style="list-style-type: none"> Clear articulation in policy or guidelines that secondary employment can create a conflict of interest and therefore approval is required to undertake external employment; failure to do so may result in disciplinary action. Prohibiting council employees from working for the council under contract arrangements (i.e. employees cannot act as staff and suppliers simultaneously). <p>CEO and Executive employment</p> <ul style="list-style-type: none"> An advisory committee (with an independent chair) advising council on matters of CEO performance, contract extensions remuneration matters and recruitment.

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						<ul style="list-style-type: none"> Extension of Executive and Senior Management contracts is subject to performance-based criteria, independently assessed.
2021/22 FY	<p>Failure to detect and prevent occurrences of fraud and corruption</p> <p>Non-compliance with Council's governance obligations under the Local Government Act</p>	<ul style="list-style-type: none"> Financial Reputation Legislative compliance 	MEDIUM	Community Funding & Grants	Funding providers have to ensure due diligence and probity in the administration of grants and other funding and sponsorships. This is an area which is vulnerable to conflicts of interest and corruption risks, as evidenced by the Federal Parliamentary inquiry into the administration of government grants relating to poor accountability and transparency in the decision-making for granting of funds to community and non-profit organisations.	<ul style="list-style-type: none"> Clear policies and guidelines governing the lifecycle of the grants administration process, from application through to disbursement and review. Clear and transparent communication of policies, guidelines and process to applicants. Independent assessment panel with clear terms of reference Requirement for all personnel involved in the grants administration function to declare conflicts of interest. Separation of roles between applicant advisory and funding assessment functions to avoid conflicts of interest. Deliverables are properly acquitted Expenditure of grants is in line with policy
2021/22 FY	<p>Failure to detect and prevent occurrences of fraud and corruption</p> <p>Non-compliance with Council's governance obligations under the Local Government Act</p>	<ul style="list-style-type: none"> Financial Reputation Legislative compliance 	MEDIUM	Misuse of Assets & Resources	Theft and misuse of assets and other resources can present a corruption risk. Both high and low value resources can present corruption risks. The LG Act requires councils to ensure that resources are used efficiently and effectively, and that services are provided in accordance with best value principles while meeting the needs of the local community.	<ul style="list-style-type: none"> Policies and procedures around the appropriate use of council assets and resources including policies on the use of motor vehicles, fuel cards, corporate credit cards, management and disposal of assets. There is a range of controls to mitigate the risk of misuse of motor vehicles, fuel cards and corporate credit cards. Clear statement that fraudulent or unauthorised use of council assets and resources will be subject to the council's disciplinary code and possibly criminal prosecution. Registers or systems for managing low value assets including, for example, IT equipment, and small plant and equipment. Regular and random audits of council assets and resources (e.g. checking motor vehicle logbooks and auditing fuel card usage). Clear policies and controls around disposal of surplus or scrap material and assets (regardless of value). Assigning unique identifiers to all small plant and equipment and other low value assets, and recording these in a register. Ensuring all decisions regarding asset disposal are documented, even if assets are disposed via donation to not-for-profit organisations or charities.
2022/23 FY	<p>Failure to detect and prevent occurrences of fraud and corruption</p> <p>Non-compliance with</p>	<ul style="list-style-type: none"> Financial Reputation Legislative compliance 	MEDIUM	Detection & Reporting (Audit)	While reporting mechanisms are essential to provide opportunities for employees, community members and others to advise councils of suspected corrupt conduct, auditing provides for systematic and proactive reviews of processes and practices	<ul style="list-style-type: none"> The internal audit program is strategically integrated with fraud and corruption controls and planning, and is reviewed and updated regularly annually to ensure audit plans cover a range of fraud and corruption issues.

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	Council's governance obligations under the Local Government Act				to identify corruption vulnerabilities and possible corrupt conduct. An effective auditing regime can serve as an early warning system to identify emerging risks and procedural weaknesses, and a detection mechanism to identify specific instances of misconduct or corruption.	<ul style="list-style-type: none"> Audit and Risk Committee is required to review reports of suspected fraudulent and corrupt conduct as a standing agenda item. Audit and Risk Committee members are required to declare conflicts of interest at the beginning of meetings or prior to discussion of the matter to which the conflict pertains, with declarations minuted. Mandatory requirement for independent audit committee members to have experience and qualifications or training in financial reporting, accounting or business management. Reports and audits of the CCC and OAG are referenced as guidance in the design of internal audits to ensure the council considers and implements relevant recommendations. A central register of declared conflicts of interest for Audit and Risk Committee members is maintained. Audit and Risk Committee Terms of Reference/Charter explicitly highlight responsibility for corruption prevention and how that responsibility will be given effect.
2022/23 FY	Failure to detect and prevent occurrences of fraud and corruption Non-compliance with Council's governance obligations under the Local Government Act	<ul style="list-style-type: none"> Financial Reputation Legislative compliance 	HIGH	Procurement Note: Operational Review 2020	Poor procurement practices that ignore principles of probity, accountability and transparency expose the organisation to procurement risks and jeopardise the delivery of good outcomes for ratepayers. When procurement processes are not followed, or local governments are seen not to be acting in the best interests of their communities, they face reputational damage and expose themselves to the risk of fraud and misconduct. The OAG report into Local Government procurement highlighted weaknesses in procurement controls, processes and documentation.	<ul style="list-style-type: none"> Good procurement policies and guidelines, Procurement practices are in alignment Appropriate training is provided to staff Controls over raising and approving purchase orders Processes for checking goods and services when receiving them Appropriate segregation of duties Exemptions from seeking quotes are well documented and justified. Recording of tender processes and conflict of interests Supplier credentials are checked, particularly for high-risk or high value purchases, including: <ul style="list-style-type: none"> Confirm ABN Confirm directors are not bankrupt or disqualified.
2022/23 FY	Non-compliance with Council's governance obligations under the Local Government Act	<ul style="list-style-type: none"> Reputation Legislative compliance 	LOW	Records Management Note: Internal audit performed in 2017	To be developed.	<ul style="list-style-type: none"> To be developed.
2022/23 FY	Failure to detect and prevent occurrences of fraud and corruption	<ul style="list-style-type: none"> Financial Reputation Legislative compliance 	HIGH	Information Security	Information security and cyber risk is an increasing risk area in public organisations due to: <ul style="list-style-type: none"> Changes in the threat landscape Rapid changes in technology 	<ul style="list-style-type: none"> The Town's cybersecurity risk assessment, processes, and controls, are reviewed, using industry standards as a guide, with recommendations for improvements

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					<ul style="list-style-type: none"> • Changing regulatory environments • Social change impacting on employee work behaviours • Capabilities and techniques used by hackers <p>The OAG conducts an annual Information Systems Audit of State Government entities and recommends that entities:</p> <ul style="list-style-type: none"> • Ensure good security practices are implemented, up-to-date, regularly tested, and enforced for key computer systems. • Conduct ongoing reviews and monitoring of user access to information to ensure they are appropriate at all times • Develop and implement mechanisms to continually raise information and cyber security awareness and practices among all staff. <p>The OAG also recommends that In the current pandemic environment, controls around remote IT access infrastructure will also need to be an area of priority as entities increasingly support staff to work in more flexible ways in response to current public health measures for the COVID-19 virus.</p>	<ul style="list-style-type: none"> • Assessment of implementation of revised security models, such as multilayered defences, enhanced detection methods and encryption of data leaving the network • Implementation of a robust employee training and education program • Assessment of third-party security providers to determine the extent and adequacy of their demonstrated cyber risk management capability, policies and controls.

RELEVANT LEGISLATION

[Local Government Act 1995](#) and associated regulations

- [Local Government \(Administration\) Regulations 1996](#)
- [Local Government \(Rules of Conduct\) Regulations 2007](#)
- [Local Government \(Financial Management\) Regulations 1996](#)
- [Local Government \(Functions and General\) Regulations 1996](#)
- [Town of Victoria Park Meeting Procedures Local Law 2019 Consolidated](#)

REFERENCES

Town of Victoria Park

- [Terms of Reference - Audit and Risk Committee](#)
- [Strategic Risk Register \(as at June 2020\)](#)
- [Risk Management Framework](#)

Public Sector Commission WA

- [Integrity Strategy for WA Public Authorities 2020-2023](#)
- [Integrity Snapshot Tool for WA Public Authorities](#)

WA Office of Auditor General (OAG)

- [Report on Fraud Prevention in Local Government, August 2019](#)
- [Information Systems Audit Report – State Government entities, April 2020](#)
- [Report into Local Government Procurement, October 2018](#)

WA Corruption and Crime Commission (CCC)

- [Report into misconduct risks with access to confidential information in the Office of the Auditor General, April 2020](#)
- [Review of an inadequate investigation by the Department of Communities into allegations of bribery, April 2020](#)
- [Review of recommendations made following unauthorised release of confidential information from the Public Transport Authority, February 2020](#)
- [Review of recommendations made to Department of Transport arising from three reports, October 2019](#)
- [Report into how conflicts of interest undermine good governance - A report on the Chief Executive Officer of the Shire of Halls Creek, August 2018](#)
- [Report into Allegations of Serious Misconduct by Councillors of the City of Perth between 21 and 24 October 2017](#)
- [Report on Matters of Serious Misconduct in the Shire of Exmouth, May 2017](#)
- [Report on a Matter of Governance at the Shire of Dowerin, October 2016](#)
- [Report on City of Perth Lord Mayor \(gifts and travel contributions\), October 2015](#)
- [CCC report on Misconduct Risk in Local Government Procurement, February 2015](#)

WA Department of Local Government, Sports and Cultural Industries

- [WA Local Government Accounting Manual – Section 7 Internal Control Framework](#)
- [WA Local Government Operational Guidelines: The operation, function and responsibilities of Audit Committees](#)

Victorian Independent Broad-based Anti-Corruption Commission (IBAC)

- [Local Government Integrity Frameworks Review March 2019](#)
- [Controlling fraud and corruption: a prevention checklist](#)

[Queensland Department of Local Government guidance on IA and Audit Committees](#)

[NSW Department of Premier and Cabinet Internal Audit Guidelines for Local Councils](#)

Institute of Internal Audit

- [Internal Audit in Australia](#)
- [Effective Internal Auditing in the Public Sector – A Good Practice Guide](#)
- [International Standards for the Professional Practice of Internal Auditing](#)
- [International Professional Practices Framework \(IPPF\)](#)
- [Factsheet: Evolution of Internal Audit](#)

KPMG

- [Top 10 Internal Audit considerations in 2020](#)
- [Internal Audit: Understanding the audit universe and the journey to risk maturity](#)
- [ICAS Risk Maturity Matrix with Audit Tests](#)

PWC

- [The 8 Attributes of Successful Internal Audit Functions](#)