

AUDIT COMMITTEE MEETING ATTACHMENT 8.2



AUDIT & ASSURANCE SERVICES

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December 3, 2019

Mr Michael Costarella
Manager Corporate and Community Services
Shire of Peppermint Grove
1 Leake Street
Peppermint Grove WA 6011

Dear Michael

As requested please find attached the draft 2020 - 2022 Strategic Internal Audit Plan.

The total audit hours for the 3 year period is 150 hours broken down as:

Year 1 (2020)	50 hours
Year 2 (2021)	50 hours
Year 3 (2022)	50 hours

Please let me know if you wish to discuss further.

I believe the list of 13 auditable areas will address the Regulation 5(2) (c) requirement.

Yours sincerely

Santo Casilli FCPA MIIA (Aust.)
Director

Avant Edge Consulting

Shire of Peppermint Grove

**2020 - 2022
INTERNAL AUDIT**

DRAFT

STRATEGIC INTERNAL AUDIT PLAN

November 2019

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Shire of Peppermint Grove

Strategic Internal Audit Plan

2020-2022

Introduction

A three year Strategic Internal Audit Plan is developed for the Shire of Peppermint Grove for the period 2020-2022. The Strategic Internal Audit Plan is developed to enable the Shire to identify areas of potential financial and operational risks that would be subject to audit by the internal audit service provider.

The Strategic Internal Audit Plan identified 13 auditable areas to be audited over a 3 year period based on various levels of risk. The auditable areas cover related areas of the Shire's finance and administration functions and provides the necessary coverage for the Shire's CEO in regards to satisfying the requirements of Regulation 5(2) (c) of the Local Government Regulation (Financial Management) Regulations 1996.

A high level management controls and legislative compliance audit will be undertaken for reporting to the CEO and the Audit and Risk Committee members.

The plan also includes the need to undertake a follow up audit each year to ensure audit recommendations have been satisfactorily implemented by management. The follow up audit process as an important element in the audit reporting process to ensure audit issues are continually monitored and management action to address these issues are properly implemented and on a timely basis.

Audit progress with the Strategic Internal Audit Plan will continue to be monitored through the Manager Corporate and Community Services and the Audit and Risk Management Committee.

Internal Audit Focus and Scope

All of the internal audits included in the Strategic Internal Audit Plan 2020-2022 will have the following standard scope and focus:

- Compliance with LG Regulations and legislative requirements.
- Shire policies and procedures
- Process improvement (where appropriate).

The audits will be conducted in accordance with the International standards for the Professional Practice of Internal Auditing.

Appendix 1

Risk Criteria

The following risk criteria were used to determine the riskiness of the auditable areas for the 2020 - 2022 Strategic Internal Audit Plan.

Risk Assessment Matrix

Likelihood of Risk:

Rating	Description	Frequency
1	Rare – May occur only in exceptional circumstances	< once in 15 years
2	Unlikely – Could occur at some time	At least once in 10 years
3	Possible – Should occur at some time	At least once in 3 years
4	Likely – Will probably occur in most circumstances	At least once per year
5	Almost Certain – Expected to occur in most circumstances	> once per year

Consequence of Risk:

Description	Health	Financial Loss	Operation	Compliance	Reputation	Project
1. Insignificant	No injuries or illness	<\$50,000	Little Impact	Minor breach of policy, or process requiring approval or variance	Unsubstantiated, low impact, low profile or no news item.	Small variation to cost, timeliness, scope or quality of objectives and required outcomes.
2. Minor	First Aid treatment	\$50,000 to \$250,000	Inconvenient Delays	Breach of policy, process or legislation requiring attention of minimal damage control	Substantiated, low impact, low news profile.	5-10% increase in time or cost or variation to scope objective requiring approval
3. Moderate	Medical treatment required	\$250,000 to \$1 million	Significant delays to major deliverables	Breach requiring internal investigation, treatment or moderate damage control	Substantiated, public embarrassment, moderate impact, moderate news profile.	10-20% increase in time or cost or variation to scope objective requiring Senior Management approval
4. Significant	Death or extensive injuries	\$1 million to \$3 million	Non achievement of major deliverables	Breach resulting in external investigation or third party actions resulting in tangible loss and damage to reputation	Substantiated, public embarrassment, moderate impact, high news profile and 3 rd party actions.	20-50% increase in time or cost or significant variation to scope objective requiring restructure of project and Senior Management or Council approval
5. Severe	Multiple deaths or sever permanent disabilities	>\$3 million	Non achievement of major deliverables	Breach resulting in external investigation or third party actions resulting in significant tangible loss and damage to reputation	Substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile, 3 rd party actions.	>50% increase in time or cost or inability to meet project objectives requiring the project to be abandoned or redeveloped

Risk Exposure:

Risk = Likelihood x Consequence

Score	Level of Risk	Score	Level of Risk	Score	Level of Risk
1 - 8	Low	9 - 19	Medium	20 - 25	High

Appendix 2

Detailed List of Auditable Areas 2019-2022

<i>Auditable Areas</i>	<i>Risk Rating</i>	<i>Key Stakeholders</i>	<i>Audit Profile</i>	<i>Key Documents Required During Audit</i>	<i>2019-20</i>	<i>2020-21</i>	<i>2021-22</i>
General Ledger Reconciliations and Application Controls.	Low	Manager Corporate Services	<p>Review and confirm that the system controls and processes continue to be in place to ensure that the General Ledger is complete and accurate.</p> <p>Approval process over journal process and end of month reconciliations</p> <p>Adequacy of chart of accounts established</p>	<p>Reports on processed monthly and end of financial year journals.</p> <p>End of month and end of financial year reconciliations</p> <p>Journal approval process</p> <p>Access to changes in the Chart of Accounts and associated links</p>		Yes	
Gift Register and Council Payments	Medium	Manager Corporate services	Review Gift Register policy and process for Council payments.	<p>Gift Register Policy</p> <p>Gift Register</p> <p>List of payments made to Council and supporting documents.</p>	Yes		

<i>Auditable Areas</i>	<i>Risk Rating</i>	<i>Key Stakeholders</i>	<i>Audit Profile</i>	<i>Key Documents Required During Audit</i>	<i>2019-20</i>	<i>2020-21</i>	<i>2021-22</i>
Revenue Collection, Cash Handling and Cash Verification	Medium	Manager Corporate Services	<p>Review of system and management controls to determine all revenue activities including collection of cash are in place to ensure compliance with Shire's policies and procedures.</p> <p>All revenue is accounted for in the Shire's financial system and all money collected is accounted for, receipted and cash collections are safeguarded.</p> <p>Identify all petty cash held together with cash register floats and ensure proper security over cash is maintained and that all cash holdings are reconciled at the end of each day.</p>	<p>List of locations that collect cash.</p> <p>Management Guidelines on cash handling.</p> <p>Management Guidelines on debt management.</p>	Yes		

<i>Auditable Areas</i>	<i>Risk Rating</i>	<i>Key Stakeholders</i>	<i>Audit Profile</i>	<i>Key Documents Required During Audit</i>	<i>2019-20</i>	<i>2020-21</i>	<i>2021-22</i>
Council Rates and Charges			Review adequacy of controls in place to ensure legislative requirements are met, interim and final rates are processed correctly, the valuation from the Valuer General are obtained on a timely basis and correctly administered for calculation of the annual rates, and appropriate debt collection procedures are in place. Also include appropriateness of approval process for the Shire's annual Fees and Charges schedule.	<p>Extract from Rates system for pensioner rebates, pensioner deferrals etc.</p> <p>Valuation received from Valuer General</p> <p>Management Guidelines for setting rates and charges</p> <p>Fees and charges schedule and Council minutes.</p> <p>List of staff having access to Rates and charges systems showing the different levels of accesses.</p>	Yes		
Asset Management including Infrastructure Assets	Low	Manager Corporate Services	<p>Satisfactory control and safeguarding of the assets by way of regular inspections;</p> <p>Proper capturing of assets within the Shires asset management system;</p> <p>Proper asset identification and recording processes are in place and will be included in the Shires Asset Management system;</p> <p>Adequate asset disposal processes is in place through the use of standard disposal forms;</p> <p>Accounting for WIP and replacement of assets</p>	To be advised			Yes

<i>Auditable Areas</i>	<i>Risk Rating</i>	<i>Key Stakeholders</i>	<i>Audit Profile</i>	<i>Key Documents Required During Audit</i>	<i>2019-20</i>	<i>2020-21</i>	<i>2021-22</i>
Accounts Payable	Low-Medium	Manager Corporate Services	Review adequacy of controls in place to ensure only authorised payments are made and no duplicate payments are made.	<p>Management Guidelines for invoice approval and payment process</p> <p>List of payments processed over last 12 month period</p> <p>Access to invoices and purchase orders over last 12 month period</p> <p>Management Guidelines for changing supplier details</p> <p>List of staff having access to changing supplier details, approving invoices and processing payments.</p>		Yes	

<i>Auditable Areas</i>	<i>Risk Rating</i>	<i>Key Stakeholders</i>	<i>Audit Profile</i>	<i>Key Documents Required During Audit</i>	<i>2019-20</i>	<i>2020-21</i>	<i>2021-22</i>
Procurement and Tendering	Medium	Manager Corporate Services	Assess the Shire's activities in respect of procurement in areas including policies and procedures, tendering, supplier selection process, approval and contracting processes. Contract managers are adhering and monitoring contractual terms and conditions including price variation requests, supplier performance, insurance requirements and contract extension requests and approvals.	<p>Procurement Policy</p> <p>Management Guidelines for procurement, tendering and contracting process and list of contracts awarded last 3 years including Tender Register.</p> <p>Delegations for awarding contracts</p> <p>Contract Register</p> <p>Access to contracts awarded over last 12 month period</p> <p>Access to tender/RFQ evaluation documents</p>			Yes

<i>Auditable Areas</i>	<i>Risk Rating</i>	<i>Key Stakeholders</i>	<i>Audit Profile</i>	<i>Key Documents Required During Audit</i>	<i>2019-20</i>	<i>2020-21</i>	<i>2021-22</i>
Human Resource Management and Payroll (including OH&S)	Low-Medium	Manager Corporate Services	<p>Review the recruitment process covering approval process, employee commencement process such as induction, training needs assessment, probationary reviews, necessary legislative checks and requirements performed and met.</p> <p>Review and confirm that payroll processing systems and management controls over staff pays are in place, operating satisfactorily and that salaries being paid are accurate.</p> <p>Assess OH&S responsibilities, accountabilities, commitment, communications and compliance with legislative requirements.</p>	<p>List of staff employed by the Shire together with a list of staff terminated in the last 12 month period</p> <p>List of new staff employed in the last 12 month period</p> <p>Management Guidelines for the payroll process including setting up of new employees, making changes to employee pay details, processing terminations, recruitment process, delegations for Recruitment approval, personal files and induction and staff performance policies.</p> <p>Payroll reports by pay period and Payroll exception reporting</p> <p>List of staff having access to payroll system.</p> <p>OH&S Guidelines and List of OH&S Representatives and OH&S Committee meeting minutes</p> <p>Incident reports and evidence of management action addressing the incident</p> <p>Evidence supporting compliance with legislative requirements such as near miss incident reports, training, OH&S checks, incident database.</p>		Yes	

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Information Technology General Controls and Security Environment	Medium-High	Manager Corporate Services	An assessment of the policies, procedures and controls employed within the Shire to protect the integrity, confidentiality and availability of information on the Shire's computer processing environment and surrounding network.	<p>Information Security Guidelines</p> <p>Management Procedures for managing information security across the Shire</p> <p>Back up Procedures, Business Continuity Plans and Disaster Recovery Plans</p> <p>Evidence of back up recovery process</p> <p>Access listing to computer processing environment</p>		Yes	
Leasehold and Property Management	Low	Manager Corporate Services	Review process in place to ensure all lease monies are collected on a timely basis, all policies regarding investment assets are complied with, rent reviews are conducted in a timely and appropriate manner, leases are properly authorised and proper contracts are in place, revenue is accurately recorded in the accounts and management monitoring is appropriate and contract matters are complied with.	<p>List of properties available for lease</p> <p>Lease Agreements</p> <p>Management Guidelines on rent setting, review and property management</p> <p>Delegations Listing</p> <p>Management Guidelines on rent collection and lease management</p>			Yes

<i>Auditable Areas</i>	<i>Risk Rating</i>	<i>Key Stakeholders</i>	<i>Audit Profile</i>	<i>Key Documents Required During Audit</i>	<i>2019-20</i>	<i>2020-21</i>	<i>2021-22</i>
Cash Investments	Low-Medium	Manager Corporate Services	Review of the effectiveness of management controls and processes to ensure that: <ul style="list-style-type: none"> - investment policy guidelines are complied with; - delegations of authority are adhered to; - investment reporting is timely and accurate; - investment controls are in accordance with the Shire's objectives; - appropriate segregation of duties. 	To be advised	Yes		

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Bonds and Trust Accounts	Low-Medium	Manager Corporate Services	<p>Bond and deposit collection is being undertaken in accordance with the Town's policy and procedure.</p> <p>Bond and deposits are being administered in line with legislative requirements (Local Government Act and Regulations).</p> <p>Proper reconciliations are being performed to ensure all Bond money is accounted for and Bond balances are cleared on a timely basis.</p> <p>Bond and deposit money is being correctly receipted and charged to the correct account codes.</p> <p>Policies and procedures exist and are appropriate.</p> <p>Appropriate segregation of duties control exists over bond and deposit collection, receipting, reconciliation and refunds.</p> <p>Where bond monies are being received that Bond monies are being properly recorded in accordance with the Local Government Act and Regulation requirements.</p>	To be advised	Yes		

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Credit Card Management and Acquittal.	Low	Manager Corporate Services	<p>Proper authorisation has been given to new credit card holders.</p> <p>Credit card holders are satisfactorily adhering to the Shire's corporate credit card policy and procurement policies and procedures.</p> <p>An up to date register of credit card holders is maintained</p> <p>Satisfactory acquittal process is in place and that the acquittal is occurring on a timely and regular basis.</p> <p>Approval of credit card purchases are in line with established financial delegation limits.</p>	<p>List of Credit Card holders and their \$ limits</p> <p>List of all transactions processed under credit card purchases</p> <p>Credit card acquittal information and approvals</p>			Yes
Follow Up Audits and Attendance at Audit and Risk Management Committee meetings					Yes	Yes	Yes
			TOTAL ESTIMATED HOURS ALLOCATED PER ANNUM		50	50	50