


<b>Internal Audit Policy</b>		 <b>Longreach Regional Council</b>
Policy Number:	1.10	
Policy Category:	Financial	
Authorised by:	Res-2021-09-226	
Date approved:	16 September 2021	
Review Date:	16 September 2023	

## OBJECTIVE

The purpose of the policy is to establish an internal audit function pursuant to section 207 of the *Local Government Regulation 2012*. The purpose of an internal audit is to provide independent assurance over the internal controls and risk management framework of Council.

## SCOPE

Internal Audit should support good internal governance, ensure consistency with other levels of government, improve the effectiveness of risk management, monitor governance processes and instil public confidence in Council's ability to operate effectively.

## LEGISLATION

*Local Government Act 2009*

*Local Government Regulation 2012*

## DEFINITIONS

**Internal Audit** – refers to an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.<sup>1</sup>

## AUDIT FUNCTION

1. To comply with the *Local Government Regulation 2012*, Council will appoint, and may from time to time, vary the appointment of an internal auditor who may be other than a staff member;
2. Council will maintain an internal audit function;
3. It is the role of the internal auditor to:
  - a) Evaluate the adequacy and effectiveness of the control environment across all of the local government's operations;
  - b) Identify and assess the risks to which the local government's operations are exposed;
  - c) Ensure adherence to management policies and directions in order to achieve Council's objectives;
  - d) Prepare an annual audit plan in accordance with section 207 of the *Local Government Regulation 2012* which includes statements about:
    - The way in which operational risks have been evaluated; and
    - The most significant operational risks identified from the evaluation; and
    - The control measures that the local government has adopted or is to adopt to manage the most significant operational risks.

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<sup>1</sup> *International Professional Practice Framework (IPPF) 2009, The Institute of Internal Auditors*

- e) Carry out operational reviews and control testing for all internal audit activities of the local government.
  - f) Provide progress reports on Internal Audit activities pursuant to section 207 of the *Local Government Regulation 2012* to the Audit and Risk Committee identifying the following:
    - A summary of the recommendations stated in the report;
    - A summary of the actions that have been taken by the local government in response to the recommendations;
    - A summary of any actions that have not been taken by the local government in response to the recommendations.
4. Each financial year Council must assess compliance with the Internal Audit Plan.
  5. The Internal Auditor may advise the Auditor-General through the Chief Executive Officer about an audit finding.

## **INTERNAL AUDIT PLAN**

### **Objectives**

This internal audit plan is established pursuant to section 207 of the *Local Government Regulation 2012*. For each financial year, Council is required to prepare an internal audit plan, carry out an internal audit and prepare a progress report for the internal audit.

Section 207(1)(a) of the *Local Government Regulation 2012*, requires an audit plan to be prepared each financial year. To comply, the plan will include specific items, priorities and focus of internal audit each year, to be reviewed by the Audit Committee.

### **Evaluation of Operational Risks**

Evaluation of operational risks is achieved through the following measures:

1. The examination and evaluation of the adequacy and effectiveness of systems of internal control, risk management, governance, and the status of ethical behaviour;
2. Ascertaining conformity with the goals and objectives of Council;
3. Assessment of the economic and efficient use of resources;
4. The examination of compliance with policies, procedures, plans and legislation;
5. Assessment of the reliability and integrity of information;
6. Assessment of the safeguarding of assets;
7. Assessment of the extent of segregation of duties and management oversight relating to operational activities.

### **Significance of Operational Risks from Evaluation**

Evaluation of operational risks will occur so that the risks and consequences can be identified for further consideration and action. Key considerations include the type of risks involved, the source of the risk, the cause of the risk, the impacts of the risk and the level of control to be applied. A risk matrix will be used for the process as follows:

LIKELIHOOD	CONSEQUENCE				
	Insignificant	Minor	Moderate	Major	Catastrophic
<b>Rare</b>	Accept the risk	Accept the risk	Monitor the risk	Manage the risk	Manage the risk
<b>Unlikely</b>	Accept the risk	Accept the risk	Manage the risk	Detailed management required	Comprehensive management essential
<b>Possible</b>	Accept but monitor the risk	Accept but monitor the risk	Detailed management required	Comprehensive management essential	Extensive management essential
<b>Likely</b>	Monitor the risk	Monitor and manage the risk	Comprehensive management essential	Extensive management essential	Widespread and all-embracing management essential
<b>Almost Certain</b>	Manage the risk	Manage the risk	Comprehensive management essential	Extensive management essential	Widespread and all-embracing management essential

### Control Measures Adopted to Manage the Most Significant Operational Risks

Risk treatments to be adopted for significant operational risks are derived from both the risk matrix and the treatment strategies below:

Consequence	Strategy
Accept the risk	<p>A risk may be accepted because:</p> <ul style="list-style-type: none"> <li>– The probability or consequence of the risk is low or minor;</li> <li>– The cost of treating the risk outweighs any potential benefit;</li> <li>– Council has no control over the risk eg Global financial market impacts.</li> </ul>
Treat the risk	<ul style="list-style-type: none"> <li>– Preventative controls – designed to limit the possibility of an undesirable outcome being realised eg limitation of action to only suitably trained personnel;</li> <li>– Corrective controls – designed to correct undesirable outcomes which have been realised eg. taking out insurance to facilitate financial recovery against the realisation of a risk;</li> <li>– Directive controls – designed to ensure that a particular outcome is achieved eg. appropriate training of staff before working unsupervised;</li> <li>– Detective controls – designed to identify unfavourable events after they occurred eg inventory or asset stocktakes and bank reconciliations.</li> </ul>
Transfer the Risk	<ul style="list-style-type: none"> <li>– Taking out insurance;</li> <li>– Implement forward contracts or service level agreements.</li> </ul>
Terminate the Risk	<ul style="list-style-type: none"> <li>– Terminate or remove the service or action giving rise to the risk;</li> <li>– Investigate other opportunities to terminate or completely remove the risk.</li> </ul>
Take the Opportunity	<ul style="list-style-type: none"> <li>– Take advantage of any beneficial opportunities that may arise from identified risks.</li> </ul>

## **Report to Audit and Risk Committee**

The Internal Auditor will supply reports to the Audit and Risk Committee as follows:

1. A progress report required by regulations;
2. At least twice during the year after internal audit, each of the following documents:
  - a) a summary of the recommendations stated in the report;
  - b) a summary of the actions that have been taken by the local government in response to the recommendations.

## **RELATED DOCUMENTS**

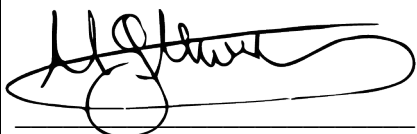
This policy complements and is to be implemented in conjunction with, but not limited to, other Council policies and directives:

Enterprise Risk Management Policy 1.11

Enterprise Risk Management Control Plan MD-01-11-01

Audit and Risk Committee Policy 2.31

Authorised by resolution as at 16 September 2021:

A handwritten signature in black ink, appearing to read 'Mitchell Murphy', written over a horizontal line.

Mitchell Murphy  
Chief Executive Officer