



KEMPSEY
Shire Council

GENERAL MANAGER'S REPORT

15 November 2005

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INTERNAL AUDIT

FILE: *

AVB

SUMMARY:

To outline Councils current Internal Audit program.



Council on the 13 September 2005 resolved, "That the General Manager report to a future meeting of Council on the current operation and objectives of the Kempsey Shire Internal Audit function".

This is timely as the Department of Local Government is undertaking a review of Internal Audit functions in NSW Local Government. The NSW Department of Local Government considers that internal audit should be given more prominence in NSW Local Government. To enhance the role of internal audit the Department is working to develop Best Practice standards to assist Councils to put internal audit in place to an appropriate standard. Their biggest challenge is to develop standards that fit all Councils especially medium to smaller Councils that do not have the resources to employ a dedicated Internal Auditor.

According to the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors, internal audit is:

'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.'

The NSW Local Government Internal Auditors Network (a staff network) consider the objectives of Internal Audit are: -

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- Review the systems established to ensure compliance with relevant policies, plans, procedures, laws and regulations that significantly impact the organisation.
- Review the adequacy and effectiveness of the system of governance processes, risk management and internal control implemented by management.
- Review the means of safeguarding and maximizing the utilization of assets.
- Add value to council by appraising the economy and efficiency with which the organisation employs its resources.
- Review the effectiveness of operations or programs to ascertain whether results are consistent with the organisation's established objectives and goals.
- Review the reliability and integrity of financial and operating information.

Kempsey Shire Council does have an Internal Audit program although its current objectives are not as broad as above. This Council undertakes internal audit to:

- ✓ Review operating systems to ensure compliance with policy and regulatory requirements.
- ✓ Review operating systems to identify improvements to processes to improve the efficiency and effectiveness of the organisation.
- ✓ Undertake a Risk Audit and implement recommendations to limit our public liability exposure.
- ✓ Review resolutions of Council to ensure implementation in a timely manner.

The above tasks are not carried out by the one staff member and currently there is no staff member co-ordinating the roles. Specific roles are:

- Manager Organisational Effectiveness undertakes a number of specific internal audits of organisational procedures to audit compliance. The number of tasks undertaken each year is negotiated with the General Manager as part of his outputs for the year. The reports are submitted directly to the General Manager.
- Manager Human Resources undertakes, as part of his yearly outputs, to establish Process Improvement Teams to look at organisational systems and to make recommendations for improvement. The Process Improvement Teams report to Manex.
- Risk Management Audits are conducted by the Administrative Clerk on an annual basis. A Risk Management Plan has been adopted by Manex and a Committee, made up of representatives of each department, oversees the

implementation of the plans recommendations and reports to Manex.

- Directors report to the General Manager on outstanding resolutions of Council and the General Manager reports to Council on outstanding reports.

The system works well with the staff resources we have, although it would be preferable to be able to place a greater emphasis on Internal Audit functions. I will review staff responsibilities in this regard although I am hesitant to make any changes at this stage in view of the impending standards that are to be released by the Department of Local Government.

REPORT IMPLICATIONS:

- *Environmental*

Nil

- *Social*

Nil

- *Economic (Financial)*

An Internal Audit program will produce improved financial results through the introduction of efficiencies, fraud prevention and claims minimisation.

- *Policy or Statutory*

Nil

RECOMMENDATION:

That the Internal Audit function conducted by Council be reviewed following the introduction of best practice standards by the Department of Local Government.

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A V Burgess
GENERAL MANAGER