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Expression of Interest Internal Audit Services Information Pack

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CREATING OPPORTUNITY CELEBRATING COMMUNITY

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1. Copy of Advertisement

Expressions of Interest are now being called from suitably qualified consultants to provide internal audit services for a period of 3 years.

The consultant will be required to revise the 3 year internal audit plan and provide internal audit services as per the revised plan.

An information package including selection criteria should be obtained prior to submitting an Expression of Interest. This can be obtained via the council's website <https://www.federationcouncil.nsw.gov.au/Council/Tendering-Supply/Current-Opportunities> or by contacting Council's Governance Officer, Heidi Neumeister on 02 6033 8951, or by email to heidi.neumeister@federationcouncil.nsw.gov.au

Expressions of Interest close at 12.00 Noon on Friday 9 October 2020 and should be marked "CONFIDENTIAL INTERNAL AUDIT" and addressed to the General Manager, Federation Council, PO Box 77 NSW 2646 or emailed to council@federationcouncil.nsw.gov.au

2. Background Information

2.1 Legislative framework and timeline

Internal audit is a mechanism that a council will use to receive independent assurance that it is performing its functions legally, effectively and efficiently and to advise on how it can improve its performance.

A council's internal audit function reports to an Audit and Risk and Improvement Committee that provides independent advice to the council's governing body and general manager on the performance and governance of the council.

The NSW Government issued Internal Audit Guidelines in 2010 to encourage all councils in NSW to appoint an Audit and Risk Committee and establish an internal audit function. The Guidelines recommend that each council's internal audit activities comply with international internal auditing standards issued by the Institute of Internal Auditors.

In 2016, the NSW Government made it a requirement under the Local Government Act 1993 that each council have an Audit, Risk and Improvement Committee (ARIC). There will be nine core requirements that councils will be required to comply with when establishing their Audit, Risk and Improvement Committees, risk management framework and internal audit function. This requirement will take full effect from March 2021 with further key requirements to include:

- ❖ By December 2022 all NSW Councils will be required to have a Risk management framework developed, including appointment of a Risk Management Coordinator and to have established their internal audit function, including employment of a Chief Audit Executive and personnel.
- ❖ By 2024 Risk management framework fully implemented throughout council and operating in compliance with regulatory requirements. The Internal audit function must be fully implemented by the council and operating in compliance with regulatory requirements.
- ❖ By 2026 Audit, Risk and Improvement Committee's role will be expanded to include compliance, fraud control, financial management, governance, integrated planning and reporting, service reviews, performance measurement data and performance improvement in compliance with section 428A of the Local Government Act.

2.2 Federation Council Internal Audit function

In May 2017, following a tender process, Federation Council appointed an internal auditor for three years to align with Council elections. Subsequently, Council undertook a risk assessment for each department to identify key business risk factors and rated these risks to help formulate the audit plan.

The Internal Audit Terms of Reference was drafted for Federation Council based on proposed changes to the Act and adopted in June 2017. A review was carried out in 2019 with the current version adopted on 21 May 2019.

In July 2017 Council advertised for independent (external) members to be appointed to form an internal audit committee.

The first Internal Audit (Audit Risk and Improvement Committee) meeting was held on 7 September 2017.

On 9 September 2017 NSW Local Government elections were held for all amalgamated councils. Following the new council being sworn in on 17 October, Councillor Delegates were then endorsed on 19 December 2017.

As a result of the Covid-19 pandemic, Council elections scheduled for September 2020 have now been postponed until September 2021.

3. Council Audit Risk and Improvement Committee

Council has an established Audit Risk and Improvement Committee whose role is to monitor, review and advise Council on matters of accountability and internal control affecting the operations of Council.

The Committee consists of two independent external members and one Councillor and meets at least quarterly. The Chair of the Audit Risk and Improvement Committee is appointed for the term of the council. The Chair reports annually to a council meeting on Councils performance in financial management, good governance and continuous improvement.

A strong relationship between the Audit Risk and Improvement Committee and internal audit function enables the committee to meet its responsibilities and carry out its functions.

An Internal Auditor is appointed by Council in an advisory capacity to support the committee and must maintain independent reporting relationships with the Audit Committee, General Manager and management.

4. Federation Council Population and Demographic

Federation Council is a prospering rural community centrally located on the Murray River in New South Wales between Sydney and Melbourne, within easy travelling distance to the rural cities of Albury, Wodonga, Wangaratta, Wagga Wagga, Shepparton and the Nation's Capital, Canberra. Located only 3 hours from Melbourne, 4 hours from Canberra and 6 hours from Sydney, Federation Council is comprised of several towns and villages including Balldale, Boree Creek, Coreen, Corowa, Daysdale, Howlong, Lowesdale, Morundah, Mulwala, Oaklands, Rand, Savernake and Urana. Covering an area of 5'685 square kilometres, and with a population of 12'437, the main industries are manufacturing, agriculture and Forestry and Fishing. Our median age is 47.

5. Internal Auditor role (as per Terms of Reference)

The internal auditor forms a part of management's system of internal control and has an advisory role to support the Audit Risk and Improvement Committee.

Internal Audit and their staff shall not undertake any operating responsibilities outside internal audit work. Internal Audit staff and contractors shall report to the Chief Audit Executive on any situations where they feel their

objectivity may be impaired. Similarly, the Chief Audit Executive should report any such situations to the Audit Risk and Improvement Committee.

5.1 Governing Standards

The Institute of Internal Auditors (IIA) is the recognised international standard setting body for internal audit and provides professional certification for internal auditors.

The IIA has developed the International Professional Practices Framework (IPPF) which outlines the mandatory requirements for the practice of internal auditing.

Under the IPPF, an effective internal audit function must also exhibit the following 10 mandatory core principles:

- demonstrate integrity
- demonstrate competence and due professional care
- is objective and free from undue influence
- align with the strategies, objectives and risks of the organisation
- is appropriately positioned and adequately resourced
- demonstrate quality and continuous improvement
- communicate effectively
- provide risk-based assurance
- is insightful, proactive and future-focused, and
- promote organisational improvement.

5.2 Objectivity Independence and Organisational Status

An internal audit function should maintain an appropriate level of independence and objectiveness through sound reporting relationships, and by those involved in internal audit activities avoiding bias and conflicts of interest.

An internal auditor or person responsible for internal audit should have a process in place to ensure that:

- An internal auditor does not undertake audit work regarding operations / services for which he / she has held responsibility within the last two (2) years.
- An internal auditor who provides consulting services regarding a particular operation / service is not the same auditor who provides assurance on that same operation / service.
- The same auditors are not responsible for auditing the same unit / functional area over a prolonged period.

To facilitate this approach, Internal Audit shall have independent status within Federation Council and for this purpose shall be responsible directly through the Chief Audit Executive to the Audit Committee and administratively to the General Manager. Internal Audit shall be independent of the activities reviewed, and therefore shall not undertake any operating responsibilities outside internal audit work.

Neither shall Internal Audit staff have any executive or managerial powers, authorities, functions or duties except those relating to the management of Internal Audit. Internal Audit staff and contractors shall report to the Chief

Audit Executive any situations where they feel their objectivity may be impaired. Similarly, the Chief Audit Executive should report any such situations to the Audit Committee.

The work of Internal Audit does not relieve the staff of Federation Council from their accountability to discharge their responsibilities. All Federation Council staff are responsible for risk management and the operation and enhancement of internal control. This includes responsibility for implementing remedial action endorsed by management following an internal audit.

5.3 Scope of Work (General)

The Chief Audit Executive is to establish a quality assurance and improvement program which includes ongoing monitoring and periodic self-assessments, an annual review and strategic external review at least once each council term.

The scope of service provided by Internal Audit shall encompass:

- The examination and evaluation of the adequacy and effectiveness of systems of internal control, risk management, governance, and the status of ethical behaviour.
- Ascertaining conformity with the goals and objectives of the Federation Council.
- Assessment of the economic and efficient use of resources.
- The examination of compliance with policies, procedures, plans and legislation.
- Assessment of the reliability and integrity of information.
- Assessment of the safeguarding of assets.
- Any special investigations as directed by the Audit Committee.
- All activities of the Federation Council whether financial or non-financial, manual or computerised.

The scope of work may include:

- Assurance services – objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organisation. Examples may include financial, performance, operational, compliance, system security, and due diligence engagements.
- Consulting services – advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organisation's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

5.4 Internal Audit Methodology

Internal Audit shall use the most appropriate methodology for each internal audit engagement, depending on the nature of the activity and the pre-determined parameters for the engagement. Generally, internal audits will include:

- Planning.
- Reviewing and assessing risks in the context of the audit objectives.
- Examination and evaluation of information.
- Communicating results.
- Following up on implementation of audit recommendations.

5.5 Operating Principles

Internal Audit shall conform with:

- The Standards and Code of Ethics issues by the Institute of Internal Auditors.
- Where relevant, the Statement on Information Systems Auditing Standards issued by the Information Systems and Control Association.
- Relevant auditing standards issued by the Auditing and Assurance Standards Board.

5.6 Internal Auditors shall:

- Possess the knowledge, skills, and technical proficiency essential to the performance of internal audits.
- Be skilled in dealing with people and in communicating audit issues effectively.
- Maintain their technical competence through a program of continuing education.
- Exercise due professional care in performing internal audit engagements.

5.7 Internal Audit Staff shall:

- Conduct themselves in a professional manner.
- Conduct their activities in a manner consistent with the concepts expressed in the Standards and the Code of Ethics.

5.8 Reporting Arrangements

The Chief Audit Executive shall at all times report to the Audit Committee. At each Audit Committee meeting the Chief Audit Executive shall submit a report summarising all audit activities undertaken during the period, indicating:

- Internal audit engagements completed or in progress.
- Outcomes of each internal audit engagement undertaken.
- Remedial action taken or in progress.

On completion of each internal audit engagement, the Internal Auditor shall

1. Issue a report to Federation Council detailing the objective and scope of the audit, and resulting issues based on the outcome of the audit.

2. Seek from the responsible senior executive an agreed and endorsed action plan outlining remedial action to be taken, along with an implementation timetable and person responsible.

Responsible Council officers shall have a maximum of ten working days to provide written management responses and action plans in response to issues and recommendations contained in internal audit reports.

The Chief Audit Executive shall make available all internal audit reports to the Audit Committee. However, the work of Internal Audit is solely for the benefit of the Federation Council and is not to be relied on or provide to any other person or organisation, except where this is formally authorised by the Audit Committee or the Chief Audit Executive.

In addition to the normal process of reporting on work undertaken by Internal Audit, the Chief Audit Executive shall draw to the attention of the Audit Committee all matters that, in the Chief Audit Executive's opinion, warrant reporting in this matter.

5.9 Planning Requirements

Internal Audit uses a risk-based rolling program of internal audits to establish an annual Internal Audit Plan to reflect a program of audits over a 12 month period. This approach is designed to be flexible, dynamic and more timely, in order to meet the changing needs and priorities of the Federation Council.

The Chief Audit Executive shall prepare an annual Internal Audit Plan for review and approval by the Audit Committee, showing the proposed areas for audit. The annual Internal Audit Plan shall be based on an assessment of the goals, objectives and business risks of the Federation Council and shall also take into consideration any special requirements of the Audit Committee and senior executives.

The Chief Audit Executive has discretionary authority to adjust the Internal Audit Plan as a result of receiving special requests from management to conduct reviews that are not on the plan, with these to be approved at the next meeting of the Audit Committee.

5.10 Quality Assurance & Improvement Program

The Chief Audit Executive shall oversee the development and implementation of a quality assurance and improvement program for Internal Audit, to provide assurance that internal audit work conforms to the Standards and is focused on continuous improvement.

5.11 Co-ordination with External Audit

The Chief Audit Executive shall periodically consult with the external auditors, to discuss matters of mutual interest, to co-ordinate audit activity, and to reduce duplication of audit effort.

5.12 Review of the Internal Audit Charter

The Chief Audit Executive shall periodically review the Internal Audit Charter to ensure it remains up to date and reflects the current scope of internal audit work.

5.13 Evaluation of Internal Audit

The Chief Audit Executive shall develop performance measures (key performance indicators) for consideration and endorsement by the Audit Committee, as a means for the performance of Internal Audit to be periodically evaluated.

5.14 Conflicts of Interest

Internal Auditors are not to provide audit services for work for which they may previously have been responsible. Whilst the Standards provide guidance on this point and allow this to occur after 12 months, each instance should be carefully assessed.

When engaging internal audit contractors, the Chief Audit Executive shall take steps to identify, evaluate the significance, and manage any perceived or actual conflicts of interest that may impinge upon internal audit work.

Instances of perceived or actual conflicts of interest by the Chief Audit Executive or Internal Audit staff and contractors are to be immediately reported to the Audit Committee by the Chief Audit Executive.

Any changes to this Internal Audit Charter will be approved by the Audit Committee.

6. Professional Standards

Expressions of interest must include details of relevant professional competence and experience.

Respondents must be able to demonstrate an established record for the provision of quality and timely Internal Audit services.

7. Service Scope

The Internal Auditor should note that the contract for the provision and delivery of the service will be for a period of three years or otherwise as mutually agreed. The contract is expected to commence from 23 November 2020.

Council wish to conduct a minimum of two internal audit reviews each year but may also wish to extend this from time to time.

Reviews are to be completed across the diverse range of Council functions and priority areas for review will be directed by the Audit Risk and Improvement Committee with guidance from the External Auditor.

7.1 Internal Audit program status

Council's previous 3 year program has seen the completion of internal audit reviews being undertaken across the following functions of council.

- Procurement & Contract Management
- Fraud & Corruption Framework and training
- Environmental Health
- Waste Management - Landfill
- Section 355 Committees
- IT General Controls
- Customer Service and Complaints Management

Implementation of recommendations and improvement activities is continuing, with regular reports provided to the Audit Risk and Improvement Committee.

7.2 Proposed Budget

Council has a budget of \$20,000 per annum for its Internal Audit program for the 2020/21 – 2022/23 period.

7.3 Proposed Scope

The future requirements for Councils Internal Audit program will include:

1. Development of a 3-year Internal Audit Plan with consideration given to Councils current status of internal audits undertaken and identified risks and challenges.

Possible internal audit activities may include:

2. Code of conduct - To assess the adequacy of controls in place designed to ensure compliance with the following aspects of the Code of Conduct:
 - personal dealings with Council,
 - improper and undue influence,
 - inappropriate interactions,
 - access to information and resources,
 - pecuniary interests,
 - reportable political donations,
 - gifts and benefits, etc
3. Volunteer Management – To review Council’s current provisions for managing its volunteers in the following areas:
 - recruitment and induction
 - scope of limitations and authorisations
 - community engagement
 - supervision
 - conflict of interest
4. External reporting requirements - To map the various external reporting requirements of Council and assess the effectiveness of controls in place to ensure compliance and accuracy of information.
5. Use of social media – To consider how Councils manage social media both in terms of its own presence and also in relation to how staff (including Councillors) use social media and the potential impact on Council.
6. Compliance - To consider the compliance aspects of council and the effectiveness and efficiency of processes in place regarding:
 - monitoring and reporting
 - permits, consents and licensing
 - regulatory functions.
7. Privacy Legislation - To assess the level of compliance with the various legislative requirements contained within Privacy Legislation.
8. Records Management – To assess compliance with industry and Australian standards for records management, retention and storage, efficiency and effectiveness of current arrangements.
9. Child Safe Standards – To review Council’s compliance with recently introduced compulsory minimum standards for organisations that provide services for children.
10. Statutory Planning and Building and Planning
11. Compliance and Enforcement
 - Review the Statutory Planning Department for efficiency and effectiveness of service delivery;

- Review the processes and procedures in place to ensure management are adequately following building and planning guidelines,
 - Review the processes implemented to ensure appropriate compliance with such principles.
12. Succession Planning & Recruitment – To review management’s succession planning risk assessment process to:
 - Identify weaknesses.
 - Review recruitment procedures to ensure Council policies and procedures are effective in managing organisation skills and experience mix.
 13. Management of portable and attractive items - To consider the effectiveness of controls in place that are designed to ensure that portable and attractive items owned by Council, i.e. office equipment , small plant & tools, fuel/oil, etc are used in accordance with approved usage and have sufficient effect so as to deter theft and misuse.
 14. Strategic Planning – To review the procedures in place in relation to strategic planning from both a financial and service delivery perspective; to ensure compliance with the Local Government Act 1993.
 15. Corporate Governance – To assess council’s governance practice including efficiency and effectiveness of decision making processes and delineation between management and governance functions.
 16. Payroll – To ensure that correct payments are made to each employee;
 - Ensure correct postings of costs to appropriate ledger accounts;
 - Ensure WorkCover, superannuation, PAYG and other legislative responsibilities are complied with.
 17. Business Continuity Management - To Review Council’s business continuity management plans to ensure they are in line with best practice and adequately cover key Council operations.
 18. Infrastructure Asset Management & Road Maintenance / Inspections
 - Assess the effectiveness of policies, plans, processes and systems regarding management of assets (including asset maintenance and replacement plans);
 - Assess the adequacy and effectiveness of Council’s road infrastructure asset management plan, and Council’s approach to road maintenance and inspections.
 19. Workplace Health & Safety – To review Council’s policies and procedures to ensure they adequately address compliance with applicable legislative requirements, review risk assessment procedures, and investigate contractor arrangements.
 20. Budgeting and Financial Reporting (Internal)
 - Information presented in monthly financial and other reports should be complete and accurately compiled from financial and other records.
 - Financial reports should be compared to budgets to identify significant variations.
 - Monthly financial reports include key performance indicators summaries, and can be related to other non-financial information to give the reports a measurable context

8. Information to be provided

Submissions must include the following information within the proposal as a minimum requirement:

- a) Declaration regarding the independence of the potential service provider.

- b) Proposed overall framework and methodology to the implementation of Internal Audit services. The methodology should include a Covid-19 plan to address any barriers to travel and onsite activities.
- c) Details of personnel who would be delivering the service, including relevant experience, qualifications and professional affiliations. This should include the availability of the proposed personal to compete the audit program.
- d) Details of experience in delivering internal audit services across a diverse range of areas.
- e) Fee proposal for a minimum of two internal audits each year with the option to increase the number of audits to three by the request of Council. (Proposal must not exceed \$60,000 over the three year term)
- f) A list of previous services provided for other organisations, listing at least two referees and contact telephone numbers.

9. Evaluation Criteria

Following the receipt of submissions, the Council will identify and select the service providers that best meet the overall performance objectives for the service required.

The evaluation criteria to be used to determine this will be as follows:

CRITERIA	WEIGHTING
Previous experience and reliability in providing this type of service	25%
Value – Council has a budget of \$60,000 for the three year term	25%
Proposed approach to the implementation and conduct of Internal Audit services inclusive of a Covid-19 plan	20%
That there are no conflicts of interest	15%
Current availability, suitability and experience of personnel, inclusive of backup resources.	15%

Following the short-listing of potential service providers a report will be presented to the 20 October 2020 meeting of Federation Council.

10. Timetable

The following approximate dates for implementation of the service are:

Closing Date for EOI submissions:	12.00 noon on Friday 9 October 2020
Appointment of Internal Auditor:	Wednesday 28 October 2020
Commencement of Internal Audit:	Monday 23 November 2020

11. References and relevant compliances

[Internal Guidelines under section 23A of the Local Government Act \(LGA\) 1993 - September 2010](#)

International Standards for the Professional Practice of Internal Auditing (IIA Australia)

[Federation Council Audit Risk and Improvement Committee Terms of Reference](#)

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12. Definitions

Audit Risk and Improvement Committee – Membership consists of a minimum of two independent external members and one councillor providing oversight and monitoring of the council’s audit **processes**, including the council’s internal control **activities**. This oversight includes internal and external reporting, risk management activities, internal and external audit, and compliance.

The appointment of an Audit Risk and Improvement Committee facilitates this by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes in line with the Office of Local Government Internal Audit Guidelines and Part 4A of the Local Government Amendment (Governance and Planning) Act 2016.

Chief Audit Executive - The Director Corporate and Community Services is appointed as Chief Audit Executive at Federation Council as defined in The International Standards for the Professional Practice of Internal Auditing (Standards) issued by the Institute of Internal Auditors.

Internal Audit – An independent, objective assurance and consulting activity providing independent assurance over the **internal controls and risk management framework** of the council. Federation Council engages an independent Accountancy firm to carry out its Internal Audit function.

External Audit – Statutory function that provides an opinion on the council’s annual financial reports, as required under Divisions 2 and 3 of the *Local Government Act 1993* to council and its external stakeholders.

13. Schedule of Changes & Amendments

Version	Date	Changes / Amendments
Draft	04/08/2020	New for contract 2020-2023

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