



# Gladstone Regional Council

## Council Policy

<b>Title</b>	<b>ETHICS INTEGRITY AND AUDIT</b>
<b>Policy Number</b>	<b>P-2018-29</b>
<b>Business Unit/s</b>	<b>FINANCE GOVERNANCE AND RISK</b>
<b>Date of Adoption</b>	<b>4 DECEMBER 2018</b>
<b>Resolution Number</b>	<b>G/18/3593</b>
<b>Review Date</b>	<b>4 DECEMBER 2021</b>
<b>Date Repealed</b>	

### 1.0 PURPOSE:

This Policy establishes the authority and responsibility conferred by Council to the Ethics, Integrity and Audit function of Council in the fulfilment of the internal audit requirements of the *Local Government Act 2009* and other legislation.

This policy supports the Business Improvement Committee Policy.

### 2.0 SCOPE:

This policy applies to the Business Improvement Committee, Councillors, External Representatives and Employees of Gladstone Regional Council.

As a Government owned Corporation, the Gladstone Airport Corporation is not subject to this policy except, to the extent of the requirements of the audit committee review functions in relation to the requirement for the financial statements of the Gladstone Airport Corporation to be incorporated within the financial statements and related reporting requirements of Gladstone Regional Council.

### 3.0 RELATED LEGISLATION:

- *Local Government Act 2009*
- *Local Government Regulation 2012*
- *Public Interest Disclosure Act 2013*
- *Crime and Corruption Act 2001*
- *Crime and Corruption Regulation 2015*
- *Integrity Act 2009*
- *Public Sector Ethics Act 1994*

### 4.0 RELATED DOCUMENTS:

- Gladstone Regional Council Business Improvement Committee Policy.

## 5.0 DEFINITIONS:

To assist in interpretation of this policy the following definitions apply:

**"Assurance"** means services that require the business improvement function's objective assessment of evidence to provide an independent opinion or conclusions regarding a process, system or other subject matter. The nature and scope of the assurance engagement are determined by business improvement function.

**"Business Improvement Function"**, includes the activities of Internal Audit and other associated process and organisational change activities resulting from audits and/or reviews of business practices and business improvement.

**"Consulting Services"** means services that are advisory in nature and are generally performed at the specific request of the organisation, including Council, management and/or Business Improvement Committee. The nature and scope of the consulting engagement are subject to the approval of the Chief Executive Officer or delegate.

**"Executive Team"** means the Chief Executive Officer and General Managers of Gladstone Regional Council.

**"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. (Institute of Internal Auditors)

**"Standards"** includes the Institute of Internal Auditors' Standards for Professional Practice, Statement of Responsibilities, Statements on Internal Auditing Standards, and Code of Ethics.

**"Operational Manager"** means the manager, team leader or specialist who is responsible for the area under review, and in normal circumstances would be a manager of a branch (other than the Internal Audit Function), however it may be the business unit general manager where the review is across more than one group.

## 6.0 POLICY STATEMENT:

### 6.1 Approach

Council will adopt an integrated<sup>1</sup> risk based approach to allocating resources and planning ethics, integrity and internal audit projects.

Based on a risk assessment and in consultation with management, the general direction of Council's Ethics, Integrity and Audit activities over the medium term is to be documented in the Three Year Internal Audit Plan. This plan shall be reviewed and approved by the Chief Executive Officer and presented to the Business Improvement Committee. The Plan will also be reviewed annually to take account of any change in circumstances.

The Annual Audit Plan projects may include financial, compliance, performance, due diligence, information systems, program evaluation, operational audits and other

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<sup>1</sup> Combines aspects of auditing to include or excluded any aspect based on risk

approaches as deemed appropriate, given the resources and also the priorities established through the risk assessment process and other identified considerations.

## **6.2 Independence**

Independence, objectivity, and integrity are the foundation of an effective internal audit and assurance system and for that purpose:

- a. Ethics Integrity and Audit employees report to the Ethics Integrity and Audit Specialist who reports:
  - Administratively to the General Manager Finance Governance and Risk and
  - functionally to Chief Executive Officer and the Business Improvement Committee, through the Chair
- b. Ethics Integrity and Audit employees should not develop and implement procedures or internal controls, prepare records, or engage in any other activities which he or she would normally review or appraise, and which could reasonably be construed to compromise his or her independence. The objectivity of the function need not be adversely affected by his or her determination and recommendation of the standards of control to be applied in the development of systems and procedures under his or her review. Concerning independence, internal audit staff should have an impartial, unbiased frame of mind and avoid conflicts of interest and be independent in fact and appearance.

## **6.3 Authority**

- 6.3.1. Ethics, Integrity and Audit is authorised to review all areas of Council and to have full, free, and unrestricted access to all Council's activities, records (both manual and electronic), property, and personnel. Council activities include entities over which Council has direct management, sponsorship or financial control.
- 6.3.2. All employees shall co-operate fully in making available any material or information reasonably requested by Ethics, Integrity and Audit.
- 6.3.3. Ethics, Integrity and Audit activities will remain free of influence by any organisational elements. This includes such matters as scope of activities/projects, the frequency and timing of examinations and the content of audit reports.
- 6.3.4. For approved areas of audit, evaluation and review, where the Ethics, Integrity and Audit do not possess all the necessary experience/skills, additional internal or external resources may be utilised subject to approval by the Chief Executive Officer.

## **6.4 Responsibility for Detecting and Reporting Irregularities**

- 6.4.1. Ethics Integrity and Audit is not legally or professionally responsible for preventing irregularities (which include fraud, other illegal acts and errors). However, in order to facilitate the fraud and corruption prevention function, the Ethics Integrity and Audit Team should be informed of any special investigation, fraud, theft or other suspected cases of misappropriation.

- 6.4.2. The responsibility for prevention of irregularities rests with Council and management through the implementation and continued operation of an adequate internal control system. Ethics Integrity and Audit representatives are responsible for examining and evaluating the adequacy and the effectiveness of actions taken by management to fulfil this obligation.
- 6.4.3. Ethics Integrity and Audit has a responsibility to report irregularities to the Chief Executive Officer and the Business Improvement Committee.
- 6.4.4. The Chief Executive Officer or delegate is responsible for reporting any irregularities according to the provisions of the *Local Government Act 2009*, and the *Crime and Corruption Act 2001* and any other statutory regulations that may come into force from time to time. In this regard the Manager Governance will fulfil the liaison officer's role to the Crime and Corruption Commission.

## **6.5 Reporting and responsibility for Corrective Action**

- 6.9.1. The Operational Manager is responsible for ensuring that agreed actions are either planned or taken on recommendations made or deficient conditions reported by Ethics Integrity and Audit or auditors (internal and external) within the agreed timeframes in the final project report which will generally be based on the Classification of Internal Audit Findings Table attached as Appendix 1 to this policy.
- 6.9.2. Recommendations are considered outstanding until they are implemented and/or hold a status of 'complete'. Any recommendations that have not been actioned within the agreed timeframe will be reported to and followed through by Council's Executive team.
- 6.9.3. A status report of actions will be presented to the Business Improvement Committee at each meeting.

## **6.6 Internal Audit Quality Assurance**

- 6.6.1 Audit Work: In order to ensure that the quality of audit work is consistently maintained at a high standard, Ethics Integrity and Audit will establish and maintain a quality assurance program. This program is to include:
- Developing a comprehensive work reporting arrangement.
  - Maintaining a regular review of audit plans, reports and working papers.
  - Maintaining effective communication links with the Business Improvement Committee members, Chief Executive Officer, management, external auditors and the Queensland Audit Office.
  - Arranging and providing on-going staff training as appropriate.
  - Issuing necessary oral and written directions and maintain written policies and procedures to assist and direct staff in the performance of their duties.
- 6.6.2 External Quality Assessment: Ethics Integrity and Audit will be subject to an external quality assessment on a regular basis, not exceeding an interval of five years.

## **7.0 ATTACHMENTS:**

Appendix 1 - Classification of Internal Audit Findings Table

**8.0 REVIEW TRIGGER:**

This policy will be reviewed when any of the following occur:

1. The related legislation or governing documents are amended or replaced; or
2. Other circumstances as determined by resolution of Council or the CEO; or
3. Three years from date of adoption.

<b>TABLE OF AMENDMENTS</b>			
<b>Document History</b>	<b>Date</b>	<b>Council Resolution No.</b>	<b>Notes (including the prior Policy No, precise of change/s, etc)</b>
Originally Approved	5 October 2010	G/10/32	
Amendment 1	3 July 2012	G/12/1103	
Amendment 2	17 September 2013	G/13/1722	
Amendment 3	7 April 2015	G/15/2363	
Amendment 4	01 November 2016	G/16/0090	First considered by the Finance & Corporate Governance Committee 25/10/2016
Amendment 5	4 December 2018	G/18/3593	

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**LEISA DOWLING**  
**CHIEF EXECUTIVE OFFICER**

## APPENDIX 1 - CLASSIFICATION OF INTERNAL AUDIT FINDINGS TABLE

The following framework for internal audit ratings has been developed for prioritising internal audit findings according to their relative significance depending on their impact on the process. The individual internal audit findings contained in audit reports will be discussed and rated with Management.

Rating	Definition	Examples of business impact	Action(s) required
<b>Extreme</b>	Issue represents control weakness which could have a catastrophic adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Catastrophic impact on operations or functions.</li> <li>• Complete failure of service delivery.</li> <li>• Regulatory breach could result in dissolution of Council.</li> <li>• Extensive detrimental long-term impacts on the environment and community.</li> <li>• Multiple fatalities and serious injury.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires immediate action.</li> <li>• Actively managed by Chief Executive Officer.</li> <li>• Requires detailed plan of action to be put in place within 20 days with an expected resolution date and substantial improvement within one month.</li> </ul>
<b>High</b>	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Major impact on operations or functions.</li> <li>• Probable decrease in the public's confidence in the Council.</li> <li>• Major decline in service/product delivery, value and/or quality recognised by customers.</li> <li>• Non-compliance or breach of legislation or regulation with probable litigation or prosecution and/or penalty.</li> <li>• Long term detrimental environmental or social impact ie chronic and/or significant discharge or pollutant.</li> <li>• Extensive injuries, injury to multiple resulting in hospitalisation or single fatality</li> </ul>	<ul style="list-style-type: none"> <li>• Requires immediate/prompt management action.</li> <li>• Requires executive management attention.</li> <li>• Requires a detailed plan of action to be put in place within 60 days with an expected resolution date and a substantial improvement within 3-6 months.</li> </ul>
<b>Medium</b>	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Moderate impact on operations or functions.</li> <li>• Possible decrease in the public's confidence in the Council.</li> <li>• Moderate decline in service/product delivery, value and/or quality recognised by customers.</li> <li>• Non-compliance or breach of legislation or regulation with threat of litigation or prosecution and/or penalty.</li> <li>• Environmental harm immediately recoverable</li> <li>• Medical treatment required, compensative injury.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires short-term management action.</li> <li>• Requires general management attention.</li> <li>• Requires a detailed plan of action to be put in place within 90 days with an expected resolution date and a substantial improvement within 6-9 months.</li> </ul>
<b>Low</b>	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Minor impact on internal business only.</li> <li>• Minor potential impact on brand value and market share.</li> <li>• Should not decrease the public's confidence in the company.</li> <li>• Minimal decline in service/product delivery, value and/or quality recognised by customers.</li> <li>• Non-compliance or breach of legislation or regulation with unlikely litigation or prosecution and/or penalty.</li> <li>• No lasting detrimental effect on the environment</li> <li>• First aid treatment.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires management action within a reasonable time period.</li> <li>• Requires process manager attention.</li> <li>• Timeframe for action is subject to competing priorities and cost/benefit analysis, eg. 9-12 months.</li> </ul>
<b>Improvement Opportunity</b>	Matter raised when current processes meet process objectives, however business improvement recommended to increase efficiency and/or effectiveness of the process	<ul style="list-style-type: none"> <li>• Business process more efficient and effective</li> </ul>	<ul style="list-style-type: none"> <li>• Management action not required, management action suggested</li> <li>• Timeframe for action is subject to cost/benefit analysis eg immediate action to within 12 months</li> </ul>