

Case Study

Kempsey Shire Council

Internal Audit and Pandemics

JUNE 2020

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Why is this case study useful reading?

A lot has been discussed and written about what internal audit can do to support their organisation's response to the coronavirus (COVID-19) pandemic in 2020. For some internal auditors it has been business as usual except that they work from home. For some internal auditors it has meant adjusting the internal audit plan to focus more closely on risks heightened by the pandemic such as procurement, cyber fraud, stimulus funding and working from home. For other internal auditors it has been an opportunity to suspend some or all of the internal audit plan and venture into advisory services to support the organisation's pandemic response.

This case study is how internal audit in a local government in Australia supported the organisation's COVID-19 pandemic response by being adaptable to provide targeted and timely internal audit services addressing a major issue and its associated risks.

What is a pandemic?

The word 'pandemic' comes from the Greek words 'pan' meaning 'all' and 'demos' meaning 'people'. A pandemic is an unstable disease epidemic spread across a large geographic area. The world has experienced disease pandemics such as smallpox and tuberculosis. One of the most devastating pandemics was the Black Death plague which killed an estimated 25 million people in the 14th century. Other notable pandemics were the 1918 Spanish flu pandemic which is estimated to have killed 50–100 million people, HIV/AIDS in the 1980s, Severe Acute Respiratory Syndrome (SARS) in 2003, and the 2009 swine flu (H1N1) pandemic. The 2019–2020 coronavirus (COVID-19) outbreak is the world's most recent pandemic and its impact is potentially more severe than other pandemics because people across the world, economies, communications, travel and supply chains are more connected than ever before.

What is internal auditing?

Internal auditing is an assurance and advisory activity that lives within an organisation and is independent of management so it can preserve its independence. To do this it should ideally report functionally to the audit committee and administratively to the chief executive officer. Its mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. It does this by applying a risk-based lens to organisational activities and then 'telling it like it is'. In times like a pandemic, the pendulum of its focus should shift to protecting organisational value.

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About Kempsey Shire

The Kempsey Local Government Area is a diverse region comprising mountain and forested areas, open farmlands, urban areas, coastal beaches and seaside towns located on the mid north coast of New South Wales, Australia. The towns and communities of the shire are equally diverse. The original inhabitants of this area are the people of the Dughutti Nation made up of the Dangaddi, Daingatti, Thungutti and Djunghatti people. European settlement began in 1827 when Captain AC Innes established a cedar party north of Euroka Creek on the Macleay River.

At the heart of the Macleay Valley is Kempsey, the main service town for the community. Built on the banks of the Macleay River, it continues to be a key centre. Kempsey has the largest residential population and is the principal service centre for the shire, providing higher order administrative, civic, education and health services. Whilst core to the valley's development, the Macleay River's serenity is sometimes interrupted and the flood prone nature of parts of the valley largely shape distinctive land use patterns and built form. The current population of the shire is approximately 30,000 people. The shire boasts over 15,000 hectares of National Parks and 79 kilometres of pristine coastline. The Macleay Valley has strong foundations in cattle, dairy and cropping and, in recent years, has witnessed further growth through new and higher-value agriculture production on smaller parcels of land.

In the past 12 months, Kempsey Shire Council has progressed several key business improvements to enhance the way it operates and deliver quality services and facilities within the Kempsey Shire. The current operational plan aims to deliver on the community's aspirations of being healthy, wealthy, safe, connected and well-governed. Council employs approximately 330 staff.

Introduction

A review of the Council COVID-19 pandemic response was requested by management. This was to be completed in two phases – (1) the initial response (2) post-response. Phase 1 was completed in April 2020, with this case study built around that experience. Internal Audit suspended the key components of its annual work program to undertake this important review. The Audit & Risk Committee Chair was informed.

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Background

The coronavirus (COVID-19) health crisis commenced in late-2019. The first case was detected in Australia on 25 January 2020. The health crisis was declared a pandemic by the World Health Organisation (WHO) on 11 March 2020.

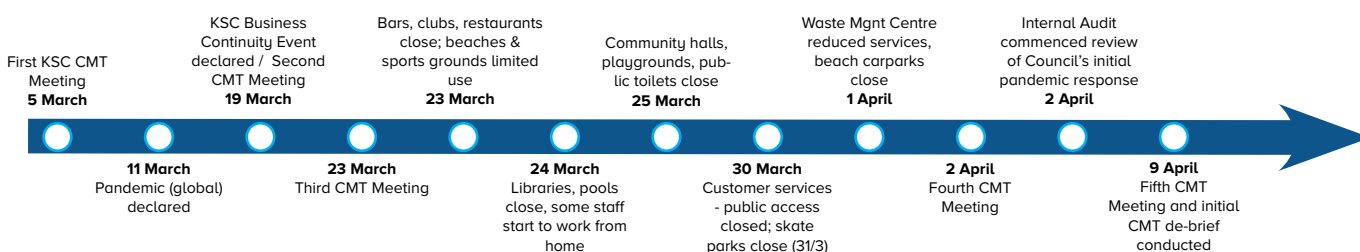
Council held its first Continuity Management Team (CMT) meeting relating to COVID-19 on 5 March 2020. The CMT declared the COVID-19 pandemic a business continuity event at its second CMT meeting on 19 March 2020. From the second CMT meeting the Executive Leadership Team (ELT) started meeting daily.

Several significant changes were made to Council functions and services over the proceeding days due to government measures and public safety concerns. This included the closure of swimming pools, libraries, community halls, playgrounds, customer service centres, and changes to waste management services and other operations. Staff were advised to work from home where possible.

Further CMT meetings took place in March and April. The business continuity centre was set up on-line with a virtual business continuity Microsoft Teams site established. Divisional sub-plans of the business continuity plan were reviewed and updated. Staff contact lists were also updated.

The ELT requested Internal Audit to conduct a two-staged review of the Council pandemic response and assist with development of a recovery plan.

An initial debrief of the Council response was facilitated by Internal Audit at the CMT meeting on 9 April 2020. This provided input to the phase 1 interim report on Council's response to the COVID-19 pandemic, with the phase 2 post-response final report to be completed at conclusion of the response phase. The diagram below shows timeline highlights related to Council's response to the pandemic.



Audit objective and scope

The objective was to assess efficiency and effectiveness of Council's initial response to the COVID-19 pandemic from late-March to early-April 2020. This included a review of key documents and targeted interviews with key stakeholders across Council.

Key scope areas included:

Pandemic response post-implementation review

- › Review planning and prevention materials (pandemic-focused).
- › Assess previous business continuity plan audit actions status from a previous audit performed in 2019.
- › Review business continuity plan documentation including draft Council pandemic plan.
- › Consider Local / State / Federal government good practice examples.

Review key business continuity response activities

- › CMT, ELT, communications, community linkages.
- › Review status of key actions from Statewide Mutual COVID-19 Guideline for Local Government and Council pandemic response plans.
- › Monitoring and reporting.

Compile key lessons learned on Council's initial response

- › Identify good practices and improvement opportunities.
- › Draft a high-level recovery plan for Council post-COVID-19 pandemic.
- › Consider recovery and improvement actions in the local government guideline.
- › Consider NSW Office of Local Government, state and federal government recovery guidelines.
- › Incorporate interim review outcomes, recommendations and lessons learned.

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Key review steps

An agile audit technique was utilised to facilitate the review. Internal Audit gained access to the virtual business continuity Microsoft Teams site and was invited to join the CMT during the pandemic response phase. Over 15 key stakeholders were interviewed on-line seeking feedback on 14 key response themes outlined below. Ratings of 'good', 'fair' and 'poor' were utilised to generate constructive and honest feedback.

The short interviews were found to be highly effective for providing valuable insights into good practices and improvement opportunities, as well as maintaining a positive connection between key staff during a period of heightened change and uncertainty.

Feedback from the interviews, debriefs at the CMT, documentary review and good practice analysis were incorporated into an interim response review that was presented to the CMT. The Audit & Risk Committee discussed the interim review at its May 2020 meeting. The Committee was complementary on Council's openness in conducting the review and willingness to implement changes.

Internal Audit maintained a consulting focus throughout most of the initial response phase by assisting with preparation of new CMT guidelines for declaring changes to Council services affected by a pandemic. Initial monitoring for recovery and improvement initiatives has commenced through the CMT. A final pandemic response review will be conducted at conclusion of the response phase.

The audit work encompassed the following key themes:

Key Theme	Test Areas
Business Continuity Planning (pandemics)	<ul style="list-style-type: none"> > Initial planning and prevention materials > Accessibility > Fit-for-purpose
Continuity Management Team	<ul style="list-style-type: none"> > Initial set-up > Structure > Roles and responsibilities
Key Decision-making	<ul style="list-style-type: none"> > Timeliness of closing services > Working from home arrangements > Leave conditions
Government and Community Relationships	<ul style="list-style-type: none"> > Emergency management committees – federal / state / local government > Community groups
Human Resources	<ul style="list-style-type: none"> > Leave provisions > Offering employee assistance program (EAP) services > Human resource (HR) enquires
Work, Health and Safety	<ul style="list-style-type: none"> > Personal protective equipment (PPE) availability > Work from home policies
Customers and Services	<ul style="list-style-type: none"> > Adjust customer services operations; inform public
Operations	<ul style="list-style-type: none"> > Activate business continuity plans > Deploy staff > Prioritise work
Contractors and Suppliers	<ul style="list-style-type: none"> > Engage alternate suppliers > Prioritise work
Property and Facilities	<ul style="list-style-type: none"> > Hand Sanitiser > Improved cleaning > Air conditioning reviews / air flows
Activities and Events	<ul style="list-style-type: none"> > Events cancelled or postponed > Communications > Timeliness

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Communications	<ul style="list-style-type: none"> › Communications plan › Media releases › Contain negative feedback
Finances	<ul style="list-style-type: none"> › Review expenditure controls › Monitor expenditure › Communicate with insurer
Monitoring and Reporting	<ul style="list-style-type: none"> › Monitoring response activities for continuity management team – executive, council (board)

Lessons learned

- › Council’s initial response to the COVID–19 pandemic was considered generally effective based on assessments from several key stakeholders. Ten out of 14 key response categories scored a ‘good’ overall rating.
- › Several good practice activities were identified including:
 - › Prompt and decisive mobilisation of the CMT.
 - › Key initial decisions were generally clear and aligned to government measures.
 - › The timely transition to work from home including the ICT team’s constructive support was noted by many as an outstanding achievement.
 - › Internal and external communications was generally very effective.
 - › A positive organisational culture underpinned many of the response successes with trust and mutual support between staff considered important.
- › No response categories scored a ‘poor’ rating.
- › Only four key areas were rated as ‘fair’ – pandemic and business continuity planning; other government and community linkages; workplace health and safety guidelines; and contractor and supplier issues. Many of the identified improvement opportunities were initially out of Council control due to the unprecedented scale and pace of the business continuity event.
- › It was noted that a less rigid approach to business continuity planning would better equip management to adapt and respond to an evolving crisis, and the draft Council Pandemic Staged Activation Guide being developed will assist in this regard.

Final comments

Internal Audit added genuine value to Council during the COVID–19 pandemic response phase by being

adaptable. The provision of relevant and timely internal audit and consulting services reflected positively on the Internal Audit function and helped to foster further trust and resilience in the organisation. Agile and flexible auditing techniques were also welcomed by key stakeholders as time was limited while staff were responding to an evolving pandemic.

Council General Manager Craig Milburn said “*Internal Audit’s comprehensive assessment of Council’s preparedness, response and capacity to recover from the pandemic has been instructive and provides clear direction on key factors to enable Council to better plan and respond to evolving – not static – crises, such as pandemics. The flexibility demonstrated by Internal Audit during the pandemic was commendable. Internal Audit’s ability to adapt its work program and support response and recovery initiatives in a timely manner was indispensable. Internal Audit’s presence on the CMT was also deemed highly valuable with the ongoing provision of constructive feedback on key governance and planning activities.*”

The Council’s Audit & Risk Committee Chair Stephen Coates commented “*The responsiveness of Internal Audit to work collaboratively with management to review the organisation’s COVID–19 response, obtain feedback from responsible officers, and produce a solid ‘lessons learned’ interim report for the Audit & Risk Committee in mid-May 2020 indicates a strong focus on protecting and enhancing organisation value. The comfort provided through an interim COVID–19 report allowed the Committee to provide timely advice and insight to Council on risk mechanisms and management’s understanding of emerging risks. Internal Audit refocused their efforts to helping the organisation with the emerging risk of COVID–19. Internal Audit produced timely and relevant advice via a formal interim report on how the organisation was tracking at the time it was important to get assurance that the organisation was successfully managing pandemic risks. Lessons learned provided valuable input to organisation improvement. The whole exercise showed how Internal Audit can add value when it is needed.*”

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Helpful References

Fact sheet 'Internal Audit and Pandemics', IIA-Australia
Fact sheet 'Evolution of Internal Audit', IIA-Australia
Fact sheet 'Internal Audit Consulting', IIA-Australia
20 Critical Questions 'What Directors should ask about Business Continuity', IIA-Australia
20 Critical Questions 'What Directors should ask about Pandemic Planning', IIA-Australia
White Paper 'Internal Audit Service Catalogue', IIA-Australia
'Internal Audit in Australia – second edition', IIA-Australia
'Managing corrupt conduct during the COVID-19 outbreak', NSW Independent Commission Against Corruption
'International Professional Practices Framework'; IIA Global
'Team Leader's Guide to Internal Audit Leadership', Internal Audit Foundation, 2020

Acknowledgement

The IIA-Australia takes this opportunity to thank Kempsey Shire Council and its General Manager Craig Milburn for contributing to this case study. Thanks also to Dr Matthew Bentley PMIIA the Internal Auditor at Kempsey Shire Council for his valuable insights.