

Internal Audit Charter

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1. PURPOSE

Section 105 (1) of the *Local Government Act 2009* (Qld) (LGA) requires Council to establish an internal audit function. It is the policy of Council to provide an internal audit function, independent of all other organisational functions. This Internal Audit Charter establishes the authority and responsibility conferred by Council on the internal audit function and incorporates the internal audit requirements of Section 207 of the *Local Government Regulation 2012* (Qld). It is the purpose of this Charter to define the function, scope, operating and reporting parameters for the internal audit activity.

2. SCOPE

The internal audit function is established to assist the Council, Audit Committee, Chief Executive Officer (CEO) and other levels of management to achieve sound managerial control over all activities under their control, in order that these activities can be carried out efficiently and effectively. The objectives of internal audit are achieved by furnishing Council, Audit Committee and CEO and other levels of management with reports, analyses, appraisals, recommendations, counsel and information concerning the activities audited/reviewed and by promoting effective control at reasonable cost.

Accordingly audit planning must be sufficiently comprehensive to regularly audit/review all facets of Council's operations, having regard to the functions and duties imposed on Council. An effective audit function will provide Council and the CEO with:

- Risk based appraisals of Council functions and activities to determine their appropriateness in the context, of Council objectives (including, but not restricted to accounting and financial management information, performance monitoring and control systems).

3. PROCEDURE STATEMENT

3.1 INDEPENDENCE AND POSITION OF INTERNAL AUDIT FUNCTION WITHIN COUNCIL

The internal audit function has independent status within the Council and for that purpose:

- a) Shall be responsible for operational purposes to the CEO but shall have further access to the Audit Committee.
- b) Subject to 3.1(a), shall be independent of any section or officer or employee of Council.
- c) Shall have no executive or managerial powers, functions, authorities or duties except those relating to the management of the audit function.
- d) Shall not be involved in the day-to-day operation of Council, nor in the internal operational checking systems of Council except those relating to the administration and management of the audit activities.
- e) Shall not be responsible for the designing, installing or maintaining of systems, procedures or controls, but will advise on these matters and provide assurance to management that completed systems will contribute to the achievement of the intended corporate objectives. If,

however, the internal audit function is involved in the detailed development or implementation of a system, then any post implementation review should, as far as possible, be conducted by staff entirely independent of the Internal Auditor.

3.2 AUTHORITY

Internal audit function has neither direct responsibility, nor authority over any of the activities which it audits. Therefore the audits and evaluations do not in any way relieve other persons in Council of the responsibilities assigned to them.

Internal audit function shall generally undertake projects in accordance with internal audit plans approved by the Audit Committee but shall also conduct such further unscheduled projects as the CEO considers desirable. Due consideration should also be given to the views of the Directors in regard to suitable projects.

Internal audit function is authorised to review all areas of Council and to have access to all of Council's activities, records (both manual and electronic), property and personnel relevant to the scope of their audit project. Council activities include entities over which Council has direct management or financial control.

All employees shall co-operate fully in making available any material or information reasonably requested by the Internal Auditor.

It is the policy of Council that all audit activities remain free of influence by any organisational elements. This will include such matters as scope of audit programs, the frequency and timing of examinations and the content of audit reports.

For approved areas of audit, evaluation and review, where the Internal Auditor does not possess all the necessary experience/skills, additional internal or external resources may be utilised, subject to approval by the CEO, or as provided for in the audit plan.

3.3 RELATIONSHIP TO EXTERNAL AUDIT

In accordance with *Australian Auditing Standards*, the Internal Auditor may advise the Auditor- General or its delegates about any audit findings. Also to advise CEO and where it involves the CEO, the Managers.

The Internal Auditor shall co-operate fully with the Auditor-General and the appointed external auditor in respect of any internal audits undertaken by the internal audit function. Working papers together with any further explanations are to be made available in order to enhance the effectiveness of the total audit coverage and to minimise duplication.

To ensure that the internal audit function is aware of all matters associated with its functional responsibilities, the Internal Auditor is to be supplied with copies of all relevant correspondence received from external audit and Queensland Audit Office.

3.4 INTERNAL AUDIT ACTIVITIES

The activities of the Internal Audit is generally subject to the Audit Plan.

The range of internal auditing is to determine whether the organisation's network of governance, risk management and control processes, as designed and represented by management, is adequate and functioning in an effective manner. It may include, but is not necessarily limited to, the following:

- The core role of internal audit function with regard to Enterprise Risk Management (ERM) is to provide objective assurance to Council on the effectiveness of the organisation's ERM activities to help ensure key business risks are being managed appropriately and that the system of internal control is operating effectively.
- Developing a Three Year Internal Audit Plan and an Annual Internal Audit Plan, based on risk analysis. The plans shall be reviewed and approved by the Audit Committee. In the formulation of these plans, the views of the CEO should be taken into consideration. Work programs/proposals will be prepared for each audit activity or project undertaken by Internal Audit.
- Conduct audit projects of Council activities as directed by the CEO.
- Undertake a probity role as directed by the chief executive officer such as, but not limited to, probity checks on significant tender processes.
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information.
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports and whether the organisation is in compliance. The internal audit function should also be pro-active in offering advice to management with regard to the implications of future legislation, policy and industry changes.
- Reviewing the means of safeguarding assets and, where appropriate, verifying the existence of such assets.
- Co-ordinating audit work around external auditor requirements to assure completeness of coverage, preventing a duplication of effort and ensuring the effective use of audit resources.
- Promote high standards of personal and Council performance through the promotion of Council's Code of Conduct.

The scope of internal audit function extends to include all departments, groups, sections and teams, funded schemes and entities over which council has direct management, sponsorship or financial control.

Any dispute as to whether an activity falls within the scope of council's internal audit function shall be determined by the CEO.

3.5 RESPONSIBILITY FOR DETECTING AND REPORTING IRREGULARITIES

Internal Audit is not legally or professionally responsible for preventing irregularities (which include fraud, other illegal acts and errors). In order to facilitate the fraud/corruption prevention function, the Internal Auditor should be informed of any special investigation, fraud, theft or other suspected cases of misappropriation.

The responsibility for prevention of irregularities rests with Council and management through the implementation and continued operation of an adequate internal control system. The Internal Auditor is responsible for examining and evaluating the adequacy and the effectiveness of actions taken by management to fulfil this obligation.

However, in exercising due professional care, Internal Audit should be alert to the possibility of irregularities and those conditions and activities where irregularities are most likely to occur. Due care implies reasonable care and competence, not infallibility, nor extraordinary performance. It requires internal auditors to conduct examinations and verifications to a reasonable extent.

The Internal Auditor has a responsibility to report irregularities to the CEO.

The CEO is responsible for reporting any irregularities according to the provisions of the LGA, the *Crime and Corruption Act 2001* (Qld) and any other statutory regulations that may come into force from time to time. In this regard the Internal Auditor will fulfil the role of liaison officer to the Crime and Corruption Commission.

3.6 INTERNAL AUDIT APPROACH

Internal Audit will adopt an integrated risk based approach to allocating resources and planning.

3.6.1 Risk profile and Internal Audit Plans

The plan of engagement for Council's internal audit activities should be based on a risk assessment, undertaken annually, so that greater audit attention can be directed to areas of higher risk.

Based on the risk assessment, the general direction of Council's internal audit activities over the medium term is to be documented in the Strategic Internal Audit Plan covering a three year period. This plan shall be reviewed by the CEO and approved by the Audit 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 approaches as deemed appropriate, given the resources and also the priorities established through the risk assessment process and other more recent considerations.

3.6.2 Responsibilities and Auditing Standards:

The audit function will be carried out in accordance with appropriate Standards including:

- i. The Institute of Internal Auditors' Standards for Professional Practice;
- ii. The Information Systems Audit and Control Association (ISACA) Statements on Information Systems Auditing Standards; and
- iii. Auditing and Assurance Standards Board (AUASB).

Audit will discharge its responsibilities in accordance with this document and the Standards with the proviso that this document shall not be overridden by the Standards, should a conflicting interpretation arise.

Specific Standards which are to be followed include:

- Audit staff must maintain an independent outlook and must ensure their independence to plan, investigate and report with honesty and objectivity.
- Projects are to be performed by or under the control of a suitably skilled, experienced and competent person(s).
- Findings and recommendations or suggestions are developed and documented with due care during the course of each engagement, such that the reporting process is expedited.
- Regular quality assurance reviews of project plans, reports and working papers are carried out.

3.7 RESPONSIBILITY OF MANAGEMENT FOR CORRECTIVE ACTION

The CEO is responsible for seeing that action is either planned or taken on recommendations made or deficient conditions reported by auditors (internal and external).

3.8 QUALITY ASSURANCE

In order to ensure that the quality of internal audit work is consistently maintained at a high standard, Internal Audit should establish and maintain a quality assurance program.

4. REPORTING

4.1 INTERNAL AUDIT REPORTING:

A draft memorandum shall be prepared and issued by the Internal Auditor to the director/manager as soon as possible after the completion of an audit project. The draft memo will include comments and recommended action plans by the operational manager where appropriate.

The Director receiving the report should respond to the Internal Auditor. This response is to indicate recommended actions to be taken or planned; nominate a responsible officer and a timetable for the anticipated completion of these actions in regard to the specific findings and recommendations in the draft report.

A final memo will be prepared and issued by the Internal Auditor to the CEO and will include the comments and action plans as per the response of the director/manager. If a response is not received by the due date, Internal Audit is required to issue the draft as the final audit report with a comment in relation to the non-response.

A copy of this report will also be forwarded to the Mayor and the Audit Committee by the CEO.

The Internal Audit may also advise the Queensland Audit Office or the Auditor-General's delegate/contractor about any audit findings as appropriate or if requested.

5. DEFINITIONS

Nil

6. RELATED DOCUMENTS AND REFERENCES

Crime and Corruption Act 2001 (Qld)
Internal Audit Policy (MSC)
Local Government Act 2009 (Qld)
Local Government Regulation (Qld)

7. REVIEW

It is the responsibility of the CEO to monitor the adequacy of this policy and recommend appropriate changes. This policy will be formally reviewed every four years or as required by Council.