

Internal Audit Charter

Upper Lachlan Shire Council



1.0.0

18 December 2019

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1. Introduction and Vision

The Internal Audit function is established by authority of the General Manager of the Upper Lachlan Shire Council (the Council), with its responsibilities defined in this Internal Audit Charter (Charter) approved by the General Manager on endorsement of the Audit, Risk and Improvement Committee.

This Charter provides the framework and authority for the performance of internal audit activities at the Council.

Chief Audit Executive describes the person in the senior position responsible for managing the Internal Audit Department of an organisation. At the Council, this is the shared services Manager Risk, Audit and Improvement.

The vision of the Internal Audit function is to embrace and operate in line with the relevant and recognised best practices of internal audit.

2. Definition of internal auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.

3. Purpose

The mission of internal audit is to enhance and protect the value the Councils delivers to rate payers by providing stakeholders with risk-based, objective and reliable assurance, advice and insight.

The Internal Audit function provides independent and objective assurance to:

- The Audit, Risk and Improvement Committee and the General Manager that financial and non-financial controls are operating in a compliant, efficient, effective, economical and ethical manner.
- Assist executive management and business managers to improve business performance.

4. Independence

The Internal Audit function is required to be independent and objective, with independence essential to its effectiveness. The Internal Audit function has no direct authority or responsibility for the activities it reviews. The Internal Audit function has no responsibility for the management of business activities, or for development or implementation of operational systems or procedures.

The strength of the Internal Audit function comes from it being independent of management.

Where the Chief Audit Executive may be responsible for a non-audit activity including risk management and business improvement, there are independence safeguards in place:

- When responsible for non-audit activities, the Chief Audit Executive is not performing internal audit duties when managing or performing those activities; and
- Review of non-audit activities must be managed and performed independently of the Chief Audit Executive and reported direct to the Audit, Risk and Improvement Committee.

5. Conflict of interest

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the Internal Audit function, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

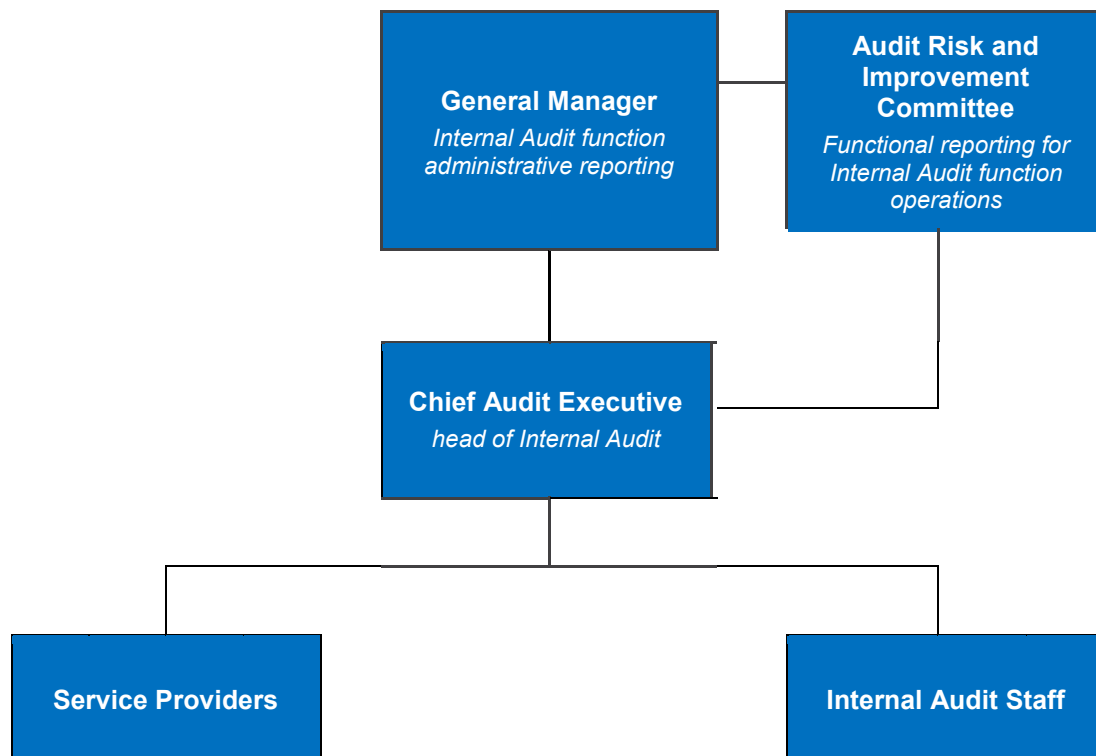
Internal auditors are not to provide audit services for work for which they may previously have been responsible. The Institute of Internal Auditors provides guidance on this point and suggests a period of one year, but each instance should be carefully assessed.

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

Instances of perceived, potential or actual conflict of interest by Internal function staff and service providers shall immediately be reported to the Chief Audit Executive and the chair of the Audit Risk and Improvement Committee.

6. Internal audit positioning

Internal Audit is positioned within the Council is as follows:



7. Reporting arrangements

All Internal Audit staff and service providers report to the Chief Audit Executive, who reports:

- Functionally for operations to the Audit Risk and Improvement Committee through the chair.
- Administratively to the General Manager.

Functional reporting involves the Audit Risk and Improvement Committee:

- Reviewing and approving the Internal Audit Charter.
- Approving decisions regarding appointment and removal of the Chief Audit Executive, including remuneration.
- Assessing performance of the Chief Audit Executive.
- Reviewing and approving the Internal Audit Plan, and any changes to the plan.
- Reviewing reports on the results of audits, audit-related activities, audit team capability, audit performance, and other important matters.
- Monitoring compliance with standards, together with quality and improvement arrangements.
- Meeting privately with the Chief Audit Executive at least once a year without the General Manager or other management present.
- Making enquiries of the Chief Audit Executive to determine any scope or budget limitations that may impede the execution of Internal Audit function responsibilities.

Administrative reporting to the General Manager includes:

- Internal Audit resources and annual budget.
- Provision of corporate services to the Internal Audit function including office accommodation, computers and equipment.
- Human resource administration.

The Chief Audit Executive will meet regularly with the General Manager, with meetings scheduled at least every two(2) months. Right of direct access by the Chief Audit Executive to the General Manager is preserved for any time the Chief Audit Executive believes it to be warranted.

8. Authority and confidentiality

All Internal Audit work is undertaken under the authority of the Audit Risk and Improvement Committee.

Internal Audit staff and service providers are authorised to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documentation and information necessary to enable the Internal Audit function to fulfil its responsibilities in line with its approved internal audit plan.

All records, documentation and information accessed in the course of undertaking internal audit work are to be used solely for the performance of these activities. Internal Audit staff and service providers are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

All internal audit documentation and work papers remain the property of the Council, including where internal audit services are provided by service providers under an outsourced or co-sourced model.

9. Role

In the performance of its activities, the Internal Audit function will play an active role in:

- Developing and maintaining a culture of accountability, integrity and adherence to high ethical standards.
- Facilitating the integration of controls and risk management into day-to-day business activities and processes.
- Promoting a culture of cost-consciousness and self-assessment.

The Internal Audit function will support the Council by:

- Reviewing achievement of objectives.
- Assessing if decisions are properly authorised.
- Evaluating the reliability and integrity of information.
- Ensuring assets are safeguarded.
- Assessing compliance with laws, regulations, policies and contracts.
- Considering the efficiency, effectiveness, economy and ethics of business activities.
- Reviewing opportunities for fraud and corruption.
- Following-up previous audits to assess if remedial action has been effectively implemented.
- Looking for better ways of doing things, and sharing these insights within the Council.

Management may request internal audit services in response to emerging business issues or risks. The Internal Audit function will attempt to satisfy these requests, subject to the assessed level of risk, availability of resources, and endorsement of the Audit, Risk and Improvement Committee.

10. Reporting to the Audit Risk and Improvement Committee

The Audit Risk and Improvement Committee supports the General Manager in exercising its governance responsibilities. The Chief Audit Executive will report to the Audit Risk and Improvement Committee on:

- Overall performance of the Internal Audit function, including key performance indicators agreed with the Audit Risk and Improvement Committee that are documented in a balanced scorecard report or similar.
- Internal audit work completed.
- Progress implementing the internal audit plan.
- Implementation status of internal audit, external audit, and other relevant external and regulatory body recommendations.
- Achievements via an annual report to summarise work and achievements for the year, to demonstrate value delivered, and to provide an opinion on the overall state of internal controls and any systemic issues identified.

- Annual assertion on the work of the Internal Audit function and compliance with internal auditing standards.
- Annual statement of assurance.

11. Nature and scope of work

The scope of internal audit work embraces the wider concept of corporate governance and risk, recognising that controls exist in organisations to manage risks and promote effective and efficient governance and performance. Internal audit services may include:

- Assurance Services – objective examination of evidence for the purpose of providing an independent assessment of risk management, control and governance processes.
- Advisory Services – advisory and related client activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve business operations.

The Internal Audit function will offer a range of services, including:

- Audits with a compliance, financial or operational performance improvement focus.
- Management requested services where business areas may request internal audit services, usually in response to an issue or an emerging risk.
- Multi-stage audits at key project milestones.
- Continuous auditing of controls using technology.

The scope and coverage of Internal Audit work is not limited in any way, and may cover any Council activity, operations and programs, including those of associated organisations.

12. Professional standards

The Internal Audit function will govern itself by adherence to mandatory guidance contained in the 'International Professional Practices Framework' (IPPF) issued by the Institute of Internal Auditors (IIA):

- 'Core Principles for the Professional Practice of Internal Auditing'.
- 'Definition of Internal Auditing'.
- 'Code of Ethics'.
- 'International Standards for the Professional Practice of Internal Auditing'.

This mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of Internal Audit function performance. The Chief Audit Executive is responsible for maintaining an up-to-date risk-based internal audit methodology that aligns with good practices promoted by the internal audit profession.

The Internal Audit function, including service providers, will perform their work in accordance with the IPPF. While the IPPF will cover the majority of internal audits, technology audits may be performed using ISACA standards contained in the Information Technology Assurance Framework (ITAF).

13. Resourcing

The Audit Risk and Improvement Committee will be advised of any resource limitations to the ability of the Internal Audit function to fulfil its responsibilities. Any assessment of the Internal

Audit operational budget is to be supported by appropriate and objective analysis and benchmarking.

Where an internal audit outsourced or co-sourced model is adopted, in consultation with the Audit Risk and Improvement Committee, the service provider will be selected through periodic market testing that applies good practice probity principles focused on competence, skills and knowledge against a set of pre-determined criteria that includes independence and objectivity. Service provider appointment will be approved by the Audit Risk and Improvement Committee.

14. Responsibilities

Internal Audit responsibilities include, but are not limited to:

Internal Audit

- Establish a 'best practice' Internal Audit function.

Internal Audit Plan

- Develop a risk-based internal audit plan that considers the Councils risks and issues, including those identified by management, and submit the plan to the Audit Risk and Improvement Committee for review and approval.
- Ensure changes to the internal audit plan are approved by the Audit Risk and Improvement Committee.

Internal Audit Engagements

- Perform internal audit work contained in the approved internal audit plan, and produce a written report for each audit containing improvement actions.
- Ensure management action plans to implement improvement actions are obtained from management and included in audit reports, including a responsible person and timetable for completion.
- Where management responses to any audit recommendation are not considered adequate, the Chief Audit Executive will consult with management of the area audited and attempt to reach a mutually agreeable resolution. If agreement is not reached, the Chief Audit Executive will refer the matter to the General Manager for resolution. If agreement is still not reached, the final arbiter will be the Audit Risk and Improvement Committee.
- Provide final audit reports to management of the area audited, General Manager, and the Audit Risk and Improvement Committee. Copies may be provided to management of other areas where relevant. Copies may be provided to the external auditor if requested.

Improvement Actions

- Establish a system to monitor progress by management to implement internal audit and external audit improvement actions, together with recommendations contained in reports by other relevant external and regulatory bodies.
- Ensure management provides updates to the Internal Audit function quarterly on progress to implement management action plans.
- Follow-up and obtain evidence that management action plans are effectively implemented by management before recommending closure to the Audit Risk and Improvement Committee.

15. Management and staff obligations

An executive sponsor will be nominated for each audit.

Management and staff are obligated to professionally and constructively contribute to internal audit work, and the implementation of management action plans in response to improvement opportunities and recommendations contained in internal audit reports.

Management has maximum of 10 working days from when they receive a draft internal audit report to provide their management responses and action plans, which should contain:

- Agreed, partially agreed or not agreed.
- If not agreed, why not.
- Action to be taken – these do not need to include lengthy comments or explanations; the action to be taken is all that is required.
- Responsible person.
- Timing.
- Interim control arrangements to be relied upon where there is a long lead time, such as waiting to close-out an improvement action through implementation of a technology solution.

Where formal management responses and action plans have not been received within 10 working days, recommendations will be provided to the Audit Risk and Improvement Committee, with a timetable for implementation to be pursued separately through the General Manager.

Each quarter internal audit will request an update from management on progress of implementation for every improvement action and recommendation. Timing will align to Audit Risk and Improvement Committee meetings.

There is one opportunity for the executive sponsor to revise the implementation date should this be necessary due to unexpected delay.

Where an original implementation date is passed, whether approved or not, the audit recommendation cannot be rated to be on track.

Where an audit recommendation rated high or above is not implemented and closed-out by its due date, the executive sponsor will be required to attend the next Audit Risk and Improvement Committee meeting and present details on why the management action has not been fully implemented and the audit recommendation closed-out, and how the resulting risk is being addressed in the interim.

Where management seeks to accept a risk from an audit recommendation, they are required to complete a 'management acceptance of risk' form that considers approved risk appetite and risk tolerances, and have it approved by the Audit Risk and Improvement Committee.

16. Quality assurance and improvement program

The Chief Audit Executive is responsible for developing and maintaining a quality assurance and improvement program that includes:

- Ongoing internal assessments.
- Periodic internal assessments to be performed annually.
- Annual assertion to the Audit Committee on compliance with internal auditing standards.
- Independent external assessments performed at least once every five years by a qualified, independent assessor or assessment team from outside the Council.

Internal audit is encouraged to develop and maintain mutually beneficial relations with counterparts in other organisations, thought leaders, relevant professional bodies and networks with a view to:

- Exchanging information on internal audit good practices.
- Exchanging information on emerging corporate governance, risk management and assurance issues.

17. Evaluation of performance

Internal Audit performance will be evaluated and results reported to the Audit Risk and Improvement Committee in a balanced scorecard or similar. This will include:

- Results of the quality assurance and improvement program.
- Results of Internal Audit performance measures previously approved by the Audit Risk and Improvement Committee.
- Feedback from management of areas where internal audit work has been performed.

Feedback on Internal Audit performance will be sought annually from members of the Audit Risk and Improvement Committee.

18. Relationship with other assurance activities

The Council uses the 3 lines of defence integrated assurance model to allocate responsibilities for risk management and control, recognising that:

- 1st line of defence – Management has ownership, responsibility and accountability for assessing, controlling and mitigating risks.
- 2nd line of defence – Risk management facilitates and monitors implementation of effective risk management practices by management, and assists risk owners in reporting adequate risk-related information up and down the organisation.
- 3rd line of defence – Internal audit will, through a risk-based approach, provide assurance to the Audit Risk and Improvement Committee and management, on how effectively the Council assesses and manages its risks, including the manner in which the first and second lines of defence operate. Internal audit does not absolve management and staff from any of their risk management and control responsibilities.

The Internal Audit function will establish and maintain an open relationship with the external auditor and other assurance providers. The Internal Audit function will plan its activities to ensure adequacy of overall assurance coverage, and to minimise duplication of assurance effort across the Council.

External audit has full and free access to all internal audit plans, work papers and reports.

19. Review of the charter

This Charter will be reviewed annually, with any changes endorsed by the Audit Risk and Improvement Committee and approved by the General Manager.

20. Approval of the charter

Endorsed:

Audit Risk and Improvement Committee

Resolution Number:

18 December 2019



Approved:

General Manager - Colleen Worthy

Resolution Number: 30/20

20 February 2020