

# Internal Audit

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## Charter

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Reviewed by the Chief Audit Executive

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[signed]

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[date]

Reviewed by the General Manager

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[signed]

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[date]

Reviewed by Chair of the Audit, Risk and Improvement Committee

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[signed]

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[date]

Next review date: .....

# 1 Introduction

This Audit Charter is a formal statement of purpose, mandate and responsibility for the internal auditing function within Wagga Wagga City Council (Council).

Council has established the Internal Audit function as a key component of Council's governance and assurance framework, in compliance with the *Local Government (General) Regulation 2021* and the Office of Local Government's *Guidelines for risk management and internal audit for local government in NSW*.

This charter provides the framework for the conduct of the Internal Audit function at Council and has been approved by the governing body (Council) considering the advice of the Audit, Risk and Improvement Committee (ARIC).

# 2 Purpose of Internal Audit

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

The mission of Internal Audit is to enhance and protect organisational value by providing advice to the Council, General Manager and ARIC about Council's governance processes, risk management and control frameworks and its external accountability obligations. It also assists Council to improve its business 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 of Wagga Wagga City Council.
- **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 Wagga Wagga City Council's business operations.

# 3 Role

The role of Internal Audit is to support Council's ARIC to review and provide independent advice to the Council in accordance with section 428A of the Local Government Act 1993. This includes conducting internal audits of Council and monitoring the implementation of corrective actions.

Internal Audit also has an active role in:

- developing and maintaining a culture of accountability and integrity
- facilitating the integration of risk management into day-to-day business activities and processes, and
- promoting a culture of high ethical standards.

Internal Audit has no direct authority or responsibility for the activities it reviews. Internal Audit has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in Council functions or activities (except in carrying out its own functions).

# 4 Internal Audit Arrangement

## 4.1 Head of Internal Audit

Day-to-day management of Internal Audit is the responsibility of the Chief Audit Executive (Head of Internal Audit). The Chief Audit Executive must have sufficient skills, knowledge and experience to fulfil Internal Audit's role and responsibilities to the Council and the ARIC and be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest. Responsibilities of the Chief Audit Executive include:

- managing the day-to-day activities of the Internal Audit function.
- managing Council's Internal Audit budget.
- supporting the operation of the Council's ARIC.
- approving Internal Audit project plans, conducting or supervising audits and assessments and providing independent advice to the ARIC.
- monitoring the Council's implementation of actions that arise from the findings of audits.
- assisting the ARIC to implement its annual work plan and four-year strategic work plan.
- ensuring the Council's internal audit activities comply with the Guidelines for risk management and internal audit for local government in NSW, and
- contract management and oversight of supplementary external providers (where appropriate).

## 5 Independence

Internal Audit is to be independent of Council so it can provide an unbiased assessment of Council's operations and risk and control activities. The Chief Audit Executive reports functionally to the Council's ARIC on the results of completed audits, and for strategic direction and accountability purposes, and reports administratively to the General Manager to facilitate day-to-day operations. Internal audit activities are not subject to direction by the Council and Council's management has no role in the exercise of Council's internal audit activities.

The ARIC is responsible for communicating any internal audit issues or information to the Council. Should the Council require additional information, a request for the information may be made to the ARIC Chair by resolution. The ARIC Chair is only required to provide the information requested by the Council where the Chair is satisfied that it is reasonably necessary for the Council to receive the information for the purposes of performing its functions under the Local Government Act. Individual Councillors are not entitled to request or receive information from the Chief Audit Executive or the ARIC.

The General Manager must consult with the Chair of the ARIC before appointing or making decisions affecting the employment of the Chief Audit Executive. If the Chief Audit Executive is dismissed, the General Manager must report the reasons for their dismissal to the Council. The ARIC, through the Chair, will contribute to the annual performance assessment of the Chief Audit Executive.

Where the Chair of the ARIC has any concerns about the treatment of the Chief Audit Executive, or any action taken that may compromise their ability to undertake their functions independently, they can report their concerns to the Council.

The Chief Audit Executive is to confirm at least annually to the ARIC the independence of Internal Audit activities from Council.

## 6 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 and documented.

When engaging internal audit contractors, the Chief Audit Executive must endeavour to identify, assess 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 contractors are to be immediately reported to the ARIC and the General Manager by the Chief Audit Executive. The subsequent management or resolution of any identified conflicts of interest shall be monitored by the ARIC.

The annual declaration of independence by the Chief Audit Executive includes a statement that there are no conflicts of interest, or details of how it has been reported and is being appropriately managed.

## 7 Conduct and Standards

Internal Audit (including service providers) must comply with Council's Code of Conduct. Complaints about breaches of Council's code of conduct by internal audit personnel are to be dealt with in accordance with the Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW. The General Manager must consult with the ARIC before any disciplinary action is taken against the Chief Audit Executive in response to a breach of Council's Code of Conduct. Declaration and management of conflicts of interest will occur in line with the requirements of the Code of Conduct.

Internal Audit 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 performance.

Internal Audit, including service providers engaged from time to time, will perform their work in accordance with the IPPF. While the IPPF applies to all internal audit work, technology audits may also apply the ISACA standards contained in the 'Information Technology Assurance Framework' (ITAF). Where relevant, the current Australian risk management standard may also be applied.

## 8 Authority and Confidentiality

Council authorises the Internal Audit function to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that the Chief Audit Executive considers necessary for Internal Audit to undertake its responsibilities.

All records, documentation and information accessed while undertaking internal audit activities are to be used solely for the conduct of those activities. The Chief Audit Executive and individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive when undertaking their work.

All internal audit documentation, including service provider working papers, will remain the property of Council.

Information and documents pertaining to Internal Audit are not to be made publicly available. Internal Audit may only release Council information to external parties that are assisting Internal Audit to undertake its responsibilities with the approval of the General Manager, except where it is being provided to an external investigative or oversight agency for the purpose of informing that agency of a matter that may warrant its attention.

## 9 Performing Internal Audit Activities

The work of Internal Audit is to be thoroughly planned and executed.

Internal Audit must develop an annual work plan to guide the work of Internal Audit over the forward year. The Internal Audit plan should be reviewed and approved by Council's ARIC.

The Chief Audit Executive will:

- Provide the findings and recommendations of internal audits to the ARIC at the end of each audit. Each report is to include a response from the relevant senior manager.
- Establish an ongoing monitoring system to follow up Council's progress in implementing corrective actions.
- Develop and maintain policies and procedures to guide the operation of Internal Audit. These should be reviewed and approved by the ARIC as appropriate.

- Ensure that the ARIC is advised at each meeting of the internal audit activities completed during that quarter, progress in implementing the annual work plan and progress made implementing corrective actions.

## **10 Quality Assurance & Improvement Program**

The ARIC is required by its Charter to oversee the development and implementation of a quality assurance and improvement program for the Internal Audit function, to provide assurance that internal audit work conforms to the Standards and is focused on continuous improvement.

Standard 1300 requires the Chief Audit Executive develop and maintain a Quality Assurance and Improvement Program that covers all aspects of the Internal Audit activity. This program is intended to assess the efficiency and effectiveness of the Internal Audit function and provide assurance on its conformance with the Standards and other applicable professional practices. The QAIP includes considerations for conducting internal and external assessments, ongoing monitoring activities, and continuous improvement processes.

Internal Audit shall also be subject to an independent quality review at least every five years.

## **11 Administrative Arrangements**

### **11.1 ARIC Meetings**

The Chief Audit Executive:

- Will attend ARIC meetings as an independent non-voting observer. The Chief Audit Executive can be excluded from meetings by the ARIC at any time.
- Must meet separately with the ARIC at least once per year.
- Can meet with the Chair of the ARIC at any time, as necessary, between committee meetings.

### **11.2 Relationship with External Audit**

Internal and external audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort.

Periodic meetings and contact between internal and external audit shall be held to discuss matters of mutual interest and facilitate coordination.

External audit will have full and free access to all internal audit plans, working papers and reports.

### **11.3 Coordination with Governance & Risk**

The Chief Audit Executive shall periodically consult the Manager Corporate Governance & Performance to achieve collaborations between Internal Audit, Risk Management and Governance activities and to reduce duplication of efforts.

### **11.4 Dispute Resolution**

Internal Audit should maintain an effective working relationship with Council and the ARIC and seek to resolve any differences they may have in an amicable and professional way by discussion and negotiation.

In the event of a disagreement between Internal Audit and management, the dispute is to be resolved by the General Manager and/or the ARIC. Disputes between Internal Audit and the ARIC are to be resolved by the Council.

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Departmental Chief Executive in writing.

## **11.5 Review Arrangements**

Council's ARIC will review the performance of the Internal Audit function each year and report its findings to the Council. A strategic review of the performance of Internal Audit must be conducted each council term that considers the views of an external party with a strong knowledge of Internal Audit and reported to the Council.

This charter is to be reviewed annually by the ARIC and once each council term by the governing body. Any substantive changes are to be approved by the governing body.

## **Schedule 1: Internal Audit Responsibilities**

### **Internal Audit**

- Conduct internal audits as directed by Council's ARIC.
- Implement the annual Internal Audit work plan.
- Monitor the implementation by Council of corrective actions.
- Assist Council to develop and maintain a culture of accountability and integrity.
- Facilitate the integration of risk management into day-to-day business activities and processes.
- Promote a culture of high ethical standards.

### **External Audit**

- Review all external plans and reports in respect of planned or completed audits and monitor Council's implementation of audit recommendations.
- Provide advice on action taken on significant issues raised in relevant external audit reports and better practice guides.

### **Risk Management**

Review and advise:

- if Council's has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard
- whether Council's risk management framework is adequate and effective for identifying and managing the risks Council faces, including those associated with individual projects, programs and other activities
- if risk management is integrated across all levels of Council and across all processes, operations, services, decision-making, functions and reporting
- of the adequacy of risk reports and documentation, for example, Council's risk register and risk profile
- whether a sound approach has been followed in developing risk management plans for major projects or undertakings
- whether appropriate policies and procedures are in place for the management and exercise of delegations
- if Council has taken steps to embed a culture which is committed to ethical and lawful behaviour
- if there is a positive risk culture within Council and strong leadership that supports effective risk management
- of the adequacy of staff training and induction in risk management
- how Council's risk management approach impacts on Council's insurance arrangements
- of the effectiveness of Council's management of its assets, and
- of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans.

### **Internal Controls**

Review and advise:

- whether Council's approach to maintaining an effective internal audit framework, including over external parties such as contractors and advisors, is sound and effective
- whether Council has in place relevant policies and procedures and that these are periodically reviewed and updated



- whether appropriate policies and procedures are in place for the management and exercise of delegations
- whether staff are informed of their responsibilities and processes and procedures to implement controls are complied with
- if Council's monitoring and review of controls is sufficient, and
- if internal and external audit recommendations to correct internal control weaknesses are implemented appropriately.

## **Compliance**

Review and advise of the adequacy and effectiveness of Council's compliance framework, including:

- if Council has appropriately considered legal and compliance risks as part of Council's risk management framework
- how Council manages its compliance with applicable laws, regulations, policies, procedures, codes, and contractual arrangements, and
- whether appropriate processes are in place to assess compliance.

## **Fraud and Corruption**

Review and advise of the adequacy and effectiveness of Council's fraud and corruption prevention framework and activities, including whether Council has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

## **Financial Management**

Review and advise:

- if Council's financial management processes are adequate
- the adequacy of cash management policies and procedures
- if there are adequate controls over financial processes, for example:
  - appropriate authorisation and approval of payments and transactions
  - adequate segregation of duties
  - timely reconciliation of accounts and balances
  - review of unusual and high value purchases
- if policies and procedures for management review and consideration of the financial position and performance of Council are adequate
- if Council's grants and tied funding policies and procedures are sound.

## **Governance**

Review and advise of the adequacy of Council governance framework, including Council's:

- Decision-making processes
- Implementation of governance policies and procedures
- Reporting lines and accountability
- Assignment of key roles and responsibilities
- Committee structure
- Management oversight responsibilities
- Human resources and performance management activities
- Reporting and communication activities
- Information and communications technology (ICT) governance, and
- Management and governance of the use of data, information and knowledge.

## **Strategic Planning**

Review and advise:

- of the adequacy and effectiveness of Council's integrated, planning and reporting (IP&R) processes
- If appropriate reporting and monitoring mechanisms are in place to measure progress against objectives, and
- Whether Council is successfully implementing and achieving its IP&R objectives and strategies.

## **Service Reviews and Business Improvement**

Review and advise:

- If Council has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance
- If appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance, and
- How Council can improve its service delivery and Council's performance of its business and functions generally

## **Performance Data and Measurement**

Review and advise:

- If Council has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives
- If the performance indicators Council uses are effective, and
- Of the adequacy of performance data collection and reporting.