



Charter Internal Audit

Table of Contents

Introduction	2
Purpose of internal audit.....	2
Independence	2
Authority	2
Role	3
Head of internal audit function	3
Performing internal audit activities	4
Conduct	4
Administrative arrangements	4
Audit, Risk and Improvement Committee (ARIC) meetings.....	4
External audit.....	4
Dispute resolution	5
Review arrangements	5
Further information.....	5
Schedule 1 - Internal Audit Function Responsibilities	6
Audit.....	6
Risk management	6
Financial management	7
Improvement	8
Performance data and measurement	8
Controlled Document Information	9

Introduction

Lake Macquarie City Council (Council) has established the Internal Audit function as a key component of Council's governance and assurance framework, in compliance with the Departmental Chief Executive's Guidelines for risk management and internal audit for local government in NSW. This charter provides the framework for the conduct of the Internal Auditor in Council and has been approved by the governing body taking into account the advice of Council's Audit, Risk and Improvement Committee ('ARIC' or 'the committee').

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 processes¹.

Internal audit provides an independent and objective review and advisory service to provide advice to the governing body, Chief Executive Officer (CEO) 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.

Independence

Council's Internal Auditor is to be independent of Council so it can provide an unbiased assessment of Council's operations and risk and control activities.

The Internal Auditor reports functionally to Council's ARIC on the results of completed audits, and for strategic direction and accountability purposes, and reports administratively to the CEO to facilitate day-to-day operations. Internal audit activities are not subject to direction by 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 governing body. Should the governing body require additional information, a request for the information may be made to the chair by resolution. The chair is only required to provide the information requested by the governing body where the chair is satisfied that it is reasonably necessary for the governing body to receive the information for the purposes of performing its functions under the *Local Government Act 1993*. Individual Councillors are not entitled to request or receive information from the ARIC.

The CEO must consult with the chair of Council's ARIC before appointing or making decisions affecting the employment of the Internal Auditor. If the Internal Auditor is dismissed, the CEO must report the reasons for their dismissal to the governing body.

Where the chair of Council's ARIC has any concerns about the treatment of the Internal Auditor or any action taken that may compromise their ability to undertake their functions independently, they can report their concerns to the governing body.

The Internal Auditor is to confirm at least annually to the ARIC the independence of internal audit activities from Council.

Authority

Council authorises the Internal Auditor to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information the Internal Auditor considers necessary for the Internal Auditor 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 Internal Auditor is responsible and accountable for

¹ As defined by the International Standards for the Professional Practice of Internal Auditing (2017)

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maintaining the confidentiality of the information the Internal Auditor receives when undertaking internal audit work.

All internal audit documentation is to remain the property of Council, including where internal audit services are performed by an external third-party provider.

Information and documents pertaining to the Internal Auditor are not to be made publicly available. The Internal Auditor may only release Council information to external parties that are assisting the Internal Auditor to undertake its responsibilities with the approval of the CEO, 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.

Role

The Internal Auditor is to support Council's ARIC to review and provide independent advice to 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.

The Internal Auditor is to also play 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
- promoting a culture of high ethical standards.

The Internal Auditor has no direct authority or responsibility for the activities it reviews. The Internal Auditor 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).

Head of internal audit function

Council's internal audit function is to be led by a member of Council's staff with sufficient skills, knowledge and experience to ensure it fulfils its role and responsibilities to Council and ARIC. The head of internal audit function must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Responsibilities of the head of internal audit function include:

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

Members of the internal audit function are responsible to the head of internal audit. Individuals that perform internal audit activities for Council must have:

- an appropriate level of understanding of Council culture, systems and processes
- the skills, knowledge and experience necessary to conduct internal audit activities in Council
- effective interpersonal and communication skills to ensure they can engage with council staff effectively and collaboratively
- honesty, integrity and diligence.

Performing internal audit activities

The work of the Internal Auditor is to be thoroughly planned and executed. Council's ARIC must endorse a strategic work plan at least every four years to ensure the matters listed in Schedule 1 are reviewed by the committee and considered by the internal audit function when developing their risk-based program of internal audits. The strategic work plan must be reviewed at least annually to ensure it remains appropriate.

The committee must also endorse an annual work plan to guide the work of the internal audit function over the forward year.

All internal audit activities are to be performed in a manner that is consistent with relevant professional standards including the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

The Internal Auditor is to 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.

The Internal Auditor is to establish an ongoing monitoring system to follow up Council's progress in implementing corrective actions.

The CEO, in consultation with the ARIC, is to develop and maintain policies and procedures to guide the operation of Council's Internal Auditor.

The Internal Auditor is to ensure the ARIC is advised at each of the committee's meetings of the internal audit activities completed during that quarter, progress in implementing the annual work plan and progress made implementing corrective actions.

Conduct

Internal audit personnel 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 CEO must consult with Council's ARIC before any disciplinary action is taken against the Internal Auditor in response to a breach of Council's code of conduct.

Internal auditors must also comply with the Code of Ethics for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

Administrative arrangements

Audit, Risk and Improvement Committee (ARIC) meetings

The Internal Auditor will attend ARIC meetings as an independent non-voting observer. The Internal Auditor can be excluded from meetings by the committee at any time.

The Internal Auditor will have access to the chair of the ARIC to discuss audit and risk matters when required.

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 to facilitate coordination.

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

Dispute resolution

The Internal Auditor 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 the Internal Auditor and Council, the dispute is to be resolved by the CEO and/or the ARIC pending on the nature of the difference. Disputes between the Internal Auditor and the ARIC are to be resolved by the CEO.

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

Review arrangements

Council's ARIC must review the performance of the internal audit function each year and report its findings to the governing body. A strategic review of the performance of the internal audit activities 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 governing body.

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

Further information

For further information on Council's internal audit activities, contact the Internal Auditor on internalauditor@lakemac.nsw.gov.au or by phone 0249210531.

Schedule 1 - Internal Audit Function Responsibilities

Audit

Internal audit

- Conduct internal audits as directed by Council's ARIC.
- Implement Council's annual and four-year strategic internal audit work plans.
- 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 implementation of audit recommendations.
- Provide advice on action taken on significant issues raised in relevant external audit reports and better practice guides.

Risk

Risk management

Review and advise:

- if Council 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
- 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
- if internal and external audit recommendations to correct internal control weaknesses are implemented appropriately.

Compliance

Review and advise Council 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
- 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:

- of the implications for Council of the findings of external audits and performance audits and Council's responses and implementation of recommendations
- the adequacy of cash management and credit card use 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
- whether Council's financial statement preparation procedures and timelines are sound
- if policies and procedures for management review and consideration of the financial position and performance of Council are adequate
- if effective processes are in place to ensure financial information included in Council's report is consistent with signed financial statements
- if Council's grants and tied funding policies and procedures are sound.

Governance

Review and advise of the adequacy of Council's 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
- management and governance of the use of data, information and knowledge.

Improvement

Strategic planning

Review and advise:

- on the adequacy of Council's integrated, planning and reporting (IP&R) processes and their effectiveness to integrate the community's aspirations into Council's vision and long-term strategy
- if appropriate reporting and monitoring mechanisms are in place to measure progress against objectives
- 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.

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
- of the adequacy of performance data collection and reporting.

Controlled Document Information

Authorisation Details

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Officer:	Internal Auditor - Marelize van der Westhuizen		
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Related Document Information, Standards & References

Related Legislation:	(Legislation Name) Local Government Act 1993 Local Government (General) Regulation 2021	(Relationship/Context)
Related Policies (Council & Internal):	(Policy Name) Code of Conduct Audit, Risk and Improvement Committee Charter Council policies	(Relationship/Context)
Related Procedures, Guidelines, Forms, WHS Modules/PCD's, Risk Assessments, Work Method Statements:	(Document Name)	(Relationship/Context)
Standards COP's & Other References	(Standard, COP or Other References) Guidelines for risk management and internal audit for local government in NSW International Standards for the Professional Practice of Internal Auditing ISO31000:2018 – Risk Management Guidelines	(Relationship/Context)

Definitions

Term / Abbreviation	Definition
OLG	Office of Local Government

Consultation (update for each version created)

Key Departments, Teams, Positions, Meetings:	CEO, Deputy CEO, Directors, Internal Ombudsman, Chief Financial Officer, Internal Auditor and Council's external auditor.
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Version History

Version No	Date Changed	Modified By	Details and Comments
1	February 2018	Marilize van der Westhuizen	New document
2	July 2023	Marilize van der Westhuizen	Major update to align with the Office of Local Government Guidelines for Risk Management and Internal Audit for Local Government in NSW issued under section 23A of the Local Government Act 1993.