

# BREWARRINA SHIRE COUNCIL

## INTERNAL AUDIT CHARTER

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

Internal audit at Brewarrina Shire Council is managed by the Internal Auditor. The Internal auditor is the top position within internal audit activities, as defined in The International Standards for Professional Practice of Internal Auditing (Standards) issued by the Institute of Internal Auditors.

### 1.0 INTRODUCTION

This Internal Audit Charter is a formal statement of purpose, authority and responsibility for an internal audit function within Brewarrina Shire Council.

The Charter:

- Establishes internal audit within Council and recognises the importance of such an independent and objective service to the organisation.
- Outlines the legal and operational framework under which Internal Audit will operate.
- Authorises the internal auditor to promote and direct a broad range of internal audits across Council and, where permitted, external bodies.

Although there is no specific requirement under the Local Government Act 1993 for internal audit in local Councils, the Department of Local Government issued in August 2008, Internal Audit Guidelines. It strongly recommends that Councils have an internal audit function.

### 2.0 ROLE AND AUTHORITY

The Internal Auditor is authorised to direct a comprehensive program of internal audit work in the forms of reviews, previews, consultancy advice, evaluations, appraisals, assessments and investigations of functions, processes, controls and governance frameworks in the context of the achievement of business objectives.

For the purpose of performing any internal audit function, the Internal Auditor is authorised, without restriction:

- To have access to any office, depot, store or other premises or property owned or used by Council in its operations and activities;
- To have access to, and be presented with, any books, accounts, files, computer software, documents or papers pertaining to the operations or activities of Council and to take copies thereof;
- For the purpose of counting or inspection, to be presented with any monies (under the supervisor of a Council employee), certificates, value documents or other assets of the Council; and
- To be supplied with all relevant information and explanations as requested and to be given every assistance in the performance of the duties entrusted.

### 3.0 OBJECTIVITY, INDEPENDENCE AND ORGANISATIONAL STATUS

Objectivity requires and unbiased mental attitude. As such, all Internal Audit staff shall perform internal audit engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Further it requires Internal Audit staff not to subordinate their judgment on internal audit matters to that of others.

To facilitate this approach, Internal Audit shall have independent status within Council, and for this purpose shall be responsible directly to the Audit Committee and administratively to the General Manager.

Internal audit shall be independent of the activities reviewed, and therefore shall not undertake any operating responsibilities outside of internal audit work. Neither shall Internal Audit staff have any

executive or managerial powers, authorities, functions or duties except those relating to the management of Internal Audit.

Internal Audit staff shall report to the Chairman of the Audit Committee any situations where they feel their objectivity may be impaired.

The work of Internal Audit does not relieve the staff of Brewarrina Shire Council from their accountability to discharge their responsibilities. All Council staff are responsible for risk management and the operation and enhancement of internal control. This includes responsibility for implementing remedial action endorsed by management following an internal audit.

Internal Audit shall not be responsible for operational activities on a daily basis, or in the detailed development or implementation of new or changed systems, or for internal checking processes.

#### **4.0 SCOPE OF WORK**

The scope of services provided by Internal Audit shall encompass:

- The development/co-ordination of a dynamic, comprehensive three year internal audit plan, together with supporting programs, for the efficient and effective performance of the Internal Audit function.
- The development of annual Internal Audit Plans derived from the three year plan.
- Identifying, and assessing risks to the assets, activities and interests of the Council.
- Investigating actual and potential lapses of control and incidents of risk over the financial and other operations and activities of the Council. Examples may include financial, performance, operational compliance, system security, and due diligence engagements.
- Ascertaining conformity with the goals and objectives of Council.
- The examination of compliance with policies, procedures, plans and legislation.
- Assessment of the reliability and integrity of information.
- Assessment of the safeguarding of assets.
- Any special investigations as directed by the Audit Committee.
- All activities of Council, whether financial or non-financial, manual or computerised.

Internal Audit is not responsible for:

- Designing, installing and operating systems.
- Drafting of policies and procedures.
- Establishing and maintaining organisational controls – this responsibility rests with management.
- Handling complaints from external sources in relation to the Council or the conduct of its officers.
- Involvement in individual tender processing evaluations as these activities are generally considered operational responsibilities.

#### **5.0 INTERNAL AUDIT METHODOLOGY**

Internal audit shall use the most appropriate methodology for each internal audit engagement, depending on the nature of the activity and the pre-determined parameters for the engagement. Generally, internal audits will include:

- Planning;
- Reviewing and assessing the risks in the context of the audit objectives;
- Examination and evaluation of information;
- Communicating results; and
- Following up on implementation of audit recommendations.

## 6.0 OPERATING PRINCIPLES

Internal audit shall conform with:

- The standards and code of ethics issued by the Institute of Internal Auditors;
- Where relevant, the Statement on Information Systems Auditing Standards issued by the Information Systems and Control Association; and
- Relevant auditing standards issued by the Auditing and Assurance Standards Board.

The Internal Auditor shall:

- Possess the knowledge, skills and technical proficiency essential to the performance of internal audits;
- Be skilled in dealing with people and in communicating audit issues effectively;
- Maintain their technical competence through a program of continuing education; and
- Exercise due professional care in performing internal audit engagements.

Internal Audit staff shall:

- Conduct themselves in a professional manner; and
- Conduct their activities in a manner consistent with the concepts expressed in the Standards and the Code of Ethics.

## 7.0 CODE OF CONDUCT

Internal auditors are expected to adopt professional ethical standards in order to meet their responsibilities to the Council. The Council expects that the Internal Auditor will apply and uphold the principles and rules of conduct expressed below.

### Principles of Conduct

The principles that are relevant to the profession and practice of internal auditing are:

- Integrity

The integrity of the Internal Auditor establishes trust and provides the basis for reliance on their judgment.

- Objectivity

The Internal Auditor exhibits the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. The Internal Auditor makes a balanced assessment of all the relevant circumstances and is not unduly influenced by their own interests or by others in forming judgment.

- Confidentiality

The Internal Auditor respects the value and ownership of information received and does not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- Competency

The Internal Auditor applies the knowledge, skills and experience needed in the performance of internal auditing services.

## Rules of Conduct

The rules of conduct that describe behaviour expected of Internal Auditors are:

### Integrity

The Internal Auditor shall:

- Perform their work with honesty, diligence and responsibility;
- Observe the law and make disclosures expected by the law and the profession;
- Not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or the Council; and
- Respect and contribute to the legitimate and ethical objectives of the Council.

### Objectivity

The Internal Auditor shall:

- Not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- Not accept anything that may impair or be presumed to impair their professional judgment; and
- Disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

### Confidentiality

The Internal Auditor shall:

- Be prudent in the use and protection of information acquired in the course of their duties; and
- Not use information for personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of Council.

### Competency

The Internal Auditor shall:

- Engage only in those services for which they have the necessary knowledge, skills and experience;
- Perform internal auditing services in accordance with the Standards for the Professional Practice of Internal Auditing; and
- Continually improve their proficiency and the effectiveness and quality of their services.

## 8.0 REPORTING ARRANGEMENTS

The Internal Auditor shall at all times report to the Audit Committee. At each Audit Committee meeting, the Internal Auditor shall submit a report summarising all audit activities undertaken during the period, indicating:

- Internal audit engagements completed or in progress;
- Outcomes of each internal audit engagement undertaken; and
- Remedial action taken or in progress.

On the completion of each internal audit engagement, the Internal Auditor shall issue a report to Council detailing the objective and scope of the audit, and resulting issues based on the outcome of the audit. The Internal Auditor shall seek from the responsible senior executive an agreed and endorsed action plan outlining remedial action to be taken, along with an implementation timetable and person responsible. Responsible officers shall have a maximum of twenty one (21) days to provide written management responses and action plans in response to issues and recommendations contained in internal audit reports.

The Internal Auditor shall make available all internal audit reports to the Audit Committee. However the work of the Internal Auditor is solely for the benefit of Council and is not to be relied on or provided to any other person or organisation, except where this is formally authorised by the Audit Committee.

## **9.0 PLANNING REQUIREMENTS**

Internal audit uses a risk based rolling program of internal audits to establish as annual Internal Audit Plan to reflect a program of audit over a twelve (12) month period. This approach is designed to be flexible, dynamic and more timely in order to meet the changing needs and priorities of Council.

The Internal Auditor shall prepare an annual Internal Audit Plan for review and approval by the Audit Committee, showing the proposed areas for audit. The annual Internal Audit Plan shall be based on an assessment of the goals, objectives and business risks of Council, and shall also take into consideration any special requirements of the Audit Committee and senior executives.

The Internal Auditor has discretionary authority to adjust the Internal Audit Plan as a result of receiving special requests from management to conduct reviews that are not on the plan, with these to be approved at the next meeting of the Audit Committee.

## **10.0 QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

The Audit Committee shall oversee the development and implementation of a quality assurance and improvement program for internal audit, to provide assurance that internal audit work conforms to the Standards and is focused on continuous improvement.

## **11.0 REVIEW OF THE INTERNAL AUDIT CHARTER**

The internal auditor shall periodically consult with the external auditor, to discuss matters of mutual interest, to co-ordinate audit activity, and to reduce duplication of audit effort.

## **12.0 REVIEW OF THE INTERNAL AUDIT CHARTER**

The Audit Committee shall periodically review the Internal Audit Charter to ensure it remains up to date and reflects the current scope of internal audit work.

## **13.0 EVALUATION OF INTERNAL AUDIT**

The Audit Committee shall develop performance measures (key performance indicators) for consideration and endorsement, as a means for the performance of Internal Audit to be periodically evaluated.

Internal Audit shall also be subject to an independence quality review at least every five (5) years. Such review shall be in line with the Standards of Professional Practice in Internal Audit and be commissioned by and report to the Audit Committee.

## **14.0 CONFLICTS OF INTEREST**

When engaging internal audit contractors, the Audit Committee shall take steps to identify, evaluate the significance, 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 internal audit staff are to be immediately reported to the Chair of the Audit Committee.

## 15.0 CHANGES TO THE CHARTER

Any changes to this Internal Audit Charter will be approved by the Audit Committee.