

Internal Audit Charter

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Contents

INTRODUCTION.....	3
THE ROLE AND PURPOSE OF INTERNAL AUDIT	3
INDEPENDENCE AND THE POSITION OF INTERNAL AUDIT FUNCTION WITHIN COUNCIL.....	3
AUTHORITY.....	4
RELATIONSHIP TO EXTERNAL AUDIT	4
SCOPE OF INTERNAL AUDIT ACTIVITIES	5
RESPONSIBILITY FOR DETECTING AND REPORTING IRREGULARITIES	6
INTERNAL AUDIT APPROACH.....	6
RISK PROFILE, THREE YEAR AND ANNUAL INTERNAL AUDIT PLANS:	6
RESPONSIBILITIES AND AUDITING STANDARDS:	7
REPORTING ACCOUNTABILITY	7
INTERNAL AUDIT REPORT:.....	7
MANAGEMENT'S RESPONSIBILITY FOR CORRECTIVE ACTION	8
QUALITY ASSURANCE.....	8
RESPONSIBILITIES.....	8
DEFINITIONS	9

Introduction

The *Local Government Regulation 2012* (the 'Regulation') requires that Carpentaria Shire Council establish an effective and efficient internal audit function. This Charter establishes the authority and responsibility conferred by Council on Internal Audit and incorporates the internal audit duty requirements of the Regulation). More specifically the Charter defines the function, scope, operating and reporting parameters of the internal audit activity.

The Role and Purpose of Internal Audit

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

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 Chief Executive Officer with: Management oriented 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).

- Reviews of the reliability of accounting and financial management, an assessment of the systems of internal control, an evaluation of compliance with relevant legislation, local law, local law policies, Council policies, operating guidelines and delegations and the protection of the assets and resources under the control of management.
- Independent and confidential advice on action to be taken to improve operational effectiveness, efficiency and economy.
- Follow up appraisals, where appropriate, regarding action taken by operational management as a result of audit recommendations.
- Review of program/support plan performance criteria and performance indicators for relevance, reliability and accuracy at such other times as may be appropriate.
- Management-oriented evaluation of programs/support plans to determine that legislation, local law, local law policies, Council policies, and program/support plan objectives and strategies remain appropriate and are being achieved; whether resources are optimally allocated across programs/support plans and optimally utilised within each program/support plan; and that the strategic management system ensures accountability of programs/support plans in line with the strategic direction as set by Council in the Corporate Plan.

This Charter also recognises the role that the internal audit function may be called upon to play as an appropriate entity under the *Public Interest Disclosure Act 2010*.

Independence and the Position of Internal Audit Function within Council

Internal Audit has independent status within the Council and for that purpose shall have further access to the Chief Executive Officer and Audit Committee. Further the internal audit function:

- Shall have no executive or managerial powers, functions, authorities or duties except those relating to the management of the audit function.

- 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 administrative and management of the audit activities.
- Shall not be responsible for the designing, installing or maintaining 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, an officer of 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 another officer of the Branch or by staff entirely independent of the Branch.
- May have an observer/adviser status on steering committees, formed to co-ordinate financial/information systems design and implementation, at the discretion of the Director Corporate & Community Services.

Authority

Internal audit has no direct responsibility or 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 shall generally undertake projects in accordance with programs/plans approved by the Chief Executive Officer but shall also conduct such further unscheduled projects as the Chief Executive Officer considers desirable. Due consideration should also be given to the views of the Audit Committee and Directors in regard to suitable projects. The nature and scope of each project will be left to the professional judgement of the Internal Auditor.

For the purpose of its function, Internal Audit is authorised to review all areas of Council and to have full, free, and unrestricted access to all Council's activities, records (both manual and electronic), property, and personnel. Council activities include entities over which Council has direct management, sponsorship or financial control.

All employees shall co-operate fully in making available any material or information reasonably requested by internal auditors. Further, all employees are expected to bring to the attention of the Internal Auditor any suspected situation involving improper activity or non-compliance with applicable policies, plans, procedures, laws or regulations, of which they have knowledge. The Internal Auditor will make the Chief Executive Officer aware of any such situations.

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 Internal Audit does not possess all the necessary experience/skills, additional internal or external resources may be utilised subject to budgetary constraints and approval by Director Corporate Services.

Relationship to External Audit

Internal Audit shall co-operate fully with the Auditor-General and the appointed external auditor in respect of any internal audits undertaken. 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 Internal Auditor 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.

Scope of Internal Audit Activities

The scope 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 includes, but is not necessarily limited to, the following:

- 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. Audit should also be pro-active in offering advice to management in 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.
- Reviewing and appraising the economy and efficiency with which resources are employed, identify opportunities to improve operating performance, and recommend solutions where appropriate.
- Contributing to the corporate management process by assessing and reporting the relevance, reliability and adequacy of management data and performance indicators and reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Co-ordinating audit work with external auditors to assuring completeness of coverage, preventing a duplication of effort and ensuring the effective use of audit resources.
- Participating (in an advisory role) in the planning, design, development, implementation and operation of major computer-based systems to determine whether:
 - Adequate controls are incorporated in the systems
 - Thorough system testing is performed at appropriate stages
 - System documentation is complete and accurate
 - The needs of the user are met
- Conducting periodic audits of computer service centres and make post installation evaluations of major data processing systems to determine whether these systems meet their intended purposes, requirements and objectives.
- Reviewing compliance with Council's guidelines for ethical business conduct and promote high standards of personal and Council performance through the promotion of a Council Code of Conduct.
- Internal auditing's core role with regard to Enterprise Risk Management (ERM) is to provide objective assurance to the 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, and subject these to the Director Corporate & Community Services for review and approval. In the formulation of these plans the views of the Audit Committee 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 Chief Executive Officer.
- Follow up the implementation of audit recommendations.

The scope of the internal audit function extends to include all departments, programs, sub-programs, functions, 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 Chief Executive Officer.

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 the Chief Executive Officer and management through the implementation and continued operation of an adequate internal control system. Internal auditors are 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 auditors 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 and allegations of irregularities to the Chief Executive Officer and, at the next available meeting, to the Audit Committee. The Chief Executive Officer will be responsible for taking appropriate investigative action and this may include a request to the Internal Auditor to investigate the matter. The Director of Corporate Services will be responsible for all future reports to the Audit Committee until the matter has been resolved to the Audit Committee's satisfaction.

The CEO is responsible for reporting any irregularities according to the provisions of the *Local Government Act 2009*, the *Crime and Corruption Act 2001* and any other statutory regulations that may come into force from time to time.

Internal Audit Approach

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

Risk Profile, Three Year and Annual Internal Audit Plans:

Internal Audit, in consultation with management, will develop a risk profile for each area within Council 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 Three-Year Internal Audit Plan. This plan shall be

reviewed and approved by the Director Corporate Services. 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.

Responsibilities and Auditing Standards:

Audit will discharge its responsibilities in accordance with this document and the Standards with the proviso that this document shall 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.
- Information acquired during the course of work must not be used and/or conveyed for purposes outside the scope of Audit's approved responsibilities.

Reporting Accountability

Internal Audit Report:

- A draft report shall be prepared and issued by the Internal Auditor to the Director of Corporate Services as soon as possible after the completion of an audit project. The draft report will include comments and action plans by the operational manager where appropriate.
- The Director of Corporate Services receiving the draft audit report should respond within fourteen (14) working days or such longer period as may be determined between the Director of Corporate Services and the Internal Auditor. This response is to indicate what actions are to be taken or planned, a responsible officer and a timetable for the anticipated completion of these actions in regard to the specific findings and recommendations in the draft audit report.
- A final audit report will be prepared and issued by the Internal Auditor to the Chief Executive Officer and Director of Corporate Services and will include the comments and action plans as per the response of the Director of Corporate Services. 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.
- As well as the final report to the Director Corporate Services, copies will be provided to the relevant Director/Manager and other officers as appropriate. An indication will be given as to whether the person receiving the report should be taking action or securing action in relation to the report, or merely receiving the report for information.
- A copy of this report will also be forwarded to the Audit Committee Members, Audit

Committee Advisers, and Audit Committee attendees, as per the approved agenda list.

- The Internal Auditor may also advise the Auditor-General, Queensland Audit Office, or the Auditor-General's delegate/contractor about any audit findings as appropriate or if requested.
- A summary of audit recommendations, action taken and action outstanding will be included in an External and Internal Audit Matters Status Report, compiled by the Director Corporate Services shall be reported to the Audit Committee on a quarterly basis.

Management's Responsibility for Corrective Action

In accordance with section 156(e) of the Regulation the Chief Executive Officer is to provide response to each internal audit detailing the actions to be taken and the timing of those actions.

The appropriate Director/Manager is responsible for seeing that action is either planned or taken within thirty (30) working days from receipt of the final audit report on recommendations made or deficient conditions reported by auditors (internal and external). Recommendations are considered outstanding until they are implemented and/or hold a status of 'no further action required'. Any recommendations that have not been actioned within the agreed timeframe will be reported to and followed through by the Director Corporate Services.

If the appropriate Director/Manager foresees difficulties implementing the recommendations within the time frame, the Director/Manager should advise the Director of Corporate Services regarding the cause of delay and the revised implementation schedule.

Upon implementation of the recommendations, the appropriate Manager shall liaise with the Director of Corporate Service to update the status of the External and Internal Audit Matters Status Report.

External and Internal Audit Matters shall be removed from the Status Report once the matters have been cleared by External or Internal audit or they are deemed to be no longer relevant by the Audit Committee.

Quality Assurance

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

- Developing a comprehensive work reporting arrangement.
- Maintaining a regular review of audit plans, reports and working papers.
- Maintaining effective communication links with the Audit Committee members, Chief Executive Officer, Directors, Managers, external auditors and the Queensland Audit Office.
- Arranging and providing ongoing staff training as appropriate.
- Issue necessary oral and written directions and maintain written policies and procedures to assist and direct staff in the performance of their duties.

Responsibilities

Officer	Responsibility
Director of Corporate Services	To oversee and coordinate an efficient and effective Internal Audit function within Council; and <ul style="list-style-type: none"> maintain the External Audit and Internal Audit Matters Status Report present reports to Council on audit matters
All Staff	To provide any and all assistance to Council's Internal Auditors as required.
ELT	To promote the internal audit function.
Operational Managers	To respond to audit queries in a timely manner, be actively involved in resolution of any matters and support the implementation of recommended processes.

Definitions

TERM	DEFINITION
Assurance services	Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding a process, system or other subject matter. The nature and scope of the assurance engagement are determined by the internal auditor.
Audit Committee	Under section 105(2) of the <i>Local Government Act 2009</i> , a large local government is required to establish an audit committee. Carpentaria Shire Council does not fall into the category of a Large Local Government, therefore is not required to establish an audit committee, although it is recommended by Qld Audit Office. Section 207(4) of the <i>Local Government Regulation 2012</i> states: <i>If a local government does not have an audit committee, a reference to the committee in subsection (3) is taken to be a reference to the chief executive officer.</i>
Consulting services	Consulting services are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client.
Internal Audit	The assessment and evaluation of the control measures that the local government has adopted, or is to adopt, to manage the risks (<i>operational risks</i>) to which the local government's operations are exposed.
Operational Manager	Operational Manager is the manager who is responsible for the area under audit, and in normal circumstances would be a manager of a branch (other than the Internal Audit), however it may be the department manager where the audit is across more than one branch.
Standards	Standards includes as follows: The Institute of Internal Auditors' Standards for Professional Practice, Statement of Responsibilities, Statements on Internal Auditing Standards, and Code of Ethics. The Information Systems Audit and Control Association's Statements on Information Systems Auditing Standards.

Adopted by Council 15 March 2023 by Resolution 0323/018

Mark Crawley
Chief Executive Officer