Internal Audit Charter

Department: Planning, Environment & Corporate Services

Section: Governance

Responsible Manager: Manager Corporate Services

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Date Rescinded: N/A

REVISION RECORD

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<tr>
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1 Purpose

Council has established the Southern Downs Regional Council (the Council) Internal Audit function as a key component of Southern Downs Regional Council's corporate governance activities.

This Charter provides the framework for the conduct of the internal audit function in the Council and has been approved by Council's Audit and Risk Management Committee. The responsible executive is the Internal Audit Executive.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization 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 assurance to the Chief Executive and Council (through the Audit and Risk Management Committee) that the Council’s financial and operational controls which are designed to manage the Council’s risks and achieve the Council’s objectives are:

- Operating in an efficient, effective and ethical manner, and
- Assist management in improving the entity’s business performance.

2 Mission

To provide independent assurance that the Council has cost effective internal controls, processes and systems to manage risks in delivering the Corporate Plan. Internal Audit helps Council accomplish its objectives by employing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal Audit also promotes a culture within Council where Managers and staff understand and accept ownership for controls and risks relating to their business processes and objectives.

3 Scope

Management is responsible for Council’s financial management, risk management and control processes. Internal Audit assists Management in discharging this responsibility, by determining whether Council’s risk management, control, and governance processes are adequate and functioning in a manner likely to ensure:

- Risks are appropriately identified, managed and reported;
- Appropriate internal controls have been implemented and are operating effectively to manage all relevant risks;
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Actions of staff are in compliance with policies, standards, procedures, and applicable laws

1 Institute of Internal Auditors, Definition of Internal Auditing, https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Definition-of-Internal-Auditing.aspx
and regulations;
- Resources are acquired economically, used efficiently and effectively, and are adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in Council’s control process;
- Legislative and regulatory issues impacting on Council are recognised and addressed appropriately, and
- Systems including manual and information systems are implemented effectively and in a controlled manner.

Opportunities for improving management control and risk management may be identified during reviews and will be communicated to the appropriate level of Management.

Internal audit reviews cover all programmes and activities of the Council and its entities as provided for in relevant business agreements, any memorandum of understanding or contract.

Internal audit activity encompasses the review of all financial and non-financial policies, operations and activity.

4 Independence

Operational and professional Independence is essential to the effectiveness of the internal audit function.

Internal Audit has no direct authority or responsibility for the activities it reviews. The internal audit function has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in operational processing functions or activities except for its own functional area.

Internal Audit reports functionally to the Council’s Audit and Risk Management Committee. The Internal Audit Executive is accountable administratively to the Chief Executive Officer and functionally to the Council’s Audit and Risk Management Committee for the efficient and effective operation of the internal audit function.

The Internal Audit Executive has direct access to the Chief Executive Officer and the Chair Audit and Risk Management Committee and other members of the Audit and Risk Management Committee. Periodic ‘in camera’ meetings may be held between the Internal Audit Executive and the Audit and Risk Management Committee.

5 Authority and confidentiality

Internal auditors are authorised to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that the Internal Audit Executive considers necessary to enable internal audit to meet its responsibilities.

All records, documentation and information accessed in the course of undertaking internal audit activities are to be used solely for the conduct of these activities. The Internal Audit Executive and individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.
Under its legislation, the Queensland Auditor-General's Office and/or its contractors have access to all relevant Council documents including internal audit plans, working papers and reports. Inter-agency arrangements with other entities also provide for consultation and disclosure of audit matters affecting other entity programmes and other circumstances.

6 Roles and responsibilities

Internal Audit’s responsibilities will be influenced by the governance arrangements established by the Council and the existence of other separate functions with specific responsibility for some of these matters. In the conduct of its activities, the Council’s Internal Audit will 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 cost-consciousness, self-assessment and adherence to high ethical standards.

The Internal Audit responsibilities and activities listed below are approved by the Audit and Risk Committee:

- Develop a flexible annual audit plan using appropriate risk-based methodology, considering any risks or control concerns identified by management, and submit that plan to the Audit and Risk Committee for review and approval
- Consider the scope of work of other assurance providers, internal and external, as appropriate, for the purpose of providing optimal audit coverage to the organisation efficiently and effectively
- Implement the annual audit plan, as approved, including if appropriate, any special tasks or projects requested by management or the Audit and Risk Committee
- Assess and make appropriate recommendations for improving the organisations’ governance process in its accomplishment of its objectives
- Evaluate the effectiveness and contribute to the improvement of risk management processes
- Assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement
- Perform consulting services, beyond the internal audit function’s assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services and are to be approved by the Audit and Risk Committee prior to performance
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion as approved by the Audit and Risk Committee
- As required, assist in the investigation of significant suspected fraudulent activities within the Council and notify management and the Audit and Risk Committee of the results as approved by the Audit and Risk Committee
- Keep the Audit and Risk Committee informed of emerging trends and successful practices in internal auditing
• Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter
• Establish a quality assurance and improvement program for the internal audit activity
• Issue periodic reports to the Audit and Risk Committee summarising results of audit activities, status of corrective actions and the internal audit activity’s performance to measurement criteria
• Annually review the internal audit charter, modify as appropriate, and submit to the Audit and Risk Committee for approval.

Internal Audit shall not engage in:

• Any activity or have direct responsibility or authority over operational functions, including day to day internal checking systems of the Council that it would normally review and appraise
• The development or implementation of new financial, administrative or human resource systems or any amendment, variation or alteration to any such system (however, should be consulted before any such system or amendment, variation or alteration thereto is approved or implemented)
• The design and installation of procedures the preparation of records.

6.1 Assurance Services

Internal Audit will provide assurance services including internal audits with the following orientation:

• Financial and Compliance
  o Compliance with policies, standards, procedures, and applicable laws and regulations;
  o Procedures including assurance in respect of compliance such as management representations;
  o Identification, assessment and management of key strategic, operational and fraud risks;
  o Accuracy, completeness and timeliness of financial, operational and management reporting;
  o The recording, control and use of entity assets and resources;
  o The adequacy and effectiveness of internal financial and operational controls;
  o The adequacy and effectiveness of internal controls over information communication and technology systems and processes;

• Operational/Performance Improvement
  o The efficiency, effectiveness, economy and ethical conduct of the entity’s business systems and processes, and
  o Achievement of Council corporate or program/project outcomes and objectives
6.2 Consulting services

Internal Audit can advise Council management on a range of matters including:

- New Programmes, Systems and Processes
  - Providing advice on the development of new programmes, systems and processes and/or significant changes to existing programmes and processes including the design of appropriate controls.

- Risk Management
  - Assisting management to identify risks and develop risk mitigation and monitoring strategies;
  - As part of the risk management framework;
  - Reviewing the annual Risk Management Plan;
  - Monitoring and reporting on the implementation of risk mitigation strategies.

- Fraud Control
  - Assisting management to identify fraud risks and develop fraud prevention and monitoring strategies;
  - Assisting with the development of the Council’s Fraud Control Plan.

7 Operating Principles

The following operating principles will be observed to ensure the effectiveness of Internal Audit:

7.1 Objectivity

Reviews are conducted with impartiality and integrity and in accordance with professional standards including the International Standards for the Professional Practice of Internal Auditing.

7.2 Confidentiality

The work of Internal Audit is confidential to Council Management and does not involve disclosure to parties that are external to Council unless specific approval from the Chief Executive Officer has been obtained. The only exception is the legal right of access to all Council documents, including Internal Audit plans, working papers and reports, that the Queensland Audit Office (QAO) has under the Auditor-General Act 2009 and the Financial Accountability Act 2009 and work conducted on behalf of external clients.

7.3 Balance

Internal Audit reports reflect an understanding that clients must maintain an effective balance between controls and the need for efficiency and effective delivery of services to the community and internal customers. The need for internal controls is assessed against perceived risk, potential benefits, and anticipated costs of such controls. Control must be adequate but also cost-effective.
7.4 **Adding Value**

Internal Audit reports contribute constructively to effective management and continuous improvement of client systems, procedures and controls, by focussing on important issues and providing practical recommendations for addressing perceived system weaknesses and deficiencies.

8 **Audit support activities**

Internal Audit is also responsible for:

- Assisting the Audit and Risk Management Committee to discharge its responsibilities;
- Providing secretarial support to the Audit and Risk Management Committee;
- Monitoring the implementation of agreed recommendations;
- Disseminating across the entity better practice and lessons learnt arising from its audit activities, and
- Managing the internal audit function.

8.1 **Non-audit activities**

The Internal Audit Executive, currently the Director Planning, Environment and Corporate Services has management responsibility for Corporate Services which includes Corporate Governance, Community Contact Centre, Insurance, Risk Management, Legal, Policy, Records Management, Housing and Libraries.

In order to maintain independence between the roles of Director Planning, Environment and Corporate Services and Internal Audit Executive, Council will ensure that any internal audit activities are carried out by a duly appointed contractor, with no participation from the Director Planning, Environment and Corporate Services. The contractor may be required to report the results of internal audits to the Audit and Risk Management Committee Chair.

8.2 **Standards**

Internal audit activities will be conducted in accordance with the Council’s values, policies and procedures.

Internal audit activities will also be conducted in accordance with relevant professional standards including:

- Core Principles, Code of Ethics and Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors;
- Standards relevant to internal audit issued by the Auditing and Assurance Standards Board, and

In the conduct of internal audit work, internal audit staff and/or contractors will:
• Comply with relevant professional standards of conduct;
• Possess the knowledge, skills and technical proficiency relevant to the performance of their duties;
• Be skilled in dealing with people and communicating audit, risk management and related issues effectively;
• Update their technical competence through a programme of professional development, and
• Exercise due professional care in performing their duties.

8.3 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. This may include attendance of internal and external auditors at the Audit and Risk Management Committee meetings.

External audit will have full and free access to all internal audit plans, working papers and reports as required by the Auditor-General Act 2009.

8.4 Planning

The Internal Audit Executive will prepare, for the Audit and Risk Management Committee’s consideration, an internal audit strategic plan and an internal audit annual audit plan in a form agreed with the Audit and Risk Management Committee which also complies with Council and legislative requirements.

8.5 Follow-Up Reviews

Internal Audit monitors progress on the implementation of agreed outcomes on a regular basis. The Audit and Risk Management Committee will periodically review Agreed Recommendations outstanding for significant period of time and if necessary recommend that the CEO follow up with the relevant Managers. Internal Audit provides a report, detailing all Agreed Recommendations with Management Responses that have passed their due date for completion but have not been implemented, to all the Audit Committee members in advance of each Committee meeting with a Summary included in the meeting papers.

8.6 Reporting

The Internal Audit Executive will report to each meeting of the Audit and Risk Management Committee on:
• Internal audits completed
• Progress in implementing the strategic business plan and internal audit work plan;
• The status of the implementation of agreed internal and external audit actions;
• Other relevant external body recommendations.

Internal Audit will also report to the Audit and Risk Management Committee at least once annually on the overall state of internal controls in the Council and any systemic issues requiring management attention based on the work of internal audit and/or other assurance providers as applicable.

8.7 Administrative arrangements

Any change to the position of the Internal Audit Executive, or an external service provider providing internal audit services, will be approved by the Chief Executive Officer. The Audit and Risk Management Committee will be consulted as part of the process.

The Internal Audit Executive will arrange for a periodic, independent review of the efficiency and effectiveness of the operations of the internal audit function at least every five years or as requested by the Audit and Risk Management Committee.

8.8 Review of the Charter

This Charter will be reviewed annually. Any changes will be formally approved by the Audit and Risk Management Committee.
## 9 Definitions

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<th>Term</th>
<th>Meaning</th>
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<td>Assurance Services</td>
<td>An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, systems security and due diligence engagements.</td>
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<td>Consulting Services</td>
<td>Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.</td>
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| Core Principles | The Core Principles for the Professional Practice of Internal Auditing are the foundation for the International Professional Practices Framework and support internal audit effectiveness. The Principles are:  
  • Demonstrates integrity.  
  • Demonstrates competence and due professional care.  
  • Is objective and free from undue influence (independent).  
  • Aligns with the strategies, objectives, and risks of the organization.  
  • Is appropriately positioned and adequately resourced.  
  • Demonstrates quality and continuous improvement.  
  • Communicates effectively.  
  • Provides risk-based assurance.  
  • Is insightful, proactive, and future-focused  
  • Promotes organizational improvement. |