

ITEM G

ITEM LAID ON TABLE - ORDINARY MEETING OF COUNCIL - 30 OCTOBER 2017 -  
REVISED INTERNAL AUDIT CHARTER

On 30 October 2017, Council laid this Item on the table. Prior to laying the matter on the table, the following motion had been moved and seconded –

*Moved by Councillor Figliomeni, seconded Councillor Connor that –*

- 1 *An update to the Terms of Reference – Objectives, as follows – that the Internal Audit Committee be given the opportunity to meet in camera, without management being present.*
- 2 *Item 4 – responsibility – second dot point – the word ‘or’ be inserted after the word ‘management’, ie Implement the approved annual audit plan including, and as appropriate, any special tasks or projects requested by management and/or the Audit Committee.*

The Institute of Internal Auditors Australia recently released its revised Model Internal Audit Charter. The Council’s Internal Audit Charter was reviewed against the new Model, and the revised Charter is presented to the Council for adoption.

#### RECOMMENDATION

Council adopt the revised Internal Audit Charter.

#### REPORT AUTHORISATIONS

Report of: Clare Phelan, Manager Governance and Information (Acting)

Authorised by: Kylee Cowgill, Director Corporate Services - Connected and Engaged City (Acting)

#### ATTACHMENTS

- 1 Draft Internal Audit Charter - with Track-changes

#### BACKGROUND

Council is ultimately responsible for overseeing the functions of executive management in relation to internal audit activities.

The Internal Audit Charter supports the role of the internal audit function within Council and ensures compliance with internationally accepted practices and frameworks for internal audit.

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

The scope of work of internal audit is to provide assurance as to whether Council's network of risk management, control, and governance processes, as designed and represented by management, is adequate.

By comparison, external audit is independent of management and the governing body. Their role is to issue an opinion on the financial statements in accordance with external audit standards.

The Audit Committee assists Council in carrying out its oversight responsibilities, with respect to both internal and external audit.

The current Internal Audit Charter was adopted by Council on 27 January 2015.

## PROPOSAL

In April 2017, Audit Committee members received a copy of the updated Institute of Internal Auditors Model Internal Audit Charter for comparison. Council's Internal Audit Charter was reviewed against the revised Model and a draft amended version presented to the Committee for consideration.

At its meeting on 5 September 2017, the Audit Committee endorsed the revised Internal Audit Charter, following consultation with Committee members and Council's internal auditors, KPMG, for report to Council at its first ordinary meeting.

Note, the Internal Audit Charter focusses on the function of internal audit at Council, as distinct from the Charter for the Audit Committee, which will be considered at an upcoming Council meeting in conjunction with other Council committees and reference groups.

## CONSULTATION AND COMMUNICATION

Audit Committee members

KPMG internal auditors

## PLANNING AND POLICY IMPACT

This report contributes to the delivery of Wollongong 2022 goal "We are a connected and engaged community". It specifically delivers on the following:

Community Strategic Plan	Delivery Program 2012-2017	Annual Plan 2017-18
Strategy	5 Year Action	Annual Deliverables
4.4.2 Working together, services continuously improve and offer best value for money	4.4.2.1 Coordinate a service review program with a focus on business development and improvement	Deliver the internal audit program

## CONCLUSION

The Internal Audit Charter meets or exceeds the requirements of the Model Charter and is recommended to Council by the Audit Committee for adoption.

# CHARTER

## INTERNAL AUDIT



CHARTER ADOPTED ON \*\*DATE\*\*

### 1 MISSION AND SCOPE OF WORK

The mission of internal audit is to:

- Provide independent, objective assurance and consulting services designed to add value and improve Council's operations.
- Enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.
- Assist Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of internal audit is to determine whether Council's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in Council's control process.
- Significant legislative or regulatory issues impacting Council are recognised and addressed properly.

Opportunities for improving management control, profitability, and Council's image may be identified during audits. They will be communicated to the appropriate level of management.

### 2 ACCOUNTABILITY

Internal audit, in the discharge of their duties, will be accountable to the General Manager and the Audit Committee to:

- Provide an annual assessment on the adequacy and effectiveness of Council's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for controlling the activities of Council and its affiliates, including potential improvements to those processes, and provide information concerning the resolution of such issues.
- Provide information periodically on the status and results of the annual audit plan.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

### 3 INDEPENDENCE AND OBJECTIVITY

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For independence purposes, internal audit, will report administratively to the General Manager and functionally to the Audit Committee in a manner outlined in the above section on Accountability. It will include as part of its reports to the Audit Committee a regular report on internal audit progress.

Internal audit will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If Internal Audit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

### 4 RESPONSIBILITY

Internal audit have responsibility to:

- Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Audit Committee for review and approval.
- Implement the approved annual audit plan including, and as appropriate, any special tasks or projects requested by management and the Audit Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, ~~and~~ professional certifications and other competencies required to meet the requirements of this Charter.
- Establish a quality assurance program over the operation of internal auditing activities.
- Issue quarterly reports to the Audit Committee and management summarising results of audit activities and any significant interim changes to the internal audit plan
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to the General Manager and the Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Keep the Audit Committee and the General Manager informed of trends and emerging trends and successful practices issues that could impact Council in internal auditing.
- Ensure emerging trends and successful practices in internal auditing are considered
- Establish and ensure adherence to policies and procedures designed to guide the internal audit
- Ensure adherence to Council's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to the General Manager and the Audit Committee.
- Ensure conformance of internal audit with the Standards, with the following qualifications:
  - If internal audit is prohibited by law or regulation from conformance with certain parts of the Standards, internal audit will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
  - If the Standards are used in conjunction with requirements issued by other authoritative bodies, internal audit will ensure that it conforms with the Standards, even if internal audit also conforms with the more restrictive requirements of other authoritative bodies.
- Develop Key Performance Indicators and report to Audit Committee.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to Council at a reasonable overall cost.

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On occasions, at the request of management or the Audit Committee, internal audit may also be required to:

- Perform consulting services, beyond internal auditing's assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services; but will not be in conflict with its core role of audit
- 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
- Assist in the investigation of significant suspected fraudulent activities within Council when requested by the General Manager, Professional Conduct Coordinator or the Audit Committee.

## 5 AUTHORITY

The internal auditors will report functionally to the Audit Committee and administratively (ie day-to-day operations) to the General Manager. To establish, maintain, and assure that Council's internal audit function has sufficient authority to fulfil its duties, the Audit Committee will:

- Endorse the Internal Audit Charter for referral to Council
- Adopt the risk-based internal audit plan
- Endorse the internal audit budget and resource plan
- Receive communications from the internal auditors on the internal audit function's performance, relative to its plan and other matters
- Endorse decisions regarding the appointment and removal of the internal audit contractors
- Make appropriate inquiries of management and the internal auditors to determine whether there is inappropriate scope or resource limitations.

Internal audit are authorised to:

- Have unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information
- Have full and free access to the Audit Committee
- In consultation with management and the Audit Committee allocate resources, set frequencies, select subjects, and determine scopes of work
- Apply the techniques required to accomplish audit objectives
- Obtain the necessary assistance of personnel in units of Council where they perform audits, as well as other specialised services from within or outside Council.

Internal audit are not authorised to:

- Perform any operational duties for Council or its affiliates
- Initiate or approve accounting transactions
- Direct the activities of any Council employee, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

## 6 AUDIT PLANNING, REPORTING AND MONITORING

- In planning internal audit assignments, internal audit will consult with the relevant business area. Internal audit will issue a Terms of Reference for signoff by the relevant Director and General Manager and endorsement by the Audit Committee ~~or by Audit Committee members 'out of session', where appropriate~~, at least ten working days prior to commencement.
- On completion of an assignment, the findings\observations and recommendations are to be discussed with staff of the relevant business area at an exit interview. This should include preliminary agreement regarding:
  - Remedial actions

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- Names and titles of the personnel responsible to implement the remedial action
- The estimates of the timelines for the implementation of remedial action.
- If as a result of the exit meeting internal audit requires further information, staff of the business area will provide all the required information within 10 working days.
- Internal Audit will distribute a Draft report to the relevant Director and staff for review and comment:
  - within 10 working days of the exit interview
  - if further information was required, within 10 working days of the receipt of that information.
- The relevant Director and staff will review the draft version of the report and communicate their comments to Internal Audit within 10 working days. This should include agreement or otherwise to the Internal Audit findings, timelines for implementation of remedial actions (exceptions to this timeframe must be sought from the General Manager).
- The final report will be issued for submission to the Audit Committee within 5 working days of receipt of management comments. Copies will be provided to the General Manager and relevant Director.

## 7 STANDARDS OF AUDIT PRACTICE

### Internal audit will:

- Govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. Internal audit will report periodically to senior management and the Audit Committee regarding internal audit's conformance to the Code of Ethics and the Standards. Internal audit will meet or exceed the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors. Where applicable, Internal Audit will have regard for the standards and practice statements issued by Australian and international accounting and auditing organisations.

### This includes the conduct of

- Conduct an annual internal assessment of the internal audit function, as well as facilitate the independent conduct of five yearly external quality assessments of internal audit.

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## INTERNAL AUDIT



CHARTER ADOPTED ON \*\*DATE\*\*

Internal Auditor

Date

General Manager

Date

Audit Committee Chair

Date

DRAFT

# CHARTER

## INTERNAL AUDIT



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SUMMARY SHEET		
Responsible Division	Governance and Information	
Date last adopted	Date	Adopted by
Date of previous adoptions:	27 January 2015	Council
	24 February 2009	Audit Committee