



INTERNAL AUDIT CHARTER

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INTERNAL AUDIT MANUAL

DIRECTORATE: General Manager

BRANCH: Internal Audit

Council has established Internal Audit as a key component of the Council's governance and assurance framework, in compliance with the *Local Government (General) Regulation 2021* and the Office of Local Government's *Guidelines for risk management and internal audit for local government in NSW*. This charter provides the framework for the conduct of Internal Audit in the Council and has been approved by the governing body taking into account the advice of the Council's Audit, Risk and Improvement committee.

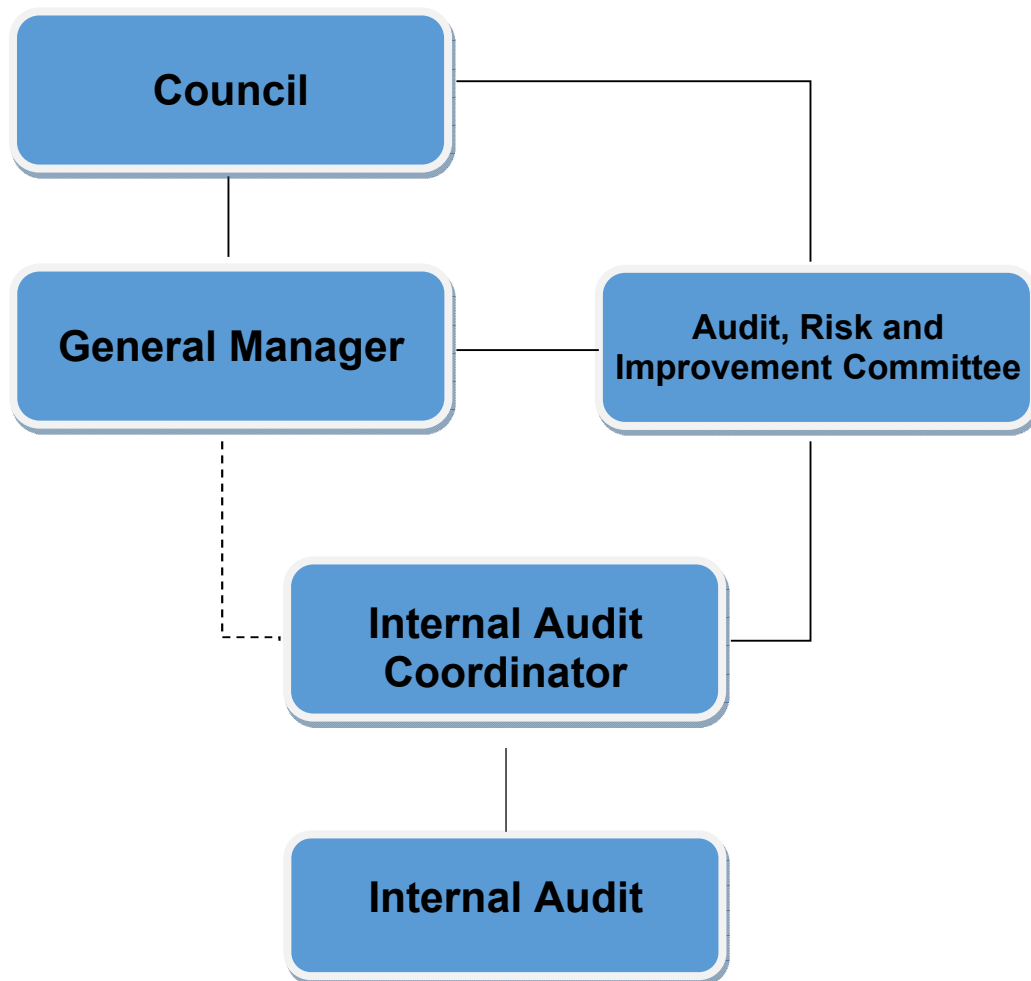
1. Purpose of internal audit

- 1.1 Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹.
- 1.2 Internal audit provides an independent and objective review and advisory service to provide advice to the governing body, General Manager and Audit, Risk and Improvement Committee about the Council's governance processes, risk management and control frameworks and its external accountability obligations. It also assists the Council to improve its business performance.

2. Independence

- 2.1 Council's Internal Audit function is to be independent of the Council so it can provide an unbiased assessment of the Council's operations and risk and control activities.
- 2.2 Internal Audit reports functionally to the Council's Audit, Risk and Improvement Committee on the results of completed audits, and for strategic direction and accountability purposes, and reports administratively to the General Manager to facilitate day-to-day operations. Internal audit activities are not subject to direction by the Council and the Council's management has no role in the exercise of the Council's internal audit activities.
- 2.3 The following dual reporting line is prescribed where the dotted line represents the 'administrative' reporting line and the bold line represents the 'functional' reporting line:

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



- 2.4 The Audit, Risk and Improvement Committee 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 chairperson by resolution. The chairperson is only required to provide the information requested by the governing body where the chairperson 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 Committee.
- 2.5 The General Manager must consult with the chairperson of the Council's Audit, Risk and Improvement Committee before appointing or making decisions affecting the employment of the head of the internal audit function. For the purposes of Council's organisational structure, the head of internal audit is the Internal Audit Coordinator.
- 2.6 Where the chairperson of the Council's Audit, Risk and Improvement Committee has any concerns about the treatment of the Internal Audit Coordinator, or any action taken that may compromise their ability to undertake their functions independently, they can report their concerns to the governing body.

- 2.7 The Internal Audit Coordinator is to confirm at least annually to the Audit, Risk and Improvement Committee the independence of internal audit activities from the Council.

3. Authority

- 3.1 Council authorises Internal Audit to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that the Internal Audit Coordinator considers necessary for Internal Audit to undertake its responsibilities.
- 3.2 All records, documentation and information accessed while undertaking internal audit activities are to be used solely for the conduct of those activities. The Internal Audit Coordinator and individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive when undertaking their work.
- 3.3 All internal audit documentation is to remain the property of Council, including where internal audit services are performed by an external third-party provider.
- 3.4 Information and documents pertaining to Internal Audit are not to be made publicly available. Internal Audit may only release Council information to external parties that are assisting Internal Audit to undertake its responsibilities with the approval of the General Manager, 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.

4. Role

- 4.1 Internal Audit is to support the Council's Audit, Risk and Improvement Committee to review and provide independent advice to the 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.
- 4.2 Internal Audit is to also play an active role in:
- Developing and maintaining a culture of accountability and integrity
 - Assisting with facilitating the integration of risk management into day-to-day business activities and processes, and
 - Promoting a culture of cost-consciousness, self-assessment and adherence to high ethical standards.
- 4.3 Internal Audit has no direct authority or responsibility for the activities it reviews. Internal Audit 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).

4.4 The work of Internal Audit does not relieve the staff of 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.

5. Internal Audit Coordinator

5.1 Council's Internal Audit 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 the Council and the Audit, Risk and Improvement Committee. The Internal Audit Coordinator must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

5.2 Responsibilities of the Internal Audit Coordinator include:

- Managing the day-to-day activities of Internal Audit
- Managing the Council's internal audit budget
- Supporting the operation of the Council's Audit, Risk and Improvement Committee
- Approving internal audit project plans, conducting or supervising audits and assessments and providing independent advice to the Audit, Risk and Improvement Committee
- Monitoring the Council's implementation of corrective actions that arise from the findings of audits
- Implementing the Internal Audit annual work plan and four-year strategic work plan approved by the Audit, Risk and Improvement Committee and facilitating implementation of the Audit, Risk and Improvement Committee's annual work plan and four-year strategic work plan
- Disseminating across Council better practice and lessons learnt arising from its audit activities and from applicable findings of NSW Audit Office audits
- Ensuring the Council's internal audit activities comply with the Office of Local Government's *Guidelines for risk management and internal audit for local government in NSW*, and
- Contract management and oversight of supplementary external providers (where required).

6. Internal Audit

6.1 Members of the Internal Audit team are responsible to the Internal Audit Coordinator.

6.2 Individuals that perform internal audit activities for Council must have:

- An appropriate level of understanding of the Council's culture, systems and processes
- The skills, knowledge and experience necessary to conduct internal audit activities in the Council
- Effective interpersonal and communication skills to ensure they can engage with Council staff effectively and collaboratively, and
- Honesty, integrity and diligence.

- 6.3 To supplement Internal Audit resources, the Internal Audit Coordinator may engage the services of specialist external contractors. The contractors will be engaged in accordance with Council's procurement policies and procedures.
- 6.4 Internal Audit staff and contractors shall report to the Internal Audit Coordinator any situations where they feel their objectivity may be impaired.
- 6.5 In accordance with the International Standards for the Professional Practice of Internal Auditing, to maintain independence and objectivity, Internal Audit will not provide audit services for work which they have been responsible for in the previous 12 months. Internal audit involvement after this timeframe will be carefully assessed on a case by case basis.

7. Performing internal audit activities

- 7.1 The work of Internal Audit is to be thoroughly planned and executed. Internal Audit is to recommend a risk based four year strategic internal audit work plan that considers all matters listed in Schedule 1. The internal audit work plan shall include a program of audits divided into four 12-month periods clearly demonstrating the coverage for each year. The strategic internal audit work plan must be reviewed by the Internal Audit Coordinator at least annually to ensure it remains appropriate.
- 7.2 Internal Audit must also develop an annual work plan to guide the work of the internal audit function over the forward year. The strategic internal audit work plan and annual work plan is to be reviewed and approved by the Audit, Risk & Improvement Committee. The internal audit work plan shall be based on an assessment of the goals, objectives, and business risks of Council, and shall take into consideration any special requirements of the Audit, Risk & Improvement Committee and the Executive Leadership Group.
- 7.3 The Internal Audit Coordinator has discretionary authority to adjust the annual work plan as a result of receiving special requests from the Executive Leadership Group to conduct reviews that are not on the plan, with these to be endorsed at the next meeting of the Audit, Risk & Improvement Committee.
- 7.4 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. Refer to section 9 for further information.
- 7.5 On completion of each internal audit engagement, Internal Audit shall issue a report to its audit customers detailing the objective and scope of the audit, and resulting issues based on the outcome of the audit. Internal Audit shall seek from the responsible Senior Executive or Manager an agreed or endorsed action plan outlining remedial action to be taken, along with an implementation timetable and Responsible Officers for the action.

- 7.6 Responsible Officers shall have ten working days to provide written management responses and action plans in response to issues and recommendations contained in internal audit reports.
- 7.7 Internal Audit shall also provide the appropriate Senior Executive or Manager with a client feedback form requesting feedback on the conduct of the audit to enable an assessment of client satisfaction.
- 7.8 The Internal Audit Coordinator is to provide the findings and recommendations of internal audits to the Audit, Risk and Improvement Committee at the end of each audit. Each report is to include a response from the relevant senior manager.
- 7.9 The Internal Audit Coordinator is to establish an ongoing monitoring system to follow up Council's progress in implementing corrective actions.
- 7.10 In addition to the normal process of reporting on work undertaken by Internal Audit, the Internal Audit Coordinator shall draw to the attention of the Audit, Risk & Improvement Committee all matters that, in the Internal Audit Coordinator's opinion, warrant reporting to the Audit, Risk & Improvement Committee.
- 7.11 The General Manager, in consultation with the Audit, Risk and Improvement Committee, is to develop and maintain policies and procedures to guide the operation of the Council's Internal Audit function.
- 7.12 Internal audit activities include the provision of advice for example: on the development of new programs and processes and/or significant changes to existing programs and processes including the design of appropriate controls. Internal audit activities also include special investigations as directed by the General Manager or the Audit, Risk and Improvement Committee via the General Manager.
- 7.13 The Internal Audit Coordinator is to ensure that the Audit, Risk and Improvement Committee is advised at each of the committee's meetings (excluding the financial statement specific meeting) of the internal audit activities completed in between meetings, progress in implementing the annual work plan and progress made implementing corrective actions.

8. Conduct

- 8.1 Internal audit personnel must comply with the 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 General Manager must consult with the Council's Audit, Risk and Improvement Committee before any disciplinary action is taken against the Internal Audit Coordinator in response to a breach of the Council's Code of Conduct.
- 8.2 Internal auditors must also comply with the Code of Ethics for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. Refer to section 9 for further information.

- 8.3 Conflicts of Interest are to be managed in accordance with Council's Code of Conduct and relevant policies and procedures. Instances of perceived or actual conflicts of interest by the Internal Audit Coordinator are to be reported to the General Manager and further reported to the Audit, Risk & Improvement Committee where such conflicts cannot be managed.
- 8.4 When engaging internal audit contractors, the Internal Audit Coordinator shall take steps to identify, evaluate the significance, and manage any perceived or actual conflicts of interest that may impinge upon internal audit work.

9. Professional standards

- 9.1 Internal Audit staff will perform their work in accordance with the 'International Professional Practices Framework' (IPPF) issued by the Institute of Internal Auditors (IIA).
- 9.2 Internal Audit will govern itself by adherence to mandatory guidance contained in the 'International Professional Practices Framework' (IPPF) issued by the Institute of Internal Auditors:
- 'Core Principles for the Professional Practice of Internal Auditing'.
 - 'Definition of Internal Auditing'.
 - 'Code of Ethics'.
 - 'International Standards for the Professional Practice of Internal Auditing'.
- 9.3 This mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of Internal Audit performance.

10. Administrative arrangements

10.1 Audit, risk and improvement committee meetings

The Internal Audit Coordinator will attend Audit, Risk and Improvement Committee meetings as an independent non-voting observer. The Internal Audit Coordinator can be excluded from meetings by the committee at any time.

The Internal Audit Coordinator must meet separately with the Audit, Risk and Improvement Committee at least once per year.

The Internal Audit Coordinator can meet with the chairperson of the Audit, Risk and Improvement Committee at any time, as necessary, between committee meetings.

10.2 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.

10.3 Dispute resolution

Internal Audit should maintain an effective working relationship with the Council and the Audit, Risk and Improvement Committee 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 Internal Audit and the Council, the dispute is to be resolved by the General Manager and/or the Audit, Risk and Improvement Committee. Disputes between Internal Audit and the Audit, Risk and Improvement Committee are to be resolved by the governing body.

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

10.4 Review arrangements

The Council's Audit, Risk and Improvement Committee 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 Internal Audit 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.

To facilitate this, the Internal Audit Coordinator 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.

The Internal Audit Coordinator shall develop performance measures (key performance indicators) for consideration and endorsement by the Audit, Risk & Improvement Committee, as a means for the performance of internal audit to be periodically evaluated.

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.

11. Further information

- 10.1 For further information on Council's internal audit activities, contact Michelle Brockwell on michelle.brockwell@camden.nsw.gov.au or by phone 13 CAMDEN.

Reviewed by Internal Audit Coordinator

[sign and date]

Reviewed by chairperson of the Council's Audit, Risk and Improvement Committee

[sign and date]

Reviewed by General Manager

[sign and date]

Reviewed by Council in accordance with Council resolution [resolution reference]
on [insert Council meeting date].

RELEVANT LEGISLATIVE INSTRUMENTS AND STANDARDS:

Local Government Act 1993
Local Government Amendment (Governance and Planning) Act 2016
Independent Commission against Corruption Act 1988
Local Government (General) Regulation 2021
Standards of professional practice issued by the Institute of Internal Auditors Australia

RELATED POLICIES, PLANS AND PROCEDURES:

Office of Local Government's Guidelines for Risk Management and Internal Audit in local government in NSW
Audit, Risk and Improvement Committee Terms of Reference / Charter
Internal Audit Manual

RESPONSIBLE PERSON:

Internal Audit Coordinator

APPROVAL:

Once each Council term by Council on recommendation of Audit Risk and Improvement Committee; and Annually by the Audit, Risk and Improvement Committee

HISTORY:

| Version | Approved by | Changes made | Date | EDMS Number |
|---------|--|--------------------------------------|------------|-------------|
| 1 | Council on recommendation of Business Assurance and Risk Committee | Nil | 13/10/2015 | 15/305524 |
| 2 | The Audit, Risk & Improvement Committee | Minor updates | 06/03/2019 | 19/139928 |
| 3 | Council on recommendation of Audit, Risk and Improvement Committee | Various to comply with best practice | 08/06/2021 | 21/424978 |
| 4 | Audit, Risk and Improvement Committee | In line with Model Charter | 17/05/2023 | 23/248381 |
| | Council | | 12/09/2023 | 23/495671 |
| 5 | Audit, Risk and Improvement Committee | Minor updates | 27/03/2024 | 24/67824 |
| | Council | | 11/06/2024 | 24/310020 |

12. Schedule 1 – internal audit function responsibilities

Audit

Internal audit

- Conduct internal audits as directed by the Council's Audit, Risk and Improvement Committee.
- Implement the Council's annual and four-year strategic internal audit work plans.
- Monitor the implementation by the Council of audit recommendations from past audits.
- Assist the Council to develop and maintain a culture of accountability and integrity.
- Promote the integration of risk management into day-to-day business activities and processes via recommendations in internal audits and advice.
- Promote a culture of high ethical standards.

External audit

- Review all external plans and reports in respect of planned or completed audits and consider when developing internal audit plan to avoid duplication.
- Facilitate the monitoring of the Council's implementation of audit recommendations.
- Provide advice, where appropriate, on action taken on significant issues raised in relevant external audit reports and better practice guides.

Risk

Risk management

Internal audit should consider when developing its program of internal audits and/or advise on:

- If the Council has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard
- Whether the Council's risk management framework is adequate and effective for identifying and managing the risks the Council faces, including those associated with individual projects, programs and other activities
- If risk management is integrated across all levels of the Council and across all processes, operations, services, decision-making, functions and reporting
- Of the adequacy of risk reports and documentation, for example, the Council's risk register and risk profile
- Whether a sound approach has been followed in developing risk management plans for major projects or undertakings If there is a positive risk culture within the Council and strong leadership that supports effective risk management
- The adequacy of staff training and induction in risk management
- The effectiveness of the Council's management of its assets, and
- The effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans.

Compliance

Internal audit should consider when developing its program of internal audits and/or advise on the adequacy and effectiveness of the Council's compliance framework, including:

- If the Council has appropriately considered legal and compliance risks as part of the Council's risk management framework
- How the Council manages its compliance with applicable laws, regulations, policies, procedures, codes, and contractual arrangements, and
- Whether appropriate processes are in place to assess compliance.

Fraud and corruption

- Internal audit should consider when developing its program of internal audits and/or advise on the adequacy and effectiveness of the Council's fraud and corruption prevention framework and activities
- If the Council has taken steps to embed a culture which is committed to ethical and lawful behaviour.

Financial management

Internal audit should consider when developing its program of internal audits and/or advise on specific financial areas including:

- If the Council is complying with accounting standards and external accountability requirements for specific areas requested
- Of the appropriateness of the Council's accounting policies and disclosures
- Of the implications for the Council of the findings of external audits and performance audits and the Council's responses and implementation of recommendations
- If the Council's financial management processes are adequate
- The adequacy of cash management 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
- If policies and procedures for management review and consideration of the financial position and performance of the Council are adequate
- If the Council's grants and tied funding policies and procedures are sound.

Governance

Internal audit should consider when developing its program of internal audits and/or advise on the adequacy of the Council's governance framework, including:

- If 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 the Council's monitoring and review of controls is sufficient
- Whether Council has effective decision-making processes in place
- If reporting lines and accountability and management oversight responsibilities across Council is appropriate
- On activities including human resources and performance management activities; reporting and communication activities; and information and communications technology (ICT) governance, and
- On the management and governance of the use of data, information and knowledge.

Improvement

Strategic planning

Internal audit should consider when developing its program of internal audits and/or advise on:

- The adequacy and effectiveness of the Council's integrated, planning and reporting (IP&R) processes
- If appropriate reporting and monitoring mechanisms are in place to measure progress against objectives, and
- Whether the Council is successfully implementing and achieving its IP&R objectives and strategies.

Service reviews and business improvement

Internal audit should consider when developing its program of internal audits and/or advise on:

- If the 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, and
- How the Council can improve its service delivery

Performance data and measurement

Internal audit should consider when developing its program of internal audits and/or advise on:

- If the Council has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives
- If the performance indicators the Council uses are effective, and
- Of the adequacy of performance data collection and reporting.



70 Central Avenue
Oran Park NSW 2570



13 22 63



mail@camden.nsw.gov.au



PO Box 183, Camden NSW 2570



www.camden.nsw.gov.au