

**INTERNAL AUDIT CHARTER****Procedure 3.9.7**

Policy No. and Title	3.9	Risk Management and Insurance Policy
Procedure	3.9.7	Internal Audit Charter
Version	3	
Date Adopted	To be updated by Governance team	

**1 INTRODUCTION**

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 assists the Audit, Risk and Improvement Committee and Management to 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 Kempsey Shire Council is managed by the Internal Auditor who is the designated Head of Internal Audit within the organisation. Internal audit activities will be conducted in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards) and Code of Ethics issued by the Institute of Internal Auditors as well as the Office of Local Government Guidelines for Risk Management and Internal Audit for Local Government in NSW.

**2 OBJECTIVE**

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

- It establishes Internal Audit within Kempsey Shire Council and recognises the importance of such an independent and objective service to the organisation.
- It outlines the legal and operational framework under which Internal Audit will operate.
- It authorises the Head of Internal Audit to promote and direct a broad range of internal audits across Kempsey Shire Council and, where permitted, external bodies.

**3 ROLE AND AUTHORITY**

The Head of Internal Audit is authorised to direct a comprehensive program of internal audit work in the form 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. The specific authorisation to perform this work is the Internal Audit Plan that is adopted by the Audit, Risk and Improvement Committee annually.

Internal Audit is authorised to have full, free and unrestricted access to all functions, property, personnel, records, information, accounts, files, monies and other documentation, as necessary for the conduct of its work. Internal Audit shall have free and unrestricted access to the General Manager and the Audit, Risk and Improvement Committee. Internal Audit should be allocated resources, authorised to set frequencies, select tasks, determine scope of works and apply techniques required

to accomplish audit activities. Internal Audit shall obtain the necessary assistance of auditee personnel and other specialised services from within or outside the organisation.

#### **4 OBJECTIVITY, INDEPENDENCE AND ORGANISATIONAL STATUS**

Internal Audit activities shall remain free of influence by any element in the organisation including matters of audit selection, procedures, scope, frequency, timing or report content to permit maintenance of an independent and objective mental attitude necessary in conducting audit assignments.

To facilitate this approach, Internal Audit shall have independent status within Kempsey Shire Council, and for this purpose shall be responsible directly to the Audit, Risk and Improvement Committee and administratively to the Director Corporate and Commercial. Internal Audit shall be independent of the activities reviewed, and therefore shall not undertake any operating responsibilities outside 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 and contractors shall report to the Head of Internal Audit any situations where they feel their objectivity may be impaired. Similarly, the Head of Internal Audit should report any such situations to the Audit, Risk and Improvement Committee.

The work of Internal Audit does not relieve the staff of Kempsey Shire Council from their accountability to discharge their responsibilities. All Kempsey Shire 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.

#### **5 SCOPE OF WORK**

The scope of services provided by Internal Audit shall encompass:

- Assurance services – objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organisation. Examples may include financial, performance, operational, compliance, system security, and due diligence engagements.
- Consulting services – advisory and related client service activities, the nature and scope of which are agreed with the client and which 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.

#### **6 AUDIT PLANNING**

A 4 year risk based rolling internal audit plan shall be developed by the Head of Internal Audit and approved by the Audit, Risk and Improvement Committee. The Internal Audit Plan which includes audit work schedule, resourcing plan and budget shall be submitted to senior management and the Audit, Risk and Improvement Committee on an annual basis. The annual Internal Audit Plan shall be based on an assessment of the goals, objectives and risks of Kempsey Shire Council, and shall also

take into consideration any special requirements of the Audit, Risk and Improvement Committee and senior management.

The Head of Internal Audit has discretionary authority to adjust the approved 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, Risk and Improvement Committee.

## **7 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 risks in the context of the audit objectives.
- Examination and evaluation of information.
- Communicating results.
- Following up on implementation of audit recommendations.

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.
- Relevant auditing standards issued by the Auditing and Assurance Standards Board.
- ~~The Guidelines for~~ Risk Management and Internal Audit Guidelines for Local Government Councils in NSW (Office of Local Government)

Internal Audit 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.
- Exercise due professional care in performing internal audit engagements.
- Conduct themselves in a professional manner.

## **8 REPORTING**

The Head of Internal Audit shall at all times report to the Audit, Risk and Improvement Committee. At each Audit, Risk and Improvement Committee meeting the Head of Internal Audit 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.
- Remedial action taken or in progress.

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 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 ten working days to provide written management responses and action plans in response to issues and recommendations contained in internal audit reports.

The Head of Internal Audit shall make available all internal audit reports to the Audit, Risk and Improvement Committee. However, the work of Internal Audit is solely for the benefit of Kempsey Shire 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, Risk and Improvement Committee or the Head of Internal Audit.

Internal Audit will be responsible for appropriate follow-up on audit findings and recommendations. All audit actions will remain open in an Internal Audit Follow-up Database until closed by the Head of Internal Audit or the Audit, Risk and Improvement Committee. Under reasonable circumstances, audit actions may be extended by no more than one occasion with endorsement of the relevant Executive Manager and approval by the Head of Internal Audit. Audit actions that have been extended will be reported to the Audit, Risk and Improvement Committee.

In addition to the normal process of reporting on work undertaken by Internal Audit, the Head of Internal Audit shall draw to the attention of the Audit, Risk and Improvement Committee all matters that, in the Head of Internal Audit's opinion, warrant reporting in this manner.

Internal Audit will provide a summary of internal audit activity to Council every year. Council will report on its compliance with the new Internal Audit Regulation and Guidelines in its annual report from 2024/25.

## **9 QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

The Head of Internal Audit 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.

## **10 CO-ORDINATION WITH EXTERNAL AUDIT**

The Head of Internal Audit 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.

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

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

## **12 EVALUATION OF INTERNAL AUDIT**

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

Internal Audit shall also be subject to an independent quality review at least every five 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, Risk and Improvement Committee.

## **13 CONFIDENTIALITY AND CONFLICT OF INTERESTS**

Internal auditors are not to provide audit services for work for which they may previously have been responsible. Whilst the Standards provide guidance on this point and allow this to occur after 12 months, each instance should be carefully assessed.

When engaging internal audit contractors, the Head of Internal Audit 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 the Head of Internal Audit or Internal Audit staff and contractors are to be immediately reported to the Audit, Risk and Improvement Committee by the Head of Internal Audit. Any changes to this Internal Audit Charter will be approved by the Audit, Risk and Improvement Committee.

Internal Audit service providers are required to maintain the confidentiality of all Kempsey Shire Council information provided to perform the Internal Audit services.

All service provider personnel will sign a Deed of Confidentiality and Conflict of Interest Statement prior to commencing work on any Internal Audit services at Kempsey Shire Council.

## **14 VARIATION**

Council reserves the right to review, vary or revoke this procedure which will be reviewed periodically to ensure it is relevant and appropriate.