



**SNOWY MONARO**  
REGIONAL COUNCIL

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# **Audit, Risk and Improvement Committee and Internal Audit Function Annual Report 2018/2019**



## Record of Versions

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# 1 Chair's Introduction

The Committee works to an agreed schedule of work to ensure that it achieves the responsibilities as outlined in its charter. This schedule of work includes a review of the processes associated with financial statements as well as progressively gaining an understanding of the SMRC risk management practices through presentations from key staff and sighting of policies and procedures. The Committee monitors the council's progress in addressing internal and external audit recommendations.

In 2018/19 the external audit was undertaken by NSW Audit Office staff rather than by a contracted auditor. Despite difficulties presented by the delay in implementing a single finance system and some ongoing issues in respects to such things as asset valuation and security of IT systems, there is an improvement in the council's financial statement processes and action has been undertaken or is planned to address the Audit Office's issues.

The Committee relies on the work of Internal Audit to provide an in-depth assessment of the council's risk and control environment. The recruitment of a full-time internal auditor in early 2018/19 has been a positive step which, as outlined in the attached report, has enabled increased engagement with the activities of the council and increased the committee's effectiveness. The Committee would like to commend the work of Tarang Kamath, the Senior Internal Auditor, who has demonstrated a professional approach and has been of considerable assistance to the Committee.

In a transformation as significant as the merging of three councils, it takes time to reach the required level of governance and control maturity. The Committee notes from its review of policies and from internal audit reports that the council has made progress in establishing common policies and systems. However, the whole of council processes are not, always well bedded down, with progress hampered by the delays in implementation of the new IT systems and problems in establishing appropriate staffing levels.

With the potential benefits arising from the implementation of the new Corporate Information Systems, as well as the risks associated with any IT project, the Committee will monitor progress through Internal Audit and seek regular updates on progress from management.

While noting that some progress has occurred, the Committee continues to be concerned about the maturity of Council's risk management to focus on the action being taken to implement a mature risk management regime, and, in particular, to ensure that appropriate BCP and DRP are in place. This will be a continued area of focus for the Committee.

The Committee would like to express its appreciation for the full support and cooperation that it has received from all levels of Council personnel and management in answering questions, facilitating audits and responding to audit concerns. Overall, the Council personnel and management continue to display openness in discussion, and a positive attitude to improvement.

As Chair, possibly at the end of my tenure, I would like to conclude by thanking the other members of the audit committee. The Committee is working well, with an excellent mix of skills and knowledge, and demonstrating the independence and commitment as well as the good will and humour needed of a successful audit committee.

Maxwell Shanahan, FCPA, CGEIT, CISA  
Chair, Snowy Monaro Regional Council - Audit, Risk and Improvement Committee  
June 2019

## 2 Audit, Risk and Improvement Committee Report

The Audit, Risk and Improvement Committee (ARIC) does not replace or change management accountability arrangements; it does, however, enhance the governance framework by providing Council and the General Manager with independent assurance and assistance in the areas of risk management, internal control, governance and financial reporting.

An effective committee has the potential to strengthen the control environment (of which it is part) and assist the General Manager and Council to fulfil their stewardship, leadership and control responsibilities.

### 2.1 Charter

The Audit, Risk and Improvement Committee Charter was resolved by Council at its meeting held on 17 April 2019 [Resolution Number 160/19]. The Charter provides the authority given to the ARIC and outlines its roles and responsibilities. (Attachment 1)

### 2.2 Membership

Membership of the ARIC comprises of four external members and one councillor member with the role of Chair being allocated to an external member.

External member and Chair: Mr Maxwell Shanahan - 8 September 2015 to 8 September 2019

External member: Mr Miles Pearson - 25 November 2016 to 25 November 2019  
Mr Adam Vine - 18 December 2017 to 17 December 2019  
Mr John Barbeler - 18 December 2017 to 17 December 2019

Council member: Mr John Castellari - 26 September 2017 to 3 January 2019  
Ms Anne Maslin - elected at the Council meeting of 21 February 2019  
[Resolution Number 66/19]

#### NOTE:

1. Mr Pearson was offered and accepted an extension to his initial offer to 25 November 2019. Mr Pearson will need to re-nominate as the position will be re-advertised late-2019.
2. Mr Barbeler may be offered a two year extension at the end of his current term subject to satisfactory performance assessment of his contribution to the Audit, Risk and Improvement Committee.
3. Mr Vine may be offered a one year extension at the end of his current term subject to satisfactory performance assessment of his contribution to the Audit, Risk and Improvement Committee.

In addition, General Manager Mr Peter Bascomb and Senior Internal Auditor Mr Tarang Kamath attend each of the meetings. The committee resolved to include the Organisational Risk Officer, then Ms Marg Nicholls (acting), as a non-voting attendee at its meeting on 6 March 2019 [Resolution Number ARIC14/19]. An open invitation is extended to the Audit Office of New South Wales (External Auditor) to attend every meeting. Invitations are extended to staff as required.

## 2.3 Issues before the Committee

Issues before the Committee during this reporting period included:

- Internal Audit Strategic Plan;
- Business processes;
- Status of audits and monitoring the implementation of audit recommendations;
- Audits completed (external and internal);
- Ongoing and miscellaneous matters;
- Enterprise Risk Management Framework;
- Emerging Risks;
- Policy documents;
- Oversight of Internal Audit Function;
- Financial Statements;
- Fraud Control; and
- Dialogue with Audit Office of NSW regarding preparation of external audits to undertake end of year financial statement audit.

## 2.4 Attendance register for Audit, Risk and Improvement Committee meetings 2018/2019

Clause 7.1 of the Charter requires the Committee to meet at least four times per year, with one of these meetings to include review and endorsement of the annual audited financial reports and external audit opinion.

The ARIC was scheduled to meet on four occasions for the financial year 2018/2019.

**Table 1: ARIC Meeting Attendance - Members**

Committee Member Name	Position Title	19 Sep 2018	5 Dec 2018	6 Mar 2019	14 Jun 2019
Mr Max Shanahan	External Member Chair	✓	✓	✓	✓
Mr Miles Pearson	External Member	✓	✓	✓	✓
Mr John Barbeler	External Member	✓	✓	✓	✓
Mr Adam Vine	External Member	✓	✓	✓	✓
Cr John Castellari (to Jan 2019)	Council Member	✓	✓		
Cr Anne Maslin (from Feb 2019)	Council Member			✓	✓

**Table 2: ARIC Meeting Attendance - Non Members**

Non-Voting Member Name	Position Title	19 Sep 2018	5 Dec 2018	6 Mar 2019	14 Jun 2019
Mr Peter Bascomb	General Manager	✓	✓	✓	✓
Mr Tarang Kamath	Senior Internal Auditor	✓	✓	✓	✓
Ms Marg Nicholls	Internal Auditor (Casual)		✓		

Ms Marg Nicholls	Acting Organisational Risk Officer				✓
Ms Lisa McKenzie	Administration Officer Innovation and Business Development	✓	✓	✓	✓
Ms Erin Donnelly	Secretary Council and Committees	✓			

**Table 3: ARIC Meeting Attendance - Guests**

Guest Name	Position Title	19 Sep 2018	5 Dec 2018	6 Mar 2019	14 Jun 2019
Mr Brad Bohun	Senior Partner - Crowe Horwath	✓			
Ms Geri Hutchison	Quality Assurance Officer			✓	
Ms Iliada Bolton	Executive Manager Innovation and Business Development			✓	✓
Ms Jacqueline Sullivan	Management Accountant			✓	
Clr John Last	Councillor			✓	
Ms Lawrissa Chan	Director - Audit Office of NSW	✓	✓	✓	
Ms Linda Nicholson	Group Manager Asset Management and Engineering				✓
Mr Matt Payne	Chief Financial Officer	✓		✓	✓
Mr Michael Kharzoo	Audit Leader - Financial Audit - Audit Office of NSW		✓	✓	
Mr Peter Cannizzaro	Director Corporate & Community Services	✓		✓	✓
Ms Petrina Cannon	Organisational Risk Officer	✓			
Ms Susan Loane	Performance Audit Leader - Audit Office of NSW				✓

Note: Guests attended only for presentation of relevant reports and not entire duration of meeting.

## 3 Internal Audit Function Report

### 3.1 Overview

This is the third report of the Snowy Monaro Regional Council (SMRC) Internal Audit function (IAF), summarising internal audit activities for the period 1 July 2018 to 30 June 2019. The Senior Internal Auditor was employed by Council on 2 July 2018 on a permanent full-time basis. The first 12 months have been utilised to understand Council operations, build relationships, and provide guidance alongside performing audits of various business areas.

#### 3.1.1 Charter

The Internal Audit Charter was approved by Audit, Risk and Improvement Committee at its meeting held on 14 March 2018 [Resolution Number ARIC48/18]. The Charter provides the authority given to the Internal Audit Function and outlines its purpose, roles and responsibilities. (Attachment 3)

The Charter is intended to be reviewed at least annually. However considering an Internal Audit Framework is under development by the Office of Local Government (OLG), review of the Charter has been deferred until further guidance is available from the OLG.

#### 3.1.2 Resources

- One Senior Internal Auditor
- One Casual Internal Auditor (Induction and Guidance)
- Limited administrative support

#### 3.1.3 Audits completed in the reporting period

- 8 audits completed
- 1 audit in progress
- 76 recommendations

#### 3.1.4 Governance and administration

- Maintain Internal Audit Function at a level consistent with the International Standards for the Professional Practice of Internal Auditing<sup>1</sup> issued by the Institute of Internal Auditors.
- Support an independent Audit, Risk and Improvement Committee (ARIC) including recruitment of independent members.
- Administration and writing of quarterly reports and the annual internal audit report

## 3.2 Internal Audit Function

### 3.2.1 Senior Internal Auditor (Chief Audit Executive)

The Senior Internal Auditor has over six years of experience delivering internal audit and consulting services to multinationals organisations overseas, ranging across industries such as pharmaceuticals, automobiles, metals & mining, real estate and hospitality, prior to relocating to Australia. He has been with Council for 12 months and has obtained the professional accreditation



of Certified Internal Auditor (CIA) through the Institute of Internal Auditors (IIA), an international body for the internal audit profession.

The principal role is to ensure an Internal Audit Function that is respected and respectful; trusted by its customers; providing a service that is relevant and achieving maximum impact.

### 3.2.2 Work against approved Internal Audit Work Plan

Internal Audit's overall objective is to provide an opinion which is positive and reasonable. Positive means that our opinion will be based on seeing evidence of adequate action. Reasonable means that there will be sufficient evidence underpinning our opinion to make it reliable. However, systems and processes audited or reviewed cannot be entirely guaranteed to be error free.

**Table 4: Audits completed or commenced from July 2018 to June 2019**

Audit No	Audit Name	Date Final Report	Recommendations <sup>1</sup>
Audit 18-19_01	RMS DRIVES24 review	25 July 2018	1 recommendation CR1: 0; CR2: 0; CR3: 1
Audit 18-19_02	Payroll Management	3 April 2019	10 recommendations CR1: 0; CR2: 2; CR3: 8
Audit 18-19_03	Investments made by Council	22 May 2019	7 recommendations CR1: 0; CR2: 4; CR3: 3
MIR 18-19_01	Management Initiated Request	7 June 2019	12 recommendations CR1: 4; CR2: 8; CR3: 0
Audit 18-19_04	Corporate Card Management	9 August 2019	10 recommendations CR1: 0; CR2: 2; CR3: 8
Audit 18-19_05	Platypus Country Visitor Information Centre Follow-up Review	3 September 2019	2 recommendations CR1: 0; CR2: 0; CR3: 2
Audit 18-19_06	OLG Calendar of Compliance	27 August 2019	Nil recommendations
Audit 18-19_07	Buildings Security	Draft Report Issued	27 recommendations CR1: 1; CR2: 9; CR3: 17
Audit 18-19_08	Government Information Public Access (GIPA) Act Compliance	27 August 2019	7 recommendations CR1: 0; CR2: 4; CR3: 3

### 3.2.3 Internal Audit Recommendations

All audit recommendations are followed up by the Senior Internal Auditor and actions taken are reviewed. Any overdue recommendations are followed up with the specific Directors.

At each ARIC meeting, outstanding or overdue recommendations are reported and the reasons for the delay provided. Requests for extension to target dates are considered by the Committee.

Additionally, any request for reclassification of a category is also submitted to the Committee for its deliberation.

A good measure of the effectiveness of the audits is the acceptance of recommendations. The Senior Internal Auditor works closely with each of the divisions which are the subject of performance audits and / or compliance audits to ensure that recommendations made are practical and balanced.

In issuing the Audit reports, recommendations are classified into three categories

- Category 1 (C1 (C) < 3m) - Critical priority recommendation; requires addressing within 3 months

<sup>1</sup> Refer 3.2.3 for recommendation category classification

and is assigned to the appropriate member of the Executive and discussed at executive meetings.

- Category 2 (C2 (H) < 6m) - High priority recommendation; requires addressing within 6 months and is assigned to the appropriate member of the Executive and the relevant group manager.
- Category 3 (C3 (M) < 12m) - Medium priority recommendation; requires addressing within 12 months and is assigned to the appropriate group manager.

**Table 5: Ageing Analysis - Open Internal Audit Recommendations as at 30 June 2019**

Days Since Report Issued	C1 (C) < 3m	C2 (H) < 6m	C3 (M) < 12m	Total
0 - 90 days	2	12	10	24
91 - 180 days	-	-	-	-
181 - 365 days	-	-	-	-
> 365 days	-	4*	-	4*
<b>Total</b>	<b>2</b>	<b>16</b>	<b>10</b>	<b>28</b>

\*At the time of preparation of this report only two recommendations were still open. One recommendation pertains to Business Continuity Plan - test activity scheduled in October 2019 and the other recommendation pertains to asset management which is tied to the implementation of the new Corporate Information System (CIS) tentatively in July 2020.

### 3.2.4 Internal Audit Opinion - Internal Controls and Risk

Internal Audit is asked by the ARIC and senior management to provide opinions as part of each audit report as well as on the overall adequacy of internal controls and governance arrangements which protect Council from mismanagement and fraud.

In order to achieve this each audit is assessed using the following table:

**Table 6: Opinion Rating Table**

Audit Opinion Rating	
<b>Excellent</b>	Effective control environment with the business area operating efficiently, effectively and economically
<b>Satisfactory</b>	Effective control environment for the audited area
<b>Improvement Required</b>	Improvement required to the control environment. Controls may be in place but are not being followed, there a broken controls
<b>Unsatisfactory</b>	Control environment is not effective or is non-existent.

Each audit was given an opinion on the adequacy of its internal controls as follows:

**Table 7: Audit Opinion Ratings**

Audit No	Audit Name	Date Final Report	Overall Audit Opinion Rating
Audit 18-19_01	RMS DRIVES24 review	25 July 2018	Satisfactory
MIR 18-19_01	Management Initiated request	7 June 2019	Unsatisfactory
Audit 18-19_02	Payroll Management	3 April 2019	Improvement Required
Audit 18-19_03	Investments made by Council	22 May 2019	Improvement Required
Audit 18-19_04	Corporate Card Management	9 August 2019	Satisfactory
Audit 18-19_05	Platypus Country Visitor Information Centre Follow-up Review	3 September 2019	Satisfactory

Audit No	Audit Name	Date Final Report	Overall Audit Opinion Rating
Audit 18-19_06	OLG Calendar of Compliance	27 August 2019	Satisfactory
Audit 18-19_07	Buildings Security	Draft Report Issued	Unsatisfactory
Audit 18-19_08	Government Information Public Access (GIPA) Act Compliance	27 August 2019	Improvement Required

As part of the pre commencement assessment for each audit, Internal Audit reviewed Council's risk register for risks and treatments identified which would control or reduce the risk for the business unit and its particular activities.

It is the responsibility of Management within each business unit to ensure risks and treatments for their areas are captured under Councils Enterprise Risk Management Framework.

In most audits completed during the course of the year there were no relevant risks or controls identified in Council's Risk Register. Internal Audit has highlighted potential risks areas relevant to the operations for management consideration.

### 3.2.5 Quality Assurance and Improvement Program (QAIP)

In May 2018, a self-assessment of Internal Audit quality against the International Standards for the Professional Practice of Internal Auditing (Standards), contained within the IPPF<sup>2</sup>, was completed by the former Internal Auditor and presented to Jardine Lloyd Thompson Pty Ltd (JLT) as part of the Risk and Audit Maturity Assessment (RAMA). The self-assessment with independent validation identified that there were gaps in meeting the Standards however there were processes in place that, once the Internal Audit Function (IAF) was fully resourced these gaps would be addressed. JLT is the appointed Scheme Manager of Statewide Mutual. The internal audit maturity levels used by JLT (in ascending order) were Initial, Defined, Implemented, Managed and Optimising. JLT assessed the IAF against 11 standards<sup>3</sup> and the Code of Ethics. The table below provides a snapshot of the results from the RAMA report<sup>4</sup>.

Maturity Level	Standards Assessed
Optimising	1000, 1100, 2100, 2200 and 2400
Managed	2000, 2500 and 2600
Implemented	Code of Ethics
Defined	1200, 1300 and 2300
Initial	Nil

<sup>2</sup> The International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA) in 2017

<sup>3</sup> The 11 standards against which the IAF was assessed were:

1. 1000 - Purpose, Authority, and Responsibility
2. 1100 - Independence and Objectivity
3. 1200 - Proficiency and Due Professional Care
4. 1300 - Quality Assurance and Improvement Program
5. 2000 - Managing the Internal Audit Activity
6. 2100 - Nature of Work
7. 2200 - Engagement Planning
8. 2300 - Performing the Engagement
9. 2400 - Communicating Results
10. 2500 - Monitoring Progress
11. 2600 - Communicating the Acceptance of Risks

<sup>4</sup> ECM ID: 3178064 - Jardine Lloyd Thompson (JLT) - Snowy Monaro Regional Council - Risk and Audit Maturity Assessment (RAMA) Report;

The IAF is resourced with one full-time Senior Internal Auditor who is responsible for audit coverage and providing support to the Audit, Risk and Improvement Committee. The IAF additionally does not have any budget allocated to it for undertaking of audits beyond the capacity of the incumbent. Being a single resource function, IAF has been unable to satisfy certain aspects of the adopted Quality Assurance and Improvement Program, specified below:

- 2.1 Work paper reviews and supervisor sign-off occurs for each in-house internal audit engagement
- 2.2 Performance evaluations performed after each in-house internal audit engagement
- 3.6 File reviews for in-house internal audit engagements

However, the Senior Internal Auditor, over the last 12 months, has gained significant learning into Council's distinctive state of affairs and endeavours to achieve all other aspects of the QAIP and will customise the QAIP to meet the unique needs of Council's IAF.

### **3.2.6 Compliance with Standards**

The Senior Internal Auditor acts in accordance with the duties and responsibilities set out in the Audit, Risk and Improvement Committee Charter, the Internal Audit Charter, as well as Council's Code of Conduct. An Internal Auditor must comply with the Code of Ethics (Integrity, Objectivity, Confidentiality and Competency); Rules of Conduct and the International Standards for the Professional Practice of Internal Auditing as prescribed in the International Professional Practices Framework (IPPF) issued by the IIA.

## **4 Looking forward**

The Internal Audit Function (IAF) has been a full-time resourced function for the past 12 months. This time has been utilised to understand Council operations, build relationships and continue to embed internal audit into the organisation.

This IAF endeavours to provide independent, unbiased assessment of Council's operations; act as a catalyst for improvement in risk management, control and governance processes; and be an advisor to management, to add value and improve Council's operations.

Further, the IAF also aims to maintain a comprehensive and effective Quality Assurance and Improvement Program by establishing a peer review process by the next financial year.

A special acknowledgement to the former Internal Auditor, Ms Marg Nicholls, whose support and guidance has been invaluable to the progress and position of the IAF to this day.

Tarang Kamath CIA PMIIA

**Senior Internal Auditor**

June 2019

# ATTACHMENT 1 - Audit, Risk and Improvement Committee Charter



## AUDIT, RISK and IMPROVEMENT COMMITTEE CHARTER

### 1. Objective

The Objective of the Audit, Risk and Improvement Committee (Committee) is to provide independent assurance and assistance to Snowy Monaro Regional Council (Council), on risk management, the control framework, legislative compliance, internal audit and external accountability responsibilities.

### 2. Authority

Council authorises the Committee within the scope of its role and responsibilities through the Chair to:

- Obtain any information it needs from any employee or external party (subject to their legal obligations to protect information).
- Discuss any matters with the external auditor or other external parties (subject to confidentiality considerations).
- Request of the General Manager the attendance of any employee at Committee meetings.
- Obtain external legal or other professional advice considered necessary to meet its responsibilities. Prior discussion must be undertaken with the General Manager who will determine appropriateness of any reimbursement if any by Council.

### 3. The Snowy Monaro Regional Council Assurance Environment

Snowy Monaro Regional Council has a range of activities to provide assurance to Council, the Committee and the General Manager.

Council uses a 'Combined Assurance – 3 Lines of Defence' model to define their assurance environment:

The 1st Line of Defence originates or initiates risk, and is responsible for managing the risks and having in place mechanisms to demonstrate controls are working effectively.

The 2nd Line of Defence monitors, reviews and tests effectiveness of 1st Line control and management of risks.

The 3rd Line of Defence independently evaluates and gives an opinion on the adequacy and effectiveness of both 1st Line and 2nd Line risk management approaches.

This approach demonstrates how assurance activities co-ordinate to provide assurance to the Council, the Committee, and the General Manager.

At Council this can be illustrated as:

Combined Assurance - 3 Lines of Defence		
1 <sup>st</sup> Line of Defence	2 <sup>nd</sup> Line of Defence	3 <sup>rd</sup> Line of Defence
<b>Management Controls</b> Real-Time Focus	<b>Management of Risk</b> Real-Time Focus + Review of 1 <sup>st</sup> Line	<b>Independent Assurance</b> Review of 1 <sup>st</sup> Line and 2 <sup>nd</sup> Line
Management Controls	Risk Management Governance Regulatory Compliance Work Health Safety Environment	Internal Audit External Audit Office of Local Government
Review governance and compliance Implement improvements	Confirm governance and compliance Recommend improvements	Independently confirm governance and compliance Recommend improvements

#### 4. Composition and Tenure

The Committee will consist

##### 4.1. Voting members

- 1 x Councillor representative
- 4 x Independent external members (one of whom is recruited as Chair)

##### 4.2. Non-voting members

- General Manager
- Senior Internal Auditor (Head of Internal Audit)
- Organisational Risk Officer

##### 4.3. Invitees (non-voting) for specific Agenda items

- Representatives of the external auditor
- Other Council officers may attend by invitation from the Committee through the General Manager.

##### 4.4. Term of membership external appointments

Two external members shall be appointed for a maximum term of four years and two external members shall be appointed for a maximum term of three years and shall be appointed as follows:

- Two external members (one of whom shall be the Chair) shall be appointed for an initial period of two years with an additional two year appointment subject to a satisfactory performance assessment of their contribution to the Audit Committee.
- Two external members shall be appointed for an initial period of two years with an additional one year appointment subject to a satisfactory performance assessment of their contribution to the Audit Committee.

The performance review will be undertaken by the Council representative as Committee member in conjunction with the General Manager

External members may be re-appointed at the end of their tenure following a public advertisement and expression of interest processes

Vacancies shall be filled by public advertisement; an evaluation of candidates and a recommendation for appointment to Council.

#### **4.5. Skills**

The external independent members of the Committee, taken collectively, will have a broad range of skills and experience relevant to the operations of Council.

At least one external independent member of the Committee shall have accounting or related financial management experience and an understanding of accounting and auditing in a public sector environment.

At least one external independent member of the Committee shall have internal auditing or related auditing experience.

At least one external independent member of the Committee shall have risk management experience.

### **5. Roles and responsibilities**

The Committee has no executive powers but assists the Council by providing independent assurance and assistance to Council on behalf of rate-payers.

The Committee is directly responsible to the Council for the exercise of its responsibilities. In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of Council operations rests with the General Manager.

The responsibilities of the Committee may be revised or expanded in consultation with or as resolved by Council.

The Committee's role includes assisting Council in its governance and exercising of due care, diligence and skill in relation to:

- Internal control systems;
- Risk management systems;
- Business policies and practices;
- Protection of Council's assets;
- Compliance with applicable laws, regulations, standards and best practice guidelines;
- Understand the relevant legislative and regulatory requirements appropriate to Council;
- Contribute the time needed to study and understand the papers provided;
- Apply good analytical skills, objectivity and good judgment; and
- Express opinions frankly, ask questions that go to the fundamental core of issues, and pursue independent lines of enquiry.

**5.1. Risk management**

- Review whether management has in place a current and appropriate risk management framework that is consistent with AS/NZS ISO 31000:2018
- Review risk management plans and provide advice to the General Manager
- Seek assurance from management and Internal Audit that risk management processes are operating effectively
- Seek assurance from management and Internal Audit as to the adequacy and effectiveness of internal controls
- Review risk reports and provide advice to the General Manager
- Review whether a sound and effective approach has been followed in developing risk management plans for major projects or undertakings
- Review the impact of the agency's risk management on its control environment and insurance arrangements
- Review Council's fraud control plan and be satisfied that Council has appropriate processes and systems in place to capture and effectively investigate fraud related information
- Review whether a sound and effective approach has been followed in establishing Council's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically.

**5.2. Control framework**

- Review whether management's approach to maintaining an effective internal control framework, including over external parties such as contractors and advisors, is sound and effective
- Review whether management has in place relevant policies and procedures and that these are periodically reviewed and updated
- Determine whether the appropriate processes are in place to assess, at least once a year, whether laws, regulations, policies and procedures are complied with
- Review whether appropriate policies and procedures are in place for the management and exercise of delegations
- Consider how management identifies any required changes to the design or implementation of internal controls
- Review whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour.

**5.3. External accountability**

- Assess the policies and procedures for management review and consideration of the financial position and performance of the agency including the frequency and nature of that review (including the approach taken to addressing variances and budget risks)
- Review procedures around early close and year-end
- Review the financial statements and provide advice to the General Manager (including whether appropriate action has been taken in response to audit recommendations and adjustments), and recommend their signing by the responsible financial officers and Councillors
- Satisfy itself that the financial statements are supported by appropriate management signoff on the statements
- Review cash management policies and procedures
- Review policies and procedures for collection, management and disbursement of grants

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and tied funding

- Review the processes in place designed to ensure that financial information included in Council's annual report is consistent with the signed financial statements
- Satisfy itself that Council has a performance management framework that is linked to organisational objectives and outcomes.

#### 5.4. Legislative Compliance

- Determine whether management has appropriately considered legal and compliance risks as part of Council's risk assessment and management arrangements
- Review the effectiveness of the systems for monitoring compliance with applicable laws and regulations and associated government policies

#### 5.5. Internal Audit

- Act as a forum for communications between the General Manager, senior management and internal and external audit
- Review and provide advice to the General Manager on the internal audit policies and procedures
- Review the risk based audit methodology
- Review the internal audit coverage and annual work plan, ensure the plan is based on Council's risk management plan, and recommend approval of the plan
- Advise the General Manager of the adequacy of internal audit resources to carry out its responsibilities, including completion of the approved internal audit plan
- Oversee the coordination of audit programs conducted by internal audit and external audit and other review functions
- Review audit findings and related recommendations that have been assessed as the most significant according to the risk and audit finding represent to Council if the recommendation's related to the finding are not implemented
- Provided advice to the General Manager on significant issues identified in audit reports and action taken on these issues, including identification and dissemination of good practice
- Monitor management's implementation of internal audit recommendations
- Review the internal audit charter to ensure appropriate organisation structures, authority, access and reporting arrangements are in place
- Periodically review the performance of internal audit

#### 5.6. External audit

- Act as a forum for communication between the Council, General Manager, senior management, internal audit and external audit
- Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback of the audit services provided
- Review all external plans and reports in respect of planned or completed audits and monitor management's implementation of audit recommendations
- Provide advice to the General Manager on action taken on significant issues raised in relevant external audit reports and better practice guides

#### 5.7. Responsibilities of members

Members of the Committee are expected to:

- Understand the relevant legislative and regulatory requirements appropriate to Snowy Monaro Regional Council;

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- Contribute the time needed to study and understand the papers provided;
- Apply good analytical skills, objectivity and good judgment; and
- Express opinions frankly, ask questions that go to the fundamental core of issues, and pursue independent lines of enquiry.

## 6. Reporting

The Committee will regularly, but at least one a year, report to Council on its operation and activities during the year. The report should include:

- An overall assessment of Council's risk, control and compliance framework, including details of any significant emerging risks or legislative changes impacting Council
- A summary of the work the Committee performed to fully discharge its responsibilities during the preceding year
- Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended
- A summary of Council's progress in addressing the findings and recommendations made in internal and external reports
- A summary of the Committee's assessment in the performance of internal audit

The Committee's Minutes will be presented to Council for information only through the General Manager's report to Council.

### 6.1. Reporting Lines

The Committee must at all times ensure it maintains a direct reporting line to and from Internal Audit and act as a mechanism for Internal Audit to report to the General Manager on functional matters.

The following reporting line is prescribed:



## **7. Administrative arrangements**

### **7.1. Meetings**

The Committee will meet at least four times per financial year. A special meeting may be held to review Council's financial statements.

The need for any additional meetings will be decided by the Chair of the Committee, though other Committee members or the General Manager may make requests to the Chair for additional meetings.

A forward meeting plan, including meeting dates and agenda items, will be agreed by the Committee each year. The forward meeting plan will cover all Committee responsibilities as detailed in this Charter.

Meetings will follow Council's Code of Meeting practice.

### **7.2. Attendance at Meetings and Quorums**

A quorum will consist of a majority of voting members in attendance.

Meetings can be held in person, by telephone or by video conference.

The Internal Audit Manager will be invited to attend each meeting unless requested not to do so by the Chair of the Committee. The Committee may also request through the General Manager, for other employees to participate for certain agenda items, as well as the external auditor.

The General Manager may attend each meeting but will permit the Committee to meet separately with the Chief Audit Executive in the absence of management on at least one occasion per year.

### **7.3. Secretariat**

The Council will provide secretariat support to the Committee. The Secretariat will ensure the agenda for each meeting and supporting papers are circulated, at least one week before the meeting, and ensure minutes of the meetings are prepared and maintained. Minutes shall be approved by the Chair and circulated to each member and committee observers as appropriate within three weeks of the meeting being held.

### **7.4. Conflicts of Interest**

Councillors, Council staff and members of Council committees must comply with the applicable provisions of Council's code of conduct in carrying out the functions as Council officials.

Committee members must declare any conflicts of interest at the start of each meeting or before discussion of a relevant agenda item or topic. Details of any conflicts of interest should be appropriately minuted.

Where members or invitees at Committee meetings are deemed to have a real or perceived conflict of interest, it may be appropriate they be excused from Committee deliberations on the issue where the conflict of interest may exist. The final arbiter of such a decision is the Chair of the Committee.

**7.5. Induction**

New members will receive relevant information and briefings on their appointment to assist them to meet their Committee responsibilities.

**7.6. Assessment Arrangements**

The Chair of the Committee will initiate a review of the performance of the Committee in full at least once every two years.

The review will be conducted on a self-assessment basis (unless otherwise determined by the Chair), with appropriate input from management and any other relevant stakeholders, as determined by the Chair.

**7.7. Review of Charter**

At least once every year the Committee will review this Charter. The review will include consultation with the Council.

Any substantive changes to this Charter will be recommended by the Committee and formally approved by Council.

**Recommended by Audit, Risk and Improvement Committee:** 6 March 2019 (ARIC14/19)

**Resolved by Council:** 17 April 2019 (160/19)

## ATTACHMENT 2 - Internal Audit Function Annual Declaration for Financial Year 2018-2019

### Introduction

This declaration is to be signed annually by all staff and service provider personnel of Snowy Monaro Regional Council's (SMRC) Internal Audit Function. It covers:

1. Conformance to SMRC Values.
2. Conformance to SMRC Code of Conduct.
3. Conformance to mandatory internal auditing requirements, including the IIA Code of Ethics.
4. Conformance to Internal Audit policies and procedures.
5. Conflicts of interest.
6. Completion of professional development requirements for Internal Auditors of minimum 40 hours each year.

### 1. Snowy Monaro Regional Council Values

I declare I have conformed to SMRC Values:

- Solutionary
- Together
- Accountable
- Innovative
- Caring

### 2. Snowy Monaro Regional Council Code of Conduct

I declare I have conformed to SMRC Code of Conduct requirements.

### 3. Mandatory Internal Auditing requirements, including the IIA Code of Ethics

I declare I have conformed to mandatory internal auditing requirements:

- Core Principles for the Professional Practice of Internal Auditing.
- Definition of Internal Auditing.
- International Standards for the Professional Practice of Internal Auditing.
- IIA Code of Ethics

I declare I have conformed to the IIA Code of Ethics principles:

- Integrity – The integrity of Internal Auditors establishes trust and thus provides the basis for reliance on their judgment.
- Objectivity – Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- Confidentiality – Internal Auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- Competency – Internal Auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

#### 4. Internal Audit Policies and Procedures

I declare I have conformed to policies and procedures contained in the Internal Audit Manual.

#### 5. Conflicts of Interest

Conflict of interest is a situation in which an Internal Auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the Internal Auditor, the Internal Audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

Internal Auditors are not to provide audit services for work for which they may previously have been responsible. Internal Audit may provide assurance services where they had previously performed consulting services, provided the nature of the consulting did not impair objectivity, and provided individual objectivity is managed when assigning resources to the engagement.

Instances of perceived or actual conflict of interest by Internal Audit staff and service providers shall immediately be reported to the Senior Internal Auditor or the Chair of the Audit, Risk and Improvement Committee.

I declare I have reported conflicts of interest to the Audit, Risk and Improvement Committee for the following conflicts of interest:

- Potential perceived conflict of interest between Senior Internal Auditor and Manager Corporate Governance for Audit 18-19\_08 - Government Information (Public Access) Act Compliance.
  - Audit commenced and fieldwork was undertaken in May 2019 while a conflict of interest did not exist.
  - The perceived conflict of interest arose on 17 June 2019 onwards.
  - It was declared to the Committee at its meeting on 12 September 2019 where it was ascertained [Resolution No. ARIC43/19] that no conflict of interest existed in relation to this audit.

#### 6. Professional Development

I declare I completed the professional development requirements for Internal Auditors of minimum 40 hours each year.

#### Declaration

I declare I have conformed to all requirements of this Annual Declaration for the period 2 July 2018 to 30 June 2019.

I declare that if an issue arises in relation to any of the six areas contained in this Annual Declaration in the coming year, I shall immediately report it to the Chair of the Audit, Risk and Improvement Committee.

Tarang Kamath CIA PMIIA  
Senior Internal Auditor  
June 2019

## ATTACHMENT 3 - Internal Audit Charter



### Internal Audit Charter

#### 1. Introduction

Snowy Monaro Regional Council (Council) has established its Internal Audit function as a key component of Council's governance framework.

This charter provides the framework for the conduct of the internal audit function at Council and has been approved by Council's Audit, Risk and Improvement Committee.

Internal Audit at Snowy Monaro Regional Council is managed by the Senior Internal Auditor who is the designated Head of Internal Audit / Chief Audit Executive within the organisation. The Head of Internal Audit is the top position within an organisation for internal audit activities, as defined in The International Standards for the Professional Practice of Internal Auditing (Standards) issued by the Institute of Internal Auditors.

#### 2. Purpose of internal audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisations operations.

It helps an organisation accomplish its objectives by bringing a systematic, disciplines approach to evaluate and improve the effectiveness of risk management, controls and governance processes.

Internal audit provides an independent and objective review and advisory service to:

- Provide assurance to Council and the Audit, Risk and Improvement Committee that Council's financial and operational controls, designed to manage the organisation's risks and achieve the entity's objectives are operating in an efficient, effective and ethical manner;
- Assist management in improving business performance.

#### 3. Authority

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to any and all records, personnel and physical properties relevant to the performance of engagements.

Internal Audit will also have free and unrestricted access to the Senior Executive of Council and the Audit, Risk and Improvement Committee.

#### 4. Independence

Independence is essential to the effectiveness of the internal audit function. Internal audit activity must be independent and internal auditors must be objective in performing their work. Internal auditors must have an impartial, unbiased attitude and avoid any conflicts of interest.

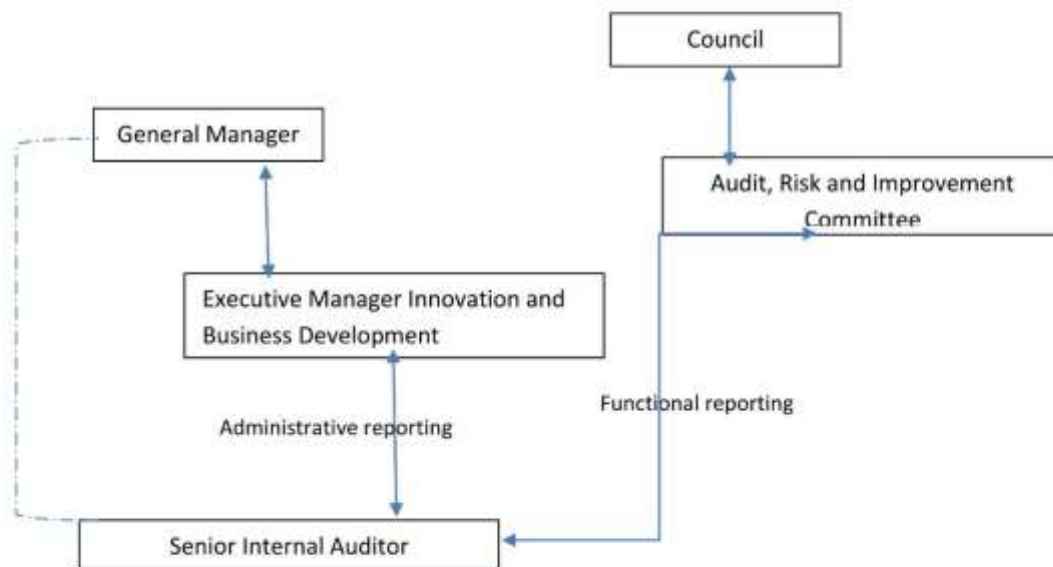
The internal audit authority has no direct authority or responsibility for the activities it reviews. The internal audit function has no responsibility for developing or implementing procedures or

systems and does not prepare records or engage in original line process functions or activities (except in carrying out its own functions).

The internal audit function is responsible on a day to day basis to the Chief Audit Executive.

The internal audit function, through the Chief Audit Executive, reports functionally to the Audit, Risk and Improvement Committee on the results of completed audits, and for strategic direction and accountability purposes and reports administratively to the Executive Manager Innovation and Business Development to facilitate day to day operations.

The following reporting line is prescribed.



**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 Chief Audit Executive considers necessary to enable the internal audit function 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 chief 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.

All internal audit documentation is to remain the property of Council, including where internal audit services are performed by an external third party provider.

**6. Roles and responsibilities**

The internal audit function must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

In the conduct of its activities, the internal audit function 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.

## 7. Audit activities

Audit activities including audits with the following areas for consideration:

### Risk management

- Evaluate the effectiveness and contribute to the improvement of risk management processes
- Provide assurance that risk exposures relating to the organisation's governance, operations, and information systems are correctly evaluated including:
  - Reliability and integrity of financial and operational information
  - Effectiveness, efficiency and economy of operations and
  - Safeguarding of assets
- Evaluate the design, implementation and effectiveness of Council's ethics-related objectives, programs and activities
- Assess whether the information technology governance sustains and supports Council's strategies and objectives

### Compliance

- Compliance with applicable laws, regulations and Government policies and directions

### Performance improvement

- The efficiency, effectiveness and economy of Council's business systems and processes

## 8. Advisory services

The internal audit function can advise management on a range of matters including:

### New programs; systems and processes

- Providing advice on the development of new programs and processes and /or significant changes to existing programs 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.

### Fraud control

- Evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk
- Assisting management to investigate fraud, identify the risks of fraud and develop fraud prevention and monitoring strategies.

## 9. Audit support activities

The Chief Audit Executive is also responsible for:

- Managing the internal audit function
- Assisting the Audit, Risk and Improvement Committee to discharge its responsibilities
- Monitoring the implementation of agreed recommendations
- Disseminating across Council, better practice and lessons learnt arising from its audit activities.

#### 10. Scope of internal audit activity

Internal audit reviews may cover all programs and activities of Council together with associated entities, as provided for in relevant business agreements, memorandum of understanding or contracts.

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

#### 11. Standards

Internal audit activities will be conducted in accordance with this charter and with relevant professional standards including International Standards for the professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

In the conduct of internal audit work, internal audit staff 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;
- Exercise due professional care in performing their duties.

#### 12. Relationship with external audit

Internal and external audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplications of effort.

Periodic meetings and contact between internal and external audit shall be held to discuss matters of mutual interest and facilitate coordination.

External audit will have full and free access to all internal audit plans, working papers and reports.

#### 13. Planning

The Chief Audit Executive will prepare a risk-based annual internal audit work plan in a form and in accordance with a timetable agreed with the Audit, Risk and Improvement Committee.

#### 14. Reporting

The Chief Audit Executive will report to each meeting of the Audit, Risk and Improvement Committee on:

- Audits completed;
- Progress in implementing the annual audit work plan;
- The implementation status of agreed internal and external audit recommendations.

The internal audit function will also report to the Audit, Risk and Improvement Committee at least annually on the overall state of internal controls at Council and any systemic issues requiring

management attention based on the work of the internal audit function and other assurance providers.

#### 15. Administrative arrangements

Any change to the role of the Chief Audit Executive and where the internal audit functions uses an outsourced service delivery model; the external service provided will be approved by the General Manager in consultation with the Audit, Risk and Improvement Committee.

The Chief Audit Executive will arrange for an internal review, at least annually, and a periodic independent review, at least every five (5) years, of the efficiency and effectiveness of the operations of the internal audit functions. The results of the reviews will be reported to the Audit, Risk and Improvement Committee who will provide advice to the General Manager on those results.

#### 16. Review of the Charter

This charter will be reviewed at least annually by the Audit, Risk and Improvement Committee. Any substantive changes will be noted by Council on the recommendation of the Audit, Risk and Improvement Committee.

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Approved by Audit, Risk and Improvement Committee Resolution No: ARIC 48/18

Date of Audit, Risk and Improvement Committee meeting: 14 March 2018

Chair Audit, Risk and Improvement Committee:

[REDACTED]

Executive Manager Innovation and Business Development:

[REDACTED]