



SNOWY MONARO  
REGIONAL COUNCIL

# Internal Audit Function Charter



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## 1 Introduction

- 1.1 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.
- 1.2 Council's Internal Audit Function is managed by the Senior Internal Auditor who is the designated Chief Audit Executive. The Chief Audit Executive is the most senior member of staff in Council responsible for internal audit, as defined in The International Standards for the Professional Practice of Internal Auditing (Standards) contained within the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors.

## 2 Purpose

- 2.1 Internal audit is an independent, objective, assurance and consulting activity designed to add value and improve Council's operations.
- 2.2 It helps Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.3 Internal audit provides an independent and objective review and advisory service to:
  - a. 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; and
  - b. Assist management in improving business performance.

## 3 Authority

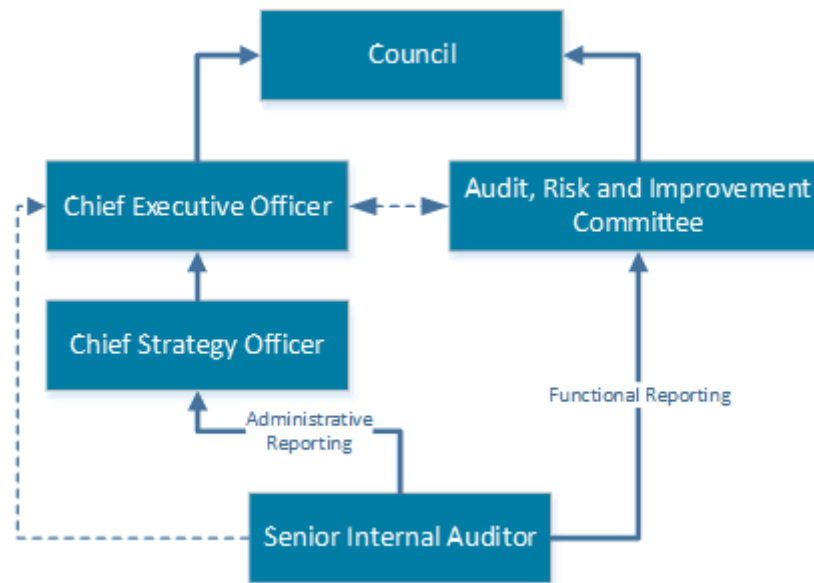
- 3.1 Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to any and all records, personnel and physical properties relevant to the performance of engagements and information that the Senior Internal Auditor considers necessary to enable the Internal Audit Function to meet its responsibilities.
- 3.2 Internal Audit will also have free and unrestricted access to Council's Chief Executive Officer (CEO), all Chief Officers and Audit, Risk and Improvement Committee (Committee).

## 4 Independence and Objectivity

- 4.1 Independence is essential to the effectiveness of the Internal Audit Function. Internal Audit 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 Senior Internal Auditor must confirm to the Committee, at least annually, the organisational independence of the Internal Audit Function.
- 4.2 The Internal Audit Function 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 first line process functions or activities (except in carrying out its own activities).
- 4.3 The Internal Audit Function is responsible on a day-to-day basis to the Senior Internal Auditor. The Senior Internal Auditor, reports functionally to the Audit, Risk and Improvement Committee on the results of completed audits, for strategic direction and accountability purposes and reports administratively to the Chief Strategy Officer to facilitate day-to-day

operations.

4.4 The following reporting line is prescribed:



4.5 Any change to the role of the Senior Internal Auditor and, where the Internal Audit Function uses an outsourced service delivery model, the external service provider will be approved by the Chief Executive Officer in consultation with the Committee.

## 5 Confidentiality

5.1 All records, documentation and information accessed in the course of undertaking internal audit services are to be used solely for the conduct of these activities. The Senior Internal Auditor and individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

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

## 6 Roles and Responsibilities

6.1 The Internal Audit Function must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

6.2 In the conduct of its services, the Internal Audit Function will play an active role in:

- a. Developing and maintaining a culture of accountability and integrity;
- b. Facilitating the integration of risk management into day-to-day business activities and processes; and
- c. Promoting a culture of cost-consciousness, self-assessment and adherence to high ethical standards.

6.3 Internal Audit has a primary responsibility to advise on governance, risk management and control issues and is required to report inadequately addressed risks and non-effective control processes to management and / or the Committee. Reporting must be escalated to a level consistent with Internal Audit's assessment of risk.

6.4 While Internal Audit is responsible for examining and evaluating the adequacy and effectiveness of the controls over risks, Internal Audit is not primarily responsible for the detection of fraud as it is management's responsibility. However, Internal Audit's activities

may identify instances of fraud, areas of high risk of fraud or consult on fraud risk matters.

- 6.5 The Senior Internal Auditor is required to report any major restrictions on the scope of Internal Audit, impairments, resource issues and any conflicts of interests to the Chair of the Committee and the Chief Executive Officer.

## 7 Internal Audit Services

Internal audit activity encompasses the review of all financial and non-financial policies and operations. Internal audit reviews may cover any of the programs and services of Council and any associated entity (where applicable). It will comprise of the following:

### 7.1 Assurance Services

Assurance services include audits with the following areas for consideration:

#### 7.1.1 Risk management

- a. Evaluate the effectiveness and contribute to the improvement of risk management processes
- b. Provide assurance that risk exposures relating to the organisation's governance, operations, and information systems are correctly evaluated including:
  - i. Reliability and integrity of financial and operational information;
  - ii. Effectiveness, efficiency and economy of operations; and
  - iii. Safeguarding of assets.

#### 7.1.2 Compliance

- a. Assess compliance with applicable acts, regulations, Government policies and Council policies, directives and procedures;
- b. Appraise and make appropriate recommendations for improving Council's governance process in the accomplishment of its objectives;
- c. Examine the integrity and effectiveness of financial, administrative and operating controls including information technology system controls and the completeness and accuracy of information reported;
- d. Evaluate the design, implementation and effectiveness of Council's ethics-related objectives, programs and activities in line with Council's statutory responsibilities, stated objectives and operational plan;
- e. Assess whether the information technology governance sustains and supports Council's strategies and objectives; and
- f. Appraise and monitor the procedures and controls over external contractual relationships.

#### 7.1.3 Performance improvement

- a. Appraise the adequacy, application and cost effectiveness of financial, administrative and operating controls and promote continuous improvement; and
- b. Examine and evaluate operational functions to maximise the economic, efficient and effective use of all Council resources in the achievement of Council's objective and priorities.

#### 7.1.4 Additional assurance services

- a. Internal Audit may also assist in the investigation of suspected fraud or misappropriation within Council and notify management and the Committee; and
- b. Other reviews as requested by the Chief Executive Officer or as a service to management to help improve operational efficiency and effectiveness.

## 7.2 Consulting and Advisory Services

Consulting and advisory services will be provided as defined in the International Standards for the Professional Practice of Internal Auditing. In providing consulting and advisory services, internal Audit will maintain operational independence and will participate on relevant committees and working groups with a status of observer only.

It is the responsibility of Council management to accept or reject advice provided by Internal Audit, to implement advice where considered appropriate and be accountable for decisions taken.

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

### 7.2.1 New programs, systems and processes

- a. 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.

### 7.2.2 Risk management

- a. Assisting management to identify risks and develop risk mitigation and monitoring strategies as part of the risk management framework.

### 7.2.3 Fraud control

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

### 7.2.4 Additional consulting and advisory services

- a. Internal Audit may be required to carry out special reviews from time to time at the direction of the Committee or the Chief Executive Officer.

## 7.3 Audit Support Services

The Senior Internal Auditor is also responsible for:

7.3.1 Managing the Internal Audit Function;

7.3.2 Assisting the Committee to discharge its responsibilities;

7.3.3 Developing a flexible risk-based internal audit plan (annual and strategic) in a form and timeframe agreed with the Committee;

7.3.4 Monitoring the implementation of agreed recommendations; and

7.3.5 Disseminating across Council, better practice and lessons learnt arising from its audit activities.

## 8 Management and Staff Obligations

8.1 An executive sponsor will be nominated for each engagement. This starts with input to the objectives and scope for upcoming engagements.

- 8.2 At conclusion of audits, management and staff are obligated to professionally and constructively contribute to internal audit work and the implementation of management action plans in response to improvement opportunities and recommendations contained in internal audit reports.
- 8.3 Management has a maximum of 15 working days from when they receive a draft internal audit report to provide their management responses and action plans, which should contain:
- a. Agreed, partially agreed or not agreed;
  - b. If not agreed, why not;
  - c. Action to be taken;
  - d. Responsible person;
  - e. Target date for implementation; and
  - f. Interim control arrangements to be relied upon where there is a long lead time, such as waiting to close-out an improvement action through implementation of a technology solution.
- 8.4 Where formal management responses and action plans have not been received within 15 working days, recommendations will be provided to the Committee, with a timetable for implementation to be pursued separately through the Chief Executive Officer.
- 8.5 Where management responses to any audit recommendation are not considered adequate, the Senior Internal Auditor will consult with the executive sponsor and attempt to reach a mutually agreeable resolution. If agreement is not reached, the Senior Internal Auditor will refer the matter to the Chief Executive Officer for resolution. If agreement is still not reached, the final arbiter will be the Committee.
- 8.6 Each quarter Internal Audit will request an update from management on progress of implementation for every improvement action and recommendation. Timing will align to Committee meetings.
- 8.7 The executive sponsor may request a revision of implementation date, should this be necessary due to unexpected delay, by submitting a *Request for extension of Target Date form* to the Committee for approval. Where an original implementation date is passed and / or not approved by the Committee, the executive sponsor will provide an anticipated completion date and the recommendation will be reported as overdue until completion.
- 8.8 Where an audit recommendation rated high or above is not implemented and closed-out by its target date, the executive sponsor will be required to attend the next Committee meeting and present details on why the management action has not been fully implemented and how the resulting risk is being addressed in the interim.

## 9 Relationship with External Audit

- 9.1 Internal and external audit services will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplications of effort.
- 9.2 Periodic meetings and contact between internal and external audit shall be held to discuss matters of mutual interest and facilitate coordination.
- 9.3 External audit will have full and free access to all internal audit plans, working papers and reports.
- 9.4 To ensure that the Internal Audit Function is aware of all matters associated with its functional responsibilities, Senior Internal Auditor is to be supplied with copies of all relevant



correspondence received from External Audit.

## 10 Reporting

10.1 The Senior Internal Auditor will report to each meeting of the Committee on:

- a. Matters arising from previous meetings;
- b. Audits completed;
- c. Progress in implementing the internal audit annual plan;
- d. Progress in development of the 4 year rolling internal audit strategic plan (annual reporting);
- e. The implementation status of agreed internal and external audit recommendations.

10.2 The Internal Audit Function will also report to the 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.

## 11 Standards of Audit Practice

11.1 The Internal Audit Function will meet or exceed the mandatory guidance provided in the International Professional Practices Framework (IPPF), published by The Institute of Internal Auditors (IIA): the Definition of Internal Auditing, Code of Ethics and International Standards.

11.2 The Internal Audit Function will adhere to IPPF strongly recommended guidance: Position Papers, Practice Advisories and Practice Guides as applicable to the individual review being undertaken.

11.3 In addition, the Internal Audit Function will adhere to Council's Code of Conduct, policies and procedures and Council's Internal Audit Manual and Quality Guidelines.

11.4 To enable continuous evaluation of conformance to the Standards of Audit Practice, the Senior Internal Auditor is responsible for ensuring a Quality Assurance and Improvement Program is in place and includes the following:

- a. Internal assessments comprising of:
  - i. Ongoing monitoring of the performance of the Internal Audit Function;
  - ii. Periodic reviews performed through self-assessment or by other persons within the organisation with sufficient knowledge of internal audit practices; and
- b. External assessments conducted at least once every five years by a qualified, independent reviewer or review team from outside the organisation.

## 12 Review of the Charter

12.1 At least once every two years the Senior Internal Auditor will review this Charter. The review will include consultation and endorsement by the Chief Executive Officer and approval by the Committee.

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

**Endorsed by Executive Leadership Team:** 3 June 2020 [ELT68/20]

**Recommended by Audit, Risk and Improvement Committee:** 19 June 2020 [ARIC27/20]

**Approved by Council:** 16 July 2020 [120/20]