

6.2.4 Internal Audit Charter

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Recommendation(s)

That Council adopt the Internal Audit Charter.

Attachments

1. Internal Audit Charter Final [6.2.4.1 - 5 pages]

Executive Summary

This report provides an internal Audit Charter for consideration and adoption by Council as recommended by the Audit & Risk Committee.

Background

Cardinia Shire Council ("Council") does not currently have an Internal Audit Charter. In consultation with the Audit and Risk Committee, the internal auditors ("Crowe") and Cardinia Shire Council staff, it has been determined that Council should have such a charter in place to enable a strong governance framework in accordance with best practice.

Crowe provided a template Internal Audit Charter for internal consideration. This template has only had minor alterations made and was presented to the Audit and Risk Committee which was adopted.

Policy Implications

Nil.

Relevance to Council Plan

5.2 Our Governance - Open governance

5.2.1 Embrace and demonstrate effective governance and transparency, notwithstanding that on occasions, matters under consideration will be confidential.

Climate Emergency Consideration

N/A.

Consultation/Communication

Consultation with the Audit & Risk Committee occurred on the 11 December 2020 at its meeting.

Financial and Resource Implications

Nil.

Conclusion

It is appropriate that the Draft Internal Audit Charter be adopted with the Charter to be reviewed in three years or earlier if decided by the Audit & Risk Committee.

Cardinia Shire Council

Internal Audit Charter

Introduction

Cardinia Shire Council ("Council") has appointed an Internal Auditor as a key component of the Council's governance framework in accordance with best practice.

This charter provides the framework for the conduct of the Internal Audit function at Council.

Purpose of Internal Audit

Internal audit provides an independent and objective review and an advisory service to provide assurance to the Council, Chief Executive Officer and Management that financial and operational controls are:

- designed to manage Council's risks and achieve the entity's objectives;
- operating in an efficient, effective and ethical manner; and
- assist management in improving the entity's business performance.

Independence

To be effective, the Internal Audit function must be able to operate without being influenced or inhibited in the discharge of its duties.

Independence is essential to the effectiveness of Internal Audit. It is obtained primarily through organisational status and objectivity. Therefore, 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 original line processing functions or activities.

Internal Audit reports functionally to the Audit and Risk Committee and administratively to the Chief Executive Officer (or nominated officer) and is accountable for the efficient and effective operation of Internal Audit.

Internal Audit has direct access to the Chief Executive Officer, the Chair and other members of the Audit Committee.

Authority and Confidentiality

For the effective discharge of their duties, Internal Audit staff are authorised to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documentation and information that the Internal Audit Engagement Principal considers necessary to enable Internal Audit 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 Internal Audit Engagement Principal and individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

Internal Audit reports are deemed to be confidential reports of the Council. However, under its Legislation, the Victorian Audit Office and its appointed auditors have access to all relevant Council documents including internal audit reports.

Roles and responsibilities

Internal audit's responsibilities are influenced by the governance arrangements established by the Council. In the conduct of its activities, Internal Audit will play an active role in:

- Developing and maintaining a culture of effective corporate governance, accountability and integrity;
- 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.

While Internal Audit is responsible for examining and evaluating the adequacy and effectiveness of controls over risks, Internal Audit is not primarily responsible for the detection of fraud. That is management's responsibility. However, Internal Audit's activities may identify instances of fraud or areas of high risk of fraud.

Internal Auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

Scope of internal audit activities

Internal Audit activities may include, but are not necessarily limited to:

Assurance reviews

These reviews can have the following orientation:

- compliance with legislative requirements, Council policies, directives and procedures;
- the adequacy and effectiveness of internal financial and operational controls including IT system controls;
- the recording, control and use of entity assets; and
- the efficiency, effectiveness, and ethical conduct of the entity's business activities, systems and processes and in line with the Council's statutory responsibilities, stated objectives and strategic plan.

Advisory services

Internal Audit is a valuable resource and can advise Council and management on a range of matters including:

New programmes, systems and processes

- Providing advice on the development of new programmes and processes and/or significant changes to existing programmes and processes particularly including the design of appropriate controls
- Internal audit should be consulted prior to making changes to existing or new systems in order to ensure controls are sound.

Risk management

- Assisting management to identify risks and develop risk mitigation and monitoring strategies as part of the enterprise risk management framework
- Assessing, monitoring and reporting on the implementation of risk mitigation strategies as a part of its annual internal audit plan.

Fraud control

- Assisting management to identify the risks of fraud and develop fraud prevention and monitoring strategies.

In addition to the above, Internal Audit may be required to carry out special reviews from time to time at the direction of the Chief Executive Officer (or nominated officer) or the Audit and Risk Committee.

Audit support activities

From time to time, Internal Audit may also be responsible for:

- Assisting the Audit and Risk Committee to discharge its responsibilities;
- Monitoring the implementation of agreed recommendations; and
- Disseminating across Council better practice issues and lessons learnt from its audit activities.

Other services

The internal auditor may provide 'other services' to the Council as requested. The provision of other services' shall only occur subject to approval of the Chair of the Audit and Risk Committee and the Chief Executive Officer. Matters to be considered by the Audit and Risk Committee Chair include:

- The scope and scale of the other services, and
- Potential conflicts between the provision of the other services and Internal Audit.

Sub-Contractors

The use of any sub-contractors by the Internal Auditor shall be clearly outlined in the scope of any work to be undertaken and approved by the Audit and Risk Committee prior to any works commencing.

Standards

Internal Audit activities will be conducted in accordance with relevant professional standards including:

- Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors Inc;
- Standards relevant to internal audit issued by the Auditing and Assurance Standards Board, CPA Australia and the Institute of Chartered Accountants;
- The Statement on Information Systems Auditing Standards issued by the Information Systems and Control Association; and
- Standards issued by Standards Australia and the International Standards Organisation (if applicable).

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.

Relationship with external audit

Internal and external audit activities should, where possible, 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 should be held to discuss matters of mutual interest.

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

Planning

Internal Audit will prepare a risk-based 3 year rolling work plan (including an annual internal audit plan) for the Audit and Risk Committee's consideration.

Reporting

Internal Audit will report to each meeting of the Audit and Risk Committee on:

- Matters arising from previous meetings;
- Internal Audits completed;
- Progress against the delivery of the annual internal audit plan;
- Provision of other services (if any)

The internal audit reporting process is briefly described hereunder:

- Following approval of the annual Audit Plan and prior to the commencement of each engagement, Internal Audit will seek input from the Chief Executive Officer (or nominated officer) during the planning and scoping phase.
- A Memorandum of Audit Planning (MAP) will be prepared by internal audit and will outline:
 - Name of the audit
 - Commencement date
 - Auditor in charge
 - Council's contact
 - A brief introduction summarising the engagement
 - Objectives and scope
 - Review approach
 - Key milestones
 - Key personnel
 - Documentation requirements
 - Resources required and acknowledgement.
- The following key milestone dates will be documented in the MAP:
 - Scoping meeting with process owner
 - Memorandum of audit planning completed
 - Documentation/files (as listed below) to be provided prior to audit fieldwork
 - Field work to commence
 - Issue of draft report and follow up meeting for management comments
 - Provision of management comments to internal audit
 - Final report with management comments for Audit Committee papers
 - Audit Committee
- The MAP will be:
 - forwarded to the Chief Executive Officer, or relevant Director (or nominated officer) for review and approval, and
 - tabled at the Audit and Risk Committee for approval to proceed
- Issues arising during the course of the review will be discussed with the relevant General Manager (or nominated review owner) and where appropriate the Chief Executive Officer (or nominated officer).
- In the event that the Internal Auditor determines that the scope of the audit needs to expand or reduce from the approved MAP objectives, the Auditor will need to formally request an amendment, citing the basis for this change. The Auditor will submit the revised objectives and identify the relevant Council Officers for General Manager approval. Any reduction in audit scope must be approved by the Audit and Risk Committee.
- Findings and observations will be documented and discussed in an informal 'close out' meeting at the conclusion of the field work. Where possible the Internal Auditor will provide an indicative

rating of the finding and associated recommendation. The relevant General Manager/s (or nominated review owner) and other Council staff are invited to attend this meeting.

A draft report will be issued to the Chief Executive Officer (or nominated officer) for management responses and review of facts by the date specified in the MAP. Any identified High Risks should be referenced to the Audit objective as demonstration of the risk rating.

- Responses to the recommendations should clearly state
 - Whether management agree or disagree with the recommendation
 - The proposed course of action
 - The officer responsible for implementing the recommendation
 - The due date for implementation
- In the normal course, Management responses should be received by the date specified in the MAP
- Internal audit may meet with management to clarify any matters of disagreement or to provide further clarification in relation to observations made if and when required.
- The final report will be issued to Chief Executive Officer (or nominated officer) for distribution and consideration of the Audit and Risk Committee.

Review of the Performance of the Internal Auditor

The Audit and Risk Committee in conjunction with Cardinia Shire Council staff will undertake a review of the performance of the Internal Auditor annually.

This should be undertaken at a time that is consistent with the Contract of Engagement for the Internal Auditor to allow at least 90 days prior to the expiry of that Contract.

It should be noted that the current Internal Auditor is engaged on a 1 x 1 x 1 x 1 x 1 year contract.

Review of the Charter

This charter will be reviewed every three years or earlier if decided by the Audit and Risk Committee.