



Internal Audit Charter

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1. Introduction

1.1 Mission Statement

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

1.2 Background

An Internal Audit function has been established to provide Internal Audit services to seven North Shore Councils. An agreement entered into by Hunter's Hill, Ku-ring-gai, Lane Cove, Manly, Mosman, North Sydney and Willoughby Councils, requires a single Internal Audit function to undertake internal audits and reviews in each member Council in accordance with the Audit, Risk and Improvement Committee Charter and Audit Plan adopted by each Council.

Internal Audit at Mosman Council (Council) is managed by the Head of Internal Audit, North Shore Councils. The Head of Internal Audit is the Chief Audit Executive within the 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.

1.3 Purpose and Basis of the Charter

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

- It establishes Internal Audit within Council and recognises the importance of such an independent and objective service to the organisation
- It recognizes that the combined collaboration of resources and ideas is encouraged amongst participating North Shore Councils
- 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 Council and, where permitted, external bodies

1.4 Objectivity, Independence and Organisational Status

Objectivity requires an unbiased mental attitude. As such, all Internal Audit staff shall perform internal audit engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Further, it requires Internal Audit staff not to subordinate their judgment on internal audit matters to that of others.

To facilitate this approach, Internal Audit shall have independent status within Council, and for this purpose shall be responsible directly through the Head of Internal Audit to the Audit, Risk and Improvement Committee and administratively to the General Manager. Internal Audit shall be independent of the activities reviewed, and therefore shall not undertake any operating responsibilities outside internal audit work. 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.

Internal Audit staff shall not 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 Council from their accountability to discharge their responsibilities. All Council staff are responsible for risk management and the operation and enhancement of internal control. This includes responsibility for implementing remedial action endorsed by management following an internal audit.

2. Authority of Internal Audit and Obligations of Council Employees

2.1 Authority to Act

The Head of Internal Audit is authorized, on approval of the Audit, Risk and Improvement Committee, 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 Head of Internal Audit and his/her delegates are authorised to:

- Have unrestricted access to all functions, property, personnel, records, information, accounts, files, monies and documentation as necessary to conduct audits and reviews
- Have full and free access to the General Manager and the Chairperson of the Audit, Risk and Improvement Committee and, where deemed necessary by the Head of Internal Audit, the Mayor in relation to Internal Audit Services
- Allocate resources, set frequencies, select subjects, determine scopes of work and apply the techniques required to accomplish the internal audit objectives
- Obtain the necessary assistance of Council staff where audits are performed, as well as specialised services from within or outside the organisation
- Establish enforceable timelines for the delivery of information and reports

The Head of Internal Audit and his/her delegates are not authorised to:

- Perform any operational duties for other areas of the Council.
- Initiate or approve accounting transactions external to Internal Audit operations
- Direct activities of any Council employee not employed by Internal Audit, except to the extent that such employees have been assigned or engaged to assist Internal Audit

2.2 Removal of Records

During the course of audits, reviews or investigations it may be necessary to remove records or other information. A record will be maintained of any item temporarily removed by Internal Audit staff. Information provided in hard copy or electronic media to the Internal Audit will be receipted and returned in accordance with Unit procedures.

2.3 Specific Obligations of Staff

Any employee, when called upon by a member of Internal Audit, shall furnish such information deemed necessary for the proper conduct of an audit, review or investigation. Employees must produce for counting as required all moneys and value documents held by them on behalf of Council. Employees must also produce for counting and inspection all stores, plant and equipment and other assets when required by Internal Audit, and furnish within 14 days (or as advised) written replies and explanations requested of them by Audit memoranda, surveys, questionnaires or other form of inquiry.

2.4 Referral of Significant New Systems Proposals

Any employee responsible for the development and/or implementation of significant new systems and procedures, or enhancement of existing systems and procedures, should consider the impact on the control environment and consult with the Head of Internal Audit where appropriate.

3. Interaction with and by Internal Audit

Internal Audit is required to communicate with a wide range of people in the delivery of the Internal Audit Plan. The Office of Local Government Guidelines for Internal Audit provide a framework for Internal Audit reporting lines (Sections 2.3 and 3.4). The following protocols aim to provide a consistent basis for such communications and clarify the expectations of relevant parties.

3.1 Councillors and Independent Audit Risk and Improvement Committee Members

Interaction is to be in accordance with Code of Conduct and any adopted policies for interaction between Councillors and staff. Requests of Internal Audit are to be directed through the General Manager or the Chair of the Audit, Risk and Improvement Committee for action by resolution of the Committee. The Head of Internal Audit may liaise with the Mayor on matters relating to the conduct of the General Manager.

3.2 General Manager

Interaction is to be in accordance with Code of Conduct and reasonable business practice. Internal Audit reports administratively to the General Manager and regular interaction is expected.

The Head of Internal Audit will meet periodically with the General Managers of the member Councils to aid in the planning and review of the Internal Audit function.

3.3 Audit, Risk and Improvement Committee Chair

Interaction is to be in accordance with Code of Conduct and reasonable business practice. The Chair of the Audit Risk and Improvement Committee may meet privately with the Head of Internal Audit.

3.4 External Auditor

Interaction is to be in accordance with the Code of Conduct and reasonable business practice. Regular communication between Internal and External Audit is encouraged. The external auditor may meet privately with the Head of Internal Audit.

3.5 Council Management and Staff

Interaction is to be in accordance with the Code of Conduct, Internal Audit Charter and reasonable business practice.

The Head of Internal Audit may report to the General Manager instances where Council staff fail to adequately provide information, property or personnel as detailed in Section 2 of this Protocol. Where a member of staff raises matters with Internal Audit that relate to staff grievances, or matters covered by the Council's Protected Disclosure Policy(s), the Head of Internal Audit will report such matters to the relevant Human Resources Manager, Public Officer, Protected Disclosures Coordinator or the General Manager.

3.6 Complaints about the Conduct of Internal Audit

Where a member of staff or other person wish to complain about the conduct of an internal audit, or of the auditor, the member of staff or other person should raise the complaint with the Head of Internal Audit in the first instance. Where the matter cannot be resolved at management level (or relates to the conduct of the Head of Internal Audit), the matter is to be referred to the relevant General Manager and if not resolved by the General Manager to be reported to the Audit, Risk and Improvement Committee.

4. Internal Audit Accountabilities

4.1 Administrative Accountability

On matters of administration, budgeting, finance and human resources management of Internal Audit, the Head of Internal Audit shall be accountable to the General Manager.

4.2 Functional Accountability

The Head of Internal Audit should at all times report to the Audit, Risk and Improvement Committee. The Head of Internal Audit is accountable to the Audit, Risk and Improvement Committee for the overall effective performance of Internal Audit.

5. Standards and Ethics

5.1 Competencies

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.

5.2 Auditing Standards

In conducting audits, Internal Audit will meet or exceed the Standards for the Professional Practice of Internal Auditing as promulgated by The Institute of Internal Auditors.

Where relevant, Internal Audit will comply with the Statement on Information Systems Auditing Standards issued by the Information Systems and Control Association, and relevant auditing standards issued by the Auditing and Assurance Standards Board.

5.3 Codes of Ethics and Conduct

Internal Audit shall conform to the Code of Ethics of the International Institute of Internal Auditors, and to Council's Code of Conduct.

5.4 Conflicts of Interest

Internal auditors are not to provide audit services for work for which they may previously have been responsible. Instances of perceived or actual conflicts of interest by the Head of Internal Audit or Internal Audit staff or contractors are to be immediately reported to the Audit, Risk and Improvement Committee by the Head of Internal Audit.

5.5 Use of Contractors

Where Internal Audit engages contractors, there shall be a written agreement with the practitioner that specifies project objectives, scope, reporting relationships, the powers of the contractor, and the rights of Council to examine contractor documentation.

When engaging internal audit contractors, the Head of Internal Audit will take steps to identify, evaluate the significance, and manage any perceived or actual conflicts of interest that may impinge upon internal audit work.

Contractors shall only be engaged in full compliance with Council policy and procedures.

6. Conduct of Audits and Reviews

6.1 Models of Audits and Reviews

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.

A number of different operating models for conducting internal audits will be used to deliver the Internal Audit Plan. Alternative methods including task secondment, self-assessment and total data sampling, aim to improve internal audit efficiency. Alternative methods will generally provide more work for the relevant Council staff but require less substantive testing by the Internal Auditor. The use of alternative models for conducting internal audits will be communicated to the relevant Council management well in advance of the commencement of the audit.

6.2 Scope of Work

The scope of services provided by Internal Audit shall encompass:

- The examination and evaluation of the adequacy and effectiveness of systems of internal control, risk management, governance, and the status of ethical behaviour
- Ascertaining conformity with the goals and objectives of Council
- Assessment of the economic and efficient use of resources
- The examination of compliance with policies, procedures, plans and legislation
- Assessment of the reliability and integrity of information
- Assessment of the safeguarding of assets
- Any special investigations as directed by the Audit, Risk and Improvement Committee
- All activities of Council, whether financial or non-financial, manual or computerised

The scope of work may include:

- 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

6.3 Audit and Review Planning

Internal Audit uses a risk-based rolling program of internal audits to establish an annual Internal Audit Plan to reflect a program of audits over a 12 month period. This approach is designed to be flexible, dynamic and more timely in order to meet the changing needs and priorities of Council. The Head of Internal Audit shall prepare an annual Internal Audit Plan for review and approval by the Audit, Risk and Improvement Committee, showing the proposed areas for audit. The annual Internal Audit Plan shall be based on an assessment of the goals, objectives and business risks of Council, and shall also take into consideration any special requirements of the Audit, Risk and Improvement Committee and senior executives.

Prior to approval by the Audit, Risk and Improvement Committee the Internal Audit Plan will be considered by the General Managers of the seven member Councils. Audits and reviews will be planned and conducted in accordance with the Internal Audit Plan. This plan may be reviewed and altered if priorities change, subject to the consideration by the General Managers of the seven member Councils, and respective Audit, Risk and Improvement Committees notified in accordance with the adopted Internal Audit Charter.

The Head of Internal Audit has discretionary authority to adjust the 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 cleared through the Chair of the Audit, Risk and Improvement Committee and the general manager prior to approval at the next meeting of the Audit, Risk and Improvement Committee.

6.4 Notification of Forthcoming Audits or Reviews

Internal Audit will provide managers with adequate notice prior to the commencement of each audit or review, to ensure that the audit or review objectives and scope are fully disclosed, and that management can make arrangements for the appropriate records, accommodation and liaison staff to be available.

6.5 Investigations, Surprise Audits and Reviews

Unplanned investigations, spot checks and surprise audits should be the exception rather than the rule. Such activities are authorised by the relevant General Manager, and all aspects of these activities will be considered confidential within Internal Audit.

6.6 Reporting of Irregularities

As a general rule, queries raised by Internal Audit will be resolved with line management and reported accordingly. Where an irregularity is disclosed by an audit or review which involves moneys, stores and other assets which cannot be accounted for, and which may be due to theft, defalcation or a serious breakdown in control, such matters will be reported immediately to the General Manager.

6.7 Consultation during the Audit or Review

Internal Audit will advise managers in writing of matters requiring attention during the course of the audit or review. The results of the activity will be reviewed with the manager of the relevant area to enable agreement or otherwise to the audit or review findings and recommendations.

6.8 Audit and Review Reports

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, and any recommendations for improvement. The audit report will also include a rating of the effectiveness of the control environment in accordance with the scale shown at *Attachment 1*.

Where reports are prepared, a draft will be provided to the appropriate senior manager for comment and discussion prior to the preparation of the final report. A management response to the draft will generally be expected within 21 days. The final report, incorporating management responses, will be provided to the General Manager for comment.

An Executive Summary of the findings, recommendations and current status of each completed audit will be prepared. The Executive Summary will form part of the business papers for the Audit, Risk and Improvement Committee Meetings. A copy of the Executive Summary will also be provided to the External Auditor on request.

The Head of Internal Audit shall make available all internal audit reports to the Audit, Risk and Improvement Committee. Audit reports with an overall rating of 1 or 2 will be available in full at the Audit, Risk and Improvement Committee meeting. It is important to note that the work of Internal Audit is solely for the benefit of 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.

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.

6.9 Shared Learning from Internal Audits

Where the findings and recommendations arising from the internal audit of one or more client Councils may, in the opinion of the Head of Internal Audit benefit the other member Councils, such findings and recommendations will be communicated to those member Councils.

In providing information on audit findings and recommendations from a client Council to others, the Head of Internal Audit will maintain confidentiality requirements of the client Council. In this regard, the Head of Internal Audit will prepare a separate summary report for the information of other member Councils. Such summary reports will not be subject to separate internal audit testing or reporting to the member Councils' Audit, Risk and Improvement Committee.

6.10 Status Reports on Implementation

The Head of Internal Audit will periodically request updated information on the implementation of agreed audit recommendations. Responsible officers will have a maximum of ten working days to provide written response to such requests. Internal Audit may conduct further testing on the implementation prior to reporting to the Audit, Risk and Improvement Committee.

6.11 Working Papers

Working papers will be maintained by Internal Audit as supporting documentation for all audits, investigations and reviews. They will be accurate, logically arranged and sufficiently detailed to provide the following information:

- evidence of the evaluation of the system, processes and/or people
- evidence for the audit or review opinion on the key business risks and controls, i.e. whether or not there are any minor or critical weaknesses
- evidence of tests undertaken
- evidence that the audit or review objectives have been met
- a summary of overall audit or review findings
- adequate indexing and cross-referencing of working papers
- copies of source documentation, analysis and testing undertaken, discussion records and research material
- where working papers are kept on computer media, these will be backed up and secured from theft, accidental damage or unauthorised access to information

6.12 Security of Records

Reports arising from Internal Audit activity, together with any associated working papers and evidentiary papers will be confidentially retained in the Electronic Document Management System at Willoughby City Council.

Audit documents from one Council will not be provided to officers from another Council without the express agreement of the originating Council's General Manager or Public Officer.

Access to all documents held at Willoughby City Council relating to Internal Audit activity will be restricted to Internal Audit staff, Information Management staff (for system administration purposes only), to the relevant General Manager and, on resolution of the Audit, Risk and Improvement Committee, to members of the Audit, Risk and Improvement Committee.

6.13 Accounting for Audit Work

Internal Audit activities will be recorded to the relevant project in 30 minute intervals. Time allocation will be recorded by the Head of Internal Audit for the purposes of performance evaluation, and for inter-council charging in relation to the shared service agreement.

6.14 Performance Reporting

The Head of Internal Audit will 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.

The Head of Internal Audit will implement a performance feedback process with managers and staff in audited areas. The results of the performance feedback will be reported to the Audit, Risk and Improvement Committee annually.

6.15 Quality Assurance & Improvement Program

The Head of Internal Audit will 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.

Internal Audit will 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.

7. Liaison with the External Auditor

7.1 Liaison for Statutory Audit Purposes

The Head of Internal Audit will ensure that formal liaison, through regular meetings with the External Auditor's representatives, is maintained for the purposes of the statutory audit and to minimize duplication of effort.

7.2 Availability of Audit and Review Records

All Internal Audit working papers, files, records and reports will be made available to the External Auditor on request.

8. Review of the Charter

8.1 Requirements for Review

This Charter will be reviewed from time to time as required by the Audit, Risk and Improvement Committee and the General Manager to ensure its applicability to Council's operations. In any event the Head of Internal Audit will ensure that a review occurs at least every two years and the results of such review are reported to the Audit, Risk and Improvement Committee and documented on file.

8.2 Authority to Change Internal Audit Charter

Any changes to this Internal Audit Charter will be approved by the Audit, Risk and Improvement Committee.

8.3 Related Documents

This Charter should be read in conjunction with the Audit, Risk and Improvement Committee Charter.

9. Contact

Enquiries should be directed to the Acting Director Corporate Services on 9978 4010.

10. Amendments

Date	Amendment	Reference
26 March 2015	Approved Version 2 by Audit, Risk and Improvement Committee	AC/9
17 November 2015	Approved Version 3 by Audit, Risk and Improvement Committee	AC/36

CONTROL ENVIRONMENT RATING

5	Strong Control Environment – Minimal opportunities for improvement identified.
4	Effective Control Environment – A small number of control risk issues mainly minor in nature / opportunities for improvement identified.
3	Control Environment Requires Improvement – Several issues of concern noted, mainly of a Moderate nature.
2	Control Environment Below Acceptable Standards – Control weaknesses found in a number of areas, evidenced by the number of Significant and Moderate control risk issues identified.
1	Unsatisfactory – Pervasive, significant weaknesses in controls indicating systemic problems evidenced by the number of Significant and Moderate control risk issues identified.