



Internal Audit Charter

Corporate Document

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Introduction

Council has established the Internal Audit Function (Internal Audit¹) as a key component of the Council's governance and assurance framework, in compliance with the *Local Government (General) Regulation 2021* and the Office of Local Government's *Guidelines for risk management and internal audit for local government in NSW*. This charter provides the framework for the conduct of the Internal Audit Function in the Council and has been approved by the Council taking into account the advice of the Council's Audit, Risk and Improvement Committee (ARIC).

Purpose

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes².

Internal audit provides an independent and objective review and advisory service to provide advice to the Council, General Manager and ARIC about the Council's governance processes, risk management and control frameworks and its external accountability obligations. It also assists the Council to improve its business performance.

Independence

Council's Internal Audit function is to be independent of the Council so it can provide an unbiased assessment of the Council's operations and risk and control activities.

Internal Audit reports:

- functionally to the Council's Audit, Risk and Improvement Committee on the results of completed audits, and for strategic direction and accountability purposes, and
- administratively to the General Manager or the General Manager's delegate (Director, Corporate Services) to facilitate day-to-day operations.

Internal audit activities are not subject to direction by the Council and the Council's management has no role in the exercise of the Council's internal audit activities.

The Audit, Risk and Improvement Committee is responsible for communicating any internal audit issues or information to the governing body. Should the governing body require additional information, a request for the information may be made to the chairperson by resolution.

The chairperson is only required to provide the information requested by the governing body where the chairperson is satisfied that it is reasonably necessary for the governing body to receive the information for the purposes of performing its functions under the Local Government Act. Individual Councillors are not entitled to request or receive information from the committee.

The General Manager has delegated their day-to-day administrative reporting arrangements of Internal Audit to the Director Corporate Services of the Council. The Director Corporate Services acts as liaison between Council and the ARIC and the Head of Internal Audit and leads the

¹ Council has entered into a Shared Service Agreement for Internal Audit with five other Councils (being, Ku-ring-gai Council, Lane Cove Council, North Sydney Council, Hunter's Hill Council and Strathfield Council) and the Northern Sydney Regional Organisation of Councils (NSROC).

² As defined by the International Standards for the Professional Practice of Internal Auditing (2017)

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secretariat support provided to the ARIC. The Head of Internal Audit retains access to the General Manager as needed.

The General Manager must consult with the chairperson of the Council's Audit, Risk and Improvement Committee before appointing or making decisions affecting the employment of the Head of Internal Audit³.

Where the Council participates in the Internal Audit Shared Services Arrangement (the Shared Services arrangement), the Council must consult with the chairperson of the Council's Audit, Risk and Improvement Committee, the General Managers of the other councils participating in the Shared Services arrangement and the CEO/Head of the organisation providing the Shared Services before making material changes to the arrangement, or changes to the employment of the Head of the Internal Audit Shared Services Function (under the Shared Services arrangement, the Head of Shared Services Internal Audit performs the role of the Council's Head of Internal Audit).

Where the chairperson of the Council's Audit, Risk and Improvement Committee has any concerns about the treatment of the Head of Internal Audit, or any action taken that may compromise their ability to undertake their functions independently, they can report their concerns to the governing body.

The Head of Internal Audit is to confirm at least annually to the Audit, Risk and Improvement Committee, the independence of internal audit activities from the Council.

Authority

Council authorises the Internal Audit Function to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that the Head of Internal Audit considers necessary for the Internal Audit Function to undertake its responsibilities.

All records, documentation and information accessed while undertaking internal audit activities are to be used solely for the conduct of those activities. The Head of Internal Audit and individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive when undertaking 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.

Information and documents pertaining to the Internal Audit Function are not to be made publicly available. Internal Audit may only release Council information to external parties that are assisting the Internal Audit Function to undertake its responsibilities with the approval of the General Manager, except where it is being provided to an external investigative or oversight agency for the purpose of informing that agency of a matter that may warrant its attention.

Role

The Internal Audit Function is to support the Council's ARIC to review and provide independent advice to the Council in accordance with section 428A of the *Local Government Act 1993*. This

³ *The Head of Internal Audit fulfils the role of "internal audit coordinator" as specified in the Local Government (General) Amendment (Audit, Risk and Improvement Committees) Regulation 2023 under the Local Government Act 1993, Schedule 1 – Amendment of Local Government (General) Regulation 2021, Part 9, Division 6 – 216P (the Act, Sch 6, cl 8A) and as further detailed in core requirement 3 and the appendices to the Guidelines for Risk Management and Internal Audit for Local Government in NSW.*

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includes conducting internal audits of Council and monitoring the implementation of corrective actions.

The Internal Audit Function is to also 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, and
- promoting a culture of high ethical standards.

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 Council functions or activities (except in carrying out its own functions).

Head of Internal Audit (Outsourced Internal Audit Function)

Council has outsourced its internal audit activities to the Internal Audit Shared Services Internal Audit Function under a joint arrangement by agreement with five other NSW councils and the Northern Sydney Regional Organisation of Councils (NSROC). Under this arrangement, the Head of Shared Services Internal Audit performs the role of the Council's Head of Internal Audit

The Internal Audit Shared Services Function is to be led by a member of NSROC's staff with sufficient skills, knowledge and experience to ensure it fulfils its role and responsibilities to the Council and the Audit, Risk and Improvement Committee. The Head of Internal Audit must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Responsibilities of the Head of Internal Audit include:

- contract management
- managing the internal audit budget
- ensuring the external provider completes internal audits in line with the ARIC's annual work plan and four-year strategic work plan
- forwarding audit reports by the external provider to the ARIC
- acting as a liaison between the external provider and the ARIC
- monitoring the Council's implementation of corrective actions that arise from the findings of audits and reporting progress to the ARIC, and
- assisting the ARIC to ensure the Council's internal audit activities comply with the Office of Local Government's *Guidelines for risk management and internal audit for local government in NSW*.

Details of Shared Arrangements

Council has entered into a Shared Service Agreement for Internal Audit with five other Councils (being, Ku-ring-gai Council, Lane Cove Council, North Sydney Council, Hunter's Hill Council and Strathfield Council) and the Northern Sydney Regional Organisation of Councils (NSROC).

Under this arrangement, a qualified, experienced Head of Internal Audit is to lead and manage the provision of Shared Services to each Council participating in this arrangement. The Shared Services Head of Internal Audit performs the role of the Head of Internal Audit of each participating Council, including as the Head of Internal Audit for Mosman Municipal Council.

Internal Audit Shared Service Function (Out-sourced internal audit function)

Under the Internal Audit Shared Service Arrangement, NSROC contracts external third-party provider/s to undertake the internal audits. To ensure the independence of the external provider, the Head of Internal Audit is to ensure the external provider:

- does not conduct any audits on specific Council operations or areas that they have worked on within the last two years.
- is not the same provider conducting the Council's external audit.
- is not the auditor of any contractors of the Council that may be subject to the internal audit, and
- can satisfy the requirements of the Office of Local Government's *Guidelines for Risk Management and Internal Audit for Local Government in NSW*.

The Head of Internal Audit must consult with the Audit, Risk and Improvement Committee and General Manager and/or the Director Corporate Services regarding the appropriateness of the skills, knowledge and experience of any external provider before they are engaged by the Council.

Details of Shared Arrangements

A panel of professional services firms has been engaged through a tendering process run by Shared Services Internal Audit to perform outsourced internal audits for the Council under the Internal Audit Shared Service Arrangement. The contracts for the firms engaged under the panel arrangement are between these firms and NSROC.

Performing internal audit activities

The work of Internal Audit is to be thoroughly planned and executed. The Council's Audit, Risk and Improvement Committee must develop a strategic work plan every four years to ensure that the matters listed in **Schedule 1** of this charter are reviewed by the committee and considered by the internal audit function when developing their risk-based program of internal audits. The strategic work plan must be reviewed at least annually to ensure it remains appropriate.

The Committee must also develop an annual work plan to guide the work of the internal audit function over the forward year.

All internal audit activities are to be performed in a manner that is consistent with relevant professional standards including the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and the current Australian risk management standard, AS ISO 31000: 2018.

The Head of Internal Audit is to provide the findings and recommendations of internal audits to the Audit, Risk and Improvement Committee at the end of each audit. Each report is to include a response from the relevant senior manager.

The Head of Internal Audit is to establish an ongoing monitoring system to follow up Council's progress in implementing corrective actions.

The General Manager, in consultation with the Audit, Risk and Improvement Committee, is to develop and maintain policies and procedures to guide the operation of Council's Internal Audit. To support Council in achieving this, the Shared Service Internal Audit Function will develop and maintain the Internal Audit Methodology and the relevant policy and procedures for internal audit.

The Head of Internal Audit is to ensure that the Audit, Risk and Improvement Committee is advised at each of the Committee's meetings of the internal audit activities completed during that quarter, progress in implementing the annual work plan and progress in made implementing corrective actions.

Conduct

Internal audit personnel must comply with the Council's code of conduct. Complaints about breaches of Council's code of conduct by internal audit personnel are to be dealt with in accordance with the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*. The General Manager will consult with the Chair of Council's ARIC in relation to any disciplinary action is taken against the Head of Internal Audit in response to a breach of the Council's code of conduct.

Internal auditors must also comply with the Code of Ethics for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

Administrative arrangements

ARIC meetings

The Head of Internal Audit will attend Audit, Risk and Improvement Committee meetings as an independent non-voting observer. The Head of Internal Audit can be excluded from meetings by the Committee at any time.

The Head of Internal Audit must meet separately with the Audit, Risk and Improvement Committee at least once per year.

The Head of Internal Audit can meet with the chairperson of the Audit, Risk and Improvement Committee at any time, as necessary, between Committee meetings.

External audit

Internal and external audit activities will 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 shall be held to discuss matters of mutual interest and to facilitate coordination.

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

Dispute resolution

Internal Audit should maintain an effective working relationship with the Council and the ARIC and seek to resolve any differences they may have in an amicable and professional way by discussion and negotiation.

In the event of a disagreement between Internal Audit and the Council, the dispute is to be resolved by the General Manager / Director Corporate Services and/or the ARIC. Disputes between Internal Audit and the ARIC are to be resolved by the Council.

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Departmental Chief Executive of the Office of Local Government in writing.

Review arrangements

The Council's ARIC will provide guidance to Council on the performance of Internal Audit each year and report its findings to the Council. A review of the performance of Internal Audit will be conducted by the General Managers Group with the resultant report to be provided to each member of the Shared Service.

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This charter is to be reviewed annually by the committee and once each council term by the Council. Any substantive changes are to be approved by the Council.

Further information

For further information on Council's internal audit activities, contact Ben Wicks, Director Corporate Services on b.wicks@mosman.nsw.gov.au or by phone (02) 9978 4010.

Review

Reviewed by Head of Internal Audit on 29 February 2024

Reviewed by chairperson of the Council's ARIC on 14 March 2024

Reviewed by General Manager on 14 March 2024

Reviewed by Council in accordance with a resolution of the Council on 7 May 2024 (CS/11)

Amendments/Reviews

Date	Amendment	Reference
7 May 2024	Adoption	CS/11

Schedule 1 – Internal Audit Function Responsibilities

The responsibilities of internal audit, as outlined in this schedule, are broadly consistent with those contained in Schedule 1 of the Model Internal Charter at Appendix 5 of the Risk Management and Internal Audit Guidelines.

Internal audit is an independent third line function responsible for providing risk-based assurance and advisory services across the organisation. Internal audit collaborates with internal second line functions such as Risk Management, Governance and Compliance functions, and with the external auditors of the Council.

Internal Audit's responsibilities are presented in this schedule through the lens of its independent third line role⁴ as outlined in the Institute of Internal Auditors (IIA) Three Lines Model (previously known as Three lines of Defence) and are consistent with the IIA's International Professional Practices Framework⁵ referenced in Core Requirement 3 of the Guidelines.

Internal audit is responsible for:

- Conducting internal audits as directed by the Council's Audit, Risk and Improvement Committee.
- Developing and delivering the Council's annual and four-year strategic internal audit work plans.
- Monitoring the implementation by the Council of corrective actions identified through internal audits.
- Assisting the Council, in accordance with its third line role and in collaboration with management, risk and governance functions, to develop and maintain a culture of accountability and integrity.
- In collaboration with second line functions such as risk management and governance, supporting the facilitation of integration of risk management into day-to-day business activities and processes.
- Promoting a culture of high ethical standards.

Internal audit's coverage is provided through approved risk based annual and four-year strategic audit plans, through ad-hoc advice and through other relevant mechanisms/processes that are in alignment with the IIA's Internal Professional Practices Framework.

In developing its audit plans, internal audit considers work carried out by second line functions, external audit coverage, as well as management/service reviews carried out within the Council to optimise the planning and delivery of audit work.

Internal audit's coverage includes, but is not limited to:

- **Risk Management:** Internal audit periodically reviews the adequacy, appropriateness, and effectiveness of risk management within the Council. This includes risk culture, how risk management is embedded within the Council, and covers how risk is being managed across key areas, including projects, assets and business continuity planning. However internal audit is not responsible for designing and executing risk management frameworks, systems or processes within the Council.
- **Governance:** Internal audit reviews and provides advice on the Council's governance frameworks, systems, policies and practices through the delivery of internal audits and

⁴ [The IIA's Three Lines Model](#)

⁵ [International Professional Practices Framework of the Institute of Internal Auditors](#)

advisory work.

- **Strategic and operational processes and systems**, including how management undertakes planning, performance measurement and reporting. Internal audit contributes to business improvement by identifying and communicating opportunities for improvement and efficiency.
- **Internal Controls**: Through the delivery of internal audit's annual and strategic plan, internal audit provides assurance and/or advice on the design, operation and governance internal control frameworks / key controls in the Council. Internal audit follows up and reports on the implementation of audit recommendations.

Internal audit's coverage of internal controls covers major systems and processes, including key financial controls.

- **Compliance**: Internal audit periodically reviews and may provide advice on relevant frameworks and controls relating to compliance obligations. However internal audit is not responsible for designing and executing compliance and accountability mechanisms and frameworks within the Council.
- **Fraud and corruption**: Internal audit periodically reviews the Fraud and Corruption prevention framework and program.

External Audit: Internal audit maintains collaborative working relationships with external audit, shares internal audit reports, coordinates with external audit for internal audit planning, contributes to external audit planning where appropriate and facilitates information exchange.