



WAVERLEY
COUNCIL

Internal Audit Charter



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Relevant legislation	<i>Local Government (General) Regulation 2021</i>
Related policies/ procedures/guidelines	Office of Local Government's <i>Guidelines for Risk Management and Internal Audit for Local Government in NSW</i> Audit, Risk and Improvement Committee Terms of Reference
Related forms	

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1. Background

Council has established the internal audit function 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 governing body taking into account the advice of the Council's audit, risk and improvement committee.

2. Purpose of internal audit

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 processes.

Internal audit provides an independent and objective review and advisory service to provide advice to the governing body, general manager and audit, risk and improvement committee 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.

3. 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.

The internal auditor 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 reports administratively to the general manager 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 must consult with the chairperson of the Council's audit, risk and improvement committee before appointing or making decisions affecting the employment of the internal audit coordinator.

Where the chairperson of the Council's audit, risk and improvement committee has any concerns about the treatment of the internal audit coordinator, or any action taken that may compromise their ability to undertake their functions independently, they can report their concerns to the governing body.

The internal audit coordinator is to confirm at least annually to the audit, risk and improvement committee the independence of internal audit activities from the Council.

4. Authority

Council authorises the internal auditor to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that the internal audit coordinator considers necessary for the internal auditor 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 internal audit coordinator 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 the Council, including where internal audit services are performed by an external third-party provider.

Information and documents pertaining to the internal auditor are not to be made publicly available. The internal audit may only release the Council information to external parties that are assisting the internal auditor 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.

5. Role

The internal auditor is to support the Council's audit, risk and improvement committee to review and provide independent advice to the Council in accordance with section 428A of the *Local Government Act 1993*. This includes conducting internal audits of the Council and monitoring the implementation of corrective actions.

The internal auditor 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.

The internal auditor has no direct authority or responsibility for the activities it reviews. The internal auditor has no responsibility for developing or implementing procedures or systems and does not

prepare records or engage in the Council functions or activities (except in carrying out its own functions).

6. Internal audit coordinator

Council's internal audit team is to be led by a member of Council'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 internal audit coordinator must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Responsibilities of the internal audit coordinator include:

- contract management
- managing the internal audit budget
- ensuring the external provider completes internal audits in line with the audit, risk and improvement committee's annual work plan and four-year strategic work plan
- forwarding audit reports by the external provider to the audit, risk and improvement committee
- acting as a liaison between the external provider and the audit, risk and improvement committee
- monitoring the Council's implementation of corrective actions that arise from the findings of audits and reporting progress to the audit, risk and improvement committee, and
- assisting the audit, risk and improvement committee 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*.

7. Internal audit function

Council is to contract an external third-party provider to undertake its internal audit activities. To ensure the independence of the external provider, the internal audit coordinator 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 internal audit coordinator must consult with the audit, risk and improvement committee and general manager regarding the appropriateness of the skills, knowledge and experience of any external provider before they are engaged by the Council.

8. Performing internal audit activities

The work of the internal auditor 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 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.

The internal audit coordinator 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 internal audit coordinator 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 the Council's internal auditor. The internal audit coordinator 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 made implementing corrective actions.

9. 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 must consult with the Council's audit, risk and improvement committee before any disciplinary action is taken against the internal audit coordinator 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.

10. Administrative arrangements

10.1 Audit, risk and improvement committee meeting

The internal audit coordinator will attend audit, risk and improvement committee meetings as an independent non-voting observer. The internal audit coordinator can be excluded from meetings by the committee at any time.

The internal audit coordinator must meet separately with the audit, risk and improvement committee at least once per year.

The internal audit coordinator can meet with the chairperson of the audit, risk and improvement committee at any time, as necessary, between committee meetings.

10.2 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.

10.3 Dispute resolution

The internal auditor should maintain an effective working relationship with the Council and the audit, risk and improvement committee 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 the internal auditor and The Council, the dispute is to be resolved by the general manager and/or the audit, risk and improvement committee. Disputes between the internal auditor and the audit, risk and improvement committee are to be resolved by the governing body.

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.

11. Review arrangements

The Council's audit, risk and improvement committee must review the performance of the internal audit function each year and report its findings to the governing body. A strategic review of the performance of the internal auditor must be conducted each council term that considers the views of an external party with a strong knowledge of internal audit and reported to the governing body.

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

12. Further information

For further information on Council's internal audit activities, contact Council's Manager, Audit and Risk.

Schedule 1 – Internal Audit Function Responsibilities

Audit

Internal audit

- Conduct internal audits as directed by the Council’s audit, risk and improvement committee.
- Implement the Council’s annual and four-year strategic internal audit work plans.
- Monitor the implementation by the Council of corrective actions.
- Assist the Council to develop and maintain a culture of accountability and integrity.
- Facilitate the integration of risk management into day-to-day business activities and processes.
- Promote a culture of high ethical standards.

External audit

- Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the audit services provided.
- Review all external plans and reports in respect of planned or completed audits and monitor the Council’s implementation of audit recommendations.
- Provide advice on action taken on significant issues raised in relevant external audit reports and better practice guides.

Risk

Risk management

Review and advise:

- if the Council has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard
- whether the Council’s risk management framework is adequate and effective for identifying and managing the risks the Council faces, including those associated with individual projects, programs and other activities
- if risk management is integrated across all levels of the Council and across all processes, operations, services, decision-making, functions and reporting
- of the adequacy of risk reports and documentation, for example, the Council’s risk register and risk profile
- whether a sound approach has been followed in developing risk management plans for major projects or undertakings
- whether appropriate policies and procedures are in place for the management and exercise of delegations
- if the Council has taken steps to embed a culture which is committed to ethical and lawful behaviour

- if there is a positive risk culture within the Council and strong leadership that supports effective risk management
- of the adequacy of staff training and induction in risk management
- how the Council's risk management approach impacts on the Council's insurance arrangements
- of the effectiveness of the Council's management of its assets, and
- of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans.

Internal controls

Review and advise:

- whether the Council's approach to maintaining an effective internal audit framework, including over external parties such as contractors and advisors, is sound and effective
- whether the Council has in place relevant policies and procedures and that these are periodically reviewed and updated
- whether appropriate policies and procedures are in place for the management and exercise of delegations
- whether staff are informed of their responsibilities and processes and procedures to implement controls are complied with
- if the Council's monitoring and review of controls is sufficient, and
- if internal and external audit recommendations to correct internal control weaknesses are implemented appropriately.

Compliance

Review and advise of the adequacy and effectiveness of the Council's compliance framework, including:

- if the Council has appropriately considered legal and compliance risks as part of The Council's risk management framework
- how the Council manages its compliance with applicable laws, regulations, policies, procedures, codes, and contractual arrangements, and
- whether appropriate processes are in place to assess compliance.

Fraud and corruption

Review and advise of the adequacy and effectiveness of the Council's fraud and corruption prevention framework and activities, including whether the Council has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

Financial management

Review and advise:

- if the Council is complying with accounting standards and external accountability requirements
- of the appropriateness of the Council's accounting policies and disclosures
- of the implications for the Council of the findings of external audits and performance audits and the Council's responses and implementation of recommendations
- whether the Council's financial statement preparation procedures and timelines are sound
- the accuracy of the Council's annual financial statements prior to external audit, including:
 - management compliance/representations
 - significant accounting and reporting issues
 - the methods used by the Council to account for significant or unusual transactions and areas of significant estimates or judgements
 - appropriate management signoff on the statements
- if effective processes are in place to ensure financial information included in the Council's report is consistent with signed financial statements
- if the Council's financial management processes are adequate
- the adequacy of cash management policies and procedures
- if there are adequate controls over financial processes, for example:
 - appropriate authorisation and approval of payments and transactions
 - adequate segregation of duties
 - timely reconciliation of accounts and balances
 - review of unusual and high value purchases
- if policies and procedures for management review and consideration of the financial position and performance of the Council are adequate
- if the Council's grants and tied funding policies and procedures are sound.

Governance

Review and advise of the adequacy of the Council governance framework, including the Council's:

- decision-making processes
- implementation of governance policies and procedures
- reporting lines and accountability
- assignment of key roles and responsibilities
- committee structure
- management oversight responsibilities
- human resources and performance management activities
- reporting and communication activities
- information and communications technology (ICT) governance, and
- management and governance of the use of data, information and knowledge.

Improvement

Strategic planning

Review and advise:

- of the adequacy and effectiveness of the Council's integrated, planning and reporting (IP&R) processes
- if appropriate reporting and monitoring mechanisms are in place to measure progress against objectives, and
- whether the Council is successfully implementing and achieving its IP&R objectives and strategies.

Service reviews and business improvement

Review and advise:

- if the Council has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance
- if appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance, and
- how the Council can improve its service delivery and the Council's performance of its business and functions generally

Performance data and measurement

Review and advise:

- if the Council has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives
- if the performance indicators the Council uses are effective, and
- of the adequacy of performance data collection and reporting.