INTERNAL AUDIT CHARTER

Contents

1. Introduction

Blayney Shire Council has established an 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 mandate for the conduct of the internal audit function at Council and has been approved by the governing body considering the advice of the Blayney Shire Council Audit, Risk and Improvement Committee.

2. Purpose

Internal audit strengthens the organisation's ability to create, protect and sustain value by providing Council with independent, risk-based, and objective assurance, advice, insight, and foresight.

It achieves this by providing 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.

Internal audit services may include:

- Assurance Services – objective examination of evidence for the purpose of providing an independent assessment of risk management, control and governance processes.
- Advisory Services – advisory and related client activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve business operations.

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 audit function reports:

- operationally to 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 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 its 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 Internal Audit Coordinator or 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, the Audit, Risk and Improvement Committee, and the Internal Audit Coordinator and leads the secretariat support provided to the Audit, Risk and Improvement Committee. The Internal Audit Coordinator 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 Internal Audit Coordinator. If the Internal Audit Coordinator is dismissed, the General Manager must report the reasons for their dismissal to the Council. The Audit, Risk and Improvement Committee, through the Chairperson, will contribute to the annual performance assessment of the Internal Audit Coordinator (in relation to their internal audit role only).

Where the Chairperson of the Council's Audit, Risk and Improvement Committee has any concerns about the independence of the Internal Audit Coordinator, or any action taken that may compromise their ability to undertake their functions independently, they should report their concerns to the General Manager and/or 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 and Confidentiality

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 Internal Audit Coordinator 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 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, including external service provider working papers, will remain the property of Council.

Information and documents pertaining to the internal audit function are not to be made publicly available. The internal audit function may only release Council information to external parties that are assisting the internal audit function to undertake 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 and is a legal requirement.

5. Role

The internal audit function 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 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.

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

6. Internal Audit Coordinator

Day to day management of Council's internal audit function is to be led by a member of Council's staff with sufficient skills, knowledge and experience to ensure it fulfils the internal audit function's role and responsibilities to 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 of the external service provider
- 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 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 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.

Within Council's structure, the Internal Audit Coordinator is also responsible for a range of non-audit functions and in this regard the following safeguards apply:

- when performing those duties, they are not acting in their internal audit role and the reporting lines specified in this Charter do not apply, and
- if an internal audit is required of one of the non-audit functions for which the Internal Audit Coordinator is responsible, the external service provider will report directly to the General Manager and the Audit, Risk and Improvement Committee on the results of the audit.

7. Outsourced Internal Audit (External Service Provider)

Council is to contract an external third-party provider to undertake its internal audit activities. To ensure the independence of the external service provider, the Internal Audit Coordinator will ensure that the external service provider:

- does not conduct any audits on specific Council operations or areas that the external service provider has provided consulting services on within the last two years (excluding the conduct of internal audits in these areas);
- is not the same provider conducting 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 audit function is to be thoroughly planned and executed.

The internal audit function must also develop an Annual Work Plan to guide the work of internal audit over the forward year.

The Internal Audit Coordinator will:

- 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(s).
- Establish an ongoing monitoring system to follow up Council's progress in implementing corrective actions.
- Develop and maintain policies and procedures to guide the operation of the Council's internal audit function. These should be reviewed and approved by the Audit, Risk and Improvement Committee as appropriate.
- 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 and Standards

Internal audit personnel (including external service providers) must comply with the Council's Code of Conduct. Complaints about breaches of the 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 Code of Conduct. Declaration and management of conflicts of interest will occur in line with the requirements of Council's Code of Conduct.

Internal audit personnel will govern themselves by adherence to mandatory guidance contained in the International Professional Practices Framework ("IPPF") issued by the Institute of Internal Auditors ("IIA"), including the Global Internal Audit Standards.

This mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the Internal Audit Function's performance.

The internal audit function, including external service providers, will perform their work in accordance with the IPPF. While the IPPF applies to all internal audit work, technology audits may also apply the ISACA standards contained in the Information Technology Assurance Framework ("ITAF"). Where relevant, the current Australian risk management standard may also be applied.

10. Administrative Arrangements

Audit, Risk and Improvement Committee Meetings

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.

- Must meet separately with the Audit, Risk and Improvement Committee at least once per year.
- As necessary, should meet with the Chairperson of the Audit, Risk and Improvement Committee at any time between committee meetings.

Other Assurance Providers

The activities of the internal audit function and other assurance providers (including but not limited to external audit) will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort. Periodic meetings and contact between the internal audit function and other assurance providers shall be held to discuss matters of mutual interest and to facilitate coordination.

Internal audit plans, working papers and reports, will be made available to other assurance providers as required.

Dispute Resolution

The internal audit function 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 audit function and the Council, the dispute is to be resolved by the Audit, Risk and Improvement Committee. Disputes between the internal audit function 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.

Review arrangements

The Council's Audit, Risk and Improvement Committee will 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 audit function 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.

11. Schedule 1 – Internal Audit Function Responsibilities

Audit

Internal audit

- Conduct internal audits as directed by the Council's Audit, Risk and Improvement Committee.
- Implement Council's annual internal audit work plan.
- Monitor the implementation by 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

- 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'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.

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