

# Internal Audit Charter

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## 1. Introduction

Shoalhaven City Council has established the Internal Audit Department 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 Department 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 (ARIC) or 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<sup>1</sup>.

Internal audit provides an independent and objective review and advisory service to provide advice to the governing body, Chief Executive Officer 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.

The scope of Internal Audit work embraces the wider concept of corporate governance and risk, recognising that controls exist in the Council to manage risks and promote effective and efficient governance and 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 activities, the nature and scope of which are agreed upon with the governing body and/or senior management and the ARIC. Advisory services are intended to add value and improve business operations."

Internal Audit will offer a service catalogue, including:

- Internal audit engagements with a compliance, financial or performance improvement focus.
- Management requested services where business areas within the Council may request Internal Audit services, usually in response to an issue or an emerging risk.
- Multi-stage audit engagements at key project milestones.

## 3. Independence

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

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<sup>1</sup> As defined by the International Standards for the Professional Practice of Internal Auditing (2017)

with *Local Government (General) Regulation (216P Internal audit co-ordinator—the Act, Sch 6, cl 8A)*

Internal Audit Department reports functionally to the Council's ARIC on the results of completed audits, and for strategic direction and accountability purposes, and reports administratively to the Chief Executive Officer 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 ARIC 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 ARIC Chair by resolution. The ARIC Chair is only required to provide the information requested by the governing body where the ARIC Chair 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 Chief Executive Officer must consult with the ARIC Chair before appointing or making decisions affecting the employment of the Chief Internal Auditor.

Where the Council's ARIC Chair has any concerns about the treatment of the Chief Internal Auditor, or any action taken that may compromise their ability to undertake their functions independently, they can report their concerns to the governing body.

The Chief Internal Auditor is to confirm at least annually to the ARIC on the independence of internal audit activities from the Council.

## 4. Authority

Council authorises the Internal Audit Department to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that the Chief Internal Auditor considers necessary for the Internal Audit Department to undertake its responsibilities. This is in accordance with *Local Government (General) regulations 216Q Persons exercising internal audit functions—the Act, Sch 6, cl 8A*.

All records, documentation and information accessed while undertaking internal audit activities are to be used solely for the conduct of those activities. The Chief Internal Auditor 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 Department are not to be made publicly available. The Internal Audit Department may only release Council information to external parties that are assisting the Internal Audit Department to undertake its responsibilities with the approval of the Chief Executive Officer, 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 Audit Department 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 includes conducting internal audits of Council and monitoring the implementation of corrective actions.

The Internal Audit Department 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 Department has no direct authority or responsibility for the activities it reviews. The Internal Audit Department 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).

### Chief Internal Auditor

#### In-house internal audit function

Council's Internal Audit Department 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 ARIC. The Chief Internal Auditor must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Responsibilities of the Chief Internal Auditor include:

- managing the day-to-day activities of the Internal Audit Department
- managing the Council's internal audit budget
- Coordinating any outsourced audits; acting as a liaison, contract management and oversight of external providers
- supporting the operation of the Council's ARIC
- approving internal audit project plans, conducting or supervising audits and assessments and providing independent advice to the ARIC
- monitoring the Council's implementation of corrective actions that arise from the findings of audits
- implementing the ARIC's annual work plan and four-year strategic work plan
- ensuring 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*, and

### Internal Audit Team

#### In-house internal audit team

Members of the Internal Audit Department are responsible to the Chief Internal Auditor.

Individuals that perform internal audit activities for Council must have:

- an appropriate level of understanding of the Council's culture, systems and processes

- the skills, knowledge and experience necessary to conduct internal audit activities in the Council
- effective interpersonal and communication skills to ensure they can engage with Council staff effectively and collaboratively, and
- honesty, integrity and diligence.

## 6. Performing internal audit activities

The work of the Internal Audit Department is to be thoroughly planned and executed. The Council's ARIC 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 Australian risk management standard.

The Chief Internal Auditor is to provide the findings and recommendations of internal audits to the ARIC at the end of each audit. Each report is to include a response from the relevant senior manager.

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

The Chief Executive Officer, in consultation with the ARIC, is to develop and maintain policies and procedures to guide the operation of the Council's Internal Audit Department.

The Chief Internal Auditor is to ensure that the ARIC 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.

## 7. 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 Chief Executive Officer must consult with the Council's ARIC before any disciplinary action is taken against the Chief Internal Auditor 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.

## 8. Administrative arrangements

### **Audit, risk and improvement committee meetings**

The Chief Internal Auditor will attend ARIC meetings as an independent non-voting observer. The Chief Internal Auditor can be excluded from meetings by the committee at any time.

The Chief Internal Auditor must meet separately with the ARIC at least once per year.

The Chief Internal Auditor can meet with the ARIC Chair 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 Department 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 the Internal Audit Department and the Council, the dispute is to be resolved by the Chief Executive Officer and/or ARIC. Disputes between the Internal Audit Department and the ARIC 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.

## 9. Review arrangements

The Council's ARIC 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 Audit Department 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 Council in accordance with Local Government (General) Regulation (216R Audit, Risk and Improvement Committee to oversee and report on internal audit activities—the Act, s 428A(2)(i)).

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.

For further information on Council's internal audit activities, contact Internal Audit Team on [internalaudit@shoalhaven.nsw.gov.au](mailto:internalaudit@shoalhaven.nsw.gov.au) or by phone 1309 293 111.

Reviewed by Chief Internal Auditor

13 May 2024

Reviewed by chairperson of the Council's ARIC

13 May 2024

Reviewed by Chief Executive Officer

13 May 2024

Reviewed by Council in accordance with a resolution of the governing body

03.06.2024

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## 10. SCHEDULE 1: INTERNAL AUDIT FUNCTION RESPONSIBILITIES

*The below responsibilities of the Internal Audit Department is limited by the audit work undertaken during the year, scope of the audits, budget and information availability at the time of reviews.*

### 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**

Assist the Audit, Risk and Improvement Committee as needed to 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.



Address all correspondence to:  
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