

1 Introduction

Internal Auditing is an independent, objective, assurance and consulting activity that is guided by a philosophy of adding value to improve the operations. It assists Company in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

2 Internal Audit Mission

To assist Shoalhaven City Council's (SCC) Risk & Audit Committee and Management by providing a responsive and effective value-added Internal Audit function which focuses on checking and recommending improvements in the effectiveness and efficiency of the internal control systems, and compliance with policies and procedures.

3 Role

This Charter represents the general authorisation from the Risk & Audit Committee to conduct a certain scope of work. The specific authorization to perform the work is the Internal Audit Plan that is adopted by the Risk & Audit Committee annually.

Internal Audit reviews work with management and staff to identify threats to the achievement of SCC's objectives and assess the appropriateness of responses to these risks.

Internal Audit may also carry out special reviews requested by the management from time to time.

4 Authority

Authority is granted for full, free, and unrestricted access to any and all of SSC records, physical properties, and personnel relevant to any function under review. All employees are requested to assist Internal Audit in fulfilling their staff function. Internal Audit shall also have free and unrestricted access to the General Manager and the Risk & Audit Committee.

Documents and information given to Internal Auditing during a periodic review will be handled in the same prudent and confidential manner as by those employees normally accountable for them.

Internal Auditing should have full and free access to Risk & Audit Committee.

Internal Auditing should be allocated resources, and authorized to set frequencies, select subjects, determine scope of works, and apply the techniques required to accomplish audit objectives.

Internal Auditing shall obtain the necessary assistance of auditee personnel and other specialised services from within or outside the organisation.

5 Authority

The Internal Audit Program Coordinator shall report administratively to the Executive Manager Communications and functionally to the Risk & Audit Committee.

6 Independence

All internal audit activities shall remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in rendering reports.

To facilitate this approach, Internal Audit shall have independent status within Shoalhaven City Council, and for this purpose shall be responsible directly to the Risk & Audit Committee and administratively to the Executive Manager Communications. Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review. Neither shall Internal Audit staff 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 Internal Audit Program Coordinator any situations where they feel their objectivity may be impaired. Similarly, the Internal Audit Program Coordinator should report any such situations to the Risk & Audit Committee.

The work of Internal Audit does not relieve the staff of Shoalhaven City 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.

7 Audit Scope

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 arrangements.
- 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.

8 Audit Planning

A 3 year risk based rolling internal audit plan should be prepared by the Internal Audit Program Coordinator and approved by the Risk & Audit Committee. Annually, the Internal Audit Program Coordinator shall submit to Senior Management and the Risk & Audit Committee a summary of the audit work schedule, staffing plan, and budget for the following fiscal year. The audit work schedule is to be developed based on a prioritization of the audit universe using a risk-based methodology.

The Internal Audit Program Coordinator 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 approved at the next meeting of the Risk & Audit Committee.

9 Internal Audit Methodology

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; and
- Following up on implementation of audit recommendations.

Internal Audit shall conform with:

- The Standards and Code of Ethics issued by the Institute of Internal Auditors;
- Where relevant, 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.

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; and
- Exercise due professional care in performing internal audit engagements.

Internal Audit staff shall:

- Conduct themselves in a professional manner; and
- Conduct their activities in a manner consistent with the concepts expressed in the Standards and the Code of Ethics.

10 Reporting

A written report will be prepared and issued by the Internal Audit Program Coordinator or designee following the conclusion of each audit and will be distributed as appropriate.

The Internal Audit Program Coordinator or designee may include in the audit report the auditee's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response should include a timetable for anticipated completion of action to be taken and an explanation for any recommendations not addressed.

Internal Auditing shall be responsible for appropriate follow-up on audit findings and recommendations. All significant findings will remain in an open issues file until cleared by the Internal Audit Program Coordinator or the Risk & Audit Committee.

11 Periodic Assessment

The Internal Audit Program Coordinator should periodically assess whether the purpose, authority, and responsibility, as defined in this charter, continue to be adequate to enable the internal auditing activity to accomplish its objectives. The result of this periodic assessment

should be communicated to Senior Management and the Risk & Audit Committee.

12 Opportunities for Continuous Improvement

Internal auditors may identify opportunities for continuous improvement of management control, profitability and the organization image. They should be communicated to appropriate management.

13 Quality Assurance and Improvement Program

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Executive Strategy Manager will communicate to senior management and the Risk & Audit Committee Board on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

14 Coordination with External Audit

Internal Audit Program Coordinator shall periodically consult with the external auditor, to discuss matters of mutual interest, to coordinate audit activity and to reduce duplication of audit effort.

15 Evaluation of Internal Audit

The Internal Audit Program Coordinator shall develop performance measures (key performance indicators) for consideration and endorsement by the Risk & Audit Committee, as a means for the performance of Internal Audit to be periodically evaluated.

16 Review of the Internal Audit Charter

The Internal Audit Program Coordinator shall periodically review the Internal Audit Charter to ensure it remains up-to-date and reflects the current scope of internal audit work.

17 Conflict of Interest

Internal auditors is not to provide audit services for work for which they may previously have been responsible. Whilst the Standards provide guidance on this point and allow this to occur after 12 months, each instance should be carefully assessed.

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

Instances of perceived or actual conflicts of interest by the Head of Internal Audit or Internal Audit staff and contractors are to be immediately reported to the Risk & Audit Committee by the Internal Audit Program Coordinator.

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

Confirmed at the Risk & Audit Committee Meeting held on 19 February 2018.