

# Internal Audit Charter (Hybrid: In-House and Outsourced)

## Introduction

Lithgow City Council (Council) has established the internal audit function as a key component of Council's governance and assurance framework, in compliance with the *"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 (internal audit) at Council and has been approved by the governing body (the Council) considering the advice of the Audit, Risk, and Improvement Committee (ARIC).

## Purpose of internal audit

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

The mission of Internal audit is to enhance and protect organisational value by providing advice to the Council, General Manager and ARIC about Council's governance processes, risk management and control frameworks and its external accountability obligations. It also assists 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.

## Role

The role of internal audit is to support 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.

Internal audit also plays 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).

## **Structure of Internal Audit**

Council has adopted a hybrid internal audit function, utilising both in-house and outsourced audits.

An in-house internal audit function is one where internal auditors and other staff (where required) are employed by the Council to conduct internal audits and other activities included in the ARIC's annual and four-year strategic work plans. The in-house function may also conduct small scale audits and internal control activities as agreed with the General Manager (or delegate),

The focus of the in-house function will be internal control activities / small-scale audits.

For an outsourced internal audit program, the internal audits programmed by the ARIC are undertaken by an external provider such as an internal audit or accounting firm, or an individual practitioner. Contract management and oversight of supplementary external providers (where appropriate) is overseen by the Governance & Risk Manager (Head of Internal Audit).

The 4-year internal audit program will be outsourced.

## **Internal Audit Arrangements**

### **a. Head of Internal Audit**

Day to day management of internal audit is the responsibility of the Governance & Risk Manager (Head of Internal Audit). 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:

- managing the day-to-day activities of the LCC internal audit function,
- ensuring small scale audits and internal control activities are completed as agreed with the ARIC and/or the General Manager (or delegate),
- approving internal audit project plans, conducting, or supervising audits and assessments and providing independent advice to the ARIC,
- assisting ARIC to implement its annual work plan and four-year strategic work plan,
- contract management of external provider (refer below),
- managing the internal audit budget,

- ensuring the external provider completes internal audits in line with 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 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 Council's internal audit activities comply with the Guidelines for risk management and internal audit for local government in NSW.

Within Council's structure, the Head of Internal audit performs a range of other, non-audit duties. Independence safeguards in relation to these duties are outlined in the Independence section below.

### **b. In-house Staff**

Members of the LCC internal audit function are responsible to the Head of Internal Audit.

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.

Within Council's structure, the in-house staff perform a range of other, non-audit duties. Independence safeguards in relation to these duties are outlined in the independence section below.

### **c. Service Providers**

Council will contract external third-party providers to undertake its internal audits for the annual 4-year internal audit program. Where a council has contracted the internal audit program, the internal audits programmed by ARIC are undertaken by an external provider such as an internal audit or accounting firm, or an individual practitioner. Contract management is overseen by an employee within the council.

To ensure the independence of the external providers, the Head of Internal Audit will ensure that 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 Council's external audit,
- is not the auditor of any contractors of Council that may be subject to the internal audit, and
- can meet Council's obligations under the Guidelines for risk management and internal audit for local government in NSW.

The Head of Internal Audit must consult with the ARIC and General Manager (or Delegate) regarding the appropriateness of the skills, knowledge, and experience of any external provider before they are engaged by Council.

## **Independence**

The Head of Internal Audit 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 General Manager (or Delegate) to facilitate day-to-day operations. Internal audit activities are not subject to direction by the Council and Council's management has no role in the exercise of Council's internal audit activities.

The Head of Internal Audit and the in-house staff are 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 Head of Internal Audit is responsible, the external service provider will report directly to the General Manager (or Delegate) and/or the ARIC on the results of the audit.

The ARIC is responsible for communicating any internal audit issues or information to the Council. Should the Council 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 Council where the Chair is satisfied that it is reasonably necessary for the Council 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 Head of Internal Audit or the ARIC.

The General Manager (or Delegate) must consult with the Chair of the ARIC before appointing or making decisions affecting the employment of the Head of Internal Audit. If the Head of Internal Audit is dismissed, the General Manager (or Delegate) must report the reasons for their dismissal to the Chair of the ARIC.

Where the Chair of the ARIC 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 Council. The ARIC, through the Chair, will contribute to the annual performance assessment of the Head of Internal Audit.

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

## **Conduct and Standards**

Internal Audit (including service providers) must comply with 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 (or

Delegate) must consult with the Chair of the ARIC before any disciplinary action is taken against the Head of Internal Audit in response to a breach of Council's Code of Conduct. Declaration and management of conflicts of interest will occur in line with the requirements of the Code of Conduct.

Internal Audit will govern itself by adherence to mandatory guidance contained in the 'International Professional Practices Framework' (IPPF) issued by the Institute of Internal Auditors (IIA):

- 'Core Principles for the Professional Practice of Internal Auditing',
- 'Definition of Internal Auditing',
- 'Code of Ethics', and
- 'International Standards for the Professional Practice of Internal Auditing'.

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

Internal Audit, including 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 will be applied.

## **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 Head of Internal Audit considers necessary for internal audit 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, including service provider working papers, will remain the property of Council.

Information and documents pertaining to internal audit are not to be made publicly available. Internal audit may only release Council information to external parties that are assisting internal audit to undertake its responsibilities with the approval of the General Manager (or Delegate), 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.

## **Performing Internal audit activities**

The work of Internal Audit is to be thoroughly planned and executed.

Internal audit must develop a strategic internal audit plan every four years and consider the matters listed in Schedule One when developing their risk-based program of internal audits. The strategic work plan must be reviewed at least annually to ensure it remains appropriate. Internal audit must also develop an annual work plan to guide the work of internal audit over the forward year. Both the strategic and annual plans should be reviewed and approved by Council's ARIC.

The Head of Internal Audit will:

- 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,
- 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 internal audit, and
- Ensure that the ARIC is advised at each meeting of the internal audit activities completed during that quarter, progress in implementing the annual work plan and progress made towards implementing corrective actions.

## **Administrative Arrangements**

### **ARIC meetings**

The Head of Internal Audit:

- Will attend ARIC meetings as an independent non-voting observer. The Head of Internal Audit can be excluded from meetings by the ARIC at any time,
- Must meet separately with the ARIC at least once per year, and
- Can meet with the Chair of the ARIC at any time, as necessary, between Committee meetings.

### **Relationship with 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 aims to 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 management, the dispute is to be resolved by the General Manager 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, Office of Local Government, in writing.

### **Review arrangements**

Council's ARIC will review the performance of the internal audit function each year and report its findings to the Council. A strategic review of the performance of internal audit 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.

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

## Further information

For further information on Lithgow City Council's internal audit activities, contact Raj Singh on [raj.singh@lithgow.nsw.com.au](mailto:raj.singh@lithgow.nsw.com.au) or by phone (02) 6354 9960.

Reviewed by

Governance & Risk Manager

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Reviewed Lithgow City Council Audit, Risk, and Improvement Committee

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Reviewed by

General Manager

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Adopted by Lithgow City Council in accordance with a resolution of Council.

[\[resolution reference\]](#)

## **Schedule 1: Internal Audit Responsibilities**

### **Internal audit**

- Conduct internal audits as directed by Council's ARIC.
- Implement Council's annual and four-year strategic internal audit work plans.
- Monitor the implementation by Council of corrective actions.
- Assist 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 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 management**

Review and advise:

- if Council's has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard
- whether Council's risk management framework is adequate and effective for identifying and managing the risks Council faces, including those associated with individual projects, programs, and other activities.
- if risk management is integrated across all levels of Council and across all processes, operations, services, decision-making, functions, and reporting.
- of the adequacy of risk reports and documentation, for example, 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 Council has taken steps to embed a culture which is committed to ethical and lawful behaviour
- if there is a positive risk culture within Council and strong leadership that supports effective risk management
- of the adequacy of staff training and induction in risk management
- how Council's risk management approach impacts on Council's insurance arrangements
- of the effectiveness of 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 Council's approach to maintaining an effective internal audit framework, including over external parties such as contractors and advisors, is sound and effective.
- whether 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 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 Council's compliance framework, including:

- if Council has appropriately considered legal and compliance risks as part of Council's risk management framework
- how 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 Council's fraud and corruption prevention framework and activities, including whether Council has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

## **Financial management**

Review and advise:

- if 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 Council are adequate
- if Council's grants and tied funding policies and procedures are sound.

## **Governance**

Review and advise of the adequacy of Council governance framework, including 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.

## **Strategic planning**

Review and advise:

- of the adequacy and effectiveness of 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 Council is successfully implementing and achieving its IP&R objectives and strategies.

## **Service reviews and business improvement**

Review and advise:

- If 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 Council can improve its service delivery and Council's performance of its business and functions generally

## **Performance data and measurement**

Review and advise:

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