
LITHGOW CITY COUNCIL

INTERNAL AUDIT CHARTER

Adopted by Council **DD Month YYYY**

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1. Introduction

Lithgow City Council (“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 mandate for the conduct of the Internal Audit Function at Council and has been approved by the governing body considering the advice of the Audit, Risk and Improvement Committee (“ARIC”).

2. Definitions

Head of Internal Audit – Council employee internally responsible for the Internal Audit Function of the Council (*equivalent of ‘Chief Audit Executive’ under the International Professional Practices Framework (“IPPF”) issued by the Institute of Internal Auditors (“IIA”)*)

Internal Audit Function – the function which provides internal audit services to the Council

3. Purpose of Internal Audit

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 ARIC 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.

4. Role

The Internal Audit Function 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 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).

5. Head of Internal Audit

Day to day management of Council's Internal Audit Function is the responsibility of the Governance & Risk Manager (Head of Internal Audit). The Head of Internal Audit must have sufficient skills, knowledge and experience to fulfil the Internal Audit Function's role and responsibilities to the Council and the ARIC. 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:

- contract management of the external provider (refer below)
- managing the internal audit budget
- ensuring the external provider completes internal audits in line with the 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 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*.

Within Council's structure, the Head of Internal Audit is 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 and the ARIC on the results of the audit.

6. 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 provider, the Head of Internal Audit will ensure that the external provider:

- does not conduct any audits on specific Council operations or areas that the external service provider has provided consulting services on in 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 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 Head of Internal Audit must consult with the ARIC and General Manager regarding the appropriateness of the skills, knowledge and experience of any external provider before they are engaged by Council.

7. 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 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 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 Chair is only required to provide the information requested by the governing body where the 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 Head of Internal Audit or the ARIC.

The General Manager must consult with the ARIC Chair 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 must report the reasons for their dismissal to the Council. The ARIC, through the Chair, will contribute to the annual performance assessment of the Head of Internal Audit (in relation to their internal audit role only).

Where the ARIC Chair has any genuine concerns about the independence of the Head of Internal Audit, 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 the governing body.

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

8. Conduct and Standards

Internal audit personnel (including external providers) 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 ARIC before any disciplinary action is taken against the Head of Internal Audit in response to a breach of the Council's Code of Conduct. Declaration and management of conflicts of interest will occur in line with the requirements of the 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.

9. 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 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 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 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 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 and is a legal requirement.

10. 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 plan 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 responses 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 ARIC as appropriate.
- 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 implementing corrective actions.

11. Administrative Arrangements

11.1. Audit, Risk and Improvement Committee 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.
- As necessary, should meet with the Chair of the ARIC at any time between committee meetings.

11.2. 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.

11.3. Dispute Resolution

The Internal Audit Function 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 Function and Council, the dispute is to be resolved by the ARIC. Disputes between the Internal Audit Function 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.

11.4. Review Arrangements

Council's ARIC 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 ARIC 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 [name] on [email address] or by phone [phone number].

Reviewed by Head of Internal Audit

[sign and date]

Reviewed by ARIC Chair

[sign and date]

Reviewed by General Manager

[sign and date]

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

[sign and date]

[resolution reference]

Schedule 1 – Internal Audit Function Responsibilities

Audit

Internal Audit

- Conduct internal audits as directed by Council's ARIC.
- Implement Council's annual internal audit work plan.
- 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

Risk Management

Review and advise:

- if Council 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, and
- 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.

Improvement

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.