



INTERNAL AUDIT CHARTER

Date of Council Resolution:	29 October 1997
Committee Reference and Date:	Corporate Service Committee – 22 October 1997
No of Resolution:	51-03
Date of Council Resolution:	16 February 2000
Committee Reference and Date:	Audit Committee – 28 January 2000
No of Resolution:	2
Date of Council Resolution:	27 April 2000
Committee Reference and Date:	Finance and Special Purposes Committee – 18 April 2000
No of Resolution:	43-04
Date of Council Resolution:	27 January 2005
Committee Reference and Date:	City Management and Finance Committee No. 2005 (01) – 18 January 2005
No of Resolution:	43.07
Date of Council Resolution:	11 May 2005
Committee Reference and Date:	City Management and Finance Committee No. 2005 (05) – 4 May 2005
No of Resolution:	43.07
Date of Council Resolution:	27 May 2008
Committee Reference and Date:	Audit Committee No. 2008(01) of 14 May 2008; City Management and Finance Committee No.2008 (02) of 20 May 2008
No of Resolution:	8, 7

Contents	Page No.
1. Introduction	3
2. The Role and Purpose of Internal Audit.....	3
3. Independence and the Position of Internal Audit Branch within Council	4
4. Authority	5
5. Relationship to External Audit	5
6. Scope of Internal Audit Activities.....	6
7. Responsibility for Detecting and Reporting Irregularities	7
8. Internal Audit Approach.....	8
9. Reporting Accountability	9
10. Management's Responsibility For Corrective Action.....	10
11. Quality Assurance	10

1. Introduction

The *Local Government Finance Standard 2005 S 4 (1a)* and *S 6 (1)* requires Ipswich City Council to adopt a policy with respect to whether an internal audit function must be established and maintained. It is the policy of Council to provide an internal audit function, independent of all other organisational functions. This Charter establishes the authority and responsibility conferred by Council on the Internal Audit Branch, and incorporates the internal audit duty requirements of the *Local Government Finance Standard S 14 (2)*. It is the purpose of the Charter to define the function, scope, operating and reporting parameters for the internal audit activity.

2. The Role and Purpose of Internal Audit

The internal audit function is established to provide independent, objective assurance¹ and consulting² services designed to add value and improve the organization's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Accordingly audit planning must be sufficiently comprehensive to regularly audit/review all facets of Council's operations, having regard to the functions and duties imposed on Council. An effective audit function will provide Council and the Chief Executive Officer (CEO) with:

- 2.1 Management oriented appraisals of Council functions and activities to determine their appropriateness in the context, of Council objectives (including, but not restricted to accounting and financial management information, performance monitoring and control systems).
- 2.2 Reviews of the reliability of accounting and financial management, an assessment of the systems of internal control, an evaluation of compliance with relevant legislation, local law, local law policies, Council policies, operating guidelines and delegations and the protection of the assets and resources under the control of management.
- 2.3 Independent and confidential advice on action to be taken to improve operational effectiveness, efficiency and economy.
- 2.4 Follow up appraisals, where appropriate, regarding action taken by operational management as a result of audit recommendations.
- 2.5 Review of program/support plan performance criteria and performance indicators for relevance, reliability and accuracy at such other times as may be appropriate.

¹ Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding a process, system or other subject matter. The nature and scope of the assurance engagement are determined by the internal auditor.

² Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client.

- 2.6 Management-oriented evaluation of programs/support plans to determine that legislation, local law, local law policies, Council policies, and program/support plan objectives and strategies remain appropriate and are being achieved; whether resources are optimally allocated across programs/support plans and optimally utilised within each program/support plan; and that the strategic management system ensures accountability of programs/support plans in line with the strategic direction as set by Council in the Corporate Plan.

This Charter also recognises the role that the Internal Audit Branch may be called upon to play as an appropriate entity under the *Whistleblowers Protection Act 1994*.

3. Independence and the Position of Internal Audit Branch within Council

The Internal Audit Branch has independent status within the Council and for that purpose:

- 3.1 Shall be responsible for operational purposes to the CEO but shall have further access to the Audit Committee³.
- 3.2 Subject to 3.1, shall be independent of any section or officer or employee of Council.
- 3.3 Shall have no executive or managerial powers, functions, authorities or duties except those relating to the management of the audit function.
- 3.4 Shall not be involved in the day to day operation of Council, nor in the internal operational checking systems of Council except those relating to the administrative and management of the audit activities.
- 3.5 Shall not be responsible for the designing, installing or maintaining systems, procedures or controls, but will advise on these matters and provide assurance to management that completed systems will contribute to the achievement of the intended corporate objectives. If, however, an officer of the Internal Audit Branch is involved in the detailed development or implementation of a system, then any post implementation review should, as far as possible, be conducted by another officer of the Branch or by staff entirely independent of the Branch.
- 3.6 May have an observer/adviser status on steering committees, formed to co-ordinate financial/information systems design and implementation, at the discretion of the Internal Audit Manager.

³ Audit Committee is a committee established by Council policy in accordance with the Local Government Finance Standard. The Audit Committee reports to the City Management and Finance Committee.

4. Authority

- 4.1 Internal audit has no direct responsibility, nor authority over, any of the activities which it audits. Therefore the audits and evaluations do not in any way relieve other persons in Council of the responsibilities assigned to them.
- 4.2 Internal audit shall generally undertake projects in accordance with programs/plans approved by the CEO but shall also conduct such further unscheduled projects as the CEO considers desirable. Due consideration should also be given to the views of the Audit Committee and Department Heads in regard to suitable projects. The nature and scope of each project will be left to the professional judgement of the Internal Audit Manager.
- 4.3 The Internal Audit Manager and staff of the Internal Audit Branch are authorised to review all areas of Council and to have full, free, and unrestricted access to all Council's activities, records (both manual and electronic), property, and personnel. Council activities include entities over which Council has direct management, sponsorship or financial control.
- 4.4 All employees shall co-operate fully in making available any material or information reasonably requested by internal auditors. Further, all employees are expected to bring to the attention of the Internal Audit Manager any suspected situation involving improper activity or non-compliance with applicable policies, plans, procedures, laws or regulations, of which they have knowledge.
- 4.5 It is the policy of Council that all audit activities remain free of influence by any organisational elements. This will include such matters as scope of audit programs, the frequency and timing of examinations and the content of audit reports.
- 4.6 For approved areas of audit, evaluation and review, where the Internal Audit Branch does not possess all the necessary experience/skills, additional internal or external resources may be utilised subject to approval by CEO.

5. Relationship to External Audit

The Internal Audit Branch shall co-operate fully with the Auditor-General and the appointed external auditor in respect of any internal audits undertaken by the Internal Audit Branch. Working papers together with any further explanations are to be made available in order to enhance the effectiveness of the total audit coverage and to minimise duplication.

To ensure that the Internal Audit Branch is aware of all matters associated with its functional responsibilities, the Internal Audit Branch is to be supplied with copies of all relevant correspondence received from external audit and Queensland Audit Office.

6. Scope of Internal Audit Activities

- 6.1 The scope of internal auditing is to determine whether the organisation's network of governance, risk management and control processes, as designed and represented by management, is adequate and functioning in an effective manner. It includes, but is not necessarily limited to, the following:
- 6.1.1 Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information.
 - 6.1.2 Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports and whether the organisation is in compliance. Audit should also be pro-active in offering advice to management in regards to the implications of future legislation, policy and industry changes.
 - 6.1.3 Reviewing the means of safeguarding assets and, where appropriate, verifying the existence of such assets.
 - 6.1.4 Reviewing and appraising the economy and efficiency with which resources are employed, identify opportunities to improve operating performance, and recommend solutions where appropriate.
 - 6.1.5 Contributing to the corporate management process by assessing and reporting the relevance, reliability and adequacy of management data and performance indicators and reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
 - 6.1.6 Co-ordinating audit work with external auditors to assuring completeness of coverage, preventing a duplication of effort and ensuring the effective use of audit resources.
 - 6.1.7 Participating (in an advisory role) in the planning, design, development, implementation and operation of major computer-based systems to determine whether:
 - (i) Adequate controls are incorporated in the systems
 - (ii) Thorough system testing is performed at appropriate stages
 - (iii) System documentation is complete and accurate
 - (iv) The needs of the user are met
 - 6.1.8 Conducting periodic audits of computer service centres and make post installation evaluations of major data processing systems to determine whether these systems meet their intended purposes, requirements and objectives.
 - 6.1.9 Reviewing compliance with Council's guidelines for ethical business conduct and promote high standards of personal and Council performance through the promotion of a Council Code of Conduct.

- 6.1.10 Internal auditing's core role with regard to Enterprise Risk Management (ERM) is to provide objective assurance to the Council on the effectiveness of the organisation's ERM activities to help ensure key business risks are being managed appropriately and that the system of internal control is operating effectively.
- 6.1.11 Developing a Three Year Internal Audit Plan and an Annual Internal Audit Plan, based on risk analysis, and subject these to the CEO for review and approval. In the formulation of these plans the views of the Audit Committee should be taken into consideration. Work programs/proposals will be prepared for each audit activity or project undertaken by the Internal Audit Branch.
- 6.1.12 Conduct audit projects of Council activities as directed by the CEO.
- 6.1.13 Follow up the implementation of audit recommendations.
- 6.2 The scope of internal audit function extends to include all departments, programs, sub-programs, functions, funded schemes and entities over which Council has direct management, sponsorship or financial control.
- 6.3 Any dispute as to whether an activity falls within the scope of Council's internal audit function shall be determined by the CEO.

7. *Responsibility for Detecting and Reporting Irregularities*

- 7.1 The Internal Audit Branch is not legally or professionally responsible for preventing irregularities (which include fraud, other illegal acts and errors). In order to facilitate the fraud/corruption prevention function, the Internal Audit Manager should be informed of any special investigation, fraud, theft or other suspected cases of misappropriation.
- 7.2 The responsibility for prevention of irregularities rests with Council and management through the implementation and continued operation of an adequate internal control system. Internal auditors are responsible for examining and evaluating the adequacy and the effectiveness of actions taken by management to fulfil this obligation.
- 7.3 However, in exercising due professional care, internal auditors should be alert to the possibility of irregularities and those conditions and activities where irregularities are most likely to occur. Due care implies reasonable care and competence, not infallibility, nor extraordinary performance. It requires internal auditors to conduct examinations and verifications to a reasonable extent.
- 7.4 The Internal Audit Manager has a responsibility to report irregularities to the CEO and the Audit Committee.
- 7.5 The CEO is responsible for reporting any irregularities according to the provisions of the *Local Government Act 1993*, the *Crime and Misconduct Act 2001* and any other statutory regulations that may come into force from time to time. In this regard the Internal Audit Manager will fulfil the liaison officers role to the Crime and Misconduct Commission.

8. Internal Audit Approach

8.1 Internal Audit Branch will adopt an integrated⁴ risk based approach to allocating resources and planning.

8.2 Risk Profile, Three Year and Annual Internal Audit Plans:

8.2.1 The Internal Audit Branch, in consultation with management, will develop a risk profile for each area within Council so that greater audit attention can be directed to areas of higher risk.

8.2.2 Based on the risk assessment, the general direction of Council's internal audit activities over the medium term is to be documented in the Three Year Internal Audit Plan. This plan shall be reviewed and approved by the CEO. The Plan will also be reviewed annually to take account of any change in circumstances.

8.2.3 The Annual Audit Plan projects may include financial, compliance, performance, due diligence, information systems, program evaluation, operational audits and other approaches as deemed appropriate, given the resources and also the priorities established through the risk assessment process and other more recent considerations.

8.3 Responsibilities and Auditing Standards⁵:

8.3.1 Audit will discharge its responsibilities in accordance with this document and the Standards with the proviso that this document shall not be overridden by the Standards, should a conflicting interpretation arise.

8.3.2 Specific standards which are to be followed include:

- Audit staff must maintain an independent outlook and must ensure their independence to plan, investigate and report with honesty and objectivity.
- Projects are to be performed by or under the control of a suitably skilled, experienced and competent person(s).
- Findings and recommendations or suggestions are developed and documented with due care during the course of each engagement, such that the reporting process is expedited.
- Regular quality assurance reviews of project plans, reports and working papers are carried out.

⁴ Combines aspects of auditing to include or excluded any aspect based on risk

⁵ Standards includes as follows:

The Institute of Internal Auditors' Standards for Professional Practice, Statement of Responsibilities, Statements on Internal Auditing Standards, and Code of Ethics.

The Information Systems Audit and Control Association's Statements on Information Systems Auditing Standards.

-
- Information acquired during the course of work must not be used and/or conveyed for purposes outside the scope of Audit's approved responsibilities.

9. Reporting Accountability

9.1 Internal Audit Report:

9.1.1 A draft report shall be prepared and issued by the Internal Audit Manager to the Department Head/Business Manager as soon as possible after the completion of an audit project. The draft report will include comments and action plans by the operational manager⁶ where appropriate.

9.1.2 The Department Head/Business Manager receiving the draft audit report should respond within five (5) working days or such longer period as may be determined between the Department Head/Business Manager and the Internal Audit Manager. This response is to indicate what actions are to be taken or planned, a responsible officer and a timetable for the anticipated completion of these actions in regard to the specific findings and recommendations in the draft audit report.

9.1.3 A final audit report will be prepared and issued by the Internal Audit Manager to the CEO and will include the comments and action plans as per the response of the Department Head/Business Manager. If a response is not received by the due date Internal Audit is required to issue the draft as the final audit report with a comment in relation to the non response.

9.1.4 As well as the final report to the CEO, copies will be provided to the relevant Department Head/Business Manager and other officers as appropriate. An indication will be given as to whether the person receiving the report should be taking action or securing action in relation to the report, or merely receiving the report for information.

9.1.5 A copy of this report will also be forwarded to the Audit Committee Members, the Audit Committee Advisers, Mayor, Deputy Mayor and Audit Committee attendees, as per the approved agenda list.

9.2 The Internal Audit Manager may also advise the Auditor-General, Queensland Audit Office, or the Auditor-General's delegate/contractor about any audit findings as appropriate or if requested.

9.3 A summary of audit recommendations, action taken and action outstanding will be included in an Internal Audit Branch Activities Report, to be sent on a quarterly basis to the Mayor, Deputy Mayor, CEO and the Audit Committee Members, the Audit Committee Advisers and Attendees.

⁶ Operational Manager is the manager who is responsible for the area under audit, and in normal circumstances would be a manager of a branch (other than the Internal Audit Branch), however it may be the department manager where the audit is across more than one branch.

10. Management's Responsibility For Corrective Action

- 10.1 The Department Head/Business Manager is responsible for seeing that action is either planned or taken within thirty (30) working days from receipt of the final audit report on recommendations made or deficient conditions reported by auditors (internal and external). Recommendations are considered outstanding until they are implemented and or hold a status of 'no further action required'. Any recommendations that have not been actioned within the agreed timeframe will be reported to and followed through by the CEO.
- 10.2 If the Department Head/Business Manager foresees difficulties implementing the recommendations within the time frame, the manager should advise the Internal Audit Branch regarding the cause of delay and the revised implementation schedule.
- 10.3 Upon implementation of the recommendations, a written report should be sent by the responsible officer to the relevant Department Head/Business Manager and a copy be sent to Internal Audit Branch.

11. Quality Assurance

- 11.1 **Audit Work:** In order to ensure that the quality of internal audit work is consistently maintained at a high standard, the Internal Audit Manager should establish and maintain a quality assurance program. This program is to include:
- 11.1.1. Developing a comprehensive work reporting arrangement.
 - 11.1.2. Maintaining a regular review of audit plans, reports and working papers.
 - 11.1.3. Maintaining effective communication links with the Audit Committee members, CEO, managers, external auditors and the Queensland Audit Office.
 - 11.1.4. Arranging and providing ongoing staff training as appropriate.
 - 11.1.5. Issue necessary oral and written directions and maintain written policies and procedures to assist and direct staff in the performance of their duties.
- 11.2 **External Quality Assessment:** The Internal Audit Branch will be subject to an external quality assessment on a regular basis, not exceeding an interval of five years.