

# GLEN EIRA CITY COUNCIL

## Internal Audit Charter

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## **1. Introduction**

Glen Eira City Council (Council) has a dedicated internal audit function as a key component of the Council's governance framework in accordance with best practice. This function is currently outsourced following a periodic tender process.

This Charter provides the framework for the conduct of the Internal Audit function at Council. Council's procurement requirements provide the framework for the appointment of the outsourced internal audit services provider.

In accordance with section 54 (2) (d) of the *Local Government Act 2020*, Council's Audit and Risk Committee must oversee the internal audit functions of Council.

## **2. Role of Internal Audit**

The role of internal audit is to provide an independent and objective review and advisory service to provide assurance to the Council, Audit and Risk Committee, Chief Executive Officer and Management that financial and operational controls are:

- designed to manage Council's risks and achieve the organisation's objectives;
- operating in an efficient, effective, ethical and well-governed manner; and
- assist management in improving the organisation's business performance.

## **3. Independence and Objectivity**

To be effective, the Internal Audit function must be able to operate without being influenced or inhibited in the discharge of its duties.

Independence is essential to the effectiveness of Internal Audit. It is obtained primarily through organisational status and objectivity. 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 original line processing functions or activities.

Internal Audit reports functionally to the Audit and Risk Committee and administratively to the Chief Financial Officer. The Engagement Leader (typically the outsourced service provider partner) is accountable for the efficient and effective operation of Internal Audit.

Internal Audit has direct access to the Chief Executive Officer, the Audit and Risk Committee Chair and other members of the Audit and Risk Committee.

It is the responsibility of the Internal Audit Service Provider to avoid any actual or perceived conflicts of interest which may undermine its independence and/or objectivity. Immediately upon becoming aware of any perceived, potential or actual conflicts of interest that may compromise objectivity or independence, the Internal Audit Service Provider must disclose them to the Council.

#### **4. Security**

Internal Audit must ensure that members of the internal audit team follow all Council's policies and procedures when on site at Council premises and/or accessing Council records or systems. Such procedures include but are not limited to document/computer/building security.

Internal Audit must also ensure that approval has been obtained from the Chief Information Officer and Chief Financial Officer for access to Council records systems. Specific approval must also be requested and obtained before any data is downloaded to equipment owned or operated by the Service Provider.

#### **5. Authority and Confidentiality**

For the effective discharge of their duties, Internal Audit team members are authorised to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documentation and information that the Internal Audit Engagement Leader considers necessary to enable Internal Audit to meet its responsibilities.

All records, documentation and information accessed in the course of undertaking internal audit activities are to be used solely for the conduct of these activities. The Internal Audit Engagement Leader and individual internal audit team members are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

Internal Audit reports are deemed to be confidential reports of the Council. However, under its Legislation, the Victorian Auditor-General's Office and its appointed auditors have access to all relevant Council documents including internal audit reports.

#### **6. Scope of Internal Audit Activities**

In the conduct of its activities, Internal Audit will play an active role in:

- Developing and maintaining a culture of effective corporate governance, accountability and integrity;
- Facilitating the integration of risk management into day-to-day business activities and processes; and
- Promoting a culture of cost-consciousness, self-assessment and adherence to high ethical standards.

While Internal Audit is responsible for examining and evaluating the adequacy and effectiveness of controls and other risk management activities within agreed scopes of work, Internal Audit is not primarily responsible for the detection of fraud. That is management's responsibility. However, Internal Audit's activities may identify instances of fraud or areas of high risk of fraud.

Internal Audit activities may include, but are not necessarily limited to:

### **6.1 Assurance Reviews**

These reviews may cover:

- compliance with legislative requirements, Council policies, directives and procedures;
- the adequacy and effectiveness of internal financial and operational controls including IT systems and associated controls;
- the recording, control and use of Council assets; and
- the efficiency, effectiveness, and ethical conduct of business activities, systems and processes in line with the Council's statutory responsibilities and strategic objectives.

### **6.2 Strategic Internal Audit Plan**

Internal Audit will propose to the Audit and Risk Committee a three-year Strategic Internal Audit Plan, incorporating an annual Internal Audit Program setting out: objectives, scope, cost and value-to-be-added of each review. The development of the Strategic Internal Audit Plan and the Annual Internal Audit Plan will consider, at a minimum, Council's strategies, risk profile, compliance obligations, new developments affecting Council, quality assurance requirements as well as specific instructions from management and the Audit and Risk Committee. Any variations to the agreed plan will be subject to Audit and Risk Management Committee agreement.

### **6.3 Advisory Services**

Internal Audit is a valuable resource and can advise Council and management on a range of matters including:

- New or changing systems, processes and controls particularly the design of appropriate controls
- Risk Management including assisting management to identify risks and develop risk mitigation and monitoring strategies as part of the enterprise risk management framework; and assessing, monitoring and reporting on the implementation of risk mitigation strategies as a part of projects within the annual internal audit plan.
- Fraud Control including assisting management to identify the risks of fraud and develop fraud prevention and monitoring strategies.

In addition to the above, Internal Audit may be required to carry out special reviews from time to time at the direction of the Chief Financial Officer or the Audit and Risk Committee. Any such reviews will be authorised in accordance with Council delegations or, in the case of a request by the Audit and Risk Committee, as set out in the Charter of the Committee. Internal audit may also be consulted prior to making changes to existing or new systems to ensure controls are sound.

#### **6.4 Audit Support Activities**

Internal Audit may also be responsible for the following:

- Assisting the Audit and Risk Committee to discharge its responsibilities;
- Monitoring the status of implementation of agreed recommendations; and
- Disseminating across Council better practice issues and lessons learnt from its audit activities.

#### **6.5 Other Services**

The internal auditor may provide 'other services' to the Council. The provision of other services shall only occur subject to approval of the Chief Executive Officer and following consultation with the Audit and Risk Committee Chair. Matters to be considered include:

- The scope and scale of the other services, and
- Potential conflicts between the provision of the other services and Internal Audit.

A listing of other services provided are to be reported by the Internal Auditor to the next scheduled Audit and Risk Committee meeting.

#### **7. Sub-contractors**

The use of any sub-contractors by the Internal Auditor shall be clearly outlined in the scope of any work to be undertaken and approved by the Audit and Risk Committee prior to any works commencing.

#### **8. Professional Standards**

Internal Audit activities will be conducted in accordance with relevant professional standards including:

- Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors Inc;
- Standards relevant to internal audit issued by the Auditing and Assurance Standards Board, CPA Australia and the Institute of Chartered Accountants;
- The Statement on Information Systems Auditing Standards issued by the Information Systems and Control Association; and
- Standards issued by Standards Australia and the International Standards Organisation (if applicable).

In the conduct of internal audit work, Internal Audit team members will:

- Comply with relevant professional standards of conduct;
- Possess the knowledge, skills and technical proficiency relevant to the performance of their duties;
- Be skilled in dealing with people and communicating audit, risk management and related issues effectively; and
- Exercise due professional care in performing their duties.

Performance of the Internal Audit services will be monitored on an ongoing basis with a formal review to be undertaken at least annually by Council's Audit and Risk Committee and Management.

Internal Audit is required to attend all meetings of the Audit and Risk Committee and other meetings requested by the Chief Executive Officer, Chief Financial Officer or Audit and Risk Committee Chair.

## **9. Relationship with External Audit**

Internal and external audit activities should, where possible, be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort. Periodic contact between internal and external audit should be held to discuss matters of mutual interest.

External audit will have full and free access to all internal audit plans, working papers and reports.

## **10. Project Planning, Fieldwork and Reporting**

The Internal Audit will meet with management to confirm the objectives, scope and approach for each review, including the Contractor's personnel and agreed audit hours. The Audit and Risk Committee may provide input to the audit scope and the relevant Director or Manager shall formally sign-off on the audit scope of the project before the commencement of the review.

At the end of each audit Internal Audit will hold a close-out meeting with management to discuss outcomes of the audit. After the close-out meeting a draft report highlighting significant findings, their effect and recommendations shall be prepared and forwarded to the relevant line manager for discussion and drafting of management comments including implementation plans to address any issues identified.

As a guide, reports should cover:

- (a) effectiveness of applicable frameworks, policies, systems of internal control and actual operations;
- (b) compliance with any regulatory requirements;
- (c) areas for action by management and comment on the extent to which action plans have been implemented; and
- (d) Management responses.

The final report, approved by the relevant Director or Manager, shall then be finalised by the Internal Audit and presented to the next Audit and Risk Committee meeting.

## **11. Performance Management**

The Audit and Risk Committee in conjunction with Council staff will undertake a review of the performance of the Internal Auditor annually.

This should be undertaken at a time that is consistent with the Contract of Engagement for the Internal Auditor to allow at least 90 days prior to the expiry of that Contract.

The current Internal Auditor is engaged on a contract for three (3) years with an option on the part of Council to extend for a period of up to two additional terms of one (1) year each.

## **12. Review of Internal Audit Charter**

This Internal Audit Charter will be reviewed if there is a material change from Audit and Risk Committee, Council or the Internal Auditor required.

Council's Audit and Risk Committee Charter has a responsibility to review the Internal Audit Charter to determine that it provides an appropriate functional and organisational framework to enable Council's internal audit function to operate effectively and without limitations.