

# POLICY



**Date adopted:** 30/05/2017  
**File no:** 860142-1  
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**Policy title:** INTERNAL AUDIT

**Directorate:** ORGANISATIONAL SERVICES

**Branch:** CORPORATE GOVERNANCE

**Policy objective:** To provide independent advice and assurance to the Chief Executive Officer, directors, managers and Council that policies, systems and operational procedures meet set standards of effectiveness, efficiency and propriety within all functional areas of the Council as determined by the annual audit plan.

To comply with the *Local Government Act 2009* and the *Local Government Regulation 2012* for an internal audit function.

**Policy scope:**

One of the Council's primary objectives is to strive for continual improvement in its delivery of services to the community.

As an integral part of its strategy to achieve continual improvement and in accordance with section 207 (internal audit) of the *Local Government Regulation 2012*, Council will be undertaking the functions of internal audit. The Corporate Governance branch will coordinate internal audit activities through the Council's contracted chartered accounting firm and the Audit Committee.

**Definitions:**

Not applicable.

**Policy statement:**

The following procedure is to be undertaken for this policy:

1. An internal audit must be carried out each financial year in accordance with section 207 (internal audit) of the *Local Government Regulation 2012* which will provide for the following matters:
  - (a) the preparation of an internal audit plan for the internal audit for the Council
  - (b) assess compliance with the internal audit plan.
2. The internal audit plan is a document stating:-
  - (a) the way in which the operational risks have been evaluated
  - (b) the most significant operational risks identified from the evaluation
  - (c) the control measures that Council has adopted, or is to adopt, to manage the most significant operational risks.

3. Council must prepare an internal audit progress report for the internal audit for each financial year.

The Internal audit progress report is a document stating:

- (a) the control measures that Council has adopted that were assessed by the internal audit
  - (b) the way in which the internal audit was carried out
  - (c) the observations of the person carrying out the internal audit, including, for example, whether the person considers that the control measures have been successful in managing the risks to which they relate
  - (d) any recommendations of the person who conducted the audit about:-
    - (i) any action that may be taken to improve the success of the control measures; or
    - (ii) alternative control measures that the Council may adopt for managing the risks that the Council's operations are exposed to and the action that may be taken to give effect to the alternative control measures
  - (e) a summary of the Chief Executive Officer's response to the internal audit including:-
    - (i) the action the Council intends to take in response to the recommendations mentioned in paragraph (d)
    - (ii) when the action is intended to be taken
  - (f) a summary of the actions taken by the local government in response to the recommendations in the internal audit progress reports for the preceding 2 financial years.
4. Council must give the Audit Committee:-
- (a) the internal audit progress report
  - (b) at least twice during the year after the internal audit is carried out, each of the following documents:-
    - (i) a summary of the recommendations stated in the report; or
    - (ii) a summary of the actions that have been taken by Council in response to the recommendations
    - (iii) a summary of any actions that have been taken by Council in response to the recommendations.
5. Internal Audit will function independently from all other operations of the Council and will work under the supervision of the Corporate Governance Manager through the Internal Audit Officer.
- The Internal Audit Charter will govern the strategic direction of the Council's internal audit function.

#### **Internal audit charter**

1. Purpose
- (a) The purpose of internal audit in the Council is to assist all members of management in the effective discharge of their responsibilities through a process of systematic and independent audits.
  - (b) Audits provide independent advice and assurance to managers that policies, operations, systems and procedures meet appropriate standards of effectiveness, efficiency and propriety.

## 2. Objectives

The objectives of internal audit are to provide independent advice and assurance to management that the policies, operations, systems and procedures for which they are responsible:

- (a) comply with relevant legislation and standards (compliance)
- (b) are carried out with optimum use of resources (economy and efficiency)
- (c) achieve the objectives specified in Corporate and Operational Plans (effectiveness).

## 3. Scope

- (a) The scope of internal audit shall be sufficiently comprehensive to ensure the effective and regular review of all operational, financial and related activities.
- (b) Internal audit coverage may extend to all areas of the Council and includes financial, accounting, administrative and operational activities including compliance with Local Government legislation.
- (c) The extent and frequency of audits depends upon varying circumstances such as the results of previous audits, relative risk associated with activities, materiality and the adequacy of the system of internal control.

## 4. Operating principles

- (a) The following operating principles are to be observed to ensure the effectiveness of internal audit:

- (i) Confidentiality

- All the work of internal audit will be confidential to the Council management and will not be disclosed to third parties, except for the external auditors.

- (ii) Professionalism

- Audits are to be conducted with impartiality and integrity. The Professional Standards of the Australian Society of Certified Practising Accountants, the Statement of Auditing Standards, the Institute of Chartered Accountants in Australia and the Institute of Internal Auditors are to be adhered to.

- (iii) Balance

- Audit reports must maintain an equitable balance between the need for efficiency and the need for effective delivery of service to the community.

- (iv) Risks v benefits of control

- The need for internal controls and/or quality controls are based on an assessment of risk, potential benefits, and costs of such controls. Control must be adequate but also cost-effective.

- (v) Audit quality control

- Internal audit quality control is provided by:

- a. review of planning and final report stages by the Corporate Governance Manager, Chief Executive Officer and the Audit Committee
    - b. review of draft reports by relevant employees of the Council.

- Internal audit must ensure audit assignments are completed by suitably skilled, experienced and competent persons, with a regular review of audit plans, working papers and reports.

## 5. Independence

Internal audit has independent and neutral status within the Council and for that purpose:

- (a) is directly responsible to the Corporate Governance Manager
- (b) has no executive or managerial powers, authorities, functions or duties except those relating to the internal audit function
- (c) is not involved in the day-to-day internal checking system of any department or branch
- (d) is not responsible for the details, development or implementation of new systems or procedures but should be consulted before such development commences, and be advised of approved variations or new developments.

## 6. Audit committee

Council will operate and will support an Audit Committee in accordance with the "Audit Committee" policy.

## 7. Internal audit process

(a) *Planning and audit establishment*

- (i) The internal auditors will consult with managers and directors in developing the forward program of audits based on a preliminary risk evaluation.
- (ii) The annual audit program is drawn from industry best practice in consultation with directors and forwarded to the Chief Executive Officer or Audit Committee for approval.
- (iii) Terms of reference for each audit will be discussed and where appropriate agreed with managers. Should any problem arise regarding the scope of audit, the matter will be referred to the Corporate Governance Manager for decision.

(b) *Report*

- (i) Important issues will be discussed with managers during the conduct of the audit.
- (ii) The Internal Audit Officer will present audit reports to the responsible managers. A copy of the executive summary and recommendations of the reports, together with the managers' comments, are forwarded to the Chief Executive Officer and Audit Committee.
- (iii) Copies of audit reports will not be released without reference to the responsible manager.
- (iv) Written reports, as required by section 211(1)(c) (audit committee meetings) of the Local Government Regulation 2012, shall be presented.

Note: External audit have legal access to all of the Council's documents and therefore have access to management audit reports. Requests by external audit for access to documents will be directed through either the Corporate Governance Manager, Chief Executive Officer or the responsible director.

(c) *Follow-up*

The Internal Audit Officer will follow up the progress on the implementation of approved audit recommendations, and advise the appropriate manager, director and the Chief Executive Officer accordingly.

(d) *Progress and performance report*

The Internal Audit Officer will review progress and performance in achieving the annual program, and report progress to the Chief Executive Officer and the Audit Committee.

## 8. Access to information

Internal audit has reasonable access to all relevant information, facilities and employees of the Council. Any plans for change which impact on an audit will be advised to the responsible auditor.

## 9. Relationships with departmental managers and employees

Internal audit is an independent function with direct organisational responsibility to the Corporate Governance Manager. Internal audit's primary role is to assist managers to determine the adequacy of management controls and where necessary recommend changes.

## 10. Relationships with external auditors

(a) The internal audit function is required to maintain a co-operative working relationship with the nominated external auditors and employees of the Auditor-General's Office.

(b) The Auditor-General's office through the nominated contractors completes an assessment of the Council's annual financial statements and a range of other reviews which they deem necessary.

(c) Close liaison with the external auditors should be maintained so as to ensure co-ordination of audit effort and maximum coverage.

(d) An internal auditor may advise the Auditor-General about an audit finding.

**Related policies/legislation/other documents:**

DOC ID	DOCUMENT TYPE	DOCUMENT NAME
<a href="#">5884373</a>	Policy	Audit Committee
-	Legislation	Local Government Regulation 2012