

**INTERNAL AUDIT POLICY & CHARTER**

# **Overview**

This template provides a baseline policy and charter for Internal Audit. Section 105 of the *Local Government Act 2009* (LGA) requires that “Each local government must establish an efficient and effective internal audit function” and section 207 of the *Local Government Regulation 2012* (LGR) provides further detail of the internal audit function’s responsibilities.

The internal audit function in a local government can be supported by different resourcing options. This may depend on the council’s budget, operational complexity, availability of qualified employees, and preferences of the council or chief executive officer (CEO). Resourcing options include, but are not limited to:

1. In-house resourcing: Employing qualified staff to fulfil the internal audit function, with the option for the internal audit team to engage with specialists in line with the council’s procurement policy if needed.
2. External resourcing: Engaging an external party to fulfil the internal audit function through a tender or expression of interest process. Council would need to allocate the supervision of the external party to a member of staff who understands what the internal audit function does and can engage with the external provider.

The following template aims to provide scope for these options, however it may not be exhaustive. Councils will need to ensure they develop a Policy and Charter that is specific to their needs and arrangements (i.e. organisational structure and allocation of roles and responsibilities).

The internal audit function is required by legislation to present plans and reports about the control measures that Council has adopted, to manage the risks to which the council’s operations are exposed to council’s audit committee or, for those councils that do not have an audit committee, council’s CEO. All councils are encouraged to have an audit committee, or similar working/reference group, as this provides greater oversight of the internal audit function. Refer to s207(4) of the LGR for councils that are not required to have an audit committee.

# **Related templates:**

* Internal Audit Recommendations & Actions Guideline (template)
  + Internal document to assist in facilitating management actions and supporting Internal audit actions register.

# **References/acknowledgements:**

This template has been developed referencing the *Local Government Act 2009,* Queensland Government’s Internal Audit & Audit Committees Guidelines, [Financial Accountability Handbook - Volume 2 Governance](https://s3.treasury.qld.gov.au/files/FAH_Volume_2_Governance.pdf), [Queensland Treasury’s Audit Committee Guidelines: Improving Accountability and Performance](https://www.treasury.qld.gov.au/resource/audit-committee-guidelines-improving-accountability-performance/) and other available reports/documentation. Other research and reference material was sourced from council websites and consultation, which the following list acknowledges:

* Hinchinbrook Shire Council
* Isaac Regional Council

*This resource has been prepared in partnership between LGMA and the Department of Housing, Local Government, Planning and Public Works through the Governance Advisory Service.*

# **TEMPLATE**

It is acknowledged that Councils will format to their own inhouse style guide when converting this template into their Policy or Document Management Framework

# **INTERNAL AUDIT POLICY & CHARTER**

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| **Policy Number** |  | **Doc.ID** |  |
| **Policy Type:** |  | | |
| **Policy Owner** |  | | |
| **Approval Authority** | Council | | |
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# Purpose

To comply with the *Local Government Act 2009* (s105) and the *Local Government Regulation 2012* (s207), which require each local government to establish an independent, effective and efficient internal audit function. The internal audit function aims to assess and evaluate the control measures that the **<council name>** (Council) has adopted, to manage the risks to which the council’s operations are exposed and support local government principles.

# Scope

This policy, which incorporates the Internal Audit Charter, shall apply to the Internal Auditor, all councillors, employees, and contractors working for Council regardless of whether they are permanent, temporary, full‐time, part‐time, or casual.

Council’s internal audit function is independent of all other operations of the Council and will work under the supervision of the <position>. The Internal Audit Charter (below) provides the framework for the conduct of the internal audit activity in Council.

# Definitions

| **TERM** | **DEFINITION** |
| --- | --- |
| the Act | *Local Government Act 2009* |
| Chief Executive Officer (CEO) | A person who holds an appointment under section 194 of the *Local Government Act 2009.* |
| Council | <insert Council name> |
| Councillors | All elected representative who holds (current) office with Council, including the Mayor. |
| Employee/s/ Council Staff | Refers to full time, part time, casual, permanent, or temporary employees, contractor, including those under a labour hire company that carry out work for council.  The term contractor includes on‐hired temporary labour services (agency staff) and sub‐contractors. |
| Internal Auditor  Option to be more specific about the internal and external function | for the purposes of this Policy, “internal auditor” will refer to all involved persons employed or contracted by the agency/business chosen by Council to perform an internal audit in accordance with this Policy |

# Policy Statement

Council must ensure it has an internal audit function and its mandate and responsibilities are established and governed in accordance with the *Local Government Act 2009* (the Act) and *Local Government Regulation 2012* (the Regulation).

The function is 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 internal audit plan, <*which is developed in consultation with and endorsed by Council’s Audit Committee or Council or CEO>.*

An internal audit must be carried out each financial year in accordance with section 207 (Internal audit) of the Regulations. A local government must:

* prepare an internal audit plan; and
* carry out an internal audit; and
* prepare a progress report for the internal audit; and
* assess compliance with the internal audit plan.

Council will has developed and will maintain an Internal Audit Charter (refer below) setting out the framework for the conduct of the internal audit activity in Council which has been approved by Council <on the recommendation of the Audit Committee>.

## Responsibilities

The <responsible department/branch or position> will coordinate internal audit activities through the Internal Auditor <and the Audit Committee>, in accordance with this Policy and Charter.

Management is responsible for ensuring that the recommendations and management actions of the internal audit (final report) are implemented as appropriate throughout Council’s processes, plans and work areas. Management is also responsible for ensuring that staff and councillors are aware of the internal audit purpose, process and agreed actions as appropriate.

The Internal Auditor’s primary responsibility is to provide independent and objective advice, assessment and recommendations to management and the Audit Committee in relation to governance, risk management, compliance, financial reporting, and internal control matters with an emphasis on ‘value adding’ to promote a culture of service excellence.

Council employees and representatives are required to provide the internal auditor with documentation and information as requested to assist the audit process. Council staff may be required to participate in meetings to facilitate this.

## Internal Audit Function

The scope of the internal audit function (Internal Audit) extends to include all departments, programs, sub-programs, functions, funded schemes, interests, and entities over which Council has direct management, sponsorship, or financial control. Any dispute relating to whether an activity falls within the scope of Council’s internal audit function shall be determined by the Chief Executive Officer <and may be referred to the Audit Committee>.

In the conduct of its activities, internal audit will play an active role in:

* evaluating the adequacy and effectiveness of the local government’s operations;
* identifying and assessing the risks to which the local government’s operations are exposed;
* ensuring adherence to management policies and directions in order to achieve Council’s objectives;
* developing a work program (Internal Audit Plan) for all internal audit activities of the local government;
* monitoring the audit matrix presented by officers of Council to the Audit Committee for accuracy and completeness; and
* attending Audit Committee Meetings as required.

Audit plans are prepared in accordance with section 207 of the Regulation and include statements about:

* the way in which the operational risks have been evaluated; and
* the most significant operational risks identified from the evaluation; and
* the control measures that the local government has adopted or is to adopt to manage the most significant operational risks.

Internal Audit will provide progress reports in accordance with section 207 of the Regulation to the Chief Executive Officer <and the Audit Committee> identifying;

* a summary of the recommendations stated in the report;
* a summary of the actions that have been taken by the local government in response to the recommendations;
* a summary of any actions that have not been taken by the local government in response to the recommendations.

## Appointment of Internal Auditor

To facilitate the impartiality and integrity of the audit process, an external auditing agency will generally be sourced by management to conduct the annual internal audit. The selection of an internal auditor shall occur in accordance with Procurement Policy and legislation requirements. Several auditing agencies may be compared, and a selection made based on an assessment of the agencies’ local government auditing experience, accreditation (e.g. professional accounting body membership, Institute of Internal Auditors membership), availability, two (2) client references and estimated cost for services. Records of the selection process shall be kept by Council.

The section for the appointment of an IA will vary from council to council.

The appointment may be:

* An employee appointment;
* An external provider or panel of providers, through a tender process

This section will need to be reviewed and populated by each council, however when appointing an IA, council will need to ensure they have the appropriate qualifications, accreditations, etc

# CHARTER

The manner in which council facilitates the function of internal audit will impact on terminology within this template. Please be mindful of this when reviewing/updating the content

6.1. Introduction

This Charter sets out the objectives, authority, responsibilities, composition, tenure, reporting, and administrative arrangements associated with Council’s Internal Audit.

Council’s internal audit activity will be conducted by an <external business>, totally independent to Council, which reports to the Audit Committee. Audit Committee **or <CEO/position**> will liaise with the internal auditor to develop, manage, and review annual internal audit programs. Internal auditors will be appointed following a competitive process for a fixed term, with a one-year option to extend as deemed appropriate.

6.2. Authority and Independence

Internal Audit are authorised to have full, free, and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that the CEO <and Audit Committee> consider necessary to enable Internal Audit to meet its responsibilities.

Internal Audit has no executive power – it undertakes advisory activity.

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 personnel, and relevant personnel, are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

Maintaining appropriate independence is essential to the effectiveness of the internal audit function.

6.3. Objectives, Roles and Key Responsibilities

Internal Audit:

* develops, in consultation with relevant internal stakeholders, the scope of each individual audit to ensure it meets the intent of internal audit principles and the Internal Audit Plan;
* has a primary responsibility to provide independent and objective advice, assessment, and recommendations to management <and the Audit Committee> in relation to governance, risk management, compliance, financial reporting, efficiency and effectiveness of operations and internal control matters; and
* is an independent, advisory, assurance and consulting function that seeks to add value and improve Council’s operations.

Internal audit achieves this by:

* providing a systematic and disciplined approach to the evaluation and improvement of the effectiveness of risk management, internal control, compliance, financial reporting, and governance processes;
* providing assurance to Council, executive management and the Audit Committee that key organisational risks are understood and managed appropriately; and
* providing management with guidance, advice, and support in relation to governance, risk, and control matters.

Internal Audit Plan

Internal audit and the Audit Committee identify a one year and a three-year Internal Audit Plan each year that is subject to ongoing review as circumstances dictate. This Internal Audit Plan is determined after consideration of Council’s budget and its various risk ‘areas’ including, but not limited to:

* Strategic Financial risk, including financial reporting risk;
* Emerging Legal and governance risk;
* Image and reputational risk;
* Operational Environmental and community risk;
* Compliance risk;
* Public Health risk;
* ICT risk;
* Workplace Health Safety risk;
* Fraud and corruption
* Business Continuity risk;
* Project (capital/operational) management risk;
* Workforce risk.

Internal Audit may also be asked to provide specialist advice and guidance to Management on a range of matters including:

* Data analysis;
* Risk and control insights and better practices;
* Participating in Program / Project Steering Committees as specialist advisor;
* Participating in organisational Working Groups and Governance forums;
* Policy establishment and/or review advice;
* Internal control design and cost-effectiveness; and
* Efficiency and performance.

Internal audit principles:

Principles are, but not limited to, independence; confidentiality; professionalism; balance; risks v benefits of control, and audit quality control.

6.4. Relationships

External Audit

* Internal Audit will establish and maintain an open relationship with the external auditors and any other assurance providers; and
* Consistent with the internal audit strategy, internal audit will plan its activity to help ensure the adequacy of overall audit coverage and to minimise duplication of assurance effort.

Audit Committee <**or Council/CEO>**

Update dependent on councils reporting structure (i.e. if there is no audit committee). Ensure this is approached strategically.

* Audit Committee will work with Internal Audit to endorse an Internal Audit Plan for each financial year, as required by S207 the Regulation;
* Internal Audit will keep the Audit Committee informed in regard to risk, control, governance, and the coordination and effectiveness of monitoring activities within the scope of the internal audit plan;
* Internal Audit will provide each Internal Audit report with its findings, recommendations and management actions as they are finalised. Refer s2070(3)(b) the requirement for this to occur is at least twice during the year after the internal audit is carried out;
* Internal Audit will provide a progress report to Audit Committee meetings covering the activities of the Internal Audit; and
* Audit Committee recommends to Council an organisation to deliver on the internal audit function of Council. Audit Committee, in conjunction with the CEO, is then responsible for managing the relationship with internal audit.

Council Officers/All Employees

* All Council Officers/Employees are responsible for providing Internal Audit with every reasonable request for assistance, explanation, and co-operation.
* All Council Officers/Employees are responsible for progressing their actions as identified in Internal Audit reports (final).

6.5. Internal Audit Actions Register

Following the finalisation of an internal audit activity and it has been presented to, and endorsed by, the <Audit Committee/Council/CEO>, relevant details will be uploaded to the Internal Audit Actions Register. This Register will be monitored and updated to capture the progress of actions. The Register will be regularly reported to the <Audit Committee/Council/CEO> to demonstrate the status of actions.

This process should be part of the Audit committee Workplan and/or Councils Policy/Corporate Document Framework

6.6. Review of Charter

The Internal Audit Charter will be reviewed biannually by the Audit Committee to ensure it remains current and relevant. Changes to the Internal Audit Charter are only valid if they are <endorsed and recorded in the approved minutes of by the Audit Committee and subsequently> adopted by Council.

During this biannual review, the Internal Audit provider will provide written declarations to the Audit Committee stating that they:

* do not have any conflicts of interests and/or material interests that would preclude them from being an Internal Auditor to Council; and
* have not had any such undeclared conflicts in the preceding year.

# Legislation/Literature

* *Local Government Act 2009*
* *Local Government Regulations 2012*
* Queensland Government’s Internal Audit & Audit Committees Guidelines
* [Financial Accountability Handbook - Volume 2 Governance](https://s3.treasury.qld.gov.au/files/FAH_Volume_2_Governance.pdf),
* [Queensland Audit Office’s Audit Committee Guidelines: Improving Accountability and Performance](https://www.treasury.qld.gov.au/resource/audit-committee-guidelines-improving-accountability-performance/)

# References

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| **Doc Reference** | **Document Name** |
|  | Refer to any other relevant policies/procedures/forms |
|  | Audit Committee Policy |
|  | Audit Committee Charter |
|  | Enterprise Risk Management Framework or Policy (& Registers) |
|  | Internal Audit Plan |
|  | Internal Audit Actions Register |
|  | Internal Audit Recommendations & Actions Guideline |