

Policy Title: **Internal Audit Function**  
 Policy No: 110

Directorate: Financial Operations  
 Responsible Officer: Deputy Chief Executive Officer

Adopted Date: General Meeting – 15/12/2015  
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VERSION	MEETING APPROVED	MEETING DATE	HISTORY
1	Policy & Strategy	04/11/2011	New Policy
2	General	15/11/2011	Amendment
3	General	15/12/2015	Biennial Review

Authorities: *Local Government Act 2009*  
*Local Government Regulation 2012*

### POLICY STATEMENT

This policy has been formulated to meet the requirements of *Section 105 of the Local Government Act 2009* regarding the establishment of an efficient and effective internal audit function.

### SCOPE

This policy and the attached Terms of Reference applies to:

- all Council activities, including entities over which Council has direct ownership, management, sponsorship or financial control;
- all Council officers, contractors, the officers and Committee members of related entities, involved in and with responsibility for contributing towards the achievement of Council's objectives, asset management and reporting responsibilities.

### POLICY OBJECTIVES

The objective of this policy is to establish an effective and efficient internal audit function that will provide independent, objective assurance and consulting services designed to add value and improve the organisation's operations.

An effective internal audit function will:

- Assess and evaluate Council's processes, procedures and internal control environment to assist with the management of operational risks;
- Appraise the relevance, reliability and integrity of management, business systems, financial and operating records and reports;
- Provide assurance and assist the Chief Executive Officer and management in the effective discharge of their responsibilities, by providing them with analyses, appraisals, recommendations and information concerning the activities reviewed
- Review compliance with Council policies and procedures, legislative requirements and regulations; and
- Embed a culture of continuous improvement practices across Council

## **BACKGROUND AND/OR PRINCIPLES**

Council recognises the relevance of strengthening governance and control systems through the establishment of an efficient and effective internal audit function. In compliance with *s155 of the Local Government Act 2009*, Council will carry out an internal audit activity for each financial year that will cover the preparation, implementation and monitoring of an internal audit plan that focuses on the assessment & evaluation of control measures related to the organisation's operational risks.

## **POLICY DETAILS**

### **Independence and objectivity**

The internal audit function has to be independent, and objectivity must be exercised in the conduct of internal audit work. Internal audit engagements shall be performed with an unbiased and impartial attitude.

### **Authority and access**

Internal audit shall have direct and unrestricted access to Council and management. It is authorised to review all areas of Council and to have full, free and unrestricted access to Council's operations, data and records, assets and personnel within the scope of internal audit work as discussed with the respective Director/Manager.

### **Organisational independence**

The internal audit activity shall be free from interference or influence in determining the scope of internal audit work, the frequency & timing of examinations and the communication of audit results.

### **Audit approach**

A risk based internal audit approach shall be implemented each financial year. The internal audit plan will state the way in which the operational risks have been evaluated, the most significant operational risks identified from the evaluation and the control measures that Council has adopted, or is to adopt, to manage the most significant operational risks. Relevant accounting documents will also be considered in the preparation of the internal audit plan.

**Reporting responsibility**

The internal audit function will report to the Chief Executive Officer and the Audit Committee.

An internal audit progress report will be prepared and presented to the Chief Executive Officer and Audit Committee for each financial year. This report will state the control measures that Council has adopted that were assessed by internal audit; the method in which the internal audit was conducted; the observations and recommendations of internal audit and management's response to the audit recommendations.

The Internal Audit Committee will meet a minimum of four (4) times per annum to receive reports, liaise with the external auditor and provide recommendations to the North Burnett Regional Council

**LEGISLATIVE AUTHORITY**

*Local Government Act 2009 (Section 105)*

*Local Government Regulation 2012 (Division 1)*

*Financial Accountability Act 2009 (Section 78)*

*International Standards for the Professional Practice of Internal Auditing*

**ASSOCIATED PROCEDURES AND RELATED POLICIES**

Statutory Policy 109 – Appointment of Audit and Risk Committee

Audit and Risk Committee Terms of Reference (included in Statutory Policy 109)

Internal Audit Terms of Reference (included in Statutory Policy 110)

# INTERNAL AUDIT TERMS OF REFERENCE

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### **1. INTRODUCTION**

*The Local Government Act 2009* requires the development of an efficient and effective internal audit function. In compliance to legislation, Council has instituted the development of an internal audit function to assess and evaluate the control measures that Council has adopted, or is to adopt to manage the operational risks to which Council is exposed.

### **2. OBJECTIVE**

The main purpose of the internal audit is to provide independent, objective assurance and consulting services as a capability building resource to add value and improve the organisation’s operations. The *Internal Audit Terms of Reference* specifies the scope of work, role and relationships of internal audit within the organisation.

### **3. ROLE OF INTERNAL AUDIT**

Internal audit helps the organisation achieve its objectives by providing an efficient and structured approach to assess and enhance the effectiveness of the governance, risk management and control processes.

An efficient and effective internal audit function will provide Council and the Chief Executive Officer with:

- Assessments and evaluation of Council operations and activities as these relate to the achievement of set corporate objectives within the context of appropriate internal controls and risk management.
- Reviews the integrity and reliability of accounting and financial management, compliance with relevant legislation, Council policies and procedures, operating guidelines and delegations.
- Reasonable assurance as to the safeguarding of Council's assets
- Advisory services related to improvement of operational effectiveness, efficiency & economy.

#### **4. SCOPE OF INTERNAL AUDIT ACTIVITIES**

The scope of internal audit activities mainly focus on the determination of the adequacy, appropriateness, efficiency and effectiveness of the organisation's governance, risk management and control processes. Activities shall include, but not necessarily limited, to the following:

- Review of controls to provide reasonable assurance that Council operations and activities are carried out as planned and consistent with the set organisational goals and objectives
- Review of financial documents to ensure reliability and integrity of operating information and the adequacy of control measures within financial management
- Assessment of compliance with relevant legislation, plans, policies, procedures and other laws that could have significant impact on Council's operations.
- Evaluate controls over assets to provide reasonable assurance that Council's assets are protected against loss from fraud or other illegal acts
- Assess and evaluate Council operations and activities as these relate to the achievement of set corporate objectives within the context of appropriate internal controls and risk management.
- Appraise the economy and efficiency of resource utilisation, recognise opportunities for improvement and provide necessary recommendations
- Coordinate audit work with other internal and external providers of assurance and consulting services to ensure suitable coverage and minimise duplication of effort.
- Provide advisory services in the planning, design and implementation of information technology systems related to the adequacy and suitability of internal controls
- Review compliance with Council's guidelines related to ethical business & personal conduct
- Engage audit projects as directed by the Chief Executive Officer and Council
- Monitor the implementation of audit recommendations

The Chief Executive Officer shall resolve any dispute related to the scope of internal audit activities.

#### **5. PROFICIENCY**

The internal audit function shall be performed by personnel that possess the knowledge, skills, and competencies needed to conduct internal audit work.

Internal auditors must possess the professional proficiency to carry out their professional responsibilities.

## **6. DUE PROFESSIONAL CARE**

In the conduct of internal audit work, due professional care is considered by exercising the care and skill expected of a reasonably prudent and competent internal auditor. Technology based audit and other data analysis techniques are to be considered in the conduct of audit engagements. Internal audit function must be alert to significant risks that might affect the achievement of the organisation's objectives, operational activities and the efficient utilisation of resources.

In exercising due professional care, the internal auditor must be alert to the possibility of irregularities. Due care implies reasonable prudence and competence, not infallibility nor extraordinary performance. The internal audit function is not legally or professionally responsible for preventing irregularities such as fraud and other illegal acts. Irregularities or fraud prevention is carried out by Council and management through the effective implementation of adequate internal control measures. Internal audit is only accountable for the evaluation and assessment of the effectiveness of these control measures.

## **7. INDIVIDUAL OBJECTIVITY**

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest. Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to perform the internal audit function with impartiality. If objectivity is impaired, the details of impairment must be disclosed to the appropriate parties.

## **8. RELATIONSHIP WITH RISK MANAGEMENT**

The internal audit function will utilise the risk management process in the planning for audit engagements. Audit engagements shall be prioritised for areas in Council that have been identified with significant risk exposures in relation to:

- The reliability and integrity of financial and non-financial information
- Effectiveness and efficiency of operations
- Safeguarding of assets, and
- Compliance with laws, regulations and contracts

## **9. RELATIONSHIP WITH EXTERNAL AUDIT**

Internal audit will collaborate with the appointed external auditor with respect to all internal audit engagements conducted. Audit working papers, schedules and references are to be made available to the external auditor to facilitate the audit coverage and avoid duplication of work.

## **10. RELATIONSHIP WITH THE MANAGEMENT TEAM**

Internal audit has neither direct responsibility nor authority over any of the areas it audits. Its function is only recommendatory in nature and will therefore provide recommendations and advisory services to the Management Team in relation to the enhancement of governance, risk management and control processes.

## **11. REPORTING ACCOUNTABILITY**

A written report indicating the audit findings & recommendations will be prepared & issued upon completion of each internal audit engagement. The draft report will be discussed with the respective Manager who will be requested to prepare a management response within ten working days or such longer period as may be agreed upon. The management response will indicate the action to be taken, the responsible officer & the time frame for the proposed completion with regard to the audit findings & recommendations specified in the draft internal audit report.

The final internal audit report will be prepared and released to the Chief Executive Officer. The Audit and Risk Committee and the Audit and Risk Committee permanent attendees, the relevant Council Senior Executive/Manager/Officer will be provided copies of the final report.

The findings of each report will be entered into the Council Risk Register and will be reviewed at each meeting until the Internal Audit Committee is satisfied that the appropriate response has been completed.

## **12. MANAGEMENT'S RESPONSIBILITY FOR CORRECTIVE ACTION**

The respective Manager is responsible for ensuring that the action plans are implemented. A monitoring scheme will be put in place to oversee that audit deficiencies are addressed within thirty working days from the issuance of the final audit report. If the respective Manager anticipates difficulty in addressing the audit deficiencies within the time frame, Internal Audit staff should be advised of the reason for the delay and be provided with the revised implementation schedule.

## **13. CONTINUING PROFESSIONAL DEVELOPMENT**

Internal auditors will enhance their knowledge, skills and other competencies through continuing professional education. It is expected that the internal auditor will continue to maintain and appropriate level of professional skill required for the satisfactory execution of this function.

Members of the Internal Audit Committee will ensure they have the level of knowledge and skills required to allow them to effectively fulfil their role as a member of the committee.

#### **14. QUALITY ASSURANCE**

Internal assessments will include ongoing monitoring of the performance of the internal audit activity and periodic reviews performed through self assessment and peer evaluations. An internal assessment of the effectiveness of the internal audit function will be undertaken on an annual basis at the beginning of each calendar year.

#### **15. RELATED POLICIES**

Statutory Policy 109 – Internal Audit

Audit and Risk Committee Terms of Reference (included in Statutory Policy 109)

Risk Management Policy – (Policy 213)