



Council Policy INTERNAL AUDIT

Corporate Plan Reference:	<i>'Excellence as a Council'</i>
Endorsed by Council:	19 March 2020
Policy Author:	Director Executive Services

1 POLICY BACKGROUND

Council recognises the relevance of strengthening governance and control systems through the establishment of an efficient and effective internal audit function. This policy has been formulated to meet the requirements of *Section 105 of Local Government Act 2009* and is in compliance with *Section 207 of the Local Government Regulation 2012*.

2 POLICY STATEMENT

The Internal Audit Policy provides the framework for the conduct of the internal audit function in Council and has been endorsed by the Audit and Risk Committee.

The role of the internal audit function is to provide audit services in accordance with the attached Internal Audit Terms of Reference. Responsibilities of the internal audit function include the review of Council's risks, internal controls, governance, performance and compliance.

Council will appoint and may from time to time vary the appointment of an internal auditor who may be other than a member of staff.

3 SCOPE

This Policy and the attached Internal Audit Terms of Reference apply to:

- All Council activities, including entities over which Council has direct ownership, management or financial control; and
- 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.

The scope of internal audit shall be sufficiently comprehensive to ensure the effective and regular review of all operational, financial and related activities. Internal audit coverage may extend to all areas of Council including financial, accounting, administrative and operational activities in compliance with applicable legislative requirements.

4 POLICY OBJECTIVES

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

An effective internal audit function will seek to achieve the following outcomes in undertaking the annual audit plan set by the Audit and Risk Committee:

- 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;
- Assist the Chief Executive Officer (CEO) and Council 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, regulations and best practice; and
- Provide outcomes that will generally improve practices across Council.

5 POLICY DETAILS

5.1 Independence and objectivity

The internal audit function must be independent from Council and objectivity must be exercised in the conduct of internal audit work.

Internal audit engagements shall be performed with an unbiased and impartial attitude.

Internal audit shall not be involved in the day to day operations of Council.

5.2 Audit approach

A risk based internal audit approach shall be implemented each financial year.

The annual internal audit plan will be endorsed by the Audit and Risk Committee in consideration of the most significant current risks facing Council. Relevant accounting documents will also be considered in the preparation of the internal audit plan.

5.3 Authority and access

Internal audit shall have direct and unrestricted access to Council and management. It is authorised to review all areas of Council with full, free and unrestricted access to Council's operations, data and records, assets and personnel.

5.4 Reporting responsibility

The internal audit function will report to the Audit and Risk Committee.

Internal audit reports will be prepared and presented to the Audit and Risk Committee upon completion of an audit, and progress reports with respect to the implementation of audit recommendations will be presented to each Audit and Risk Committee meeting. These reports 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 responses to audit recommendations.

6 RELEVANT LEGISLATION

- *Local Government Act 2009*
- *Local Government Regulation 2012*

7 RELEVANT COUNCIL POLICIES

- *Audit and Risk Committee*
- *Charter Risk Management Policy*

8 REVIEW PERIOD

Annually.

Version control:

Version	Reason/ Trigger	Change (Y/N)	Endorsed/ Reviewed by	Date
1.0	New policy		Council	20 November 2014
1.1	Update Policy	Y	Council	27 August 2015
1.2	Update Policy	Y	Council	17 November 2016
1.3	Update Policy	Y	Council	19 October 2017
1.4	Update Policy	Y	Council	20 December 2018
1.5	Review	Y	Council / Audit and Risk Committee	19 March 2020

INTERNAL AUDIT TERMS OF REFERENCE

INTRODUCTION

Section 105 of the *Local Government Act 2009* requires Council to establish an efficient and effective internal audit function. The internal audit function must include the elements contained in Section 207 of the *Local Government Regulation 2012*.

The Internal Audit Terms of Reference is an attachment to the Internal Audit Policy and supports Noosa Council's mission of "delivering transparency, efficiency and innovation with a customer focus". This includes transparent and effective processes, good governance and a commitment in accordance with the 'local government principles' (see Section 4 of the *Local Government Act 2009*).

Internal Audit:

- Is the assessment and evaluation of the control measures that Council has adopted, or is to adopt, to manage the operational risks to which the Council's operations are exposed.
- Provides the Chief Executive Officer (CEO), Audit and Risk Committee and Council with assurance that internal control systems are efficient, effective and economically viable, and that risk is appropriately addressed so objectives can be met.
- Operates as an independent function reporting directly to the Audit and Risk Committee with respect to audit/special investigation findings.
- Reviews and advises on:
 - Legislative and policy compliance;
 - Operational cost-effectiveness and efficiency;
 - Reliability of financial and related management information;
 - Use of public funds and assets under Council's control;
 - Adequacy and accuracy of accounting and computing systems; and
 - Risk Management.

Internal Audit Resourcing

The internal audit function will be undertaken by a suitably qualified and experienced external service provider and specialist audit services support will be engaged as required. All work undertaken by the external service provider within the Council must be approved by the Audit and Risk Committee.

The term of appointment of an internal auditor other than a staff member shall be reviewed by the CEO at least every two years. As such, external service providers will be engaged and appointed through a competitive procurement process in accordance with legislative requirements.

Scope and Objective of Internal Audit

The internal audit coverage may extend to all areas of the organisation and include financial, accounting, administrative, information management, computing and other operational activities.

The extent and frequency of internal audits will depend upon varying circumstances such as results of previous audits, relative risk associated with activities, materiality, the adequacy of the system of internal control, new emerging external risks and impacts and the resources available.

An annual audit plan will be endorsed by the Audit and Risk Committee. Where practical, draft internal audit scopes will be presented to the Audit and Risk Committee for comment prior to the commencement of the relevant audit.

The objective of Internal Audit is to provide Council with independent advice in relation to:

- Reviewing and appraising the adequacy and effectiveness of the system of internal controls;
- Appraising the relevance, reliability and integrity of management, financial and operating data and reports;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, statutory requirements and regulations which could have a significant impact on operations;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Appraising the economy, efficiency and effectiveness with which resources are employed;
- Reviewing operations or programs to ascertain whether results are consistent with Council's established objectives and goals and whether the operations or programs are being carried out as planned;
- Monitoring and evaluating governance processes;
- Assessing the adequacy of established systems and procedures;
- Conducting special assignments and investigations into any matter or activity affecting the probity, interests and operating efficiency of the organisation;
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the CEO and/or Audit and Risk Committee; and
- The improvement and effectiveness of risk management, legal compliance, internal control and governance systems to provide value and accountability to ratepayers.

Audit Plan

In accordance with *Section 207 of the Local Government Regulation 2012* Council is required to prepare an internal audit plan for each financial year. The internal audit plan is to state:

- The way in which Council's 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.

The annual internal audit plan will be endorsed by the Audit and Risk Committee and reviewed annually in accordance with Section 1 of the Audit and Risk Committee Charter. Where the annual internal audit plan is prepared by Council Management, Council's internal audit provider (contractor) must be consulted on the document prior to it being endorsed by the Audit and Risk Committee.

The internal audit plan will be developed based on a prioritisation of identified potential audit areas using a risk-based methodology, including input from management.

Management in consultation with the Audit and Risk Committee may review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems and controls.

Audit Methodology

Internal audits will be conducted in accordance with the Standards for the Professional Practice of Internal Auditing. For all audits undertaken, the manager for the activity under review shall be advised and given the opportunity to discuss:

- The objectives, risks and scope of the audit to be conducted, prior to the commencement of such audit; and
- The findings and proposed recommendations on the completion of an audit, and, where appropriate, provide comments.

Independence

To be effective, the Internal Audit function must be able to operate without being influenced or restricted when undertaking its responsibilities. For this purpose the Internal Audit reports directly to the Audit and Risk Committee via the CEO with respect to all audit investigation findings. Council's internal audit provider also has direct access to the Chair of the Audit and Risk Committee, as required.

Authority

Internal Auditors, in the course of their duties, have full, free and unrestricted access to all records, monies, materials, assets, property and personnel and are permitted to examine all transactions, review all policies, procedures and functions in Council.

Information acquired by Internal Audit in the course of an audit must remain confidential and must not be used for purposes outside the scope of the audit review.

All members of management and staff must fully co-operate with internal audit in relation to matters subject to review.

The internal audit function shall be performed by proficient and experienced auditor/s who hold a level of professional membership as outlined below:

- Ordinary membership or above of the Institute of Internal Auditors in Australia or
- CPA or above (CPA Australia) or
- CA or above (Institute of Chartered Accountants in Australia) or
- IPA or above (Institute of Public Accountants)

Audit Reports and Recommendations

At the completion of an audit, internal audit will discuss their findings and recommendations with the appropriate officers concerned to ensure that internal audit and management agree on the findings and jointly develop any recommendations considered necessary. A final report will then be issued to the Audit and Risk Committee via the CEO.

At the request of the Audit and Risk Committee (in consultation with the CEO), internal audit may be required to provide a report summarising significant issues arising out of audits undertaken during the year. It may also be required to provide independent verification that any high risk issues have been addressed, and to undertake an assessment of the implementation of audit recommendations. The report may include: reference to areas where weaknesses were encountered; suggested remedial measures and any general observations or recommendations considered appropriate; and a summary of management actions taken or not taken in response to audit recommendations.

The CEO will co-ordinate the review of the implementation of internal audit recommendations and report progress and any associated issues to the Risk and Audit Committee on at least a quarterly basis.

Relationship between Internal Audit and External Audit

In accordance with the *Financial Accountability Act 2009* all Queensland public sector organisations are to be held accountable for the administration of the state's finances and are subject to a financial audit each financial year. The Queensland Audit Office undertakes financial and performance audits relating to Council's financial reports and performance audits which focus on the performance of public sector entities, and how effectively, efficiently and economically their objectives are being met.

Internal audit will collaborate with the appointed external auditor with respect to all internal audit engagements conducted, as required, to facilitate the audit coverage and avoid duplication of work.

Both the internal auditor and external auditor may approach the Audit and Risk Committee Chairperson directly on any matter.

Management

The internal audit function will be guided by the standards of the Institute of Internal Auditors and will be active in implementing modern auditing techniques.

When auditing processes, all auditors will generally adopt a "systems-based auditing" approach, which involves the identification of the key controls within each relevant process and an assessment of the extent to which each control can be relied upon to ensure the integrity of output from the process.

A comprehensive set of audit working papers shall be prepared during each assignment. The working papers shall include planning rationale, process documentation, details of auditing procedures, results of testing, discussion records, a report on each process audited and correspondence with senior and line management, etc.

The Director of Executive Services (on behalf of the Chief Executive Officer) assisted by the Governance Advisor will liaise with the internal audit provider (contractor) in relation to the conduct of internal audits, reporting arrangements and the administration of any contractual arrangements.